FORM 8-K/A

Current report filing [amend]

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FILER

PHP HEALTHCARE CORP

CIK:**803568**| IRS No.: **541023168** | State of Incorp.:**DE** | Fiscal Year End: **0430**
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SIC: **8011** Offices & clinics of doctors of medicine

Mailing Address
11440 COMMERCE PARK DR
RESTON VA 22091

Business Address
11440 COMMERCE PARK DRIVE
RESTON VA 22091
7037583600

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

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

Date of Report (Date of earliest event reported): December 21, 1995

PHP HEALTHCARE CORPORATION
(Exact name of Registrant as specified in its charter)

State or other jurisdiction of incorporation: Delaware

Commission File No.: 0-16235

I.R.S. Employer Identification No.: 54-1023168

Address of principal executive offices: 11440 Commerce Park Drive
Reston, VA 22091

Registrant's telephone number, including area code: (703) 758-3600

Former name or former address, if changed since last report: Not applicable

Exhibit Index at Page 4

This Form 8-K/A amends and supplements the Current Report on Form 8-K, dated December 21, 1995 (the "Form 8-K"), filed by PHP Healthcare Corporation, a Delaware corporation (the "Company").

Items 5 and 7 of the Form 8-K are hereby amended to read as follows:

ITEM 5. OTHER EVENTS.

On December 21, 1995, the Company completed a private offering of $69 million in aggregate principal amount of its 6 1/2% Convertible Subordinated Debentures due 2002 (the "Debentures"). The Debentures were issued under an Indenture, dated as of December 15, 1995, between the Company and IBJ Schroder

Bank & Trust Company, as Trustee (the "Indenture"). Copies of (i) the Indenture, (ii) the Offering Memorandum, which sets forth certain information relating to the Debentures and the Company, (iii) the Registration Rights Agreement, dated December 13, 1995, between the Company and the Initial Purchasers, and (iv) the press release issued by the Company on December 21, 1995, are filed as exhibits to this report and incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits. The following exhibits are furnished as part of this report.

Exhibit	Description
4.1	Indenture dated as of December 15, 1995 between the Company and IBJ Schroder Bank & Trust Company.
4.2	Registration Rights Agreement, dated as of December 13, 1995, between the Company and the Initial Purchasers.
99.1	Press Release dated December 21, 1995.
99.2	Form of Offering Memorandum of the Company, dated December 13, 1995

SIGNATURES

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

PHP HEALTHCARE CORPORATION

By: /s/ Anthony M. Picini

Name: Anthony M. Picini
Title: Senior Vice President and Chief Financial Officer

Dated: January 8, 1996

EXHIBIT INDEX

Exhibit	Description	Sequentially Numbered Page
4.1	Indenture dated as of December 15, 1995 between the Company and IBJ Schroder Bank & Trust Company.	
4.2	Registration Rights Agreement, dated as of December 13, 1995, between the Company and the Initial Purchasers.	
99.1*	Press Release dated December 21, 1995.	
99.2	Form of Offering Memorandum of the Company, dated December 13, 1995.	

* Previously filed

PHP HEALTHCARE CORPORATION

and

IBJ SCHRODER BANK & TRUST COMPANY,
as Trustee

INDENTURE

Dated as of December 15, 1995

$69,000,000

6 1/2% Convertible Subordinated Debentures due 2002

Certain Sections of this Indenture relating to
Sections 310 through 318 of the
Trust Indenture Act of 1939:

Section 312	(a)	701
		702(a)
	(b)	702(b)
	(c)	702(c)
Section 313	(a)	703(a)
	(b)	703(a)
	(c)	703(a)
	(d)	703(b)
Section 314	(a)	704
	(a)(4)	1004
	(b)	Not Applicable
	(c)(1)	102
	(c)(2)	102
	(c)(3)	Not Applicable
	(d)	Not Applicable
	(e)	102
Section 315	(a)	601
	(b)	602
	(c)	601
	(d)	601
	(e)	514
Section 316	(a)(1)(A)	502
		512
	(a)(1)(B)	513
	(a)(2)	Not Applicable
	(b)	508
	(c)	104(c)
Section 317	(a)(1)	503
	(a)(2)	504
	(b)	1003
Section 318	(a)	107

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

TABLE OF CONTENTS*

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*Note: This table of contents shall not, for any purposes, be deemed to be a part of the Indenture.

ARTICLE TWO

Security Forms. 13

ARTICLE THREE

INDENTURE, dated as of December 15, 1995 between PHP HEALTHCARE CORPORATION, a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company"), having its principal executive offices at 11440 Commerce Park Drive, Suite 300, Reston, Virginia 22091, and IBJ Schroder Bank & Trust Company, a New York banking corporation, as Trustee

(herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of its 6 1/2% Convertible Subordinated Debentures due 2002 (herein called the "Securities") of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of this Indenture.

All things necessary to make the Securities, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with their and its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Securities, as follows:

ARTICLE ONE

Definitions and Other Provisions
of General Application

SECTION 101. DEFINITIONS.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required and permitted hereunder shall mean

such accounting principles as are generally accepted and accepted and adopted by the Company at the date of this Indenture; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms used in Articles Twelve, Thirteen and Fourteen are defined in such Articles.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

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

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities.

The term "Beneficial Owner" is determined in accordance with Rule 13d-3, promulgated by the Commission under the Exchange Act.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification and delivered to the Trustee.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York, New York or the city in which the Corporate Trust Office is located are authorized or obligated to close by law or executive order.

"Change in Control" has the meaning specified in Section 1406.

"Commission" means the Securities and Exchange Commission as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Stock" includes any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which is not subject to redemption by the Company. However, subject to the provisions of Section 1311, shares issuable on conversion of Securities shall include only shares of the class designated as Common Stock of the Company at the date of this Indenture or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which are not subject to redemption by the Company; PROVIDED, that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee in New York, New York, which initially shall be One State Street, New York, New York 10004, at which at any particular time its corporate trust business shall principally be administered.

"Corporation" means a corporation, association, company, joint-stock company or business trust.

"Current Market Price" has the meaning specified in Section 1304.

"DTC" has the meaning specified in Section 305.

"Defaulted Interest" has the meaning specified in Section 307.

"Definitive Security" or "Definitive Securities" means a Security or Securities that are in the form of the Security set forth in Sections 202 and 203 hereof, containing the legend specified for a Definitive Security and not including the additional language referred to in footnote 1 or the additional schedule referred to in footnote 2.

"Depositary" has the meaning specified in Section 305.

"Event of Default" has the meaning specified in Section 501.

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

"Global Security or "Global Securities" means a Security or Securities in the form of the Security set forth in Sections 202 and 203 hereof containing the legend specified for a Global Security, the additional language referred to in footnote 1 and the additional schedule referred to in footnote 2.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively.

"Initial Purchasers" means _____ and _____.

"Interest Payment Date" means the Stated Maturity of an instalment of interest on the Securities.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity thereof or by declaration of acceleration, redemption or otherwise.

"Officers' Certificate" means a certificate, in form reasonably satisfactory to the Trustee, signed by the Chairman of the Board, the Chief Executive Officer, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee. One of the officers signing an Officers' Certificate given pursuant to Section 1004 shall be the principal executive, financial or accounting officer of the Company.

"Opinion of Counsel" means a written opinion, in form reasonably satisfactory to the Trustee, of counsel, who may be counsel for or an employee of the Company, and who shall be acceptable to the Trustee.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(i) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(ii) Securities, or portions thereof, for the payment or redemption of which moneys in the necessary amount have been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in

trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; PROVIDED, that if such Securities, or portions thereof, are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made; and

(iii) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

PROVIDED, HOWEVER, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of and premium, if any, or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such

particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Purchase Agreement" means that certain Purchase Agreement dated December 13, 1995 between the Company and the Initial Purchasers.

"Record Date" means either a Regular Record Date or a Special Record Date, as applicable.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture on the applicable Redemption Date.

"Registration Rights Agreement" means that certain Registration Rights Agreement dated as of December 13, 1995 between the Company and the Initial Purchasers.

"Regular Record Date", for the interest payable on any Interest Payment Date means the June 1 or December 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"Repurchase Date" has the meaning specified in Section 1401.

"Repurchase Event" has the meaning specified in Section 1406.

"Repurchase Price" has the meaning specified in Section 1401.

"Resale Restriction Termination Date" means, with respect to any Security, the date which is three years after the later of (i) the original issue date of such Security and (ii) the last date on which the Company or any Affiliate of the Company was the owner of such Security (or any Predecessor Security).

"Responsible Officer" means, when used with respect to the Trustee, the chairman of the Board of Directors, any vice chairman of the Board of Directors, the chairman of the trust committee, the chairman of the executive committee, any vice chairman of the executive committee, the president, any vice president (whether or not designated by numbers or words added before or after the title "vice president"), the cashier, the secretary, the treasurer, any trust officer, any assistant trust officer, any assistant cashier, any assistant

secretary, any assistant treasurer, or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Rights" means "Rights" as such term is defined in the Rights Agreement.

"Rights Agreement" means that certain Rights Agreement, dated as of April 10, 1992, between the Company and Riggs National Bank, N.A.

"Securities Custodian" means the Trustee, as custodian with respect to the Securities in global form, or any successor entity thereto.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Senior Indebtedness" means the principal of and premium, if any, and interest on (a) all secured indebtedness of the Company for money borrowed, excluding the claims of trade creditors, whether outstanding on the date of execution of this Indenture or thereafter created, incurred or assumed, except any such indebtedness that by the terms of the instrument or instruments by which such indebtedness was created or incurred expressly provides that it (i) is junior in right of payment to the Securities or (ii) ranks PARI PASSU with the Securities, and (b) amendments, renewals, extensions, modifications, refinancings and refundings of any such indebtedness. For the purposes of this definition, "indebtedness for money borrowed" when used with respect to the Company means (i) any obligation of, or any obligation guaranteed by, the Company for the repayment of borrowed money (including without limitation fees, penalties or other obligations in respect thereof), whether or not evidenced by bonds, debentures, notes or other written instruments, (ii) any deferred payment obligation of, or any such obligation guaranteed by, the Company for the payment of the purchase price of property or assets evidenced by a note or similar instrument, and (iii) any obligation of, or any such obligation guaranteed by, the Company for the payment of rent or other amounts under a lease of property or assets which obligation is required to be classified and accounted for as a capitalized lease on the balance sheet of the Company under generally accepted accounting principles.

"Shelf Registration Statement" means the Registration Statement with respect to the Common Stock the Issuer is required to file pursuant to the Registration Rights Agreement.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any instalment of interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such instalment of interest is due and payable.

"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Termination of Trading" has the meaning specified in Section 1406.

"Transfer Restricted Securities" means Securities that bear or are required to bear the legend set forth in Section 305 hereof.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; PROVIDED, HOWEVER, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Vice President", when used with respect to the Company means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

SECTION 102. COMPLIANCE CERTIFICATES AND OPINIONS.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirement set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each individual or firm signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual or such firm, he has or they have made such examination or investigation as is necessary to enable him or them to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual or such firm, such condition or covenant has been complied with.

SECTION 103. FORM OF DOCUMENTS DELIVERED TO TRUSTEE.

In any case where several matters are required to be certified by or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any Person may certify to give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certification or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate of public officials or upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 104. ACTS OF HOLDERS; RECORD DATES.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The Company may, in the circumstances permitted by the Trust Indenture Act, fix any day as the record date for the purpose of determining the Holders entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Holders. If not set by the Company prior to the first solicitation of a Holder made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders

required to be provided pursuant to Section 701) prior to such first solicitation or vote, as the case may be. With regard to any record date, only the Holders on such date (or their duly designated proxies) shall be entitled to give or take, or vote on, the relevant action. Notwithstanding the foregoing, the Company shall not set a record date for, and the provisions of this paragraph shall not apply with respect to, any Act by the Holders pursuant to Section 501, 502 or 512.

(d) The ownership of Securities shall be proved by the Security Register.

(e) Any Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer therefor or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(f) Without limiting the foregoing, a Holder entitled hereunder to give or take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any different part of such principal amount.

SECTION 105. NOTICES, ETC., TO TRUSTEE AND COMPANY.

Any Act of Holders or other documents provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Administration, or at any other address previously furnished in writing to the Holders and the Company by the Trustee; or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company, addressed to it at the address of its principal executive offices specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, registered or certified with postage prepaid, if mailed; when answered back if telexed; when receipt acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by nationally recognized overnight air courier guaranteeing next day delivery.

SECTION 106. NOTICE TO HOLDERS; WAIVER.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected

by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail any notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

SECTION 107. CONFLICT WITH TRUST INDENTURE ACT.

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act or another provision that would be required or deemed under such Act to be a part of and govern this Indenture if this Indenture were subject thereto, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

SECTION 108. EFFECT OF HEADINGS AND TABLE OF CONTENTS.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. SUCCESSORS AND ASSIGNS.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 110. SEPARABILITY CLAUSE.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 111. BENEFITS OF INDENTURE.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, the Holders of Securities and, with respect to Article Twelve, the holders of Senior Indebtedness, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. GOVERNING LAW.

This Indenture and the Securities shall be governed by and construed in accordance with the laws of the State of New York, but without regard to the principles of conflicts of laws thereof.

SECTION 113. LEGAL HOLIDAYS.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security or the last date on which a Holder has the right to convert his Securities shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Securities) payment of interest or principal and premium if any, or conversion of the Securities need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, or on such last day for conversion; PROVIDED, that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be, to the next succeeding Business Day.

SECTION 114. NO SECURITY INTEREST CREATED.

Nothing in this Indenture or in the Securities, express or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect in any jurisdiction where property of the Company or its Subsidiaries is or may be located.

SECTION 115. LIMITATION ON INDIVIDUAL LIABILITY.

No recourse under or upon any obligation, covenant or agreement contained in this Indenture or in any Security, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or any successor corporation, either directly or through the Company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the obligations issued hereunder are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, shareholders, officers or directors, as such, of the Company or any successor Person, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any Security or implied therefrom; and

that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, shareholder, officer or director, as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any Security or implied therefrom, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of such Security.

ARTICLE TWO

Security Forms

SECTION 201. FORMS GENERALLY.

The Securities and the Trustee's certificate of authentication shall be in substantially the forms set forth in this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with any organizational document, any applicable law or with the rules of any securities exchange on which the Securities are listed or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities.

The Securities will initially be issued either in the form of one or more Global Securities or in the form of Definitive Securities or a combination thereof, in any case, substantially in the form set forth in Sections 202 and 203 below (including the additional language and schedule referred to in footnote 1 and 2, respectively).

Each Global Security shall represent such of the outstanding Securities as shall be specified therein and each shall provide that it shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon and that the aggregate amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions. Any endorsement of a Global Security to reflect the amount of any increase or decrease in the amount of outstanding Securities represented thereby shall be made by the Trustee or the Securities Custodian, at the direction of the Trustee, in accordance with instructions given by the Holder thereof.

The Definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner permitted by the rules of any securities

exchange on which the Securities may be listed, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

SECTION 202. FORM OF FACE OF SECURITY.

LEGENDS FOR GLOBAL SECURITY:

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES NOT TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS THREE YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATED PERSON OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) UNLESS SUCH OFFER, SALE OR OTHER TRANSFER IS (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON THE HOLDER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D)

PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE THEN HOLDER OF THIS SECURITY AFTER THE RESALE RESTRICTION TERMINATION DATE.

LEGENDS FOR DEFINITIVE SECURITY:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES NOT TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS THREE YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATED PERSON OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) UNLESS SUCH OFFER, SALE OR OTHER TRANSFER IS (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON THE HOLDER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION

SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF

THE THEN HOLDER OF THIS SECURITY AFTER THE RESALE RESTRICTION TERMINATION DATE.

PHP HEALTHCARE CORPORATION

6 1/2% Convertible Subordinated Debentures due 2002

No. _____ $_____

PHP Healthcare Corporation, a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars [OR SUCH GREATER OR LESSER AMOUNT AS INDICATED ON THE SCHEDULE OF EXCHANGES OF DEFINITIVE SECURITIES ON THE REVERSE HEREOF](1) on December 15, 2002, and to pay interest thereon from the date of original issuance of Securities pursuant to the Indenture or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 15 and December 15 in each year, commencing June 15, 1996, at the rate of 6 1/2% per annum, until the principal hereof is paid or made available for payment and promises to pay any liquidated damages which may be payable pursuant to Section 4 of the Registration Rights Agreement on the Interest Payment Dates. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the June 1 or December 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed and upon such notice as may be required by such exchange, all as more fully provided in said Indenture. Notice of a Special Record Date shall be given to Holders of Securities not less than 10 days prior to such Special Record Date. Payment of the principal of and premium, if any, and interest on this Security will be made (i) in respect of Securities held of record by the Depositary or its nominee in same day funds on or prior to the respective Interest Payment Dates and (ii) in respect of Securities held of record by Holders other than the Depositary or its nominee at the office or agency of the Company maintained for that purpose pursuant to Section 1002 of the Indenture, in each case in such coin or currency of the United

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(1) This phrase should be included only if the Security is issued in global form.

States of America as of the time of payment is legal tender for payment of public and private debts; PROVIDED, HOWEVER, that at the option of the Company payment of interest in respect of Securities held of record by Holders other than the Depositary or its nominee may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated: PHP HEALTHCARE CORPORATION

By

Attest:

SECTION 203. FORM OF REVERSE OF SECURITY.

This Security is one of a duly authorized issue of Securities of the Company designated as its 6 1/2% Convertible Subordinated Debentures due 2002 (herein called the "Securities"), limited in aggregate principal amount to $69,000,000 (including Securities issuable pursuant to the Initial Purchasers' over-allotment option, as provided for in the Purchase Agreement dated December 13, 1995 between the Company and the Initial Purchasers), issued and to be issued under an Indenture, dated as of December 15, 1995 (herein called the "Indenture"), between the Company and IBJ Schroder Bank & Trust Company, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee, the holders of Senior Indebtedness and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered.

Subject to and upon compliance with the provisions of the Indenture, the Holder of this Security is entitled, at his option, at any time on or after the 60th day following the date of original issuance of Securities pursuant to the Indenture and on or before the close of business on December 15, 2002, or in case this Security or a portion hereof is called for redemption, then in respect of this Security or such portion hereof until and including, but (unless the Company defaults in making the payment due upon redemption) not after, the close of business on the second business day preceding the Redemption Date, to convert this Security (or any portion of the principal amount hereof which is $1,000 or an integral multiple thereof), at the principal amount hereof, or of such portion, into fully paid and non-assessable shares (calculated as to each conversion to the nearest 1/100th of a share) of Common Stock at a conversion price equal to $27.25 principal amount for each share of Common Stock (or at the current adjusted conversion price if an adjustment has been made as provided in the Indenture) by surrender of this Security, duly endorsed or assigned to the Company or in blank, to the Company at its office or agency maintained for that purpose pursuant to Section 1002 of the Indenture, accompanied by written notice to the Company in the form provided in this Security (or such other notice as is acceptable to the Company) that the Holder hereof elects to convert this Security, or if less than the entire principal amount hereof is to be converted, the portion hereof to be converted, and, in case such surrender shall be made during the period from the opening of business on any Regular Record Date next preceding any Interest Payment Date to the close of business on such Interest Payment Date (unless this Security or the portion thereof being converted has been called for redemption), also accompanied by payment in New York Clearing House funds, or other funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount of this Security then being converted. Subject to the aforesaid requirement for payment and, in the case of a conversion after the Regular Record Date next preceding any Interest Payment Date and on or before such Interest Payment Date, to the right of the Holder of this Security (or any Predecessor Security) of record at such Regular Record Date to receive an instalment of interest (with certain exceptions provided in the Indenture), no payment or adjustment is to be made upon conversion on account of any interest accrued hereon or on account of any dividends on the Common Stock issued upon conversion. No fractional shares or scrip representing fractions of shares will be issued on conversion, but instead of any fractional share the Company shall pay a cash adjustment as provided in the Indenture. The conversion price is subject to adjustment as provided in the Indenture. In addition, the Indenture provides that in case of certain consolidations or mergers to which the Company is a party or the sale or transfer of all or substantially all of the assets of the Company, the Indenture shall be amended, without the consent of any Holders of Securities, so that this Security, if then outstanding, will be convertible thereafter, during the period this Security shall be convertible as specified above, only into the kind and amount of securities, cash and other property receivable upon the consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock into which this Security might have been converted immediately prior to such consolidation, merger, sale or transfer (assuming such holder of Common Stock failed to exercise any rights of election and received per share the kind and amount received per share by a plurality of non-electing shares).

The Securities are subject to redemption upon not less than 15 and not more than 60 days' notice by mail, at any time on or after December 17, 1998, as a whole or in part, at the election of the Company, at the Redemption Prices set forth below (expressed as percentages of the principal amount), plus accrued interest to the Redemption Date (subject to the right of Holders of record on the relevant Regular Record Date to receive interest due on an Interest Payment Date that is on or prior to the Redemption Date).

If redeemed during the 12-month period beginning December 15, in the year indicated (December 17, in the case of 1998), the redemption price shall be:

Year	Redemption Price	Year	Redemption Price
1998	103.71%	2000 . . .	101.86%
1999	102.79%	2001 . . .	100.93%

In certain circumstances involving the occurrence of a Repurchase Event (as defined in the Indenture), the Holder hereof shall have the right to require the Company to repurchase this Security at 100% of the principal amount hereof, together with accrued interest to the Repurchase Date, but interest instalments whose Stated Maturity is on or prior to such Repurchase Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.

In the event of redemption or conversion of this Security in part only, a new Security or Securities for the unredeemed or unconverted portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The indebtedness evidenced by this Security is, to the extent provided in the Indenture, subordinate and subject in right of payment to the prior payment in full of all Senior Indebtedness, and this Security is issued subject to the provisions of the Indenture with respect thereto. Each Holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination so provided, and (c) appoints the Trustee his attorney-in-fact for any and all such purposes.

If an Event of Default shall occur and be continuing, the principal of

all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the

Securities at the time Outstanding, and, under certain limited circumstances, by the Company and the Trustee without the consent of the Holders. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed or to convert this Security as provided in the Indenture.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in fully registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities are exchangeable for a like aggregate principal amount of Securities of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange except as provided in the Indenture, and the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, except as provided in this Security, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture. The Company will furnish to any Holder upon written request and without charge a copy of the Indenture and/or the Registration Rights Agreement.

[FORM OF CONVERSION NOTICE]

TO PHP HEALTHCARE CORPORATION

The undersigned registered owner of this Security hereby irrevocably exercises the option to convert this Security, or the portion hereof (which is $1,000 or a multiple thereof) designated below, into shares of Common Stock in accordance with the terms of the Indenture referred to in this Security, and directs that the shares issuable and deliverable upon the conversion, together with any check in payment for a fractional share and any Security representing any unconverted principal amount hereof, be issued and delivered to the registered owner hereof unless a different name has been provided below. If this Notice is being delivered on a date after the close of business on a Regular Record Date and prior to the close of business on the related Interest Payment Date, this Notice is accompanied by payment in New York Clearing House funds, or other funds acceptable to the Company, of an amount equal to the interest payable on such Interest Payment Date on the principal of this Security to be converted (unless this Security has been called for redemption). If shares or any portion of this Security not converted are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. Any amount required to be paid by the undersigned on account of interest accompanies this Security.

Dated:

Signature(s)

Signature(s) must be guaranteed by a commercial bank or trust company or a member firm of a national stock exchange if shares of Common Stock are to be delivered, or Securities to be issued, other than to and in the name of the registered owner.

Signature Guarantee

Fill in for registration of shares of Common Stock if they are to be delivered, or Securities if they are to be issued, other than to and in the name of the registered owner:

(Name)

(Street Address)

(City, State and zip code)

(Please print name and address)

Register: _____ Common Stock
_____ Securities

(Check appropriate line(s)).

Principal amount to be converted (if less than all):

$_____,000

Social Security or other Taxpayer Identification Number of owner

[ASSIGNMENT FORM]

If you the holder want to assign this Security, fill in the form below and have your signature guaranteed:

I or we assign and transfer this Security to

(Insert assignee's social security or tax ID number)

(Print or type assignee's name, address and zip code) and irrevocably appoint

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agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Date: ---------- Your signature: ----------

(Sign exactly as your name appears on the face of this Security)

Signature Guarantee: ----------

[OPTION OF HOLDER TO ELECT PURCHASE]

If you wish to have this Security purchased by the Company pursuant to Section 1401 of the Indenture, check the Box: [ ]

If you wish to have a portion of this Security (which is $1,000 or an integral multiple thereof) purchased by the Company pursuant to Section 1401 of the Indenture, state the amount you wish to have purchased:

$ _____

Date: _____ Your Signature(s): _____

Tax Identification No.: _____

(Sign exactly as your name appears on the face of this Security)

Signature Guarantee: _____

[FORM OF SCHEDULE OF EXCHANGES OF DEFINITIVE SECURITIES(2)]

The following exchanges of a part of this Global Security for Definitive Securities have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Security	Amount of increase in Principal Amount of this Global Security	Principal Amount of this Global Security following such decrease (or increase)	Signature of authorized signatory of Trustee or Securities Custodian
1.				
2.				
3.				
4.				

5.

SECTION 204. FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

The Trustee's certificate of authentication shall be in substantially the following form:

This is one of the Securities referred to in the within-mentioned Indenture.

IBJ SCHRODER BANK & TRUST COMPANY,
as Trustee

By

Authorized Signatory

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(2) This Schedule should be included only if the Security is issued in global form.

ARTICLE THREE

The Securities

SECTION 301. TITLE AND TERMS.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is limited to $69,000,000 (including $9,000,000 aggregate principal amount of Securities that may be sold to the Initial Purchasers by the Company upon exercise of the over-allotment option granted pursuant to the Purchase Agreement), except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 304, 305, 306, 906, 1108, 1302 or 1405.

The Securities shall be known and designated as the "6 1/2% Convertible Subordinated Debentures due 2002" of the Company. Their Stated Maturity shall be December 15, 2002 and they shall bear interest at the rate of 6 1/2% per annum, from the date of original issuance of Securities pursuant to

this Indenture or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually on June 15 and December 15, commencing June 15, 1996, until the principal thereof is paid or made available for payment.

The principal of and premium, if any, and interest on the Securities shall be payable (i) in respect of Securities held of record by the Depositary or its nominee in same day funds on or prior to the respective Interest Payment Dates and (ii) in respect of Securities held of record by Holders other than the Depositary or its nominee at the office or agency of the Company maintained for such purpose pursuant to Section 1002; PROVIDED, HOWEVER, that at the option of the Company payment of interest to Holders of record other than the Depositary may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

The Securities shall be subject to the transfer restrictions set forth in Section 305.

The Securities shall be redeemable as provided in Article Eleven.

The Securities shall be subordinated in right of payment to Senior Indebtedness as provided in Article Twelve.

The Securities shall be convertible as provided in Article Thirteen.

The Securities shall be subject to repurchase at the option of the Holder as provided in Article Fourteen.

SECTION 302. DENOMINATIONS.

The Securities shall be issuable only in fully registered form without coupons and only in denominations of $1,000 and any integral multiple thereof.

SECTION 303. EXECUTION, AUTHENTICATION, DELIVERY AND DATING.

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Chief Executive Officer, its President or one of its Vice Presidents, under its corporate seal or a facsimile thereof reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities; and the Trustee in accordance with such Company Order shall either at one time or from time to time pursuant to such instructions as may be described therein authenticate and deliver such Securities as in this Indenture provided and not otherwise. Such Company Order shall specify the amount of Securities to be authenticated and the date on which the original issue of Securities is to be authenticated, and shall certify that all conditions precedent to the issuance of such Securities contained in this Indenture have been complied with. The aggregate principal amount of Securities Outstanding at any time may not exceed the amount set forth above except as provided in Section 306.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein duly executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of the Indenture. The Trustee may appoint an Authenticating Agent pursuant to the terms of Section 614.

SECTION 304. TEMPORARY SECURITIES.

Pending the preparation of Definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized

denomination, substantially of the tenor of the Definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities. Every such temporary Security shall be executed by the Company and shall be authenticated and delivered by the Trustee upon the same conditions and in substantially the same manner, and with the same effect, as the Definitive Security or Securities in lieu of which it is issued.

If temporary Securities are issued, the Company will cause Definitive Securities to be prepared without unreasonable delay. After the preparation of Definitive Securities, the temporary Securities shall be exchangeable for Definitive Securities upon surrender of the temporary Securities at any office

or agency of the Company designated pursuant to Section 1002, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more Definitive Securities of a like principal amount of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as Definitive Securities.

SECTION 305. REGISTRATION, REGISTRATION OF TRANSFER AND EXCHANGE.

(a) The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency designated pursuant to Section 1002 being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided. At all reasonable times the Security Register shall be open for inspection by the Company.

The Company initially appoints The Depository Trust Company ("DTC") to act as depositary (the "Depositary") with respect to the Global Security(ies).

The Company initially appoints the Trustee to act as Securities Custodian with respect to the Global Security(ies).

(b) With respect to the transfer and exchange of Definitive Securities, when Definitive Securities are presented to the Security Registrar with the request (x) to register the transfer of the Definitive Securities or (y) to exchange such Definitive Securities for an equal principal amount of Definitive Securities of other authorized denominations, the Security Registrar shall register the transfer or make the exchange as requested if its requirements for such transactions are met; PROVIDED, HOWEVER, that the Definitive Securities presented or surrendered for register of transfer or exchange:

(i) shall be duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Security Registrar duly executed by the Holder thereof or by its attorney, duly authorized in writing; and

(ii) shall, in the case of Transfer Restricted Securities that are Definitive Securities, be accompanied by the following additional information and documents, as applicable:

(A) if such Transfer Restricted Security is being delivered

to the Security Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect (in substantially the form of Exhibit A hereto); or

(B) if such Transfer Restricted Security is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A under the Securities Act or pursuant to an exemption from registration in accordance with Rule 144 or Regulation S under the Securities Act or pursuant to an effective registration statement under the Securities Act, a certification to that effect (in substantially the form of Exhibit A hereto) and, in the case of a transfer in accordance with Rule 144 or Regulation S under the Securities Act, an Opinion of Counsel reasonably acceptable to the Company and to the Security Registrar to the effect that such transfer is in compliance with the Securities Act; or

(C) if such Transfer Restricted Security is being transferred in reliance on another exemption from the registration requirements of the Securities Act, a certification to that effect (in substantially the form of Exhibit A hereto) and an Opinion of Counsel reasonably acceptable to the Company and to the Security Registrar to the effect that such transfer is in compliance with the Securities Act.

(c) The following restrictions apply to any transfer of a Definitive Security for a beneficial interest in a Global Security. A Definitive Security may not be exchanged for a beneficial interest in a Global Security except until and upon satisfaction of the requirements set forth below. Upon receipt by the Trustee of a Definitive Security, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Trustee, together with:

(i) if such Definitive Security is a Transfer Restricted Security, certification, substantially in the form of Exhibit A hereto, that such Definitive Security is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A; and

(ii) whether or not such Definitive Security is a Transfer Restricted Security, written instructions directing the Trustee to make, or to direct the Securities Custodian to make, an endorsement on the Global Security to reflect an increase in the aggregate principal amount of the Securities represented by the Global Security,

then the Trustee shall cancel such Definitive Security and cause, or direct the Securities Custodian to cause, in accordance with the standing instructions and procedures existing between the Depositary and the Securities Custodian, the aggregate principal amount of Securities represented by the Global Security to be increased accordingly. If no Global Securities are then outstanding, the Company shall execute and, upon receipt of an authentication order in the form of a Company Order in accordance with Section 303, the Trustee shall authenticate a new Global Security in the appropriate principal amount.

(d) The transfer and exchange of Global Securities or beneficial interests therein shall be effected through the Depositary, in accordance with this Indenture (including the restrictions on transfer set forth herein) and the procedures of the Depositary therefor.

(e) With respect to the transfer of a beneficial interest in a Global Security for a Definitive Security:

(i) Any person having a beneficial interest in a Global Security may upon request exchange such beneficial interest for a Definitive Security. Upon receipt by the Trustee of written instructions or such other form of instructions as is customary for the Depositary or its nominee on behalf of any person having a beneficial interest in a Global Security constituting a Transfer Restricted Security only, and receipt by the Trustee of the following additional information and documents (all of which may be submitted by facsimile):

(A) if such beneficial interest is being transferred to the person designated by the Depositary as being the beneficial owner, a certification from such person to that effect (in substantially the form of Exhibit A hereto); or

(B) if such beneficial interest is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A under the Securities Act or pursuant to an exemption from registration in accordance with Rule 144 or Regulation S under the Securities Act or pursuant to an effective registration statement under the Securities Act, a certification to that effect from the transferor (in substantially the form of Exhibit A hereto) and, in the case of a transfer in accordance with Rule 144 or Regulation S under the Securities Act, an Opinion of Counsel reasonably acceptable to the Company and to the Security Registrar to the effect that such transfer is in compliance with the Securities Act; or

(C) if such beneficial interest is being transferred in reliance on another exemption from the registration requirements of the Securities Act, a certification to that effect from the transferee or transferor (in substantially the form of Exhibit A hereto) and an Opinion of Counsel from the transferee or transferor reasonably acceptable to the Company and to the Security Registrar to the effect that such transfer is in compliance with the Securities Act,

then the Trustee or the Securities Custodian, at the direction of the Trustee, will cause, in accordance with the standing instructions and procedures existing between the Depositary and the Securities Custodian, the aggregate principal amount of the Global Security to be reduced and, following such reduction, the Company will execute and, upon receipt of an authentication order in the form of a Company Order in accordance with Section 303, the Trustee will authenticate and deliver to the transferee a Definitive Security.

(ii) Definitive Securities issued in exchange for a beneficial interest in a Global Security pursuant to this Section 305 shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Definitive Securities to the persons in whose names such Securities are so registered.

(f) Notwithstanding any other provisions of this Indenture (other than the provisions set forth in subsection (g) of this Section 305), a Global Security may not be transferred as a whole except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

(g) The following relates to the authentication of Definitive Securities in absence of the Depositary. If at any time: (i) the Depositary for the Securities notifies the Company that the Depositary is unwilling or unable to continue as Depositary for the Global Securities and a successor Depositary for the Global Securities is not appointed by the Company within 90 days after delivery of such notice; or (ii) the Company, at its sole discretion, notifies the Trustee in writing that it elects to cause the issuance of Definitive Securities under this Indenture, then the Company will execute, and the Trustee, upon receipt of a Company Order in accordance with Section 303 requesting the authentication and delivery of Definitive Securities, will authenticate and deliver Definitive Securities, in an aggregate principal amount equal to the principal amount of the Global Securities, in exchange for such Global Securities.

(h) (i) Except as permitted by the following paragraph (ii), each Security certificate evidencing the Global Securities and the Definitive

Securities (and all Securities issued in exchange therefor or substitution thereof) shall bear a legend in substantially the following form:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES NOT TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS THREE YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATED PERSON OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) UNLESS SUCH OFFER, SALE OR OTHER TRANSFER IS (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON THE HOLDER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE THEN HOLDER OF THIS SECURITY AFTER THE RESALE RESTRICTION TERMINATION DATE.

(ii) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by a Global Security) pursuant to Rule 144 under the Securities Act or an effective registration statement under the Securities Act (including the Shelf Registration Statement):

(A) in the case of any Transfer Restricted Security that is a Definitive Security, the Security Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Definitive Security that does not bear the legend set forth above and rescind any restriction on the transfer of such Transfer Restricted Security; PROVIDED, HOWEVER, that with respect to a transfer made in reliance upon Rule 144 or an effective registration statement, the Holders thereof shall certify in writing to the Security Registrar that such request is being made pursuant to Rule 144 or an effective registration statement (such Certification to be substantially in the form of Exhibit A hereto) and, in the case of a transfer made in reliance upon Rule 144, shall be accompanied by an Opinion of Counsel reasonably acceptable to the Company and to the Security Registrar to the effect that such transfer is in compliance with the Securities Act; and

(B) any such Transfer Restricted Security represented by a Global Security shall not be subject to the provisions set forth in (i) above (such sales or transfers being subject only to the provisions of Section 305(d) hereof); PROVIDED, HOWEVER, that with respect to any request for an exchange of a Transfer Restricted Security that is represented by a Global Security for a Definitive Security that does not bear a legend, which request is made in reliance upon Rule 144 or an effective registration statement, the Holder thereof shall certify in writing to the Security Registrar that such request is being made pursuant to Rule 144 or an effective registration statement (such certification to be substantially in the form of Exhibit A hereto) and, in the case of a transfer made in reliance upon Rule 144, shall be accompanied by an Opinion of Counsel reasonably acceptable to the Company and to the Security Registrar to the effect that such transfer is in compliance with the Securities Act.

(i) At such time as all beneficial interests in a Global Security have either been exchanged for Definitive Securities, redeemed, repurchased or cancelled, such Global Security shall be returned to or retained and cancelled by the Trustee. At any time prior to such cancellation, if any beneficial interest in a Global Security is exchanged for Definitive Securities, redeemed, repurchased or cancelled, the principal amount of Securities represented by such Global Security shall be reduced and an endorsement shall be made on such Global Security, by the Trustee or the Securities Custodian, at the direction of the Trustee, to reflect such reduction.

(j) All Definitive Securities and Global Securities issued upon any registration of transfer or exchange of Definitive Securities or Global Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Definitive Securities or Global Securities surrendered upon such registration of transfer

or exchange.

To permit registrations of transfer and exchanges, the Company shall execute and the Trustee shall authenticate Definitive Securities and Global Securities at the Security Registrar's request.

No service charge to a Holder shall be made for any registration of transfer or exchange of Securities except as provided in Section 306. The Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 905, 1108 or 1302 not involving any transfer.

The Company or the Security Registrar shall not be required (i) to issue, register the transfer of or exchange any Security during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities selected for redemption under Section 1104 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Definitive Security or beneficial interest in any Global Security so selected for redemption in whole or in part, except the unredeemed portion of any Definitive Security being redeemed in part.

SECTION 306. MUTILATED, DESTROYED, LOST AND STOLEN SECURITIES.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount and bearing a number not contemporaneously outstanding. The Trustee may charge the Company for the Trustee's expenses in replacing such Security.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other

governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone,

and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 307. PAYMENT OF INTEREST; INTEREST RIGHTS PRESERVED.

Interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest. Payment of interest will be made (i) in respect of Securities held by the Depositary or its nominee, in same day funds on or prior to the respective Interest Payment Dates and (ii) in respect of Securities held of record by Holders other than the Depositary or its nominee, at the office of the Trustee in New York, New York or at such other office or agency of the Company as it shall maintain for that purpose pursuant to Section 1002, PROVIDED, HOWEVER, that, at the option of the Company, interest on any Security held of record by Holders other than the Depositary or its nominee may be paid by mailing checks to the addresses of the Holders thereof as such addresses appear in the Securities Register.

Any interest on any Security which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money

equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder at his address as it appears in the Security Register, not

less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

In the case of any Security which is converted after any Regular Record Date and on or prior to the next succeeding Interest Payment Date (other than any Security whose Maturity is prior to such Interest Payment Date), interest whose Stated Maturity is on such Interest Payment Date shall be payable on such Interest Payment Date notwithstanding such conversion, and such interest (whether or not punctually paid or duly provided for) shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on such Regular Record Date PROVIDED,

HOWEVER, that Securities so surrendered for conversion shall (except in the case of Securities or portions thereof called for redemption) be accompanied by payment in New York Clearing House funds or other funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount being surrendered for conversion. Except as otherwise expressly provided in the immediately preceding sentence, in the case of any Security which is converted, interest whose Stated Maturity is after the date of conversion of such Security shall not be payable.

SECTION 308. PERSONS DEEMED OWNERS.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and premium, if any, and (subject to Section 307) interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 309. CANCELLATION.

All Securities surrendered for payment, redemption, registration of transfer, exchange or conversion shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly canceled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Trustee shall be disposed of as directed by a Company Order.

SECTION 310. COMPUTATION OF INTEREST.

Interest on the Securities shall be computed on the basis of a 360-day year of twelve 30-day months.

ARTICLE FOUR

Satisfaction and Discharge

SECTION 401. SATISFACTION AND DISCHARGE OF INDENTURE.

This Indenture shall upon Company Request cease to be of further effect (except as expressly provided for in this Article Four), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, or

(iv) are delivered to the Trustee for Conversion in accordance with Article Thirteen,

and the Company, in the case of (i), (ii), (iii) or (iv) above, has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount in cash sufficient (without consideration of any investment of such cash) to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation for principal and premium, if any, and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be; PROVIDED that the Trustee shall have been irrevocably instructed to apply such amount to said payments with respect to the Securities;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the following rights or obligations under the Securities and this Indenture shall survive until otherwise terminated or discharged hereunder: (a) Article Thirteen, Article Fourteen and the Company's obligations under Sections 304, 305, 306, 1002 and 1003, in each case with respect to any Securities described in subclause (B) of Clause (1) of this Section, (b) this Article Four, (c) the rights, powers, trusts, duties and immunities of the Trustee hereunder, including the obligations of the Company to the Trustee under Section 607, and the obligations of the Trustee to any Authenticating Agent under Section 614 and (d) if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the rights of Holders of any Securities described in subclause (B) of Clause (1) of this Section to receive, solely from the trust fund described in such subclause (B), payments in respect of the principal of, and premium (if any) and interest on, such Securities when such payment are due.

SECTION 402. APPLICATION OF TRUST MONEY.

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either

directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and premium, if any, and interest for whose payment such money has been deposited with the Trustee. All moneys deposited with the Trustee pursuant to Section 401 (and held by it or any Paying Agent) for the payment of Securities subsequently converted shall be returned to the Company upon Company Request.

SECTION 403. REINSTATEMENT.

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article Four by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to this Article Four until such time as the Trustee or Paying Agent is permitted to apply all money held in trust with respect to the Securities; PROVIDED, HOWEVER, that if the Company makes any payment of principal of or any

premium or interest on any Security following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of the Securities to receive such payment from the money so held in trust.

ARTICLE FIVE

Remedies

SECTION 501. EVENTS OF DEFAULT.

"Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be occasioned by the provisions of Article Twelve or be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body);

(1) default in the payment of the principal of or premium, if any, on any Security at its Maturity, whether or not such payment is prohibited by the provisions of Article Twelve; or

(2) default in the payment of any interest upon any Security when it becomes due and payable, whether or not such payment is prohibited by the provisions of Article Twelve, and continuance of such default for a period of 30 days; or

(3) failure to provide timely notice of a Repurchase Event as required in accordance with the provisions of Article Fourteen; or

(4) default in the payment of the Repurchase Price in respect of any Security on the Repurchase Date therefor in accordance with the provisions of Article Fourteen, whether or not such payment is prohibited by the provisions of Article Twelve; or

(5) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(6) a default under any bond, debenture, note or other evidence of indebtedness for money borrowed by the Company or any Subsidiary or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any Subsidiary, whether such indebtedness now exists or shall hereafter be created, which default shall constitute a failure to pay the principal of indebtedness in excess of $5,000,000 when due and payable after the expiration of any applicable grace period with respect thereto or shall have resulted in indebtedness in excess of $5,000,000 becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged, or such acceleration having been rescinded or annulled, within a period of 30 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities a written notice specifying such default and requiring the Company to cause such indebtedness to be discharged or cause such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder; or

(7) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company or any Subsidiary in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company or any Subsidiary a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company or any Subsidiary under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or any Subsidiary or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(8) the commencement by the Company or any Subsidiary of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency,

reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company or any Subsidiary in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or

proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or any Subsidiary or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company or any Subsidiary in furtherance of any such action.

Upon receipt by the Trustee of any Notice of Default pursuant to this Section 501, a record date shall automatically and without any other action by any Person be set for the purpose of determining the Holders of Outstanding Securities entitled to join in such Notice of Default, which record date shall be the close of business on the day the Trustee receives such Notice of Default. The Holders of Outstanding Securities on such record date (or their duly appointed agents), and only such Persons, shall be entitled to join in such Notice of Default, whether or not such Holders remain Holders after such record date: PROVIDED, that unless such Notice of Default shall have become effective by virtue of the Holders of the requisite principal amount of Outstanding Securities on such record date (or their duly appointed agents) having joined therein on or prior to the 90th day after such record date, such Notice of Default shall automatically and without any action by any Person be canceled and of no further force or effect.

SECTION 502. ACCELERATION OF MATURITY; RESCISSION AND ANNULMENT.

If an Event of Default (other than as specified in subparagraph (7) or (8) of Section 501) occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities may declare the principal of all the Securities to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal plus any interest accrued on the securities to the date of declaration shall become immediately due and payable. If an Event of Default specified in subparagraph (7) or (8) of Section 501 occurs and is continuing, then the principal of, premium, if any, and accrued and unpaid interest, if any, on all of the Securities shall IPSO FACTO become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder of Securities.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities,

(B) the principal of and premium, if any, on any Securities which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the Securities, and

(D) all sums paid or advanced by the Trustee and each predecessor Trustee, their respective agents and counsel hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee and each predecessor Trustee, their respective agents and counsel;

and

(2) all Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Securities that has become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission and waiver shall affect any subsequent default or impair any right consequent thereon.

Upon receipt by the Trustee of any declaration of acceleration, or any rescission and annulment of any such declaration, pursuant to this Section 502, a record date shall automatically and without any other action by any Person be set for the purpose of determining the Holders of Outstanding Securities entitled to join in such declaration, or rescission and annulment, as the case may be, which record date shall be the close of business on the day the Trustee receives such declaration, or rescission and annulment, as the case may be. The Holders of Outstanding Securities on such record date (or their duly appointed agents), and only such Persons, shall be entitled to join in such declaration, or rescission and annulment, as the case may be, whether or not such Holders remain Holders after such record date; PROVIDED, that unless such declaration, or rescission and annulment, as the case may be, shall have become effective by virtue of Holders of the requisite principal amount of Outstanding Securities on such record date (or their duly appointed agents) having joined therein on or prior to the 90th day after such record date, such declaration, or rescission and annulment, as the case may be, shall automatically and without any action by any Person be canceled and of no further force or effect.

SECTION 503. COLLECTION OF INDEBTEDNESS AND SUITS FOR ENFORCEMENT BY TRUSTEE.

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of or premium, if any, on any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and premium, if any, and interest, and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and premium, if any, and on any overdue interest, at the rate borne by the Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee and each predecessor Trustee, their respective agents and counsel, and any other amounts due the Trustee or any predecessor Trustee under Section 607.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid and may prosecute any such proceeding to judgment or final decree, and may enforce the same against the Company (or any other obligor upon the Securities) and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company (or any other obligor upon the Securities), wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. TRUSTEE MAY FILE PROOFS OF CLAIM.

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have the claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and

receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments

directly to the Holders, to pay to the Trustee any amount due it and each predecessor Trustee for the reasonable compensation, expenses, disbursements and advances of the Trustee and each predecessor Trustee and their respective agents and counsel, and any other amounts due the Trustee under Section 607.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; PROVIDED, HOWEVER, that the Trustee may, on behalf of the Holders, vote for the election of a trustee in bankruptcy or similar official and may be a member of the Creditors' Committee.

SECTION 505. TRUSTEE MAY ENFORCE CLAIMS WITHOUT POSSESSION OF SECURITIES.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee and each predecessor Trustee and their respective agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 506. APPLICATION OF MONEY COLLECTED.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or premium, if any, or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To payment of all amounts due the Trustee under Section 607;

SECOND: Subject to Article 12, to the holders of Senior Indebtedness;

THIRD: To the payment of the amounts then due and unpaid for principal of and premium, if any, and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and premium, if any, and interest, respectively; and

FOURTH: The balance, if any, to the Company or any other Person or Persons determined to be entitled thereto.

SECTION 507. LIMITATION ON SUITS.

No Holder of any Security shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities;

it being understood and intended that no one or more holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 508. UNCONDITIONAL RIGHT OF HOLDERS TO RECEIVE PRINCIPAL, PREMIUM AND INTEREST AND TO CONVERT.

Notwithstanding any other provision in this Indenture, the Holder of

any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and premium, if any, and (subject to Section 307) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date or, in the case of a repurchase pursuant to Article Fourteen, on the Repurchase Date) and to convert such Security in accordance with Article Thirteen and to institute suit for the enforcement of any such payment and right to convert, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. RESTORATION OF RIGHTS AND REMEDIES.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. RIGHTS AND REMEDIES CUMULATIVE.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. DELAY OR OMISSION NOT WAIVER.

No delay or omission of the Trustee or of any Holder of any Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. CONTROL BY HOLDERS.

The Holders of a majority in principal amount of the Outstanding

Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee; PROVIDED, that

(1) such direction shall not be in conflict with any rule of law or with this Indenture; and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction; and

(3) subject to the provisions of Section 601, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that

the action so directed would involve the Trustee in personal liability or would be unduly prejudicial to Holders not joining in such direction.

Upon receipt by the Trustee of any such direction, a record date shall automatically and without any other action by any Person be set for the purpose of determining the Holders of Outstanding Securities entitled to join in such direction, which record date shall be the close of business on the day the Trustee receives such direction. The Holders of Outstanding Securities on such record date (or their duly appointed agents), and only such Persons, shall be entitled to join in such direction, whether or not such Holders remain Holders after such record date; PROVIDED, that unless such direction shall have become effective by virtue of Holders of the requisite principal amount of Outstanding Securities on such record date (or their duly appointed agents) having joined therein on or prior to the 90th day after such record date, such direction shall automatically and without any action by any Person be canceled and of no further force or effect.

SECTION 513. WAIVER OF PAST DEFAULTS.

The Holders of not less than a majority in principal amount of the Outstanding Securities may on behalf of the Holders of all the Securities waive any past default hereunder and its consequences, except a default

(1) in the payment of the principal of or premium, if any, or interest on any Security, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security affected.

Upon any such waiver, such default shall cease to exist, and any Event

of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 514. UNDERTAKING FOR COSTS.

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; PROVIDED, that neither this Section nor the Trust Indenture Act shall be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Company, in any suit instituted by the Trustee, a suit by a Holder pursuant to Section 508, or a suit by a Holder or Holders of more than 10% in principal amount of the outstanding Securities.

SECTION 515. WAIVER OF STAY OR EXTENSION LAWS.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

The Trustee

SECTION 601. CERTAIN DUTIES AND RESPONSIBILITIES.

The duties and responsibilities of the Trustee shall be as provided by this Indenture and the Trust Indenture Act for securities issued pursuant to indentures qualified thereunder. Except as otherwise provided herein, notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability or risk in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risk or liability is not reasonably assured to it. Whether or not

therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section. The Trustee shall not be liable (x) for any error of judgment made in good faith by a Responsible Officer or Responsible Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts or (y) with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding relating to the time, method and place of conducting any proceeding or any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture. Prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred: (i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture and in the Trust Indenture Act, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture and in the Trust Indenture Act, and no implied covenants or obligations shall be read in to this Indenture against the Trustee; and (ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions therein, upon any statements, certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture and believed by the Trustee to be genuine and to have been signed or presented by the proper party or parties; but in the case of any such statements, certificates

or options which by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform on their face to the requirements of this Indenture. If a default or an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise thereof as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

SECTION 602. NOTICE OF DEFAULTS.

The Trustee shall give the Holders notice of any default hereunder known to it as and to the extent provided by the Trust Indenture Act; PROVIDED, HOWEVER, that in the case of any default of the character specified in Section 501(5), no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

SECTION 603. CERTAIN RIGHTS OF TRUSTEE.

Subject to the provisions of Section 601:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(d) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) before the Trustee acts or refrains from acting with respect to any matter contemplated by this Indenture, it may require an Officers' Certificate or an Opinion of Counsel, which shall conform to the provisions of Section 102, and the Trustee shall be protected and shall not be liable for any action it takes or omits to take in good faith and without gross negligence in reliance on such certificate or opinion;

(g) the Trustee shall not be required to give any bond or surety in respect of the performance of its power and duties hereunder;

(h) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement,

instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; and

(i) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 604. NOT RESPONSIBLE FOR RECITALS OR ISSUANCE OF SECURITIES.

The recitals contained herein and in the Securities, except the Trustee's certificate of authentication, shall be taken as the statements of the Company, and the Trustee and any Authenticating Agent assume no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee and any Authenticating Agent shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

SECTION 605. MAY HOLD SECURITIES.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 606. MONEY HELD IN TRUST.

Money held by the Trustee or any Paying Agent in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee or any Paying

Agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

SECTION 607. COMPENSATION AND REIMBURSEMENT.

The Company agrees:

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (including its services as Security Registrar or Paying Agent, if so appointed by the Company) as may be mutually agreed upon in writing by the Company and the Trustee (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee and each predecessor Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by or on behalf of it in connection with the performance of its duties under any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel and all other persons not regularly in its employ) except to the extent any such expense, disbursement or advance may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee and each predecessor Trustee (each an "indemnitee") for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this Indenture or the trusts hereunder and its duties hereunder (including its services as Security Registrar or Paying Agent, if so appointed by the Company), including enforcement of this Section 607 and including the costs and expenses of defending itself against or investigating any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Company shall defend any claim or threatened claim asserted against an indemnitee for which it may seek indemnity, and the indemnitee shall cooperate in the defense unless, in the reasonable opinion of the indemnitee's counsel, the indemnitee has an interest adverse to the Issuer or a potential conflict of interest exists between the indemnitee and the Company, in which case the indemnitee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel; PROVIDED that the Company shall only be responsible for the reasonable fees and expenses of one law firm (in addition to local counsel) in any one action or separate substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances, such law firm to be designated by the indemnitee.

As security for the performance of the obligations of the Company under this Section 607, the Trustee shall have a lien prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the Holders of particular Securities, and the Securities are hereby subordinated to such prior lien. The

obligations of the Company under this Section to compensate and indemnify the Trustee and any predecessor Trustee and to pay or reimburse the Trustee and any predecessor Trustee for expenses, disbursements and advances, and any other amounts due the Trustee or any predecessor Trustee under Section 607, shall constitute an additional obligation hereunder and shall survive the satisfaction and discharge of this Indenture.

When the Trustee or any predecessor Trustee incurs expenses or renders services in connection with the performance of its obligations hereunder (including its services as Security Registrar or Paying Agent, if so appointed by the Company) after an Event of Default specified in Section 501(7) or (8) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under ny applicable bankruptcy, insolvency or other similar federal or state law to the extent provided in Section 503(b)(5) of Title 11 of the United States Code, as now or hereafter in effect.

SECTION 608. DISQUALIFICATION; CONFLICTING INTERESTS.

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

SECTION 609. CORPORATE TRUSTEE REQUIRED; ELIGIBILITY.

There shall at all times be a Trustee hereunder which shall be a Person that (i) is eligible pursuant to the Trust Indenture Act to act as such, (ii) has (or, in the case of a corporation included in a bank holding company system, whose related bank holding company has) a combined capacity and surplus of at least $50,000,000 and (iii) has a Corporate Trust Office in the Borough of Manhattan, The City of New York. If such Person publishes reports of conditions at least annually, pursuant to law or to the requirements of a Federal or state supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 610. RESIGNATION AND REMOVAL; APPOINTMENT OF SUCCESSOR.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

(b) The Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the resigning Trustee

within 30 days after the giving of such notice

of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by an Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for the last six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee, or (ii) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company, by a Board Resolution, shall promptly appoint a successor Trustee and such successor Trustee shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611 become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court

of competent jurisdiction for the appointment of a successor Trustee.

(f) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all Holders in the manner provided in Section 106. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

SECTION 611. ACCEPTANCE OF APPOINTMENT BY SUCCESSOR.

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 612. MERGER, CONVERSION, CONSOLIDATION OR SUCCESSION TO BUSINESS.

Any corporation into which the Trustee may be merged or converted or with it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 613. PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY.

If and when the Trustee shall be or become a creditor of the Company

(or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

SECTION 614. APPOINTMENT OF AUTHENTICATING AGENT.

The Trustee may appoint an Authenticating Agent or Agents acceptable to and at the expense of the Company which shall be authorized to act on behalf of the Trustee to authenticate Securities issued upon original issue and upon exchange, registration of transfer, partial conversion or partial redemption or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a Person organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any Person into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any Person succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such Person shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such

Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail notice of such appointment by first-class mail, postage prepaid, to all Holders as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment under this Section shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible to act as such under the provisions of this Section.

Any Authenticating Agent by the acceptance of its appointment shall be deemed to have represented to the Trustee that it is eligible for appointment as Authenticating Agent under this Section and to have agreed with the Trustee that: it will perform and carry out the duties of an Authenticating Agent as herein set forth, including among other things the duties to authenticate Securities when presented to it in connection with the original issuance and with exchanges, registrations of transfer or redemptions or conversions thereof or pursuant to Section 306; it will keep and maintain, and furnish to the Trustee from time to time as requested by the Trustee, appropriate records of all transactions carried out by it as Authenticating Agent and will furnish the Trustee such other information and reports as the Trustee may reasonably require; and it will notify the Trustee promptly if it shall cease to be eligible to act as Authenticating Agent in accordance with the provisions of this Section. Any Authenticating Agent by the acceptance of its appointment shall be deemed to have agreed with the Trustee to indemnify the Trustee against any loss, liability or expense incurred by the Trustee and to defend any claim asserted against the Trustee by reason of any acts or failures to act of such Authenticating Agent, but such Authenticating Agent shall have no liability for any action taken by it in accordance with the specific written direction of the Trustee.

The Trustee shall not be liable for any act or any failure of the Authenticating Agent to perform any duty either required herein or authorized herein to be performed by such person in accordance with this Indenture.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section.

If an appointment is made pursuant to this Section, the Securities may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities described in the within-mentioned Indenture.

---,
As Trustee

By

As Authenticating Agent

By

Authorized Officer

ARTICLE SEVEN

Holders' Lists and Reports by Trustee and Company

SECTION 701. COMPANY TO FURNISH TRUSTEE NAMES AND ADDRESSES OF HOLDERS.

The Company will furnish or cause to be furnished to the Trustee

(a) semi-annually, not more than 15 days after each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders as of such Regular Record Date, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished.

Notwithstanding the foregoing, so long as the Trustee is the Security Registrar, no such list shall be required to be furnished.

SECTION 702. PRESERVATION OF INFORMATION; COMMUNICATION TO HOLDERS.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

(b) The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act or otherwise in accordance with this Indenture.

SECTION 703. REPORTS BY TRUSTEE.

(a) Not later than 60 days following each May 15, the Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto.

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which the Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when the Securities are listed on any stock exchange.

SECTION 704. REPORTS BY COMPANY.

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; PROVIDED, that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) or the Securities Exchange Act of 1934, as amended, shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

SECTION 705. RULE 144A INFORMATION REQUIREMENT.

If at any time prior to the Resale Restriction Termination Date the Company is no longer subject to Section 13 or 15(d) of the Exchange Act, the Company will furnish to the Holders or beneficial holders of the Securities and prospective purchasers of the Securities designated by the Holders of the Securities, upon their request, information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act until the earlier of (i) the date on which the Securities and the underlying Common Stock are registered under the Securities Act or (ii) the Resale Restriction Termination Date.

ARTICLE EIGHT

Consolidation, Merger, Conveyance, Transfer or Lease

SECTION 801. COMPANY MAY CONSOLIDATE, ETC., ONLY ON CERTAIN TERMS.

The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company, unless:

(1) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease all or substantially all of its properties and assets to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Company shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in

form satisfactory to the Trustee, the due and punctual payment of the principal of and premium, if any, and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed and shall have provided for conversion rights in accordance with Section 1311;

(2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(3) such consolidation, merger, conveyance, transfer or lease does not adversely affect the validity or enforceability of the Securities; and

(4) the Company or the successor Person has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 802. SUCCESSOR SUBSTITUTED.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of all or substantially all of the properties and assets of the Company in accordance with Section 801, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall

succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a transfer by lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE NINE

Supplemental Indentures

SECTION 901. SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF HOLDERS.

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to cause this Indenture to be qualified under the Trust Indenture Act; or

(2) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(3) to add to the covenants of the Company for the benefit of the Holders or an additional Event of Default, or to surrender any right or power conferred herein or in the Securities upon the Company; or

(4) to secure the Securities; or

(5) to make provision with respect to the conversion rights of Holders pursuant to the requirements of Section 1311; or

(6) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities; or

(7) to cure any ambiguity, to correct or supplement any provision herein or in the Securities which may be defective or inconsistent with any other provision herein or in the Securities, or to make any other provisions with respect to matters or questions arising under this Indenture which shall not be inconsistent with the provisions of this Indenture; PROVIDED, that such action pursuant to this Clause (7) shall not adversely affect the interests of the Holders in any material respect and the Trustee may rely upon an opinion of counsel to that effect.

SECTION 902. SUPPLEMENTAL INDENTURES WITH CONSENT OF HOLDERS.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture; PROVIDED, HOWEVER, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any instalment of interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the place of payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or adversely affect the right to convert any Security as provided in Article Thirteen (except as permitted by Section 901(5)), or modify the provisions of Article Fourteen, or the provisions of this Indenture with respect to the subordination of the Securities, in a manner adverse to the Holders, or

(2) reduce the percentage in principal amount of the Outstanding Securities, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences provided for in this Indenture, or

(3) modify any of the provisions of this Section, Section 513 or Section 1006, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; PROVIDED, HOWEVER, that this Clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1006, or the deletion of this proviso, in accordance with the requirements of Section 901(6).

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 903. EXECUTION OF SUPPLEMENTAL INDENTURES.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 904. EFFECT OF SUPPLEMENTAL INDENTURES.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. CONFORMITY WITH TRUST INDENTURE ACT.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

SECTION 906. REFERENCE IN SECURITIES TO SUPPLEMENTAL INDENTURES.

Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in

form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and (at the specific direction of the Company) authenticated and delivered by the Trustee in exchange for Outstanding Securities.

SECTION 907. NOTICE OF SUPPLEMENTAL INDENTURE.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to Section 902, the Company shall transmit to the Holders a notice setting forth the substance of such supplemental indenture.

ARTICLE TEN

Covenants

SECTION 1001. PAYMENT OF PRINCIPAL, PREMIUM AND INTEREST.

The Company will duly and punctually pay the principal of and premium, if any, and interest on the Securities in accordance with the terms of the Securities and this Indenture.

SECTION 1002. MAINTENANCE OF OFFICE OR AGENCY.

The Company will maintain in New York, New York an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer, where Securities may be surrendered for exchange or conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of any such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; PROVIDED, HOWEVER, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in New York, New York for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

SECTION 1003. MONEY FOR SECURITY PAYMENTS TO BE HELD IN TRUST.

If the Company shall at any time act as its own Paying Agent, it will, on or before each due date of the principal of and premium, if any, or interest on any of the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and premium, if any, or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents, it will, on or prior to 11:00 a.m. (New York City time) on each due date of the principal of and premium, if any, or interest on any Securities, deposit with a Paying Agent a sum in same day funds sufficient to pay the principal and any premium and interest so becoming due, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent other than the Trustee or the Company to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (i) comply with the provisions of the Trust Indenture Act and this Indenture applicable to it as a Paying Agent and hold all sums held by it for the payment of principal of or any premium or interest on the Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided; (ii) give the Trustee notice of any default by the Company (or any other obligor upon the Securities) in the making of any payment in respect of the Securities; and (iii) at any time during the continuance of any default by the Company (or any other obligor upon the Securities) in the making of any payment in respect of the Securities, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities, and account for any funds disbursed.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of and premium, if any, or interest on any Security and remaining unclaimed for two years after such principal and premium, if any, or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money,

and all liability of the Company as trustee thereof, shall thereupon cease; PROVIDED, HOWEVER, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in New York, New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 1004. STATEMENT BY OFFICERS AS TO DEFAULT.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

SECTION 1005. EXISTENCE.

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises and the existence, rights (charter and statutory) and franchises of each Subsidiary; PROVIDED, HOWEVER, that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holders.

SECTION 1006. WAIVER OF CERTAIN COVENANTS.

The Company may omit in any particular instance to comply with any covenant or condition set forth in Section 1005, if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE ELEVEN

Redemption of Securities

SECTION 1101. RIGHT OF REDEMPTION.

The Securities may be redeemed at the election of the Company, in whole or from time to time in part, at any time on or after December 17, 1998, at the Redemption Prices specified in the form of Security hereinbefore set forth, together with accrued interest, to the Redemption Date.

SECTION 1102. APPLICABILITY OF ARTICLE.

Redemption of Securities at the election of the Company as permitted by any provision of this Indenture shall be made in accordance with such provision and this Article.

SECTION 1103. ELECTION TO REDEEM; NOTICE TO TRUSTEE.

The election of the Company to redeem any Securities pursuant to Section 1101 shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of less than all the Securities, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter period shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities to be redeemed. In case of any redemption at the election of the Company of all of the Securities, the Company shall, at least 45 days prior to the Redemption Date fixed by the Company (unless a shorter period shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date.

SECTION 1104. SELECTION BY TRUSTEE OF SECURITIES TO BE REDEEMED.

If less than all the Securities are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities not previously called for redemption, by lot or pro rata or by such other method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to $1,000 or any integral multiple thereof) of the principal amount of Securities of a denomination larger than $1,000.

If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the portion selected for redemption. Securities which have been converted during a selection of Securities to be redeemed shall be treated by the Trustee as Outstanding for the purpose of such selection. In any case where more than one Security is registered in the same name, the Trustee in its discretion may treat the aggregate principal amount so registered as if it were represented by one Security.

The Trustee shall promptly notify the Company and each Security Registrar in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the

portion of the principal amount of such Securities which has been or is to be redeemed.

SECTION 1105. NOTICE OF REDEMPTION.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 15 nor more than 60 days prior to the Redemption Date, to the Trustee and to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

All notices of redemption shall state:

(a) the Redemption Date,

(b) the Redemption Price,

(c) if less than all the Outstanding Securities are to be redeemed, the identification (and, in the case of partial redemption of any Securities, the principal amounts) of the particular Securities to be redeemed,

(d) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and that (unless the Company shall default in payment of the Redemption Price) interest thereon will cease to accrue on and after said date,

(e) the conversion price, the date on which the right to convert the Securities to be redeemed will terminate and the place or places where such Securities may be surrendered for conversion, and

(f) the place or places where such Securities are to be surrendered for payment of the Redemption Price.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request received by the Trustee at least 25 days prior to the Redemption Date, by the Trustee in the name and at the expense of the Company.

SECTION 1106. DEPOSIT OF REDEMPTION PRICE.

At or prior to 9:00 a.m. (New York City time) on any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money in same day funds sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities or portions thereof which

are to be redeemed on that date other than any Securities called for redemption on that date which have been converted prior to the date of such deposit.

If any Security called for redemption is converted, any money deposited with the Trustee or with any Paying Agent or so segregated and held in trust for the redemption of such Security shall (subject to any right of the Holder of such Security or any Predecessor Security to receive interest as provided in the last paragraph of Section 307) be paid to the Company upon Company Request or, if then held by the Company, shall be discharged from such trust.

SECTION 1107. SECURITIES PAYABLE ON REDEMPTION DATE.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; PROVIDED, HOWEVER, that instalments of interest whose Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and premium, if any, shall, until paid, bear interest from the Redemption Date at the rate borne by the Security.

SECTION 1108. SECURITIES REDEEMED IN PART.

Any Security which is to be redeemed only in part shall be surrendered at an office or agency of the Company maintained for that purpose pursuant to Section 1002 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE TWELVE

Subordination of Securities

SECTION 1201. SECURITIES SUBORDINATED TO SENIOR INDEBTEDNESS.

The Company covenants and agrees, and each Holder of a Security, by his acceptance thereof, likewise covenants and agrees, that, to the extent and in the manner hereinafter set forth in this Article, the indebtedness represented by the Securities and the payment of the principal of and premium, if any, and interest on each and all of the Securities are hereby expressly made subordinate and subject in right of payment to the prior payment in full of all Senior Indebtedness.

SECTION 1202. PAYMENT OVER OF PROCEEDS UPON DISSOLUTION, ETC.

In the event of (a) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding, relative to the Company or to its creditors, as such, or to a substantial part of its assets, or (b) any proceeding for the liquidation, dissolution or other winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c) any general assignment for the benefits of creditors or any other marshalling of assets and liabilities of the Company, then and in any such event the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness; or provision shall be made for such payment in money or money's worth, before the Holders of the Securities are entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, on account of principal of or premium, if any, or interest on the Securities, and to that end the holders of Senior Indebtedness shall be entitled to receive, for application to the payment thereof, any payment or distribution of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities, which may be payable or deliverable in respect of the Securities in any such case, proceeding, dissolution, liquidation or other winding up or event.

In the event that, notwithstanding the foregoing provisions of this Section, the Trustee or the Holder of any Security shall have received any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities, before all Senior Indebtedness is paid in full or payment thereof provided for, and if such fact shall, at or prior to the time of such payment or distribution, have been made known to the Trustee or such Holder, as the case may be, then and in such event such payment or distribution shall be paid over or delivered forthwith to the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee, agent or other Person making payment or distribution of assets of the Company for application to the payment of all Senior Indebtedness remaining unpaid, to the

extent necessary to pay all Senior Indebtedness in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness.

For purposes of this Article only, the words "cash, property or securities" shall not be deemed to include securities of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, which are subordinated in right of payment to all Senior Indebtedness which may at the time be outstanding to substantially the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article. The consolidation of the Company with, or the merger of the Company into, another Person or the liquidation or dissolution of the Company following the conveyance or transfer of its properties and assets substantially as an entirety to another Person upon the terms and conditions set forth in Article Eight shall not be deemed a dissolution, winding up, liquidation, reorganization, general assignment for the benefit of creditors or marshalling of assets and liabilities of the Company for the purposes of this Section if the Person formed by such consolidation or into which the Company is merged or which acquires by conveyance or transfer such properties and assets substantially as an entirety, as the case may be, shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions set forth in Article Eight.

SECTION 1203. PRIOR PAYMENT TO SENIOR INDEBTEDNESS UPON ACCELERATION OF SECURITIES.

In the event that any Securities are declared due and payable before their Stated Maturity, then and in such event the holders of Senior Indebtedness outstanding at the time such Securities so become due and payable shall be entitled to receive payment in full of all amounts due on or in respect of such Senior Indebtedness, or provision shall be made for such payment in money or money's worth, before the Holders of the Securities are entitled to receive any payment (including any payment which may be payable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities) by the Company on account of the principal of or premium, if any, or interest on the Securities or on account of the purchase or other acquisition of Securities.

In the event that, notwithstanding the foregoing, the Company shall make any payment to the Trustee or the Holder of any Security prohibited by the foregoing provisions of this Section, and if such fact shall, at or prior to the time of such payment, have been made known to the Trustee or such Holder, as the case may be, then and in such event such payment shall be paid over the delivered forthwith to the Company.

The provisions of this Section shall not apply to any payment with respect to which Section 1202 would be applicable.

SECTION 1204. NO PAYMENT WHEN SENIOR INDEBTEDNESS IN DEFAULT.

(a) In the event and during the continuation of any default in the payment of principal of or premium, if any, or interest on any Senior Indebtedness beyond any applicable grace period with respect thereto, or in the event that any event of default with respect to any

Senior Indebtedness shall have occurred and be continuing and shall have resulted in such Senior Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, unless and until such event of default shall have been cured or waived or shall have ceased to exist and such acceleration shall have been rescinded or annulled, or (b) in the event any judicial proceeding shall be pending with respect to any such default in payment or event of default, then no payment (including any payment which may be payable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities) shall be made by the Company on account of the principal of or premium, if any, or interest on the Securities or on account of the purchase or other acquisition of Securities.

In the event that, notwithstanding the foregoing, the Company shall make any payment to the Trustee or the Holder of any Security prohibited by the foregoing provisions of this Section, and if such fact shall, at or prior to the time of such payment, have been made known to the Trustee or such Holder, as the case may be, then and in such event such payment shall be paid over and delivered forthwith to the Company.

The provisions of this Section shall not apply to any payment with respect to which Section 1202 would be applicable.

SECTION 1205. PAYMENT PERMITTED IF NO DEFAULT.

Nothing contained in this Article or elsewhere in this Indenture or in any of the Securities shall prevent (a) the Company, at any time except during the pendency of any case, proceeding, dissolution, liquidation or other winding up, general assignment for the benefit of creditors or other marshalling of assets and liabilities of the Company referred to in Section 1202 or under the conditions described in Section 1203 or 1204, from making payments at any time of principal of and premium, if any, or interest on the Securities, or (b) the application by the Trustee of any money deposited with it hereunder to the payment of or on account of the principal of and premium, if any, or interest on the Securities or the retention of such payment by the Holders, if, at the time of such application by the Trustee, it did not have knowledge that such payment would have been prohibited by the provisions of this Article.

SECTION 1206. SUBROGATION TO RIGHTS OF HOLDERS OF SENIOR INDEBTEDNESS.

Subject to the payment in full of all amounts due on or in respect of Senior Indebtedness, the Holders of the Securities shall be subrogated to the extent of the payments or distributions made to the holders of such Senior Indebtedness pursuant to the provisions of this Article (equally and ratably with the holders of all indebtedness of the Company which by its express terms is subordinated to other indebtedness of the Company to substantially the same extent as the Securities are subordinated and is entitled to like rights of subrogation) to the rights of the holders of such Senior Indebtedness to receive payments and distributions of cash, property and securities applicable to the Senior Indebtedness until the principal of and premium, if any, and Interest on the Securities shall be paid in full. For purposes of such subrogation, no payments or distributions to the holders of the Senior Indebtedness of any cash, property or

securities to which the Holders of the Securities or the Trustee would be entitled except for the provisions of this Article, and no payments over pursuant to the provisions of this Article to the holders of Senior Indebtedness by Holders of the Securities or the Trustee, shall, as among the Company, its creditors other than holders of Senior Indebtedness and the Holders of the Securities, be deemed to be a payment or distribution by the Company to or on account of the Senior Indebtedness.

SECTION 1207. PROVISIONS SOLELY TO DEFINE RELATIVE RIGHTS.

The provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders of the Securities on the one hand and the holders of Senior Indebtedness on the other hand. Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall (a) impair, as among the Company, its creditors other than holders of Senior Indebtedness and the Holders of the Securities, the obligation of the Company, which is absolute and unconditional, to pay to the Holders of the Securities the principal of and premium, if any, and interest on the Securities as and when the same shall become due and payable in accordance with their terms; or (b) affect the relative rights against the Company of the Holders of the Securities and creditors of the Company other than the holders of Senior Indebtedness; or (c) prevent the Trustee or the Holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article of the holders of Senior Indebtedness to receive cash, property and securities otherwise payable or deliverable to the Trustee or such Holder.

SECTION 1208. TRUSTEE TO EFFECTUATE SUBORDINATION.

Each holder of a Security by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article and

appoints the Trustee his attorney-in-fact for any and all such purposes.

SECTION 1209. NO WAIVER OF SUBORDINATION PROVISIONS.

No right of any present or future holder of any Senior Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Trustee or the Holders of the Securities, without incurring responsibility to the Holders of the Securities and without impairing or releasing the subordination provided in this Article or the obligations hereunder of the Holders of the Securities to the holders of Senior

Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, Senior Indebtedness, or otherwise amend or supplement in any manner Senior Indebtedness or any instrument evidencing the same or any agreement under which Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Indebtedness; (iii) release any Person liable in any manner for the collection of Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company and any other Person.

SECTION 1210. NOTICE TO TRUSTEE.

The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Securities. Notwithstanding the provisions of this Article or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee in respect of the Securities, unless and until the Trustee shall have received written notice thereof from the Company or a holder of Senior Indebtedness or from any trustee therefor; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Section 601, shall be entitled in all respects to assume that no such facts exist; PROVIDED, HOWEVER, that if the Trustee shall not have received the notice provided for in this Section at least three Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of and premium, if any, or interest on any Security), then, anything herein contained

to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purpose for which such money was received and shall not be affected by any notice to the contrary which may be received by it within three Business Days prior to such date.

Subject to the provisions of Section 601, the Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness (or a trustee therefor) to establish that such notice has been given by a holder of Senior Indebtedness (or a trustee therefor). In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

SECTION 1211. RELIANCE ON JUDICIAL ORDER OR CERTIFICATE OF LIQUIDATING AGENT.

Upon any payment or distribution of assets of the Company referred to in this Article, the Trustee, subject to the provisions of Section 601, and the Holders of the Securities

shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee for the benefit of creditors, agent or other person making such payment or distribution, delivered to the Trustee or to the Holders of Securities, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article.

SECTION 1212. TRUSTEE NOT FIDUCIARY FOR HOLDERS OF SENIOR INDEBTEDNESS.

The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and shall not be liable to any such holders if it shall in good faith mistakenly pay over or distribute to Holders of Securities or to the Company or to any other Person cash, property or securities to which holders of Senior Indebtedness shall be entitled by virtue of this Article or otherwise. With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants and obligations

as are specifically set forth in this Article, and no implied covenants or obligations with respect to the holders of Senior Indebtedness shall be read into this Article against the Trustee.

SECTION 1213. RIGHTS OF TRUSTEE AS HOLDER OF SENIOR INDEBTEDNESS; PRESERVATION OF TRUSTEE'S RIGHTS.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article with respect to any Senior Indebtedness which may at any time be held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

Nothing in this Article shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

SECTION 1214. ARTICLE APPLICABLE TO PAYING AGENTS.

In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article shall in such case (unless the context otherwise requires) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article in addition to or in place of the Trustee; PROVIDED, HOWEVER, that Section 1213 shall not apply to the Company or any Affiliate of the Company if it or such Affiliate acts as Paying Agent.

SECTION 1215. CERTAIN CONVERSIONS DEEMED PAYMENT.

For the purposes of this Article only, (1) the issuance and delivery of junior securities upon conversion of Securities in accordance with Article Thirteen shall not be deemed to constitute a payment or distribution on account of the principal of or premium or interest on Securities or on account of the purchase or other acquisition of Securities, and (2) the payment, issuance or delivery of cash, property or securities (other than junior securities) upon conversion of a Security shall be deemed to constitute payment on account of the principal of such Security. For the purposes of this Section, the term "junior securities" means (a) shares of any class of capital stock of the Company and (b) securities of the Company which are subordinated in right of payment to all Senior Indebtedness which may be outstanding at the time of issuance or delivery of such securities to substantially the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article. Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall impair, as among the Company, its creditors other than holders of Senior Indebtedness and the Holders of the Securities, the right, which is absolute and unconditional, of the Holder of any Security to convert such Security in accordance with Article Thirteen.

SECTION 1216. NO SUSPENSION OF REMEDIES.

Nothing contained in this Article shall limit the right of the Trustee or the Holders of the Securities to take any action to accelerate the maturity of the Securities pursuant to the provisions described under Article Five and as set forth in this Indenture or to pursue any rights or remedies hereunder or under applicable law, subject to the rights, if any, under this Article of the holders, from time to time, of Senior Indebtedness to receive the cash, property or securities receivable upon the exercise of such rights or remedies.

ARTICLE THIRTEEN

Conversion of Securities

SECTION 1301. CONVERSION PRIVILEGE AND CONVERSION PRICE.

Subject to and upon compliance with the provisions of this Article, at the option of the Holder thereof, any Security or any portion of the principal amount thereof which equals $1,000 or any integral multiple thereof may be converted at any time after the 60th day following the date of original issuance of Securities under this Indenture at the principal amount thereof, or of such portion thereof, into fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100 of a share) of Common Stock, at the conversion price, determined as hereinafter provided, in effect at the time of conversion. Such conversion right shall expire at the close of business on December 15, 2002. In case a Security or portion thereof is called for redemption, such conversion right in respect of the Security or portion so called shall expire at the close of business on the second business day preceding the applicable Redemption Date, unless the Company defaults in making the payment due upon redemption.

The price at which shares of Common Stock shall be delivered upon conversion (herein called the "conversion price") shall be initially $27.25 per share of Common Stock. The conversion price shall be adjusted in certain instances as provided in paragraphs (a), (b), (c), (d), (e), (f) and (i) of Section 1304.

SECTION 1302. EXERCISE OF CONVERSION PRIVILEGE.

In order to exercise the conversion privilege, the Holder of any Security shall surrender such Security, duly endorsed or assigned to the Company or in blank, at any office or agency of the Company maintained pursuant to Section 1002, accompanied by written notice to the Company in the form provided in the Security (or such other notice as is acceptable to the Company) at such office or agency that the Holder elects to convert such Security or, if less

than the entire principal amount thereof is to be converted, the portion thereof to be converted. Securities surrendered for conversion during the period from the opening of business on any Regular Record Date next preceding any Interest Payment Date to the close of business on such Interest Payment Date shall (except in the case of Securities or portions thereof which have been called for redemption) be accompanied by payment in New York Clearing House funds or other funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount being surrendered for conversion. Except as provided in the immediately preceding sentence and subject to the fourth paragraph of Section 307, no payment or adjustment shall be made upon any conversion on account of any interest accrued on the Securities surrendered for conversion or on account of any dividends on the Common Stock issued upon conversion.

Securities shall be deemed to have been converted immediately prior to the close of business on the day of surrender of such Securities for conversion in accordance with the foregoing provisions, and at such time the rights of the Holders of such Securities as Holders shall cease, and the Person or Persons entitled to receive the Common Stock issuable upon conversion shall be treated for all purposes of the record holder or holders of such Common Stock as and after such time. As promptly as practicable on or after the conversion date, the Company shall issue and shall deliver at such office or agency a certificate or certificates for the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share, as provided in Section 1303.

In the case of any Security which is converted in part only, upon such conversion the Company shall execute and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Company, a new Security or Securities of authorized denominations in aggregate principal amount equal to the unconverted portion of the principal amount of such Security.

SECTION 1303. FRACTIONS OF SHARES.

No fractional share of Common Stock shall be issued upon conversion of Securities. If more than one Security shall be surrendered for conversion at one time by the same Holder, the number of full shares which shall be issuable upon conversion thereof shall

be computed on the basis of the aggregate principal amount of the Securities (or specified portions thereof) so surrendered. Instead of any fractional share of Common Stock which would otherwise be issuable upon conversion of any Security or Securities (or specified portions thereof), the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the Closing Price (as hereinafter defined) at the close of business on the day of conversion (or, if such day is not a Trading Day (as hereafter defined), on the Trading Day immediately preceding such day).

SECTION 1304. ADJUSTMENT OF CONVERSION PRICE.

(a) In case the Company shall pay or make a dividend or other distribution on the Common Stock exclusively in Common Stock or shall pay or make a dividend or other distribution on any other class of capital stock of the Company which dividend or distribution includes Common Stock, the conversion price in effect at the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such dividend or other distribution shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purpose of this paragraph (a), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company. The Company shall not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(b) Subject to paragraph (g) of this Section, in case the Company shall pay or make a dividend or other distribution on the Common Stock consisting exclusively of, or shall otherwise issue to all holders of the Common Stock, rights or warrants entitling the holders thereof to subscribe for or purchase shares of Common Stock at a price per share less than the Current Market Price (determined as provided in paragraph (h) of this Section) on the date fixed for the determination of shareholders entitled to receive such rights or warrants, the conversion price in effect at the opening of business on the day following the date fixed for such determination shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such Current Market Price and the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this paragraph (b), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company. The Company shall not issue any rights or warrants in respect of shares of Common Stock held in the treasury of the Company.

(c) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the conversion price in effect

at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and, conversely, in case outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which subdivision or combination becomes effective.

(d) Subject to the last sentence of this paragraph (d) and to paragraph (g) of this Section, in case the Company shall, by dividend or otherwise, distribute to all holders of the Common Stock evidences of its indebtedness, shares of any class of its capital stock, cash or other assets (including securities, but excluding any rights or warrants referred to in paragraph (b) of this Section, excluding any dividend or distribution paid exclusively in cash and excluding any dividend or distribution referred to in paragraph (a) of this Section), the conversion price shall be reduced by multiplying the conversion price in effect immediately prior to the close of business on the date fixed for the determination of shareholders entitled to such distribution by a fraction of which the numerator shall be the Current Market Price (determined as provided in paragraph (h) of this Section) on such date less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) on such date of the portion of the evidences of indebtedness, shares of capital stock, cash and other assets to be distributed applicable to one share of Common Stock and the denominator shall be such Current Market Price, such reduction to become effective immediately prior to the opening of business on the day following such date. If the Board of Directors determines the fair market value of any distribution for purposes of this paragraph (d) by reference to the actual or when-issued trading market for any securities comprising part or all of such distribution, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price pursuant to paragraph (h) of this Section, to the extent possible. For purposes of this paragraph (d), any dividend or distribution that includes shares of Common Stock, rights or warrants to subscribe for or purchase shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock shall be deemed to be (x) a dividend or distribution of the evidences of indebtedness, cash, assets or shares of capital stock other than such shares of Common Stock, such rights or warrants or such convertible or exchangeable securities (making any conversion price reduction required by this paragraph (d)) immediately followed by (y) in the case of such shares of Common Stock or such rights or warrants, a dividend or distribution thereof (making any further conversion price reduction required by paragraph (a) and (b) of this Section, except any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of paragraph (a) of this Section), or (z) in the case of such convertible or exchangeable securities, a dividend or distribution of the number of shares of Common Stock as would then be issuable upon the conversion or exchange thereof, whether or not the conversion or exchange of such securities is subject to any conditions (making any further conversion price reduction

required by paragraph (a) of this Section, except the shares deemed to constitute such dividend or

distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of paragraph (a) of this Section).

(e) In case the Company shall, by dividend or otherwise, at any time distribute to all holders of the Common Stock cash (excluding any cash that is distributed as part of a distribution referred to in paragraph (d) of this Section or in connection with a transaction to which Section 1311 applies) in an aggregate amount that, together with (i) the aggregate amount of any other distributions to all holders of the Common Stock made exclusively in cash within the 12 months preceding the date fixed for the determination of shareholders entitled to such distribution and in respect of which no conversion price adjustment pursuant to this paragraph (e) has been made previously and (ii) the aggregate of any cash plus the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) as of such date of determination of consideration payable in respect of any tender offer by the Company or a Subsidiary for all or any portion of the Common Stock consummated within the 12 months preceding such date of determination and in respect of which no conversion price adjustment pursuant to paragraph (f) of this Section has been made previously, exceeds 12.5% of the product of the Current Market Price (determined as provided in paragraph (h) of this Section) on such date of determination times the number of shares of Common Stock outstanding on such date, the conversion price shall be reduced by multiplying the conversion price in effect immediately prior to the close of business on such date of determination by a fraction of which the numerator shall be the Current Market Price (determined as provided in paragraph (h) of this Section) on such date less the amount of cash to be distributed at such time applicable to one share of Common Stock and the denominator shall be such Current Market Price, such reduction to become effective immediately prior to the opening of business on the day after such date.

(f) In case a tender offer made by the Company or any Subsidiary for all or any portion of the Common Stock shall be consummated and such tender offer shall involve an aggregate consideration having a fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) as of the last time (the "Expiration Time") that tenders may be made pursuant to such tender offer (as it shall have been amended) that, together with (i) the aggregate of the cash plus the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) as of the Expiration Time of the other consideration paid in respect of any other tender offer by the Company or a Subsidiary for all or any portion of the Common Stock consummated within the 12 months preceding the Expiration Time and in respect of which no conversion price adjustment pursuant to this paragraph (f) has been made previously and

(ii) the aggregate amount of any distributions to all holders of the Common Stock made exclusively in cash within the 12 months preceding the Expiration Time and in respect of which no conversion price adjustment pursuant to paragraph (e) of this Section has been made previously, exceeds 12.5% of the product of the Current Market Price (determined as provided in paragraph (h) of this Section) immediately prior to the Expiration Time times the number of shares of Common Stock outstanding (including any tendered shares) at the Expiration Time, the conversion price shall be reduced by multiplying the conversion price in effect immediately prior to the Expiration Time by a fraction of which the numerator shall be (x) the product of the

Current Market Price (determined as provided in paragraph (h) of this Section) immediately prior to the Expiration Time times the number of shares of Common Stock outstanding (including any tendered shares at the Expiration Time minus (y) the fair market value (determined as aforesaid) of the aggregate consideration payable to shareholders upon consummation of such tender offer and the denominator shall be the product of (A) such Current Market Price times (B) such number of outstanding shares at the Expiration Time minus the number of shares accepted for payment in such tender offer (the "Purchased Shares"), such reduction to become effective immediately prior to the opening of business on the day following the Expiration Time; PROVIDED, that if the number of Purchased Shares or the aggregate consideration payable therefor have not been finally determined by such opening of business, the adjustment required by this paragraph (f) shall, pending such final determination, be made based upon the preliminarily announced results of such tender offer, and, after such final determination shall have been made, the adjustment required by this paragraph (f) shall be made based upon the number of Purchased Shares and the aggregate consideration payable therefor as so finally determined.

(g) The reclassification of Common Stock into securities which include securities other than Common Stock (other than any reclassification upon a consolidation or merger to which Section 1311 applies) shall be deemed to involve (i) a distribution of such securities other than Common Stock to all holders of Common Stock (and the effective date of such reclassification shall be deemed to be "the date fixed for the determination of shareholders entitled to such distribution" within the meaning of paragraph (d) of this Section), and (ii) a subdivision or combination, as the case may be, of the number of shares of Common Stock outstanding immediately prior to such reclassification into the number of shares of Common Stock outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective", as the case may be, and "the day upon which such subdivision or combination becomes effective" within the meaning of paragraph (c) of this Section).

Rights or warrants issued by the Company to all holders of the Common

Stock entitling the holders thereof to subscribe for or purchase shares of Common Stock (either initially or under certain circumstances), which rights or warrants (i) are deemed to be transferred with such shares of Common Stock, (ii) are not exercisable and (iii) are also issued in respect of future issuances of Common Stock, in each case in clauses (i) through (iii) until the occurrence of a specified event or events ("Trigger Event"), shall for purposes of this Section 1304 not be deemed issued until the occurrence of the earliest Trigger Event. If any such rights or warrants, including any such existing rights or warrants distributed prior to the date of this Indenture (including the Rights) are subject to subsequent events, upon the occurrence of each of which such rights or warrants shall become exercisable to purchase different securities, evidences of indebtedness or other assets, then the occurrence of each such event shall be deemed to be such date of issuance and record date with respect to new rights or warrants (and a termination or expiration of the existing rights or warrants without exercise by the holder thereof). In addition, in the event of any distribution (or deemed distribution) of rights or warrants (including the Rights), or any Trigger Event with respect thereto, that was

counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Price under this Section 1304 was made, (1) in the case of any such rights or warrants (including the Rights) which shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Price shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price received by a holder or holders of Common Stock with respect to such rights or warrants (assuming such holder had retained such rights or warrants), made to all holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of such rights or warrants (including the Rights) which shall have expired or been terminated without exercise by any holders thereof, the Conversion Price shall be readjusted as if such rights and warrants had not been issued. In lieu of any adjustment to the Conversion Price otherwise required by this Section 1304 as a result of a Trigger Event affecting the Rights distributed pursuant to the Rights Plan, the Company may amend the Rights Plan to provide that upon conversion of the Securities the holder thereof will receive, in addition to the Common Stock issuable upon such conversion, the Rights which attached to such shares of Common Stock or would have attached to such shares if the Rights had not become separated from the Common Stock pursuant to the provisions of the Rights Plan.

Notwithstanding any other provision of this Section 1304 to the contrary, rights, warrants, evidences of indebtedness, other securities, cash or other assets (including, without limitation, any rights distributed pursuant to any stockholder rights plan) shall be deemed not to have been distributed for purposes of this Section 1304 if the Company makes proper provision so that each holder of Securities who converts a Security (or any portion thereof) after the

date fixed for determination of stockholders entitled to receive such distribution shall be entitled to receive upon such conversion, in addition to the shares of Common Stock issuable upon such conversions, the amount and kind of such distributions that such holder would have been entitled to receive if such holder had, immediately prior to such determination date, converted such Security into Common Stock.

(h) For the purpose of any computation under this paragraph and paragraphs (b), (d) and (e) of this Section, the current market price per share of Common Stock (the "Current Market Price") on any date shall be deemed to be the average of the daily Closing Prices for the 5 consecutive Trading Days selected by the Company commencing not more than 20 Trading Days before, and ending not later than, the date in question; PROVIDED, HOWEVER, that (i) if the "ex" date for any event (other than the issuance or distribution requiring such computation) that requires an adjustment to the conversion price pursuant to paragraph (a), (b), (c), (d), (e) or (f) above occurs on or after the 20th Trading Day prior to the date in question and prior to the "ex" date for the issuance or distribution requiring such computation, the Closing Price for each Trading Day prior to the "ex" date for such other event shall be adjusted by multiplying such Closing Price by the same fraction by which the conversion price is so required to be adjusted as a result of such other event, (ii) if the "ex" date for any event (other than the issuance or distribution requiring such computation) that requires an adjustment to the conversion price pursuant to paragraph (a), (b), (c), (d), (e) or (f) above occurs on or after the "ex" date for the issuance or distribution requiring such computation and on or prior to the date

in question, the Closing Price for each Trading Day on and after the "ex" date for such other event shall be adjusted by multiplying such Closing Price by the reciprocal of the fraction by which the conversion price is so required to be adjusted as a result of such other event, and (iii) if the "ex" date for the issuance or distribution requiring such computation is on or prior to the date in question, after taking into account any adjustment required pursuant to clause (ii) of this proviso, the Closing Price for each Trading Day on or after such "ex" date shall be adjusted by adding thereto the amount of any cash and the fair market value on the date in question (as determined by the Board of Directors in a manner consistent with any determination of such value for purposes of paragraph (d) or (e) of this Section, whose determination shall be conclusive and described in a Board Resolution) of the evidences of indebtedness, shares of capital stock or assets being distributed applicable to one share of Common Stock as of the close of business on the day before such "ex" date. For the purpose of any computation under paragraph (f) of this Section, the Current Market Price on any date shall be deemed to be the average of the daily Closing Prices for the 5 consecutive Trading Days selected by the Company commencing on or after the latest (the "Commencement Date") of (i) the date 20 Trading Days before the date in question, (ii) the date of commencement

of the tender offer requiring such computation and (iii) the date of the last amendment, if any, of such tender offer involving a change in the maximum number of shares for which tenders are sought or a change in the consideration offered, and ending not later than the Expiration Time of such tender offer; PROVIDED, HOWEVER, that if the "ex" date for any event (other than the tender offer requiring such computation) that requires an adjustment to the conversion price pursuant to paragraph (a), (b), (c), (d), (e) or (f) above occurs on or after the Commencement Date and prior to the Expiration Time for the tender offer requiring such computation, the Closing Price for each Trading Day prior to the "ex" date for such other event shall be adjusted by multiplying such Closing Price by the same fraction by which the conversion price is so required to be adjusted as a result of such other event. The closing price for any Trading Day (the "Closing Price") shall be the last reported sales price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on such exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the Nasdaq Stock Market's National Market or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on such National Market, the average of the closing bid and asked prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Company for that purpose. For purposes of this paragraph, the term "Trading Day" means each Monday, Tuesday, Wednesday, Thursday and Friday, other than any day on which securities are generally not traded on the applicable securities exchange or in the applicable securities market and the term "'ex' date," (i) when used with respect to any issuance or distribution, means the first date on which the Common Stock trades regular way on the relevant exchange or in the relevant market from which the Closing Prices were obtained without the right to receive such issuance or distribution, (ii) when used with respect to any subdivision or combination of shares of Common Stock, means the first date on which the Common Stock trades regular way on such exchange or in such market after the time at which such subdivision or combination becomes effective, and (iii) when used with respect to any tender offer means the first date on which the Common Stock

trades regular way on such exchange or in such market after the last time that tenders may be made pursuant to such tender offer (as it shall have been amended).

(i) The Company may make such reductions in the conversion price, in addition to those required by paragraphs (a), (b), (c), (d), (e) and (f) of this Section, as it considers to be advisable (as evidenced by a Board Resolution) in order that any event treated for federal income tax purposes as a dividend of stock or stock rights shall not be taxable to the recipients or, if that is not possible, to diminish any income taxes that are otherwise payable because of

such event.

(j) No adjustment in the conversion price shall be required unless such adjustment (plus any other adjustments not previously made by reason of this paragraph (j)) would require an increase or decrease of at least 1% in the conversion price; PROVIDED, HOWEVER, that any adjustments which by reason of this paragraph (j) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(k) Notwithstanding any other provision of this Section 1304, no adjustment to the conversion price shall reduce the conversion price below the then par value per share of the Common Stock, and any such purported adjustment shall instead reduce the conversion price to such par value. The Company hereby covenants not to take any action to increase the par value per share of the Common Stock.

SECTION 1305. NOTICE OF ADJUSTMENTS OF CONVERSION PRICE.

Whenever the conversion price is adjusted as herein provided:

(a) the Company shall compute the adjusted conversion price in accordance with Section 1304 and shall prepare an Officers' Certificate signed by the Treasurer of the Company setting forth the adjusted conversion price and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed (with a copy to the Trustee) at each office or agency maintained for the purpose of conversion of Securities pursuant to Section 1002; and

(b) a notice stating that the conversion price has been adjusted and setting forth the adjusted conversion price shall forthwith be prepared, and as soon as practicable after it is prepared, such notice shall be mailed by the Company to all Holders at their last addresses as they shall appear in the Security Register.

SECTION 1306. NOTICE OF CERTAIN CORPORATE ACTION.

In case:

(a) the Company shall declare a dividend (or any other distribution) on its Common Stock payable (i) otherwise than exclusively in cash or (ii) exclusively in cash in an amount that would require a conversion price adjustment pursuant to paragraph (e) of Section 1304; or

(b) the Company shall authorize the granting to the holders of its Common Stock of rights or warrants to subscribe for or purchase any shares

of capital stock of any class or of any other rights (excluding shares of capital stock or option for capital stock issued pursuant to a benefit plan for employees, officers or directors of the Company); or

(c) of any reclassification of the Common Stock (other than a subdivision or combination of the outstanding shares of Common Stock), or of any consolidation, merger or share exchange to which the Company is a party and for which approval of any shareholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Company; or

(e) the Company or any Subsidiary shall commence a tender offer for all or a portion of the outstanding shares of Common Stock (or shall amend any such tender offer to change the maximum number of shares being sought or the amount or type of consideration being offered therefor);

then the Company shall cause to be filed at each office or agency maintained pursuant to Section 1002, and shall cause to be mailed to all Holders at their last addresses as they shall appear in the Security Register, at least 21 days (or 11 days in any case specified in clause (a), (b) or (e) above) prior to the applicable record, effective or expiration date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution or granting of rights or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record who will be entitled to such dividend, distribution, rights or warrants are to be determined, (y) the date on which such reclassification, consolidation, merger, share exchange, sale, transfer, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, share exchange, sale, transfer, dissolution, liquidation or winding up, or (z) the date on which such tender offer commenced, the date on which such tender offer is scheduled to expire unless extended, the consideration offered and the other material terms thereof (or the material terms of any amendment thereto). Neither the failure to give any such notice nor any defect therein shall

affect the legality or validity of any action described in clauses (a) through (e) of this Section 1306.

SECTION 1307. COMPANY TO RESERVE COMMON STOCK.

The Company shall at all times reserve and keep available, free from preemptive rights, out of the authorized but unissued Common Stock or out of the

Common Stock held in treasury, for the purpose of effecting the conversion of Securities, the full number of shares of Common Stock then issuable upon the conversion of all outstanding Securities. Shares of Common Stock issuable upon conversion of outstanding Securities shall be issued out of the Common Stock held in Treasury to the extent available.

SECTION 1308. TAXES ON CONVERSIONS.

The Company will pay any and all taxes that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Securities pursuant hereto. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that of the Holder of the Security or Securities to be converted, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such tax, or has established to the satisfaction of the Company that such tax has been paid.

SECTION 1309. COVENANT AS TO COMMON STOCK.

The Company covenants that all shares of Common Stock which may be issued upon conversion of Securities will upon issue be fully paid and nonassessable and, except as provided in Section 1308, the Company will pay all taxes, liens and charges with respect to the issue thereof.

SECTION 1310. CANCELLATION OF CONVERTED SECURITIES.

All Securities delivered for conversion shall be delivered to the Trustee to be canceled by or at the direction of the Trustee, which shall dispose of the same as provided in Section 309.

SECTION 1311. PROVISIONS OF CONSOLIDATION, MERGER OR SALE OF ASSETS.

In case of any consolidation of the Company with, or merger of the Company into, any other Person, any merger of another Person into the Company (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock) or any sale or transfer of all or substantially all of the assets of the Company, the Person formed by such consolidation or resulting from such merger or which acquires such assets, as the case may be, shall execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then Outstanding shall have the right

thereafter, during the period such Security shall be convertible as specified in Section 1301, to convert such Security only into the kind and amount of securities, cash and other property, if any, receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock

into which such Security might have been converted immediately prior to such consolidation, merger, sale or transfer, assuming such holder of Common Stock (i) is not a Person with which the Company consolidated or into which the Company merged or which merged into the Company or to which such sale or transfer was made, as the case may be (a "Constituent Person"), or an Affiliate of a Constituent Person and (ii) failed to exercise his rights of election, if any, as to the kind or amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer (provided that if the kind or amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer is not the same for each share of Common Stock held immediately prior to such consolidation, merger, sale or transfer by other than a Constituent Person or an Affiliate thereof and in respect of which such rights of election shall not have been exercised ("nonelecting share"), then for the purpose of this Section the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer by each nonelecting share shall be deemed to be the kind and amount so receivable per share by a plurality of the nonelecting shares). Such supplemental indenture shall provide for adjustments which, for events subsequent to the effective date of such supplemental indenture, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article. The above provisions of this Section shall similarly apply to successive consolidations, mergers, sales or transfers.

SECTION 1312. TRUSTEE'S DISCLAIMER.

The Trustee has no duty to determine when an adjustment under this Article 13 should be made, how it should be made or what such adjustment should be, but may accept as conclusive evidence of the correctness of any such adjustment, and shall be protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 1305. The Trustee makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities, and the Trustee shall not be responsible for the Company's failure to comply with any provisions of this Article 13.

The Trustee shall not be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture executed pursuant to Section 1311, but may accept as conclusive evidence of the correctness thereof, and shall be protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 1311.

ARTICLE FOURTEEN

Right to Require Repurchase

SECTION 1401. RIGHT TO REQUIRE REPURCHASE.

In the event that there shall occur a Repurchase Event (as defined in Section 1406), then each Holder shall have the right, at such Holder's option, to require the Company to purchase, and upon the exercise of such right, the Company shall, subject to the provisions of Section 1203, purchase, all or any part of such Holder's Securities on the date (the "Repurchase Date") that is 30 days after the date the Company gives notice of the Repurchase Event as contemplated in Section 1402(a) at a price (the "Repurchase Price") equal to 100% of the principal amount thereof, together with accrued and unpaid interest to the Repurchase Date.

SECTION 1402. NOTICE; METHOD OF EXERCISING REPURCHASE RIGHT.

(a) On or before the 15th day after the occurrence of a Repurchase Event, the Company, or at the request of the Company received by the Trustee at least 40 days prior to the Repurchase Date, the Trustee (in the name and at the expense of the Company), shall give notice of the occurrence of the Repurchase Event and of the repurchase right set forth herein arising as a result thereof by first-class mail, postage prepaid, to the Trustee and to each Holder of the Securities at such Holder's address appearing in the Security Register. The Company shall also deliver a copy of such notice of a repurchase right to the Trustee.

Each notice of a repurchase right shall state:

(1) the event constituting the Repurchase Event and the date thereof,

(2) the Repurchase Date,

(3) the date by which the repurchase right must be exercised,

(4) the Repurchase Price, and

(5) the instructions a Holder must follow to exercise a repurchase right.

No failure of the Company to give the foregoing notice shall limit any Holder's right to exercise a repurchase right. The Trustee shall have no affirmative obligation to determine if there shall have occurred a Repurchase Event.

(b) To exercise a repurchase right, a Holder shall deliver to the Company (or an agent designated by the Company for such purpose in the notice referred to in (a) above) and to the Trustee on or before the close of business on the Repurchase Date (i) written notice of the Holder's exercise of such right, which notice shall set forth the name of the Holder, the principal amount of the Security or Securities (or portion of a Security) to be repurchased, and

a statement that an election to exercise the repurchased right is being made thereby, and (ii) the Security or Securities with respect to which the repurchase right is being exercised, duly endorsed for transfer to the Company. Such written notice shall be irrevocable. If the Repurchase Date falls between any Regular Record Date and the next succeeding Interest Payment Date, Securities to be repurchased must be accompanied by payment from the Holder of an amount equal to the interest thereon which the registered Holder thereof is to receive on such Interest Payment Date.

(c) In the event a repurchase right shall be exercised in accordance with the terms hereof, the Company shall on the Repurchase Date pay or cause to be paid in cash to the Holder thereof the Repurchase Price of the Security or Securities as to which the repurchase right had been exercised. In the event that a repurchase right is exercised with respect to less than the entire principal amount of a surrendered Security, the Company shall execute and deliver to the Trustee and the Trustee shall authenticate for issuance in the name of the Holder a new Security or Securities in the aggregate principal amount of the unrepurchased portion of such surrendered security.

SECTION 1403. DEPOSIT OF REPURCHASE PRICE.

On or prior to the Repurchase Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money in same day funds sufficient to pay the Repurchase Price of the Securities which are to be repaid on the Repurchase Date.

SECTION 1404. SECURITIES NOT REPURCHASED ON REPURCHASE DATE.

If any Security surrendered for repurchase shall not be so paid on the Repurchase Date, the principal shall, until paid, bear interest to the extent permitted by applicable law from the Repurchase Date at the rate per annum borne by such Security.

SECTION 1405. SECURITIES REPURCHASED IN PART.

Any Security which is to be repurchased only in part shall be surrendered at any office or agency of the Company designated for that purpose pursuant to Section 1002 (with, if the Company or the Trustee so requires, due endorsement by, or written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unrepurchased portion of the principal of the Security so surrendered.

SECTION 1406. CERTAIN DEFINITIONS.

For purposes of this Article:

(a) A "Repurchase Event" shall have occurred upon the occurrence of a Change in Control or Termination of Trading after the date of this Indenture and on or prior to December 15, 2002.

(b) A "Change in Control" shall occur when :

(i) all or substantially all of the Company's assets are sold as an entirety to any person or related group of persons;

(ii) there shall be consummated any consolidation or merger of the Company (A) in which the Company is not the continuing or surviving corporation (other than a consolidation or merger with a wholly owned subsidiary of the Company in which all shares of Common Stock outstanding immediately prior to the effectiveness thereof are changed into or exchanged for the same consideration) or (B) pursuant to which the Common Stock would be converted into cash, securities or other property, in each case, other than a consolidation or merger of the Company in which the holders of the Common Stock immediately prior to the consolidation or merger have, directly or indirectly, at least a majority of the total voting power of all classes of capital stock entitled to vote generally in the election of directors of the continuing or surviving corporation immediately after such consolidation or merger in substantially the same proportion as their ownership of Common Stock immediately before such transaction;

(iii) any person, or any persons acting together which would constitute a "group" for purposes of Section 13(d) of the Exchange Act (a "Group"), together with any Affiliates thereof, shall beneficially own (as defined in Rule 13d-3 under the Exchange Act) at least 50% of the total voting power of all classes of capital stock of the Company entitled to vote generally in the election of directors of the Company; or

(iv) at any time during any consecutive two-year period, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of the Company was approved by a vote of 66 2/3% of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Company then in office; or

(v) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution.

(c) A "Termination of Trading" shall occur if the Common Stock (or other common stock into which the Securities are then convertible) is neither listed for trading on a U.S. national securities exchange nor approved for trading on an established automated over-the-counter trading market in the United States.

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

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

PHP HEALTHCARE CORPORATION

By /S/ ANTHONY M. PICINI

Anthony M. Picini
Senior Vice President
and Chief Financial Officer

Attest:

/s/ Ben Rosenbaum, III

Ben Rosenbaum, III
Corporate Secretary
and General Counsel

IBJ SCHRODER BANK & TRUST COMPANY,
as Trustee

By /s/ Thomas J. Bogert

Thomas J. Bogert
Assistant Vice President

Attest:

/s/ Thomas McCutcheon

Thomas McCutcheon
Assistant Secretary

COMMONWEALTH OF VIRGINIA)
) ss.
COUNTY OF FAIRFAX)

On the 18th day of December, 1995, before me personally came Anthony M. Piccini, to me known, who, being by me duly sworn, did depose and say that he is Senior Vice President and Chief Financial Officer of PHP Healthcare Corporation, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

A. Liza Martinez

A. Liza Martinez

My Commission Expires January 31, 1998

State of New York)
) ss.:
County of Richmond)

On the 19th day of December, 1995, before me personally came Thomas J. Bogert, to me known, who, being by me duly sworn, did depose and say that he is Assistant Vice President of IBJ Schroder Bank & Trust Company, a New York banking corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

/s/ Virginia Farese

[Notary Public, State of New York

Stamp]

EXHIBIT A

[FORM OF CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION OF TRANSFER OF SECURITIES]

CERTIFICATE FOR EXCHANGE OR TRANSFER

Re: 6 1/2% Convertible Subordinated Debentures due 2002

This Certificate relates to $_____ principal amount of Securities held in *_____ book-entry or *_____ definitive form by _____ (the "Transferor").

The Transferor*:

/ / has requested the Trustee by written order to deliver in exchange for its beneficial interest in the Global Security held by the Depositary a Security or Securities in definitive, registered form of authorized denominations and an aggregate principal amount equal to its beneficial interest in such Global Security (or the portion thereof indicated above); or

/ / has requested the Trustee by written order to deliver in exchange for its Security or Securities a beneficial interest in the Global Security held by the Depositary in a principal amount equal to the aggregate principal amount of such Security or Securities; or

/ / has requested the Trustee by written order to exchange or register the transfer of a Security or Securities.

In connection with such request and in respect of each such security, the Transferor does hereby certify to the Company and the Trustee that Transferor is familiar with the Indenture relating to the above captioned Debentures and, as provided in Section 305 of such Indenture, the transfer of this Security does not require registration under the Securities Act (as defined below) because*:

/ / Such Security is being acquired for the Transferor's own account, without transfer (in satisfaction of Section 305(b)(ii)(A) or Section 305(e)(i)(A) of the Indenture).

/ / Such Security is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A or pursuant to an exemption from registration in accordance with Regulation S under the Securities Act (in satisfaction of Section 305(b)(ii)(B), Section 305(c)(i) or Section 305(e)(i)(B)

of the Indenture). If such Security is being transferred in accordance with Regulation S under the Securities Act, an opinion of counsel to the effect that such transfer does

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* Check applicable box.

not require registration under the Securities Act accompanies this Certificate (in satisfaction of Section 305(b)(ii)(B) or Section 305(e)(i)(B) of the Indenture).

/ / Such Security is being transferred in accordance with Rule 144 under the Securities Act, or pursuant to an effective registration statement under the Securities Act (in satisfaction of Section 305(b)(ii)(B), Section 305(e)(i)(B) or Section 305(h)(ii) of the Indenture). If such Security is being transferred in accordance with Rule 144 under the Securities Act, an opinion of counsel to the effect that such transfer does not require registration under the Securities Act accompanies this Certificate (in satisfaction of Section 305(b)(ii)(B), Section 305(e)(i)(B) or Section 305(h)(ii) of the Indenture).

/ / Such Security is being transferred in reliance on and in compliance with an exemption from the registration requirements of the Securities Act, other than Rule 144A, 144 or Regulation S under the Securities Act. An opinion of counsel to the effect that such transfer does not require registration under the Securities Act accompanies this Certificate (in satisfaction of Section 305(b)(ii)(C) or Section 305(e)(i)(C) of the Indenture).

You are entitled to rely upon this certificate and you are irrevocably authorized to produce this certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

[INSERT NAME OF TRANSFEROR]

By:

Date:

REGISTRATION RIGHTS AGREEMENT

Dated as of December 13, 1995

relating to
$60,000,000 in Aggregate Principal Amount
of 6 1/2% Convertible Senior Subordinated
Debentures due 2002

by and among

PHP Healthcare Corporation

and

Smith Barney Inc.

and

Dean Witter Reynolds Inc.

This Registration Rights Agreement (the "Agreement") is made and entered into as of December 13, 1995, by and between PHP Healthcare Corporation, a Delaware corporation (the "Company") and Smith Barney Inc. and Dean Witter Reynolds Inc. (the "Initial Purchasers"), who will purchase $60,000,000 in aggregate principal amount of 6 1/2% Convertible Subordinated Debentures due 2002 (the "Debentures") of the Company (excluding up to an additional $9,000,000 aggregate principal that may be purchased by the Initial Purchasers pursuant to their over-allotment option) pursuant to the Purchase Agreement dated December 13, 1995 (the "Purchase Agreement"), between the Company and the Initial Purchasers. In order to induce the Initial Purchasers to enter into the Purchase Agreement, the Company has agreed to provide the registration rights set forth in this Agreement. The execution and delivery of this Agreement is a condition to the obligations of the Initial Purchasers set forth in the Purchase Agreement. All defined terms used but not defined herein shall have the meanings ascribed to them in the Indenture (as defined herein).

The parties hereby agree as follows:

SECTION 1. DEFINITIONS

As used in this Agreement, the following capitalized terms shall have the following meanings:

ACT: The Securities Act of 1933, as amended.

CLOSING DATE: The date on which all the Debentures are first sold by the Company to the Initial Purchasers pursuant to the Purchase Agreement.

COMMISSION: The Securities and Exchange Commission.

COMMON STOCK: The voting Common Stock, par value $.01 per share, of the Company.

DAMAGES PAYMENT DATE: With respect to the Debentures or the Common Stock, as applicable, each Interest Payment Date as defined in the Indenture.

EFFECTIVENESS TARGET DATE: As defined in Section 4.

EXCHANGE ACT: The Securities Exchange Act of 1934, as amended.

EXEMPT RESALES: The transactions in which the Initial Purchasers propose to sell the Debentures to (i) certain "qualified institutional buyers" (as such term is defined in Rule 144A under the Act) and (ii) to certain persons in offshore transactions in reliance on Regulation S under the Act.

HOLDERS: As defined in Section 2(b) hereof.

INDENTURE: The Indenture, to be dated as of December 15, 1995, among the Company and IBJ Schroder Bank and Trust Company, as trustee (the "Trustee"), pursuant to which the Debentures are to be issued, as such Indenture is amended or supplemented from time to time in accordance with the terms thereof.

INTEREST PAYMENT DATE: As defined in the Indenture.

NASD: National Association of Securities Dealers, Inc.

OFFERING MEMORANDUM: The Offering Memorandum, dated December 13, 1995, and all amendments and supplements thereto, relating to the Debentures and prepared by the Company pursuant to the Purchase Agreement.

PERSON: An individual, partnership, corporation, trust or unincorporated organization, or a government or agency or political subdivision thereof.

PRELIMINARY PROSPECTUS: As defined in Section 3(g).

PROSPECTUS: The prospectus included in the Shelf Registration Statement, as amended or supplemented by any Prospectus Supplement with respect to the terms of the offering of any portion of the Transfer Restricted Securities (as defined herein) covered by the Shelf Registration Statement and by all other amendments and supplements to the prospectus, including post-effective amendments, and all material which may be incorporated by reference into such prospectus.

PROSPECTUS SUPPLEMENT: As defined in Section 5(b).

RECORD HOLDER: (i) With respect to any Damages Payment Date relating to the Debentures, each Person who is registered on the books of the Registrar as the holder of Debentures on the record date with respect to the Interest Payment Date on which such Damages Payment Date shall occur and (ii) with respect to any Damages Payment Date relating to the Common Stock, each Person who is a holder of record of such Common Stock fifteen days prior to the Damages Payment Date.

REGISTRATION EXPENSES: As defined in Section 6(a).

SHELF REGISTRATION STATEMENT: As defined in Section 3(a) hereof.

TIA: The Trust Indenture Act of 1939, as amended (15 U.S.C. Section 77aaa-77bbbb) as in effect on the date of the Indenture.

TRANSFER RESTRICTED SECURITIES: Each Debenture and share of Common Stock of the Company issuable upon conversion of a Debenture, until each such Debenture or share (i) has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement covering it, (ii) is distributed to the public pursuant to Rule 144 or (iii) may be sold or transferred pursuant to Rule 144(k) (or any similar provisions then in force) under the Securities Act or otherwise.

UNDERWRITER: Any underwriter, placement agent, selling broker, dealer manager, qualified independent underwriter or similar securities industry professional.

UNDERWRITTEN REGISTRATION OR UNDERWRITTEN OFFERING: An offering in which securities of the Company are sold to an Underwriter or with the assistance of such Underwriter for reoffering to the public on a firm commitment or best efforts basis.

SECTION 2. SECURITIES SUBJECT TO THIS AGREEMENT

(a) TRANSFER RESTRICTED SECURITIES. The securities entitled to the benefits of this Agreement are the Transfer Restricted Securities.

(b) HOLDERS OF TRANSFER RESTRICTED SECURITIES. A Person is deemed to be a holder of Transfer Restricted Securities (each, a "Holder")

whenever such Person owns Transfer Restricted Securities.

SECTION 3. SHELF REGISTRATION

(a) The Company shall cause to be filed with the Commission on or prior to 60 days after the Closing Date, a shelf registration statement pursuant to Rule 415 under the Act (as may then be amended) (the "Shelf Registration Statement") on Form S-1 or Form S-3, if the use of such form is then available and as determined by the Company, to cover resales of Transfer Restricted Securities by the Holders thereof who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement. The Holders of such Transfer Restricted Securities shall have provided the representations required pursuant to Section 3(g) hereof. The Company shall use its reasonable best efforts to cause such Shelf Registration Statement to be declared effective by the Commission on or prior to 90 days after the Closing Date. The Company shall use its reasonable best efforts to keep such Shelf Registration Statement continuously effective for a period ending three years from the effective date thereof or such shorter period that will terminate when each of the Transfer Restricted Securities covered by the Shelf Registration Statement shall cease to be a Transfer Restricted Security. The Company further agrees to use its reasonable best efforts to prevent the happening of any event that would cause the Shelf Registration Statement to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or to be not effective and usable for resale of the Transfer Restricted Securities during the period that such Shelf Registration Statement is required to be effective and usable.

Upon the occurrence of any event that would cause the Shelf Registration Statement (i) to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) to be not effective and usable for resale of Transfer Restricted Securities during the period that such Shelf Registration Statement is required to be effective and usable, the Company shall as promptly as practicable file an amendment to the Shelf Registration Statement, in the case of clause (i), correcting any such misstatement or omission, and in the case of either clause (i) or (ii), use its best efforts to cause such amendment to be declared effective and such Shelf Registration Statement to become usable as soon as practicable thereafter.

(b) None of the Company nor any of its security holders (other than the Holders of Transfer Restricted Securities in such capacity and other shareholders having registration rights permitting them to participate therein, as disclosed in the Offering Memorandum) shall have the right to include any of the Company's securities in the Shelf Registration Statement.

(c) If the Holders of a majority of the outstanding Transfer

Restricted Securities so elect (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the aggregate principal amount of Debentures converted into such Common Stock for purposes of such calculation), an offering of Transfer Restricted Securities pursuant to the Shelf Registration Statement may be effected in the form of an Underwritten Offering. The Holders of the Transfer Restricted Securities to be registered shall pay all underwriting discounts and commissions of such Underwriters.

(d) If any of the Transfer Restricted Securities covered by the Shelf Registration Statement are to be sold in an Underwritten Offering, the Underwriter(s) that will administer the offering will be selected by the Holders of a majority of the outstanding Transfer Restricted Securities (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the aggregate principal amount of Debentures converted into such Common Stock for purposes of such calculation); PROVIDED, HOWEVER, that such Underwriter(s) shall be reasonably satisfactory to the Company.

(e) Each Holder whose Transfer Restricted Securities are covered by a Shelf Registration Statement filed pursuant to this Section 3 agrees, upon the request of the Underwriter(s) in any Underwritten Offering, not to effect any sale or distribution of securities of the Company of the same

class as the securities included in such Shelf Registration Statement, for a period of up to 90 days beginning on the date any such Underwritten Offering made pursuant to such Shelf Registration Statement commences, to the extent timely notified in writing by such Underwriter(s).

(f) The Company agrees not to effect any public or private offer, sale or distribution of Securities of the same quality and nature as the Transfer Restricted Securities to be registered in an Underwritten Offering, and during the 90-day period beginning on the date any such Underwritten Offering made pursuant to the Shelf Registration Statement commences, to the extent timely notified in writing by the Underwriter(s) (except as part of such registration, if permitted, or pursuant to registrations on Forms S-4 or S-8 or any successor form to such Forms), unless the Underwriter(s) shall consent in writing to a shorter period of time; PROVIDED, HOWEVER, that any such agreement shall permit (A) the issuance by the Company of any shares of Common Stock issued to employees of the Company or to any other eligible person pursuant to any employee stock option plan, stock ownership plan, stock bonus plan or stock compensation plan of the Company in effect on the date of such Underwritten Offering, and (B) the issuance by the Company of Common Stock upon the conversion of securities, or the exercise of options or warrants, outstanding at the date of such Underwritten Offering.

(g) No Holder of Transfer Restricted Securities may include any of its Transfer Restricted Securities in any Shelf Registration Statement pursuant to this Agreement unless such Holder furnishes to the Company in

writing, within 10 business days after receipt of a request therefor, such information as the Company may reasonably request for use in connection with any Shelf Registration Statement or Prospectus or preliminary Prospectus (a "Preliminary Prospectus") included therein.

SECTION 4. LIQUIDATED DAMAGES

(a) If (i) the Shelf Registration Statement is not filed with the Commission on or prior to 60 days after the Closing Date, (ii) the Shelf Registration Statement has not been declared effective by the Commission within 90 days after the Closing Date (the "Effectiveness Target Date"), or (iii) the Shelf Registration Statement is filed and declared effective but shall thereafter cease to be effective or useable for resale without being succeeded immediately by any additional Shelf Registration Statement filed and declared effective (each such event referred to in clauses (i) through (iii), a "Registration Default"), the Company will pay liquidated damages to each Holder of Transfer Restricted Securities who has complied with such Holder's obligations under this Agreement. The amount of liquidated damages payable during any period during which a Registration Default shall have occurred and be continuing is that amount which is equal to one-quarter of one percent (25 basis points) per annum per $1,000 principal amount of Debentures or $0.07 per annum per share of Common Stock (subject to adjustment in the event of stock splits, stock recombinations, stock dividends and the like) constituting Transfer Restricted Securities. The Company shall notify the Trustee and the Initial Purchasers within one business day after each and every date on which a Registration Default occurs. All accrued liquidated damages shall be paid to Record Holders by wire transfer of immediately available funds or by federal funds check by the Company on each Damages Payment Date. Following the cure of all Registration Defaults, liquidated damages will cease to accrue with respect to such Registration Default.

All of the Company's obligations set forth in the preceding paragraph which are outstanding with respect to any Transfer Restricted Security at the time such security ceases to be a Transfer Restricted Security shall survive until such time as all such obligations with respect to such security shall have been satisfied in full.

The parties hereto agree that the liquidated damages provided in this Section 4 constitute a reasonable estimate of the damages that will be incurred by Holders of Transfer Restricted Securities by reason of the failure of the Shelf Registration Statement to be filed, declared effective or to remain effective, as the case may be.

SECTION 5. REGISTRATION PROCEDURES

In connection with the Shelf Registration Statement, the Company

will use its best efforts to effect such registration to permit the sale of the Transfer Restricted Securities being sold in accordance with the intended method or methods of distribution or disposition thereof, and pursuant thereto the Company will as expeditiously as possible after the Closing Date:

(a) on or prior to the date 60 days after the Closing Date, prepare and file with the Commission a Shelf Registration Statement relating to the registration on Form S-1 or Form S-3, if the use of such form is then available and as determined by the Company, for the sale of the Transfer Restricted Securities in accordance with the intended method or methods of distribution thereof and shall include all financial statements required to be included or incorporated by reference therein; cooperate and assist in any filings required to be made with the NASD and use its reasonable best efforts to cause such Shelf Registration Statement to become effective and approved by such governmental agencies or authorities as may be necessary to enable the selling Holders to consummate the disposition of such Transfer Restricted Securities; PROVIDED, HOWEVER, that before filing a Shelf Registration Statement or any Prospectus, or any amendments or supplements thereto, the Company will furnish to the Holders and the Underwriter(s), if any, copies of all such documents proposed to be filed (except that the Company shall not be required to furnish any exhibits to such documents, including those incorporated by reference, unless so requested by a Holder or Underwriter in writing), and the Company will not file any Shelf Registration Statement or amendment thereto or any Prospectus or any supplement thereto to which (i) the Underwriter(s), if any, shall reasonably object or (ii) if there are no Underwriters, the Holders of a majority of the outstanding Transfer Restricted Securities shall reasonably object (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the aggregate principal amount of Debentures converted into such Common Stock for purposes of such calculation), in each such case within five business days after the receipt thereof. A Holder or Underwriter, if any, shall be deemed to have reasonably objected to such filing if the Shelf Registration Statement, amendment, Prospectus or supplement, as applicable, as proposed to be filed contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading which misstatement or omission is specifically identified to the Company in writing within such five business days;

(b) prepare and file with the Commission such amendments and post-effective amendments to the Shelf Registration Statement as may be necessary to keep the Shelf Registration Statement effective for the applicable period set forth in Section 3(a) hereof; cause the Prospectus to be supplemented by any required supplement thereto (a "Prospectus Supplement"), and as so supplemented to be filed pursuant to Rule 424 under the Act, and to comply fully with the applicable provisions of Rules 424 and 430A under the Act in a timely manner; and comply with the provisions of the Act with respect to the disposition of all securities covered by such Shelf Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the sellers thereof set forth in such Shelf Registration Statement, Prospectus or Prospectus Supplement;

(c) if requested by the Holders of Transfer Restricted Securities, or if the Transfer Restricted Securities are being sold in an Underwritten Offering, the Underwriter(s) of such Underwritten Offering, promptly incorporate in the Prospectus, any Prospectus Supplement or post-effective amendment to the Shelf Registration Statement such information as the Underwriters and/or the Holders of Transfer Restricted Securities being sold agree should be included therein relating to the plan of distribution of the Transfer Restricted Securities, including, without limitation, information with respect to the principal

amount of Debentures and/or the number of shares of Common Stock being sold to such Underwriter(s), the purchase price being paid therefor and any other terms with respect to the offering of the Transfer Restricted Securities to be sold in such offering; and make all required filings of such Prospectus, Prospectus Supplement or post-effective amendment as soon as practicable after the Company is notified of the matters to be incorporated in such Prospectus, Prospectus Supplement or post-effective amendment;

(d) advise the Underwriter(s), if any, and selling Holders promptly and, if requested by such Persons, to confirm such advice in writing, (i) when the Prospectus or any Prospectus Supplement or post-effective amendment to the Shelf Registration Statement has been filed, and, with respect to the Shelf Registration Statement or any post-effective amendment thereto, when the same has become effective, (ii) of any request by the Commission for amendments to the Shelf Registration Statement or amendments or supplements to the Prospectus or for additional information relating thereto, (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Shelf Registration Statement under the Act or of the suspension by any state securities commission of the qualification of the Transfer Restricted Securities for offering or sale in any jurisdiction, or the initiation of any proceeding for any of the preceding purposes, (iv) if at any time the representations and warranties of the Company contemplated by paragraph (m)(i) below cease to be true and correct, and (v) of the existence of any fact and the happening of any event that makes any statement of a material fact made in the Shelf Registration Statement, the Prospectus, any amendment or supplement thereto, or any document incorporated by reference therein untrue, or that requires the making of any additions to or changes in the Shelf Registration Statement or the Prospectus in order to make the statements therein not misleading. If at any time the Commission shall issue any stop order suspending the effectiveness of the Shelf Registration Statement, or any state securities commission or other regulatory authority shall issue an order suspending the qualification or exemption from qualification of the Transfer Restricted Securities under state securities or Blue Sky laws, the Company shall use their reasonable best efforts to obtain the withdrawal or lifting of such order at the earliest possible time;

(e) promptly following the filing of any document that is to be incorporated by reference into the Shelf Registration Statement or the

Prospectus subsequent to the initial filing of the Shelf Registration Statement, provide copies of such document (excluding exhibits, unless requested by a Holder in writing) to the Holders;

(f) furnish to each Holder and each of the Underwriter(s), if any, without charge, at least one copy of the Shelf Registration Statement, as first filed with the Commission, and of each amendment thereto, including all documents incorporated by reference therein and all exhibits (excluding exhibits to documents incorporated by reference therein unless requested by such Holder or Underwriter);

(g) deliver to each selling Holder and each of the Underwriter(s), if any, without charge, as many copies of any Preliminary Prospectus and the Prospectus and any amendments or supplements thereto as such Persons may reasonably request; the Company consents to the use of any Preliminary Prospectus and the Prospectus and any amendments or supplements thereto by each of the selling Holders and each of the Underwriter(s), if any, in connection with the public offering and the sale of the Transfer Restricted Securities covered by any Preliminary Prospectus and the Prospectus or any amendments or supplements thereto;

(h) prior to any public offering of Transfer Restricted Securities, cooperate with the selling Holders, the Underwriter(s), if any, and their respective counsel in connection with the registration and qualification of the Transfer Restricted Securities under the securities or Blue Sky laws of such jurisdictions as the selling Holders or Underwriter(s) may request and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdiction of the Transfer Restricted Securities covered by the Shelf Registration Statement; PROVIDED, HOWEVER, that the Company shall not be required (i) to register or qualify as a foreign corporation where it is not now so qualified or (ii) to take any action

that would subject it to the service of process in suits, other than as to matters and transactions relating to the Shelf Registration Statement, in any jurisdiction where it is not now so subject;

(i) cooperate with the selling Holders and the Underwriter(s), if any, to facilitate the timely preparation and delivery of certificates representing Transfer Restricted Securities to be sold and not bearing any restrictive legends; and enable such Transfer Restricted Securities to be in such denominations and registered in such names as the Holders or the Underwriter(s), if any, may request at least two business days prior to any sale of Transfer Restricted Securities;

(j) use its best efforts to cause the Transfer Restricted Securities covered by the Shelf Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary

to enable the seller or sellers thereof or the Underwriter(s), if any, to consummate the disposition of such Transfer Restricted Securities, subject to the proviso contained in clause (h) above;

(k) if any fact or event contemplated by clause (d)(v) above shall exist or have occurred, prepare a post-effective amendment or supplement to the Shelf Registration Statement or related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of Transfer Restricted Securities, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading;

(l) provide a CUSIP number for all Transfer Restricted Securities not later than the effective date of the Shelf Registration Statement and provide the Trustee under the Indenture and/or the transfer agent for the Common Stock with printed certificates for the Transfer Restricted Securities which are in a form eligible for deposit with the Depository Trust Company;

(m) enter into such agreements (including an underwriting agreement) and take all such other actions in connection therewith as may reasonably be required in order to expedite or facilitate the disposition of the Transfer Restricted Securities pursuant to the Shelf Registration Agreement, in connection with an Underwritten Registration, and (i) make such representations and warranties to the Holders and the Underwriter(s), in form, substance and scope as they may reasonably request and as are customarily made by issuers to Underwriters in primary Underwritten Offerings and covering matters including, but not limited to, those set forth in the Purchase Agreement; (ii) obtain opinions of counsel for the Company and updates thereof in customary form and covering matters reasonably requested by the Underwriter(s) of the type customarily covered in legal opinions to Underwriters in connection with primary Underwritten Offerings addressed to each selling Holder and the Underwriter requesting the same and covering the matters as may be reasonably requested by such Holders and Underwriters; (iii) obtain "cold comfort" letters and updates thereof from the Company's independent certified public accountants addressed to the selling Holders of Transfer Restricted Securities and the Underwriters requesting the same, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters to Underwriters in connection with primary Underwritten Offerings; (iv) set forth in full or incorporate by reference in the underwriting agreement the indemnification provisions and procedures of Section 7 hereof with respect to all parties to be indemnified pursuant to said Section; and (v) deliver such documents and certificates as may be reasonably requested by the Holders of the Transfer Restricted Securities being sold or the Underwriter(s) of such Underwritten Offering to evidence compliance with clause (i) above and with any customary conditions contained in the underwriting agreement entered into by the Company pursuant to this clause (m). The above shall be done at or prior to each closing under such underwriting agreement, as and to the extent required thereunder;

(n) make available at reasonable times and in a reasonable manner for inspection by a representative of the Holders of the Transfer

Restricted Securities, any Underwriter participating in any disposition pursuant to such Shelf Registration Statement, and any attorney or accountant retained by such

selling Holders or any of the Underwriters, all financial and other records, pertinent corporate documents and properties of the Company and cause the Company's officers, directors and employees to supply all information reasonably requested by any such Holder, Underwriter, attorney or accountant in connection with such Shelf Registration Statement prior to its effectiveness, PROVIDED, HOWEVER, that such representatives, attorneys or accountants shall agree to keep confidential (which agreement shall be confirmed in writing in advance to the Company if the Company shall so request) all information, records or documents made available to such persons which are not otherwise available to the general public unless disclosure of such records, information or documents is required by court or administrative order (of which the Company shall have been given prior notice and an opportunity to defend) after the exhaustion of all appeals therefrom, and to use such information obtained pursuant to this provision only in connection with the transaction for which such information was obtained, and not for any other purpose;

(o) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the Commission, and make generally available to its security holders, as soon as practicable, a consolidated earnings statement, which consolidated earnings statement shall satisfy the provisions of Section 11(a) of the Act, for the twelve-month period (i) commencing at the end of any fiscal quarter in which Transfer Restricted Securities are sold to Underwriters in a firm commitment or best efforts Underwritten Offering or (ii) if not sold to Underwriters in such an offering, beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Shelf Registration Statement;

(p) cause the Indenture to be qualified under the TIA, and, in connection therewith, cooperate with the Trustee and the Holders to effect such changes to the Indenture as may be required for such Indenture to be so qualified in accordance with the terms of the TIA; and execute and use its best efforts to cause the Trustee to execute, all documents as may be required to effect such changes and all other forms and documents required to be filed with the Commission to enable such Indenture to be so qualified in a timely manner;

(q) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of the Shelf Registration Statement at the earliest possible moment;

(r) cause all Transfer Restricted Securities covered by the Shelf Registration Statement to be listed on each securities exchange or quotation system on which similar securities issued by the Company are then listed if requested by the Holders of a majority of the outstanding Transfer

Restricted Securities (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the aggregate principal amount of Debentures converted into such Common Stock for purposes of such calculation) or the Underwriters, if any; cause the Debentures covered by the Shelf Registration Statement to be rated with the appropriate rating agencies, if so requested by the Holders of a majority in aggregate principal amount of such Debentures or the Underwriters; and

(s) cooperate and assist in any filings required to be made with the NASD and in the performance of any due diligence investigation by any Underwriter (including any "qualified independent Underwriter" that is required to be retained in accordance with the rules and regulations of the NASD).

Each Holder as to which any Shelf Registration Statement is being effected agrees to furnish promptly to the Company all information required to be disclosed in order to make the information previously furnished to the Company by such Holder not materially misleading or necessary to cause such Shelf Registration Statement not to omit a material fact with respect to such Holder necessary in order to make the statements therein not misleading.

Each Holder agrees by acquisition of such Transfer Restricted Securities that, upon receipt of any notice from the Company of the existence of any fact of the kind described in Section 5(d)(v)

hereof, such Holder will forthwith discontinue disposition of Transfer Restricted Securities until such Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof, or until it is advised in writing (the "Advice") by the Company that the use of the Prospectus may be resumed, and has received copies of any additional or supplemental filings with respect to the Prospectus. If so directed by the Company, each Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of the Prospectus covering such Transfer Restricted Securities current at the time of receipt of such notice. In the event Company shall give any such notice, the time period regarding the effectiveness of the Shelf Registration Statement set forth in Section 3(a) hereof shall be extended by the number of days during the period from and including the date of the giving of such notice pursuant to Section 5(d)(v) hereof to and including the date when each selling Holder covered by such Shelf Registration Statement shall have received the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof or shall have received the Advice.

SECTION 6. REGISTRATION EXPENSES

(a) All expenses incident to the Company's performance of or compliance with this Agreement (the "Registration Expenses") will be borne by

the Company, regardless of whether a Shelf Registration Statement becomes effective, including without limitation:

(i) all registration and filing fees and expenses (including filings made with the NASD);

(ii) fees and expenses of compliance with federal securities or state blue sky laws;

(iii) expenses of printing (including, without limitation, expenses of printing or engraving certificates for the Transfer Restricted Securities in a form eligible for deposit with Depository Trust Company and of printing the Prospectus and any Preliminary Prospectus), messenger and delivery services and telephone;

(iv) fees and disbursements of counsel for the Company and for the Holders of the Transfer Restricted Securities (subject to the provisions of Section 6(b) hereof);

(v) fees and disbursements of all independent certified public accountants of the Company (including the expenses of any special audit and "cold comfort" letters required by or incidental to the preparation and filing of a Shelf Registration Statement and Prospectus and the disposition of Transfer Restricted Securities);

(vi) fees and expenses associated with any NASD filing required to be made in connection with the Shelf Registration Statement, including, if applicable, the fees and expenses of any "qualified independent Underwriter" (and its counsel) that is required to be retained in accordance with the rules and regulations of the NASD; and

(vii) fees and expenses of listing the Transfer Restricted Securities on any securities exchange or quotation system in accordance with Section 5(r) hereof.

The Company will, in any event, bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, rating agency fees and the fees and expenses of any Person, including special experts, retained by the Company. The Holders of Transfer Restricted Securities shall bear the expense of any broker's commission or Underwriter's discount or commission.

(b) In connection with the Shelf Registration Statement, the Company will reimburse the Holders of Transfer Restricted Securities being registered pursuant to such Shelf Registration Statement for the reasonable fees and disbursements of not more than one counsel chosen by the Holders of a

majority of the outstanding Transfer Restricted Securities (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the aggregate principal amount of Debentures converted into such Common Stock for purposes of such calculation).

Notwithstanding the provisions of this Section 6(b), each Holder of Transfer Restricted Securities shall pay all Registration Expenses to the extent required by applicable law.

SECTION 7. INDEMNIFICATION

(a) The Company agrees to indemnify and hold harmless (i) each of the Initial Purchasers, (ii) each Holder, (iii) each person, if any, who controls (within the meaning of Section 15 of the Act or Section 20 of the Exchange Act) either of the Initial Purchasers or any Holder (any of the persons referred to in this clause (iii) being hereinafter referred to as a "controlling person") and (iv) the respective officers, directors, partners, employees, representatives and agents of either of the Initial Purchasers or any Holder or any controlling person (any person referred to in clause (i), (ii), (iii) or (iv) may hereinafter be referred to as a "Non-Company Indemnitee"), to the fullest extent lawful, from and against any and all losses, claims, damages, liabilities and judgments caused by any untrue statement or alleged untrue statement of a material fact contained in the Shelf Registration Statement, Prospectus or Preliminary Prospectus (or any amendments or supplements thereto), including any document incorporated by reference therein, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except, with respect to any Non-Company Indemnitee, insofar as such losses, claims, damages, liabilities or judgments (1) are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information furnished in writing to the Company by such Non-Company Indemnitee expressly for use therein or (2) with respect to any Preliminary Prospectus, result from the fact that such Non-Company Indemnity sold Transfer Restricted Securities to a person to whom there was not sent or given, at or prior to the written confirmation of such sale, a copy of the final Prospectus, as amended or supplemented, if the Company shall have previously furnished copies thereof to such Non-Company Indemnitee in accordance with this Agreement and the final Prospectus, as amended or supplemented, would have corrected such untrue statement or omission.

(b) In case any action shall be brought against any Non-Company Indemnitee, based upon the Shelf Registration Statement, Prospectus, or Preliminary Prospectus (or any amendments or supplements thereto), and with respect to which indemnity may be sought against the Company, such Non-Company Indemnitee shall promptly notify the Company in writing and the Company shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses; PROVIDED, HOWEVER, that the omission so to notify the Company shall not relieve the Company from any liability that it may have to any Non-Company Indemnitee (except to the extent that the Company is materially prejudiced or otherwise forfeits substantive rights or defenses by reason of such failure). Such Non-Company Indemnitee shall have the right to employ separate counsel in

any such action and participate in the defense thereof, but the fees and expenses of counsel shall be paid by such Non-Company Indemnitee, unless (i) the employment of such counsel shall have been specifically authorized in writing by the Company, (ii) the Company shall have failed to assume the defense and employ counsel or (iii) the named parties to any such action (including any impleaded parties) include both such Non-Company Indemnitee and the Company and it would be inappropriate for the same counsel to represent such Non-Company Indemnitee and the Company (in which case the Company shall not have the right to assume the defense of such action on behalf of such Non-Company Indemnitee, it being understood, however, that the Company shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) for the Non-Company Indemnitees, which firm

shall be designated in writing by the Non-Company Indemnitees and whose fees and expenses reasonably incurred shall be reimbursed as they are incurred). The Company shall not be liable for any settlement of any such action effected without the written consent of the Company, but if settled with the written consent of the Company, the Company agrees to indemnify and hold harmless any Non-Company Indemnitee from and against any amounts payable pursuant to such written consent in connection with such settlement. Notwithstanding the immediately preceding sentence, if in any case where the fees and expenses of counsel are at the expense of the Company and a Non-Company Indemnitee shall have requested the Company to reimburse such Non-Company Indemnitee for such fees and expenses of counsel as incurred, the Company agrees that it shall be liable for any settlement of any action effected without its written consent if (i) each settlement is entered into more than 30 business days after the receipt by the Company of the aforesaid request and (ii) the Company shall have failed to reimburse such Non-Company Indemnitee in accordance with such request for reimbursement prior to the date of such settlement. The Company shall not, without the prior written consent of such Non-Company Indemnitee, effect any settlement of any pending or threatened proceeding in respect of which such Non-Company Indemnitee is or could have been a party and indemnity could have been sought hereunder by such Non-Company Indemnitee, unless such settlement includes an unconditional release of such Non-Company Indemnitee from all liability on claims that are the subject matter of such proceeding.

(c) Each Holder of Transfer Restricted Securities agrees to indemnify and hold harmless (i) the Company, (ii) each of the Initial Purchasers, (iii) each other Holder, (iv) any person controlling (within the meaning of Section 15 of the Act or Section 20 of the Exchange Act) the Company, either of the Initial Purchasers and each other Holder and (v) the respective officers, directors, partners, employees, representatives and agents of each of the parties referred to in clauses (i), (ii), (iii) and (iv), to the same extent as the foregoing indemnity from the Company to each of the Non-Company Indemnitees, but only with respect to information relating to such Holder that

was furnished in writing by such Holder expressly for use in the Shelf Registration Statement (or any amendment or supplement thereto). In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the proceeds received by such Holder upon the sales of the Transfer Restricted Securities giving rise to such indemnification obligation.

(d) If the indemnification provided for in this Section 7 is unavailable to an indemnified party in respect of any losses, claims, damages, liabilities or judgments referred to herein, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities and judgments in such proportion as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and the indemnified party, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or judgments, as well as any other relevant equitable considerations. The relative fault of the indemnifying party, on the one hand, and the indemnified party, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party, on the one hand, or the indemnified party, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, each of the Initial Purchasers and each Holder of Transfer Restricted Securities agree that it would not be just and equitable if contribution pursuant to this Section 7(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The losses, claims, damages, liabilities or judgments of an indemnified party referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim prior to the indemnifying party's assumption of the defense thereof or subsequent thereto to the extent permitted by the second sentence of Section 7(b) hereof. Notwithstanding the provisions of this Section

7, none of the Holders shall be required to contribute, in the aggregate, any amount in excess of the amount by which the total amount received by such Holder with respect to the sale of Transfer Restricted Securities exceeds the sum of (A) the amount paid by such Holder for such Notes PLUS (B) the amount of any damages which such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Holders' obligations to contribute

pursuant to this Section 7(d) are several in proportion to the respective principal amount of Notes held by each of the Holders hereunder and not joint.

SECTION 8. RULE 144A

The Company hereby agrees with each Holder, for so long as any of the Debentures or shares of Common Stock that are Transfer Restricted Securities remain outstanding and during any such period in which the Company is not subject to Section 13 or 15(d) of the Exchange Act, to make available to any Initial Purchaser or any beneficial owner of the Debentures or shares of such Common Stock in connection with any sale thereof and any prospective purchaser of such Debentures or Common Stock from such Initial Purchaser or beneficial owner, the information required by Rule 144A(d)(4) under the Act in order to permit resales of such Transfer Restricted Securities pursuant to Rule 144A.

SECTION 9. PARTICIPATION IN UNDERWRITTEN REGISTRATIONS

No Holder may participate in any Underwritten Offering hereunder unless such Holder (a) agrees to sell such Holder's Transfer Restricted Securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements, (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements and (c) furnishes the Company in writing information in accordance with Section 3(g) and agrees to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement and any person controlling the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act to the extent contemplated by Section 7(c).

SECTION 10. SELECTION OF UNDERWRITERS

The Holders of Transfer Restricted Securities covered by the Shelf Registration Statement who desire to do so may sell such Transfer Restricted Securities in an Underwritten Offering. In any such Underwritten Offering, the Underwriter(s) that will administer the offering will be selected by the Holders of the Transfer Restricted Securities included in such offering in the manner specified in Section 3(c); PROVIDED, HOWEVER, that such Underwriters must be reasonably satisfactory to the Company.

SECTION 11. MISCELLANEOUS

(a) REMEDIES. Each Holder of Transfer Restricted Securities, in addition to being entitled to exercise all rights provided herein, and as provided in the Purchase Agreement and granted by law, including recovery of damages, will be entitled to specific performance of such Holder's rights under this Agreement. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions

of this Agreement and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) NO INCONSISTENT AGREEMENTS. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders of Transfer Restricted Securities in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders of Transfer Restricted Securities hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any other agreements.

(c) AMENDMENTS AND WAIVERS. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of Holders of a majority of the outstanding Transfer Restricted Securities affected by such amendment, modification, supplement, waiver or departure (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the aggregate principal amount of Debentures converted into such Common Stock for purposes of such calculation). Notwithstanding the foregoing, a waiver or consent to departure from the provisions hereof that relates exclusively to the rights of Holders of Transfer Restricted Securities whose securities are being sold pursuant to such Shelf Registration Statement and that does not directly or indirectly affect the rights of other Holders of Transfer Restricted Securities shall be valid only with the written consent of Holders of at least 66-2/3% of the Transfer Restricted Securities being sold, in each case calculated in accordance with the provisions of Section 3(c).

(d) NOTICES. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first-class mail (registered or certified, return receipt requested), telex, telecopier, or air courier guaranteeing overnight delivery:

(i) if to a Holder of Transfer Restricted Securities, at the address set forth on the records of the Registrar under the Indenture, with a copy to the Registrar; and

(ii) if to the Company or an Initial Purchaser, initially at its address set forth in the Purchase Agreement and thereafter at such other address, notice of which is given in accordance with the provisions of this Section.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid, if mailed;

when answered back, if telexed; when receipt acknowledged, if telecopied; and on the next business day, if timely delivered to an air courier guaranteeing overnight delivery.

Copies of all such notices, demands or other communications shall be concurrently delivered by the Person giving the same to the Trustee under the Indenture at the address specified in the Indenture.

(e) SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties, including without limitation and without the need for an express assignment, subsequent Holders of Transfer Restricted Securities; PROVIDED, HOWEVER, that this Agreement shall not inure to the benefit of or be binding upon a successor or assign of a Holder of Transfer Restricted Securities unless and to the extent such successor or assign acquired Transfer Restricted Securities from such Holder; and provided further that nothing herein shall be deemed to permit any assignment, transfer or any disposition of Transfer Restricted Securities in violation of the terms of the Purchase Agreement. If any transferee of any Holder shall acquire Transfer Restricted Securities, in any manner, whether by operation of law or otherwise, such Transfer Restricted Securities shall be held subject to all of the terms of this Agreement and by taking and holding such Transfer Restricted Securities such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement and such Person shall be entitled to receive the benefits hereof.

(f) COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

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

(h) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW RULES THEREOF.

(i) SEVERABILITY. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(j) ENTIRE AGREEMENT. This Agreement together with the other Operative Documents (as defined in the Purchase Agreement) is intended by the

parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the registration rights granted by the Company with respect to the securities sold pursuant to the Purchase Agreement. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

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

PHP HEALTHCARE CORPORATION

By:/s/ Jack M. Mazur

Name: Jack M. Mazur
Title: President

BY:

By:/s/ Benjamin D. Lorello

Name: Benjamin D. Lorello
Title: Managing Director

$60,000,000

[LOGO]

PHP HEALTHCARE CORPORATION

6 1/2% CONVERTIBLE SUBORDINATED DEBENTURES DUE 2002

Interest payable June 15 and December 15

The Debentures are convertible into Common Stock of PHP Healthcare Corporation ("PHP" or the "Company") at any time after the 60th day following the date of original issuance of the Debentures and at or before maturity, unless previously redeemed, at a conversion price of $27.25 per share, subject to adjustment in certain events. On December 13, 1995, the closing price of the Common Stock on the New York Stock Exchange was $22 5/8 per share. The Common Stock is traded under the symbol PPH.

The Debentures do not provide for a sinking fund. The Debentures are redeemable at the option of the Company, in whole or in part, at the redemption prices set forth in this Offering Memorandum, together with accrued interest, except that no redemption may be made prior to December 17, 1998. Upon a Repurchase Event (as defined herein), each holder of Debentures shall have the right, at the holder's option, to require the Company to repurchase such holder's Debentures at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. See "Description of Debentures -- Certain Rights to Require Repurchase of Debentures."

The Debentures are unsecured obligations of the Company and are subordinated to all present and future Senior Indebtedness of the Company and will be effectively subordinated to all indebtedness and liabilities of subsidiaries of the Company. The Indenture will not restrict the incurrence of any other indebtedness or liabilities by the Company or its subsidiaries. See "Description of Debentures -- Subordination."

The Debentures have been designated for trading in the Private Offerings, Resales and Trading through Automated Linkages ("PORTAL") Market. For a description of certain income tax consequences to holders of the Debentures, see "Certain United States Federal Income Tax Consequences."

SEE "RISK FACTORS" BEGINNING AT PAGE 8 HEREIN FOR CERTAIN INFORMATION THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

THE DEBENTURES AND THE UNDERLYING COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO U.S. PERSONS (AS SUCH TERMS ARE DEFINED UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE DEBENTURES AND THE UNDERLYING COMMON STOCK ARE BEING OFFERED AND SOLD ONLY TO (A) "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN COMPLIANCE WITH RULE 144A AND (B) OUTSIDE THE UNITED STATES TO CERTAIN PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE DEBENTURES AND THE UNDERLYING COMMON STOCK MAY BE RELYING ON THE EXEMPTION FROM SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. SUBJECT TO LIMITED EXCEPTIONS, DEBENTURES AND UNDERLYING COMMON STOCK SOLD IN RELIANCE UPON REGULATION S MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO U.S. PERSONS (AS SUCH TERMS ARE DEFINED IN THE SECURITIES ACT). FOR CERTAIN RESTRICTIONS ON RESALES, SEE "NOTICE TO INVESTORS."

<TABLE>
<CAPTION>

	PRICE TO INVESTORS (1)	DISCOUNTS AND COMMISSIONS (2)	PROCEEDS TO THE COMPANY (3)
<S>	<C>	<C>	<C>
Per Debenture	100%	3.0%	97.0%
Total (4)	$60,000,000	$1,800,000	$58,200,000

</TABLE>

(1) Plus accrued interest, if any, from the date of issuance.

(2) The Company has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act. See "Plan of Distribution."

(3) Before estimated expenses of $500,000 payable by the Company.

(4) The Company has granted the Initial Purchasers an option, exercisable within 30 days of the date hereof, to purchase up to an additional $9,000,000 aggregate principal amount of Debentures on the same terms as set forth above to cover over-allotments, if any. If the Initial Purchasers exercise such option in full, the total Price to Investors, Discounts and Commissions and Proceeds to the Company will be $69,000,000, $2,070,000 and $66,930,000, respectively. See "Plan of Distribution."

The Debentures are being offered by the Initial Purchasers named herein, subject to prior sale, when, as and if accepted by them and subject to certain conditions. It is expected that the Debentures will be available for delivery on or about December 19, 1995 at the offices of , 388 Greenwich Street, New York, New York 10013.

December 13, 1995

PHP'S INTEGRATED SYSTEM OF CARE

[CHART]

THIS OFFERING MEMORANDUM IS HIGHLY CONFIDENTIAL AND HAS BEEN PREPARED SOLELY IN CONNECTION WITH AN OFFERING IN COMPLIANCE WITH CERTAIN EXEMPTIONS UNDER THE SECURITIES ACT FOR THE BENEFIT OF PROSPECTIVE INVESTORS INTERESTED IN THE DEBENTURES AND QUALIFIED TO PURCHASE THE DEBENTURES IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT. THIS OFFERING MEMORANDUM IS PERSONAL TO THE OFFEREE TO WHOM IT HAS BEEN DELIVERED AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR OR OTHERWISE ACQUIRE THE DEBENTURES. DISTRIBUTION OF THIS OFFERING MEMORANDUM TO ANY PERSON OTHER THAN THE OFFEREE AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE SUCH OFFEREE WITH RESPECT THERETO IS UNAUTHORIZED AND ANY REPRODUCTION OR DISTRIBUTION OF THIS OFFERING MEMORANDUM, IN WHOLE OR IN PART, AND ANY DISCLOSURE OF ANY OF ITS CONTENTS TO ANY OTHER PERSON, IS PROHIBITED. THIS OFFERING MEMORANDUM, AND ANY OTHER DOCUMENTS REFERRED TO HEREIN WHICH ARE SUBSEQUENTLY PROVIDED TO THE OFFEREE, ARE TO BE RETURNED PROMPTLY IF THE OFFEREE DOES NOT PURCHASE DEBENTURES OR IF THE OFFERING OF THE DEBENTURES IS TERMINATED. SEE "NOTICE TO INVESTORS."

THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM HAS BEEN FURNISHED BY THE COMPANY AND OTHER SOURCES BELIEVED BY IT TO BE RELIABLE. THE INITIAL PURCHASERS HAVE NOT MADE ANY INDEPENDENT INVESTIGATION OF SUCH INFORMATION AND MAKE NO REPRESENTATION OR WARRANTY AS TO THE ACCURACY OR COMPLETENESS OF ANY SUCH INFORMATION. THIS OFFERING MEMORANDUM CONTAINS SUMMARIES, BELIEVED TO BE ACCURATE, OF CERTAIN TERMS OF CERTAIN DOCUMENTS. ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO SUCH DOCUMENTS, COPIES OF WHICH ARE AVAILABLE FROM THE COMPANY UPON REQUEST.

NEITHER THE COMPANY NOR ANY INITIAL PURCHASER IS MAKING ANY REPRESENTATION TO ANY OFFEREE OR PURCHASER OF THE DEBENTURES REGARDING THE LEGALITY OF AN INVESTMENT THEREIN BY SUCH OFFEREE OR PURCHASER UNDER APPROPRIATE LEGAL INVESTMENT OR SIMILAR LAWS. EACH INVESTOR SHOULD CONSULT ITS OWN COUNSEL, ACCOUNTANT AND OTHER ADVISORS AS TO LEGAL, TAX, BUSINESS, FINANCIAL AND RELATED ASPECTS OF A PURCHASE OF THE DEBENTURES.

THE COMPANY RESERVES THE RIGHT TO WITHDRAW THIS OFFERING OF ANY OR ALL OF THE DEBENTURES AT ANY TIME, AND THE COMPANY AND THE INITIAL PURCHASERS RESERVE THE RIGHT TO REJECT ANY COMMITMENT TO SUBSCRIBE FOR ANY DEBENTURES IN WHOLE OR IN PART AND TO ALLOT TO ANY PROSPECTIVE INVESTOR LESS THAN THE FULL AMOUNT OF ANY SUCH DEBENTURES SOUGHT BY SUCH INVESTOR. THE INITIAL PURCHASERS AND CERTAIN RELATED ENTITIES MAY ACQUIRE FOR THEIR OWN ACCOUNT A PORTION OF ANY OF THE DEBENTURES.

THE DISTRIBUTION OF THIS OFFERING MEMORANDUM AND THE OFFER OR SALE OF THE DEBENTURES MAY BE RESTRICTED BY LAW IN CERTAIN JURISDICTIONS. PERSONS INTO WHOSE POSSESSION THIS OFFERING MEMORANDUM OR ANY OF THE DEBENTURES COME MUST INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTIONS. SEE "PLAN OF DISTRIBUTION."

EACH PROSPECTIVE PURCHASER OF THE DEBENTURES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE DEBENTURES OR POSSESSES OR DISTRIBUTES THIS OFFERING MEMORANDUM AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE DEBENTURES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES AND NEITHER THE COMPANY NOR THE INITIAL PURCHASERS SHALL HAVE ANY RESPONSIBILITY THEREFOR.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE DEBENTURES AND THE UNDERLYING COMMON STOCK HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SECURITIES OFFERED HEREBY ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THESE SECURITIES FOR AN INDEFINITE PERIOD OF TIME.

THERE ARE RESTRICTIONS ON THE OFFER AND SALE OF THE DEBENTURES IN THE UNITED KINGDOM. ALL APPLICABLE PROVISIONS OF THE FINANCIAL SERVICES ACT 1986 AND THE PUBLIC OFFERS OF SECURITIES REGULATIONS 1995 WITH RESPECT TO ANYTHING DONE BY ANY PERSON IN RELATION TO THE DEBENTURES IN, FROM OR OTHERWISE INVOLVING THE UNITED KINGDOM MUST BE COMPLIED WITH. SEE "PLAN OF DISTRIBUTION."

IN CONNECTION WITH THE OFFERING OF THE SECURITIES MADE HEREBY, THE INITIAL PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY OR THE DEBENTURES OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS IN THE COMMON STOCK MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE REVISED STATUTES ANNOTATED, 1955, AS AMENDED ("RSA"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO NORTH CAROLINA RESIDENTS

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE COMMISSIONER OF INSURANCE FOR THE STATE OF NORTH CAROLINA, NOR HAS THE COMMISSIONER OF INSURANCE RULED UPON THE ACCURACY OR THE ADEQUACY OF THIS DOCUMENT.

UNLESS OTHERWISE INDICATED, ALL FINANCIAL INFORMATION, SHARES AND PER SHARE DATA IN THIS OFFERING MEMORANDUM ASSUMES (I) NO EXERCISE OF OUTSTANDING OPTIONS OR WARRANTS TO PURCHASE SHARES OF COMMON STOCK, (II) NO EXERCISE OF CONVERSION RIGHTS UNDER OUTSTANDING CONVERTIBLE SECURITIES, AND (III) NO EXERCISE OF THE INITIAL PURCHASERS' OVER-ALLOTMENT OPTION. ALL SHARE AND PER SHARE DATA HAS BEEN RESTATED TO REFLECT THE FIVE-FOR-FOUR STOCK SPLIT EFFECTED IN THE FORM OF A 25% STOCK DIVIDEND DISTRIBUTED ON FEBRUARY 25, 1991, AND THE TWO-FOR-ONE STOCK SPLIT EFFECTED IN THE FORM OF A 100% STOCK DIVIDEND DISTRIBUTED ON NOVEMBER 20, 1995.

OFFERING MEMORANDUM SUMMARY

THE FOLLOWING SUMMARY DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, APPEARING ELSEWHERE IN THIS OFFERING MEMORANDUM OR INCORPORATED BY REFERENCE HEREIN. SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED BY PROSPECTIVE INVESTORS.

THE COMPANY

PHP Healthcare Corporation ("PHP" or the "Company") designs, develops and operates patient-oriented Integrated Systems of Care ("ISOCs") which serve the needs of managed care organizations, self-insured employers, health care providers and provider systems, and government agencies. The Company develops and operates each integrated system by: (i) developing and maintaining a network of physicians, hospitals, and other providers; (ii) organizing and managing the individual and group practices of physicians who participate in the network; (iii) operating information systems to coordinate and integrate the services, measure outcomes, and provide financial results of the system; and (iv) entering into contracts with various third party payors, such as health maintenance

organizations ("HMOs"), insurers, or employee health benefit plans on behalf of the network. The Company manages 15 ISOCs for its clients and has two more ISOCs under development, owns a 30,000-member Medicaid HMO primarily serving the District of Columbia, and manages inpatient and outpatient health care services under 34 government contracts, providing care in over 70 health care facilities. As of October 31, 1995, the Company contracted with or employed over 3,000 physicians.

The Health Care Financing Administration has estimated that national health spending in 1994 was approximately $1 trillion. Health care in the United States historically has been delivered through a fragmented system of health care providers on a fee-for-service basis which provides few incentives for the efficient utilization of resources and has contributed to increases in health care costs. Employers, insurance companies and government agencies have increasingly turned to managed care in an attempt to effectively manage the costs of health care. This focus on cost-containment and the shift to managed care is forcing hospital and physician providers to seek ways to organize themselves into more efficient health care delivery systems. At the same time, payors and their intermediaries, including HMOs and governmental entities, are seeking to contract with organized networks that can provide a full array of health care services. To achieve this, many payors and their intermediaries, including HMOs and governmental entities, are increasingly looking to outside companies which offer skilled management and advanced information systems. In addition, these payors and intermediaries often seek to share the risk of providing services through capitation arrangements which provide for fixed payments for patient care over a specified period of time.

The Company's strategy is to meet the needs of a changing health care market by developing integrated systems of care which the Company believes enables it to deliver high quality, cost-effective medical services in a managed care environment. The key elements of this strategy are as follows: (i) focus on managed care; (ii) create and develop fully integrated health care delivery networks; (iii) utilize information systems to enhance cost-effectiveness and clinical outcomes; (iv) focus on primary care physicians who represent the initial point of access into an integrated health care delivery system; (v) design patient-oriented programs; and (vi) develop new markets through selective acquisitions and joint ventures.

THE OFFERING

<TABLE>

<S>	<C>
Securities Offered.....	$60,000,000 principal amount of 6 1/2% Convertible Subordinated Debentures due 2002 (the "Debentures").
Payment of Interest.....	June 15 and December 15, commencing June 15, 1996.
Conversion.....	Convertible into Common Stock of the Company at the option of the holder at any time after the 60th day following the date of original issuance of the Debentures and at or before maturity, unless previously redeemed, at $27.25 per share, subject to adjustment upon the occurrence of certain events.
Subordination.....	Subordinated to all present and future Senior Indebtedness (as defined) of the Company and effectively subordinated to all indebtedness and other liabilities of subsidiaries of the Company. At October 31, 1995, the aggregate amount of Senior Indebtedness outstanding and the aggregate amount of indebtedness and other liabilities of the Company and its subsidiaries to which the Debentures are effectively subordinated was approximately $42.8 million. See "Capitalization." The indenture contains no limitation on the incurrence of indebtedness or other liabilities by the Company and its subsidiaries.
Redemption.....	Redeemable in whole or in part, at the option of the Company, at the redemption prices set forth herein, together with accrued interest, except that no redemption may be made prior to December 17, 1998.
Redemption at Holder's Option.....	In the event that there shall occur a Repurchase Event (as defined), each holder of the Debentures shall have the right, at the holder's option, to require the Company to repurchase such holder's Debentures at 100% of their principal amount, plus accrued interest. The term Repurchase Event is limited to transactions involving a Change in Control or a Termination of Trading (each as defined), and does not include other events that might adversely affect the financial condition of the Company or result in a downgrade in the credit rating of the Debentures. The Company's ability to repurchase the Debentures following a Repurchase Event is dependent upon the Company's having sufficient funds and may be limited by the terms of the Company's Senior Indebtedness or the subordination provisions of

	the Indenture. There is no assurance that the Company will be able to repurchase the Debentures upon the occurrence of a Repurchase Event.
Registration Rights.....	The Company has agreed to file with the Securities and Exchange Commission (the "Commission") a registration statement (the "Shelf Registration Statement") with respect to the Debentures and the underlying Common Stock. See "Description of Debentures -- Registration Rights; Liquidated Damages."
Notice to Investors.....	Transfers of the Debentures will be subject to certain restrictions. See "Notice to Investors."
Use of Proceeds.....	The net proceeds from the sale of the Debentures will be used to repay indebtedness, to fund expansion of the Company's Commercial Managed Health Care Services Division and for general corporate purposes, including working capital and possible acquisitions and joint ventures. See "Use of Proceeds."

</TABLE>

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

<TABLE>
<CAPTION>

	YEAR ENDED APRIL 30,					SIX MONTHS ENDED OCTOBER 31,	
	1991	1992	1993	1994	1995	1994	1995
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	(IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS, RATIOS AND OPERATING DATA)						
STATEMENT OF OPERATIONS DATA:							
Revenues.....	$ 95,323	$ 117,790	$ 126,026	$ 148,683	$ 204,131	$ 91,818	$ 95,047
Direct costs.....	79,958	100,813	116,840	140,397	182,053	80,867	76,794
Gross profit.....	15,365	16,977	9,186	8,286	22,078	10,951	18,253
General and administrative expenses.....	8,293	10,093	13,201	16,936	19,660	9,593	13,932
Operating income (loss).....	7,072	6,884	(4,015)	(8,650)	2,418	1,358	4,321
Other income (expense):							
Interest expense.....	(1,061)	(283)	(1,071)	(3,288)	(2,209)	(1,384)	(1,098)
Interest income.....	--	409	74	186	422	209	404
Miscellaneous income (expense).....	139	25	(325)	(504)	1,015	371	69
Minority interest in earnings (losses) of subsidiaries.....	--	39	(225)	(213)	(159)	(159)	--
Earnings (loss) before income taxes.....	6,150	7,074	(5,562)	(12,469)	1,487	395	3,696
Income tax expense (benefit).....	2,415	2,807	(1,806)	(3,135)	535	142	1,442
Net earnings (loss).....	$ 3,735	$ 4,267	$ (3,756)	$ (9,334)	$ 952	$ 253	$ 2,254
Net earnings (loss) per common share, fully diluted.....	$ 0.44	$ 0.42	$ (0.38)	$ (0.93)	$ 0.08	$ 0.02	$ 0.17
Weighted average number of common shares outstanding, fully diluted.....	8,460	10,086	9,996	10,116	11,910	10,856	13,563
Ratio of earnings to fixed charges (1).....	4.36x	7.15x	(1.58)x	(1.89)x	1.41x	1.21x	3.24x
Ratio of EBITDA to interest expense (2).....	8.85x	33.99x	(1.43)x	(1.53)x	3.21x	2.58x	6.16x

</TABLE>
<TABLE>
<CAPTION>

	As of April 30,					As of October 31,	
OPERATING DATA:	1991	1992	1993	1994	1995	1994	1995
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Physicians employed or contracted.....	318	333	346	1,462	2,120	2,200	3,452
Health care support and administrative staff...	2,500	2,800	2,900	2,700	2,700	2,700	3,100
ISOCs operating or under development.....	1	1	3	13	15	14	17
Divisional Revenues as a % of Total Revenues (3)							
Commercial.....	1.0%	1.0%	6.8%	29.0%	50.1%	43.0%	49.4%
Government.....	99.0%	99.0%	93.2%	68.8%	49.7%	56.5%	50.6%

<CAPTION>
OPERATING DATA:
<S> <C>

Physicians employed or contracted.....	
Health care support and administrative staff...	
ISOCs operating or under development.....	
Divisional Revenues as a % of Total Revenues (3)	
Commercial.....	
Government.....	

<TABLE>
<CAPTION>

BALANCE SHEET DATA:	AS OF OCTOBER 31, 1995 ACTUAL	AS ADJUSTED (4)
<S>	<C>	<C>
Working capital.....	$ 16,054	$ 53,889
Total assets.....	79,849	118,616
Short-term debt.....	2,213	845
Long-term debt.....	22,078	62,213
Stockholders' equity.....	22,693	22,693

</TABLE>

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(1) The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings from continuing operations before income taxes, minority interest and extraordinary items plus fixed charges. Fixed charges consist of interest expense, amortization of financing costs and the estimated interest component of rent expense.

(2) EBITDA represents earnings from continuing operations before interest expense, income taxes, depreciation and amortization and extraordinary items. EBITDA is included herein because management believes that certain investors find it to be a useful tool for measuring a company's ability to service its debt; however, EBITDA does not represent cash flow from operations, as defined by generally accepted accounting principles, should not be considered as a substitute for net earnings as an indicator of the Company's operating performance or cash flow as a measure of liquidity, and should be examined in conjunction with the Consolidated Financial Statements of the Company included elsewhere herein.

(3) For the year ended April 30 or the six months ended October 31.

(4) Adjusted to reflect the sale of the Debentures offered hereby and the application of the net proceeds therefrom as described under "Use of Proceeds."

RISK FACTORS

In addition to the other information contained in this Offering Memorandum and in the documents incorporated herein by reference, prospective purchasers of the Debentures should carefully consider the factors set forth below before purchasing the Debentures.

RECENT ENTRY INTO COMMERCIAL MANAGED HEALTH CARE MARKET

Until fiscal 1994, PHP operated almost exclusively as a provider of health care services to federal, state and local government agencies. During the past two fiscal years, however, the Company has invested significant resources in developing its ISOC product for the commercial managed health care market in order to refocus its business from that of a government contractor to a full service managed care company. There can be no assurance that the Company's strategy will continue to be successful or that modifications to its strategy will not be required.

HISTORICAL LOSSES

The Company reported net losses of $3,756,000 and $9,334,000 for the fiscal years ended April 30, 1993 and 1994, respectively. Although the Company was profitable for the fiscal year ended April 30, 1995 and for the six months ended October 31, 1995, there can be no assurance that it will continue to operate profitably, or have earnings or cash flow sufficient to comply with the financial covenants to which it is subject or to cover its fixed charges, including those attributable to the Debentures. As a consequence of the losses reported in fiscal 1993 and 1994, the Company failed to comply with certain financial covenants under its credit agreement. The Company obtained waivers for such noncompliance and the Company's bank modified the applicable financial covenants. In the future, any failure by the Company to comply with the financial covenants contained in its credit agreement (or in any replacement credit facility) could result in a default under such facility which could have the effect of blocking payments on the Debentures and could have a material adverse effect on the Company's business, financial condition and results of

operations. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations."

DEPENDENCE ON CERTAIN CONTRACTS

For the year ended April 30, 1995, and for the six months ended October 31, 1995, 39% and 38%, respectively, of the Company's revenues, and an even greater percentage of the Company's gross profits, were derived from two contracts. These contracts are with the District of Columbia Department of Human Services (concerning the Company's Medicaid HMO in the District of Columbia) and with Medigroup, Inc., a wholly owned subsidiary of Blue Cross and Blue Shield of New Jersey, Inc. ("BCBSNJ") (concerning the development and management of ten ISOCs in New Jersey), and accounted for 22% and 17%, respectively, of the Company's revenues in fiscal 1995. For the six months ended October 31, 1995, revenues derived from these contracts represented 29% and 9%, respectively, of the Company's revenue. The loss of either of these contracts would have a material adverse effect on the Company's business, financial condition and results of operations.

The agreement with BCBSNJ provides BCBSNJ the right to terminate the agreement upon 90 days notice without cause upon the payment of a termination fee to the Company. The agreement also contains provisions permitting termination by BCBSNJ for cause in the event of a material breach by PHP or upon the occurrence of certain other circumstances, including PHP's failure to cause all ten centers to be fully operational by March 31, 1995. Although nine of the ten centers were fully operational by March 31, 1995, one center was not fully operational until September 1995. See "Business -- Operations -- Commercial Managed Health Care Services." The Company believes, for various reasons, that BCBSNJ may not validly terminate the agreement based upon the date of completion of the tenth center. The parties have also discussed the possibility of renegotiating the agreement or otherwise altering their relationship on a mutually agreeable basis, although no specific proposal is presently under consideration. There can be no assurance that BCBSNJ will not seek to terminate the agreement based upon the date of completion of the tenth center or on any other basis or that, if BCBSNJ does seek to do so, the Company will be successful in preventing such a termination.

The Company's accounts receivable as of October 31, 1995 include amounts due from the District of Columbia Department of Human Services and the United States Department of Health and Human Services as follows: approximately $8,000,000 related to the cost settlement for the three-year contract period ended September 30, 1994, and approximately $3,000,000 related to the cost settlement for the one-year contract period ended September 30, 1995. These amounts are subject to audit and the audits are expected to be completed during the current fiscal year. In addition, as a result of the current federal budget and the District of Columbia's fiscal difficulties, the Company has past due amounts from the District of Columbia and the Department of Health and Human Services of approximately $4.3 million due November 1, 1995, and an additional $4.3 million due December 1, 1995. The Company cannot predict when or whether these amounts will be paid. The failure of the Company to collect these amounts would have a material adverse effect on the Company's business, financial condition and results of operations.

CAPITATED NATURE OF REVENUE

The Company provides a portion of its services on a capitated basis, and the Company intends to negotiate additional capitated agreements with managed care organizations or assume such contracts in connection with its affiliation with primary care practices. Such contracts, typically referred to as "shared risk" contracts, are arrangements between the Company and a managed care organization under which the Company agrees to provide certain health care services, as required by members of such managed care organization, in exchange for a fixed fee per member per month. Under these contracts, the Company bears the risk that the cost of the services it is required to provide will exceed the fixed fees it is entitled to receive. In order for such shared-risk contracts to be profitable for the Company, the Company must effectively manage the utilization rate of primary care services, specialty physician services, and hospital services delivered to members of the managed care organization. There can be no assurance that the Company will receive fees under such shared-risk arrangements which will permit it to recover the costs of the health care services it will be required to provide.

DEPENDENCE ON PRIMARY CARE PHYSICIANS

Primary care physicians are a key operating component of the Company's integrated system of care. The Company competes for exclusive primary care physician affiliations with a variety of systems including group practices, individual practice associations ("IPAs"), health maintenance organizations ("HMOs"), practice management companies and hospitals. Most primary care physicians have traditionally practiced independently or in small single specialty groups. The competitive and operational disadvantages to the physician of this type of practice structure have compelled many of these physicians to

evaluate alternatives. The process of negotiating these affiliations is often competitive, complex and time consuming. There can be no assurance that the Company will continue to be able to identify and secure affiliations with a sufficient number of primary care physicians to operate its ISOCs effectively.

LIMITATIONS ON REIMBURSEMENT

A major portion of the Company's revenues are derived from third party payors, such as governmental programs, private insurance plans and managed care organizations. In particular, for the year ended April 30, 1995 and the six months ended October 31, 1995, approximately 22% and 29%, respectively, of the Company's revenues were derived from the Medicaid program, a cooperative state-federal program for medical assistance to the needy. Reflecting a trend in the health care industry, third party payors increasingly are negotiating with health care providers such as the Company concerning the prices charged for medical services, with the goal of lowering reimbursement and utilization rates. There can be no assurance that any future reduction in reimbursement rates would be offset through enhanced operating efficiencies, or that any such enhancement of operating efficiencies would occur. Third party payors may also deny reimbursement if they determine that a treatment was not performed in accordance with the cost-effective treatment methods established by such payors, was experimental, or for other reasons. In addition, funding for governmental programs, such as Medicaid, is under increased scrutiny.

The U.S. Congress has passed a fiscal year 1996 budget reconciliation bill that provides for reductions in the rate of spending increases over the next seven years of approximately $270 billion in the Medicare program and $165 billion in the Medicaid program. The bill provides for, among other things, converting the federal share of the Medicaid program to a block grant and gradually reducing the overall growth of the

federal share from approximately ten percent annually to approximately four percent by fiscal year 2000. The annual increase in the federal share would vary from state to state based on a variety of factors. Although the initial reconciliation bill was vetoed by the President, no assurance can be given that reductions in the rate of increase in spending for these programs, if ultimately signed into law, would not have a material adverse effect on the Company's operations. Any loss of revenue caused by trends in the health care industry toward cost containment and oversight could have a material adverse effect on the Company's business.

MANAGEMENT INFORMATION SYSTEMS

The Company's management information systems are critical to its ability to manage care efficiently and to be competitive in the market. The Company relies on these systems to support practice operations and to facilitate the management and monitoring of clinical performance. Clinical guidelines, practice protocols, case management and utilization review systems are all essential to the Company's ability to secure, and operate profitably under, capitated and shared-risk contracts. There can be no assurance that the Company will be able to refine and enhance these systems to keep them current and competitive.

DEPENDENCE ON GOVERNMENT CONTRACTS

Contracts with various federal, state and local government agencies (excluding agreements concerning the Company's Medicaid HMO in the District of Columbia) account for approximately 50% of the Company's revenues. These contracts are obtained primarily through the competitive bidding process as governed by applicable federal and state statutes and regulations, and generally may be modified or terminated for the convenience of the government agency at any time during the term of the contract. Contracts are generally awarded for a base period of less than one year and corresponding with the government agency's fiscal year, have two-to-four one-year renewals at the option of the government agency, and are subject to appropriation of funds annually by the appropriate legislative body. There is, therefore, no assurance that the Company will be able to retain its contracts or, if retained, that all of such contracts will be fully funded.

Under the competitive bidding process, unsuccessful bidders may protest the award of a contract to another bidder in accordance with a government appeals process if they believe the award was improper. Such protests could result in the rebidding, delay or loss of contracts. In addition, contracts with government agencies are generally complex in nature and subject contractors to extensive regulation under federal, state and local law. For example, government contractors are subject to audits which can result in adjustments to contract costs and fees.

The Company believes that it has complied in all material respects with applicable government regulations. In certain circumstances in which a contractor has not complied with the terms of a contract or with regulations or statutes, the contractor may be debarred or suspended from obtaining future contracts for a specified period of time. Any such suspension or debarment of

the Company could have a material adverse effect upon the Company's business.

DEPENDENCE ON KEY PERSONNEL

The Company is highly dependent on the skill and efforts of its senior management. The loss of key management personnel or the inability to attract, retain and motivate sufficient numbers of qualified management personnel could adversely affect the Company's business.

COMPETITION

The managed care industry is highly competitive and is subject to continuing changes in how services are provided and how providers are selected and paid. Increased enrollment in prepaid health care plans due to health care reform or for other reasons, increased participation by physicians in group practices and other factors may attract new entrants into the managed care industry and result in increased competition for the Company. Certain of the Company's competitors are significantly larger and better capitalized, provide a wider variety of services, may have greater experience in providing health care management services and may have longer established relationships with payors.

EXPOSURE TO PROFESSIONAL LIABILITY

Due to the nature of the Company's business, there are asserted from time to time medical malpractice lawsuits and other claims against the Company, some of which are currently pending, which subjects the Company to the attendant risk of substantial damage awards. The most significant source of potential liability in this regard is the negligence of physicians employed or contracted by the Company. To the extent such physicians are employees of the Company or were regarded as agents of the Company in the practice of medicine, the Company would, in most instances, be held liable for their negligence. In addition, the Company could be found in certain instances to have been negligent in performing its management services under contractual arrangements, even if no agency relationship with the physician were found to exist. In some cases, the Company's contracts with hospitals and third party payors require the Company to indemnify such other parties for losses resulting from the negligence of physicians who were employed or managed by or affiliated with the Company.

The Company maintains professional and general liability insurance on a claims made basis in amounts deemed appropriate by management, based on historical claims and the nature and risks of its business. There can be no assurances, however, that an existing or future claim or claims will not exceed the limits of available insurance coverage, that any insurer will remain solvent and able to meet its obligations to provide coverage for any such claim or claims or that such coverage will continue to be available or available with sufficient limits and at a reasonable cost to adequately and economically insure the Company's operations in the future. A judgment against the Company in excess of such coverage could have a material adverse effect on the Company.

HEALTH CARE REGULATION

The health care industry is subject to extensive federal regulation relating to licensure, conduct of operations and prices for services.

The laws of many states prohibit physicians from splitting fees with non-physicians and prohibit non-physician entities from practicing medicine. These laws vary from state to state, have been subject to limited judicial and regulatory interpretation, and are enforced by the courts and by regulatory authorities with broad discretion. Although the Company seeks to structure its operations so as to comply with these laws, there can be no assurance that the Company's present or future operations will not be successfully challenged as violating, or determined to have violated, such laws, or that the enforceability of the provisions of agreements governing such operations will not be limited. Any such result could have a material adverse effect on the Company.

The laws in most states also regulate the business of insurance and the operation of HMOs. Many states also regulate the establishment and operation of networks of health care providers. Although the Company seeks to structure its operations so as to comply with these laws in the states in which it does business, there can be no assurance that future interpretations of insurance laws and health care network laws by the regulatory authorities in these states or in the states into which the Company may expand will not require licensure or a restructuring of some or all of the Company's operations. The Company's Medicaid HMO is not presently subject to licensure requirements in the District of Columbia. However, legislation has been proposed which would require the licensure of HMOs in the District of Columbia and subject the Company to additional regulatory requirements. The Company is unable to predict what HMO legislation or regulation, if any, will be adopted in the District of Columbia and what effect, if any, such legislation or regulation would have on the Company's business. No assurance can be given that future HMO legislation or regulation in the District of Columbia or in other states will not have a material adverse effect on the Company's business, financial condition or

results of operation.

Anti-fraud and abuse amendments codified under the Social Security Act of 1935, as amended (the "Social Security Act"), prohibit certain business practices and relationships that may affect the provision and cost of health care services reimbursable under the Medicare and Medicaid programs. These amendments include anti-kickback provisions prohibiting the solicitation, payment, receipt or offering of any direct or indirect remuneration for the referral of Medicare or Medicaid patients or for the ordering or providing of Medicare or Medicaid covered services, items or equipment. Sanctions for violating the anti-kickback

provisions include criminal penalties and civil sanctions, including fines and possible exclusion from the Medicare and Medicaid programs. In addition, Section 1877 of the Social Security Act (the "Stark law") restricts physician referrals to certain providers, including hospitals, with which they have a financial arrangement. Sanctions for violation of the Stark law include civil money penalties and exclusion from the Medicare and Medicaid programs. The Stark law and the anti-kickback provisions of the Social Security Act are broadly worded and often vague, and the future interpretation of these provisions and their applicability to the Company's operations cannot be predicted with certainty. Although the Company seeks to arrange its business relationships so as to comply with these laws, there can be no assurance that the Company's present or future operations will not be accused of violating, or be determined to have violated, such provisions. Any such result could have a material adverse effect on the Company. See "Business -- Health Care Regulation."

HEALTH CARE REFORM

In recent years, an increasing number of legislative proposals have been introduced in Congress and in some state legislatures that would effect major changes in the health care system, either nationally or at the state level. The Company is unable to predict what health care reform legislation, if any, will be adopted and what effect, if any, such legislation may have on the Company's business. No assurance can be given that future health care reform legislation will not have a material adverse effect on the Company's business, financial condition or results of operations.

Provisions in the fiscal year 1996 reconciliation bill passed by Congress, if signed into law, would eliminate the federally mandated individual entitlement to Medicaid benefits and give the states wide latitude in setting eligibility standards and benefit levels. In addition, the bill would reduce for a number of states the level of state spending necessary to qualify for the maximum federal matching. Such changes, if adopted, could result in a reduction in the number of individuals participating in the Medicaid program. No assurance can be given that such changes would not have a material adverse effect on the Company's business.

SUBSTANTIAL INDEBTEDNESS

The Company's indebtedness is substantial in relation to its stockholders' equity. At October 31, 1995, the Company's total long-term debt, net of current portion, accounted for 49% of its total capitalization. As adjusted to give effect to the offering being made hereby and the application of the estimated net proceeds therefrom as described under the caption "Use of Proceeds," such debt accounted for 73% of the Company's total capitalization. See "Capitalization."

SUBORDINATION OF DEBENTURES

The Debentures are subordinate in right of payment to all current and future Senior Indebtedness of the Company. Senior Indebtedness includes all secured indebtedness of the Company (other than claims of trade creditors of the Company), whether existing on or created or incurred after the date of the issuance of the Debentures, that is not made subordinate to or pari passu with the Debentures by the instrument creating the indebtedness. At October 31, 1995, the aggregate amount of Senior Indebtedness outstanding and the aggregate amount of indebtedness and other liabilities of the Company and its subsidiaries to which the Debentures are effectively subordinated was approximately $42.8 million. As of October 31, 1995, after giving effect to the repayment of $21.2 million of indebtedness with proceeds from this offering, the Company will have approximately $21.5 million of indebtedness outstanding which constitutes Senior Indebtedness or to which the Debentures are effectively subordinated. The Indenture does not limit the amount of additional indebtedness, including Senior Indebtedness, which the Company can create, incur, assume or guarantee. By reason of such subordination of the Debentures, in the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the business of the Company or upon a default in payment with respect to any Senior Indebtedness of the Company or an event of default with respect to such indebtedness resulting in the acceleration thereof, the assets of the Company will be available to pay the amounts due on the Debentures only after all Senior Indebtedness of the Company has been paid in full. In addition, holders of the

Debentures are effectively subordinated to the claims of creditors of the Company's subsidiaries. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution

or winding up of the business of any subsidiary of the Company, creditors of such subsidiary generally will have the right to be paid in full before any distribution is made to the Company or the holders of the Debentures.

LIMITATIONS ON REPURCHASE OF DEBENTURES UPON A REPURCHASE EVENT

In the event of a Repurchase Event, which includes a Change in Control and a Termination of Trading (each as defined herein) each holder of Debentures will have the right, at the holder's option, to require the Company to repurchase all or a portion of such holder's Debentures at a purchase price equal to 100% of the principal amount thereof plus accrued interest to the repurchase date. The Company's ability to repurchase the Debentures upon a Repurchase Event may be limited by the terms of the Company's Senior Indebtedness and the subordination provisions of the Indenture. Further, the ability of the Company to repurchase Debentures upon a Repurchase Event will be dependent on the availability of sufficient funds and compliance with applicable securities laws. Accordingly, there can be no assurance that the Company will be able to repurchase the Debentures upon a Repurchase Event. The term "Repurchase Event" is limited to certain specified transactions and may not include other events that might adversely affect the financial condition of the Company or result in a downgrade of the credit rating of the Debentures, nor would the requirement that the Company offer to repurchase the Debentures upon a Repurchase Event necessarily afford holders of the Debentures protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving the Company. See "Description of Debentures."

ABSENCE OF PUBLIC MARKET

The Debentures have not been registered under the Securities Act and will be subject to significant restrictions on resale. See "Notice to Investors." There is no existing market for the Debentures and there can be no assurance as to the liquidity of any markets that may develop for the Debentures, the ability of the holders to sell their Debentures or the price at which holders of the Debentures may be able to sell their Debentures. Future trading prices of the Debentures will depend on many factors, including, among other things, prevailing interest rates, the Company's operating results, the price of the Common Stock and the market for similar securities. The Initial Purchasers have informed the Company that the Initial Purchasers intend to make a market in the Debentures offered hereby; however, the Initial Purchasers are not obligated to do so and any such market making activity may be terminated at any time without notice to the holders of the Debentures. See "Description of the Debentures -- Registrations Rights; Liquidated Damages." The Debentures are eligible for trading in the PORTAL Market; however, the Company does not intend to apply for listing of the Debentures on any securities exchange.

POSSIBLE VOLATILITY OF STOCK PRICE

The market price of the Common Stock has experienced a high degree of volatility. There can be no assurance that such volatility will not continue or become more pronounced. In addition, recently the stock market has experienced, and is likely to experience in the future, significant price and volume fluctuations which could adversely affect the market price of the Common Stock without regard to the operating performance of the Company. The Company believes that factors such as quarterly fluctuations in the financial results of the Company or its competitors and general conditions in the industry, the overall economy and the financial markets could cause the price of the Common Stock to fluctuate substantially.

CONTROL BY MANAGEMENT AND CERTAIN STOCKHOLDERS

Certain of the Company's executive officers and directors and related entities (collectively, the "Voting Group") currently hold an aggregate of approximately 25% of the outstanding Common Stock (excluding shares issuable upon the exercise of options or the conversion of convertible securities) and have entered into a voting agreement (the "Voting Agreement") under which they have agreed to act together under certain circumstances. Upon completion of this offering, assuming full conversion of the Debentures, the Voting Group will hold approximately 21% of the outstanding Common Stock. The Voting Agreement currently provides that it will terminate on October 7, 1996. If the Voting Group acts together, they may exercise a controlling influence over the outcome of matters submitted to the Company's stockholders for approval. Moreover, the Voting Group collectively may have the power to delay, defer or prevent a change in control of the Company.

ANTI-TAKEOVER EFFECT OF DELAWARE LAW AND CHARTER AND BY-LAW PROVISIONS

Certain provisions of the Company's certificate of incorporation, by-laws and Delaware law could, together or separately, discourage potential acquisition proposals, delay or prevent a change in control of the Company and limit the price that certain investors might be willing to pay in the future for shares of the Common Stock. These provisions include a classified Board of Directors, the ability of the Board of Directors to authorize the issuance, without further stockholder approval, of preferred stock with rights and privileges which could be senior to the Common Stock, elimination of the stockholders' ability to take any action without a meeting, and establishment of certain advance notice procedures for nomination of candidates for election as directors and for stockholder proposals to be considered at stockholders' meetings. In addition, the Company has distributed preferred stock purchase rights which could cause substantial dilution to a person or group that attempts to acquire a controlling interest in the Company. The Company is also subject to Section 203 of the Delaware General Corporation Laws which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested stockholder" for a period of three years following the date that such stockholder became an "interested stockholder." See "Description of Capital Stock."

THE COMPANY

PHP was organized as a Delaware corporation in January 1986 and succeeded to the business of a predecessor corporation by merger in March 1986. The Company's corporate headquarters is located at 11440 Commerce Park Drive, Reston, Virginia, 22091, and its telephone number at that address is (703) 758-3600. Unless the context otherwise requires, all references herein to the "Company" include PHP Healthcare Corporation and its subsidiaries.

USE OF PROCEEDS

The net proceeds from the sale of the $60,000,000 principal amount of Debentures offered hereby are estimated to be $57,700,000 ($66,430,000 if the Initial Purchasers' over-allotment option is exercised in full), after deducting the Initial Purchasers' discounts and commissions and estimated expenses payable by the Company in connection with this offering. Approximately $21,200,000 of the net proceeds will be used to repay certain existing indebtedness consisting of borrowings under the Company's bank credit agreement (bearing interest at the bank's prime rate plus one percent and maturing from November 1996 to April 1998) borrowed in connection with financing working capital. The Company intends to use the balance of the net proceeds of this offering, approximately $36,500,000 ($45,230,000 if the Initial Purchasers' over-allotment option is exercised in full), to fund expansion of the Company's Commercial Managed Health Care Services division (including investments in the Company's existing and future ISOCs) and for general corporate purposes, including working capital and possible acquisitions and joint ventures. Although the Company is continually considering acquisitions and joint ventures, except as disclosed in this Offering Memorandum, the Company has no agreements, arrangements or understandings with respect to any future acquisition or joint venture. Pending application of the net proceeds as described above, the Company intends to invest the net proceeds of this offering in short-term, investment grade, interest bearing obligations.

CAPITALIZATION

The following table sets forth the short-term debt and total capitalization of the Company at October 31, 1995 and as adjusted to give effect at that date to the issuance of the Debentures offered hereby and the application by the Company of the estimated net proceeds therefrom as discussed under "Use of Proceeds." The table should be read in conjunction with the Company's consolidated financial statements and related notes thereto included elsewhere in this Offering Memorandum.

<TABLE>
<CAPTION>

	OCTOBER 31, 1995	
	ACTUAL	AS ADJUSTED
<S>	<C>	<C>
	(IN THOUSANDS)	
Short-term debt	$ 2,213	$ 845
Long-term debt, less current portion		
Bank debt	19,865	--
Other debt	2,213	2,213
6 1/2% Convertible Subordinated Debentures due 2002	--	60,000
Total long-term debt	22,078	62,213

Stockholders' equity		
Preferred Stock, $0.01 par value, 500,000 shares authorized, none issued.....	--	--
Common Stock, $0.01 par value, 25,000,000 authorized, 14,146,702 issued.....	141	141
Additional paid-in capital.....	29,426	29,426
Note receivable from sale of stock.....	(900)	(900)
Retained earnings.....	684	684
Treasury stock, 3,301,194 common shares, at cost.....	(6,658)	(6,658)
Total stockholders' equity.....	22,693	22,693
Total capitalization.....	$ 44,711	$ 84,906

</TABLE>

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial data set forth below with respect to the Company's consolidated statements of operations and balance sheets is derived from the Consolidated Financial Statements of the Company as audited by Coopers & Lybrand L.L.P., independent accountants, for the year ended April 30, 1995 and KPMG Peat Marwick LLP, independent public accountants, for the prior four years, and gives retroactive effect to the five-for-four stock split in the form of a 25% stock dividend distributed on February 25, 1991 to holders of record on February 11, 1991, and the two-for-one stock split effected in the form of a 100% stock dividend distributed on November 20, 1995 to stockholders of record on November 1, 1995. The financial data for the six months ended October 31, 1994 and 1995 are derived from the unaudited financial statements of the Company. In the opinion of management, the selected financial data for the six months ended October 31, 1994 and 1995 reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the financial data for the six months then ended. Operating results for the six months ended October 31, 1995 are not necessarily indicative of results that may be expected for the entire fiscal year ending April 30, 1996. The data presented below should be read in conjunction with and is qualified by reference to the consolidated financial statements of the Company and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

<TABLE>
<CAPTION>

	YEAR ENDED APRIL 30,					SIX MONTHS ENDED OCTOBER 31,	
	1991	1992	1993	1994	1995	1994	1995
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	(IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS AND RATIOS)						
STATEMENTS OF OPERATIONS DATA:							
Revenues.....	$ 95,323	$ 117,790	$ 126,026	$ 148,683	$ 204,131	$ 91,818	$ 95,047
Direct costs.....	79,958	100,813	116,840	140,397	182,053	80,867	76,794
Gross profit.....	15,365	16,977	9,186	8,286	22,078	10,951	18,253
General and administrative expenses.....	8,293	10,093	13,201	16,936	19,660	9,593	13,932
Operating income (loss).....	7,072	6,884	(4,015)	(8,650)	2,418	1,358	4,321
Other income (expense):							
Interest expense.....	(1,061)	(283)	(1,071)	(3,288)	(2,209)	(1,384)	(1,098)
Interest income.....	--	409	74	186	422	209	404
Miscellaneous income (expense).....	139	25	(325)	(504)	1,015	371	69
Minority interest in earnings (losses) of subsidiaries.....	--	39	(225)	(213)	(159)	(159)	--
Earnings (loss) before income taxes.....	6,150	7,074	(5,562)	(12,469)	1,487	395	3,696
Income tax expense (benefit).....	2,415	2,807	(1,806)	(3,135)	535	142	1,442
Net earnings (loss).....	$ 3,735	$ 4,267	$ (3,756)	$ (9,334)	$ 952	$ 253	$ 2,254
Net earnings (loss) per common share, fully diluted.....	$ 0.44	$ 0.42	$ (0.38)	$ (0.93)	$ 0.08	$ 0.02	$ 0.17
Weighted average number of common shares outstanding, fully diluted.....	8,460	10,086	9,996	10,116	11,910	10,856	13,563
Ratio of earnings to fixed charges (1)....	4.36x	7.15x	(1.58)x	(1.89)x	1.41x	1.21x	3.24x

</TABLE>

<TABLE>

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	AT APRIL 30,					AT OCTOBER 31,
	1991	1992	1993	1994	1995	1995
<S>	<C>	<C>	<C>	<C>	<C>	<C>
			(IN THOUSANDS)			
BALANCE SHEET DATA:						
Working capital	$ 7,949	$ 15,677	$ 20,753	$ 7,736	$ 15,422	$ 16,054
Total assets	32,639	55,742	73,821	87,111	71,150	79,849
Short-term debt	3,335	2,526	4,283	4,589	2,247	2,213
Long-term debt	8,459	7,414	28,888	39,643	24,454	22,078
Stockholders' equity	9,797	32,626	25,733	17,296	20,328	22,693

</TABLE>

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(1) The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings from contining operations before income taxes, minority interest and extraordinary items plus fixed charges. Fixed charges consist of interest expense, amortization of financing costs and the estimated interest component of rent expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES THERETO INCLUDED ELSEWHERE IN THIS OFFERING MEMORANDUM.

GENERAL

In response to the industry shift to manage the disparate components of the health care delivery system, PHP has transitioned to a managed care solutions company. Over the past three years, the Company has altered its focus from an historic dependence on government contracts to a focus on commercial managed care markets. Prior to 1993, over 98% of PHP's revenue came from government-related contracts. PHP's government service contracts required the Company to manage health care providers in a variety of delivery settings. In 1992, management realized that the knowledge, expertise and skills which the Company had acquired in managing health care providers for government agencies could also be applied to serve the commercial managed care market. At the same time, management supplemented the Company's existing competencies with additional skills and capabilities in order to take full advantage of the opportunities available in commercial managed care. The Company added to existing capabilities by making several key acquisitions, investing in information systems and recruiting experienced managed care executives. With this added expertise, PHP has expanded its commercial business so that, in fiscal 1995, its commercial business accounted for 50% of PHP's total revenues.

Revenues from the Commercial Managed Health Care Services division have grown, in part as a result of acquisitions, to $102.2 million or 50% of total revenues in 1995 from $1.3 million or 1% of total revenues in 1992. Operations in this division consist of the Company's integrated system of care applied in whole or in part to: (i) the Company's project with Blue Cross Blue Shield to operate ten ISOCs in the State of New Jersey, (ii) family health centers which are operated on a contract basis for large employers, and (iii) the Company's wholly owned HMO in the District of Columbia, primarily serving the government assisted Medicaid population in that area. In these operations, the Company undertakes to provide specified health care benefits to the participating populations. The Company is compensated for these services through a combination of capitation fees, management fees, cost reimbursements, incentive fees related to cost savings and profits from equity participation.

Revenues from the Government Managed Health Care Services division have decreased slightly from a peak of $116.4 million in 1992 to $101.5 million in 1995. Operations in this division consist of health care services provided to government agencies across a diverse scope of service groups including ambulatory care, medical staffing, mental health, long-term care, and total managed care. The Company generally performs these services under unit-price, fixed-price, cost-reimbursement-plus-fee, and fixed-rate-labor hour contracts.

The Company's revenues have increased from $118.0 million in 1992 to $204.1 million in 1995. Gross profit margins decreased to 7% and 6% in 1993 and 1994, respectively, from 14% in 1992. In 1995, the gross profit margin was 11%. The Company earned net income of $952,000 in 1995 after net losses of $3.8 million and $9.3 million in 1993 and 1994, respectively. The 1993 and 1994 losses were due to increased business development costs related to commercial business efforts, increased corporate support staff costs, government contract proposal activity costs, increased interest expense resulting from various acquisitions and capital expenditures to meet operational needs, and write-offs of receivables under certain contracts.

The following table sets forth, for the periods indicated, certain items in the Company's Consolidated Statements of Operations expressed as a percentage of revenues:

<TABLE>
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	YEAR ENDED APRIL 30,			SIX MONTHS ENDED OCTOBER 31,	
	1993	1994	1995	1994	1995
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Direct costs	92.7	94.4	89.2	88.1	80.8
Gross profit	7.3	5.6	10.8	11.9	19.2
General and administrative expenses	10.5	11.4	9.6	10.4	14.7
Operating income (loss)	(3.2)	(5.8)	1.2	1.5	4.5
Other income (expense)	(1.2)	(2.6)	(0.5)	(1.0)	(0.6)
Earnings (loss) before income taxes	(4.4)	(8.4)	0.7	0.5	3.9
Income tax expense (benefit)	(1.4)	(2.1)	0.2	0.2	1.5
Net earnings (loss)	(3.0)	(6.3)	0.5	0.3	2.4

</TABLE>

The following table indicates revenues by the Company's service divisions and the related percentage of total revenues:

<TABLE>
<CAPTION>

	YEAR ENDED APRIL 30,						SIX MONTHS ENDED OCTOBER 31,		
	1993		1994		1995		1994		1995
DIVISION	REVENUE	%	REVENUE	%	REVENUE	%	REVENUE	%	REVENUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
					(IN THOUSANDS)				
Government	$ 117,409	93.2	$ 102,248	68.8	$ 101,455	49.7	$ 51,834	56.5	$ 48,104
Commercial	8,617	6.8	43,204	29.0	102,220	50.1	39,528	43.0	46,943
Other	--	--	3,231	2.2	456	0.2	456	0.5	--
Total	$ 126,026	100.0	$ 148,683	100.0	$ 204,131	100.0	$ 91,818	100.0	95,047

<CAPTION>

DIVISION	%
<S>	<C>
Government	50.6
Commercial	49.4
Other	--
Total	100.0

</TABLE>

RESULTS OF OPERATIONS

SIX MONTHS ENDED OCTOBER 31, 1995 COMPARED TO SIX MONTHS ENDED OCTOBER 31, 1994

The Company's revenues increased by 3.5% or $3.2 million to $95.0 million for the six months ended October 31, 1995 compared to $91.8 million for the prior year six month period. This overall increase results from an increase in the Commercial Managed Health Care Services division and a decrease in the Government Managed Health Care Services division. The prior year six month Commercial Managed Health Care Services division revenues included $7.6 million of non-recurring construction and pre-operational revenues on the BCBSNJ project.

Commercial Managed Health Care Services division revenues increased by $7.4 million or 18.7%, to $46.9 million for the six months ending October 31, 1995, compared with $39.5 million for the six months ended October 31, 1994. This net

increase is the result of several increases and decreases. The most significant increase in Commercial Managed Health Care Service division revenues was provided by the Company's Medicaid HMO and resulted from an expanded enrollment and a new contract at a higher premium rate. Additional revenue increases also resulted from: (1) increased utilization at two existing ISOC projects, (2) the commencement of operations at a new ISOC project for a large employer in January 1995, (3) increased software sales at the Company's wholly owned subsidiary, Health Cost Consultants ("HCC"), a case management and utilization review services company, and (4) revenues resulting from the development of a new ISOC project in Connecticut. Also, the Company experienced a net increase in revenues related to the BCBSNJ ISOC project which became operational in January 1995. On a comparative basis, the operational revenues earned during the current year exceeded the amount of the pre-operational and construction revenues earned during the prior year. A decrease in Commercial Managed Health Care Service division revenue resulted from the sale of two outpatient surgery centers in September 1994. Additional Commercial Managed Health Care Service division revenue decreases resulted from: (1) the

absence of construction revenues earned in the prior year related to an ISOC project which became operational in January 1995, (2) the closing of a walk-in primary care clinic in January 1995, and (3) the completion of several small consulting projects.

Government Managed Health Care Service division revenues decreased by $3.7 million to $48.1 million for the six months ended October 31, 1995 compared to $51.8 million for the six month period ended October 31, 1994. This decrease is primarily related to the completion of six ambulatory care projects, two mental health projects, and one medical staffing project. Offsetting these revenue decreases were revenue increases resulting from: (1) the commencement of operations on two new long-term care nursing home projects in June 1995, and (2) the expansion of services and a corresponding increase in contract rate on one PRIMUS project and one medical staffing project.

The Company's gross profit increased by 66.4% or $7.3 million, to $18.3 million for the six months ended October 31, 1995 compared with $11.0 million during the prior year period. As a percentage of revenue, gross profit increased to 19.2% for the current six month period compared to 11.9% during the prior year. This gross profit improvement resulted from a significant increase in the Commercial Managed Health Care Service division as well as an increase in the Government Managed Health Care Service division.

The Commercial Managed Health Care Service division gross profit increase was primarily attributable to an expanded enrollment and a new contract at a higher premium rate at the Company's Medicaid HMO. A gross profit increase also resulted from increased software sales at HCC. These Commercial Managed Health Care Service division gross profit increases were slightly tempered by a decrease resulting from the sale of the remaining two outpatient surgery centers in September 1994.

The Government Managed Health Care Service division gross profit increase was due to: (1) a decrease in expenses at the Company's PRIMUS and NAVCARE projects resulting from enhanced management efforts to control costs, (2) increased contract rates on two long-term care nursing home projects, (3) the $300,000 settlement of the Company's outstanding claim with the Department of the Army related to a former PRIMUS project, and (4) an expansion of services and a corresponding increase in contract rate on one PRIMUS project. Government Managed Health Care Service division gross profits decreased due to the completion of certain projects as cited above for causing revenues to decrease, and due to a decrease in utilization and contract rate at one NAVCARE project which was completed in September 1995.

General and administrative expenses increased 44.8% or $4.3 million, to $13.9 million for the six months ended October 31, 1995 from $9.6 million for the same period in the prior year. As a percentage of revenue, general and administrative expenses increased to 14.7% for the current year six month period compared to 10.4% during the prior year. The increase is primarily a function of the Company's Commercial Managed Health Care initiatives and is due to: (1) increased corporate compensation costs related to the hiring and retention of existing and additional management personnel, (2) increased general and administrative expenses associated with CHP and its growing enrollment, (3) additional general and administrative expenses associated with the new Virginia Chartered business, (4) increased travel and consulting expenses related to commercial business development efforts, and (5) increased facility expenses resulting from the Company's new expanded Corporate headquarters office space.

Operating income more than doubled, increasing by $3.0 million to $4.3 million for the six months ended October 31, 1995 from $1.3 million for the six months ended October 31, 1994. Operating margin increased to 4.5% from 1.5%. This increase was primarily due to the increased gross profit margins, reduced by increased general and administrative expenses.

Interest expense decreased 20.7%, or $286,000, to $1,098,000 for the six

months ended October 31, 1995 from $1,384,000 for the prior year six months. This decrease is primarily a function of the decrease in the Company's long-term debt resulting from the sale of the Reston office building in July 1994, and the sale of the remaining two outpatient surgery centers in September 1994.

The effective income tax rates of 39% for the six months ended October 31, 1995 and 35.9% for the six months ended October 31, 1994 represent the combined federal and state income tax rates adjusted as necessary. The 1995 rate was lower than the 1996 rate due to the impact of certain net operating loss carryforwards.

YEAR ENDED APRIL 30, 1995 COMPARED TO YEAR ENDED APRIL 30, 1994

The Company's revenues increased by 37% or $55.4 million, to $204.1 million in fiscal 1995 compared to $148.7 million in fiscal 1994. This growth was almost entirely due to the Commercial Managed Health Care Services division.

Commercial Managed Health Care Services division revenue more than doubled from $43.2 million for the year ended April 30, 1994 to $102.2 million for the year ended April 30, 1995, an increase of $59.0 million. This increase in revenue is attributable to an acquisition and the commencement of new ISOC projects. The BCBSNJ project generated 58% of the division's revenue growth. During 1995, the Company completed the pre-operational and construction phases of this project and in January and February 1995 commenced operation of nine community-based health care centers and related ISOC services. The Company expects that fiscal 1996 revenues from this project will be less than the amounts recognized in fiscal 1995 due to $30.0 million of non-recurring construction and pre-operational revenues in fiscal 1995. The Company's Medicaid HMO provided 41% of the revenue growth in the Commercial Managed Health Care Services division. This growth was primarily due to twelve months of operations in fiscal 1995 versus only eight months of operations in fiscal 1994, beginning with its acquisition in August 1993. Revenue from the Company's Medicaid HMO also increased due to a new contract at a higher premium rate with the District of Columbia which commenced in October 1994 and an expansion of membership enrollment. Additional revenue increases resulted from expanded utilization at existing ISOC projects and the commencement of operations at a new ISOC project for a large, self-insured employer. Offsetting these revenue increases was a decrease in revenue, resulting from the sale in April 1994 of three outpatient surgery centers formerly operated by the Company and the sale in September 1994 of the Company's two remaining outpatient surgery centers.

Government Managed Health Care Services division revenue decreased marginally by 1% from $102.2 million in 1994 to $101.5 million in 1995. This flat level of revenue was attributable to offsetting increases and decreases. Revenue increases were due to: (i) an expansion of covered lives and increased contract rate at a correctional facility project, (ii) a non-recurring write-off of $3.1 million in fiscal 1994 resulting from actual costs being greater than expected, and (iii) a contractual expansion of services at an existing PRIMUS project. Revenue decreases resulted from the completion of five contracts during fiscal 1995.

Other revenue consisted of the operations of the Reston, Virginia office building which was acquired in May 1993 and sold in July 1994. Operational revenues associated with this building decreased from $3.2 million to $456,000 in 1994 and 1995, respectively.

The Company's gross profit increased by $13.8 million, almost tripling from $8.3 million in 1994 to $22.1 million in 1995. This increase was due to significant improvement in both the Government and Commercial Managed Health Care Services divisions.

The Commercial Managed Health Care Services division gross profit increase was principally attributable to the Company's Medicaid HMO. Gross profit at the HMO improved as a result of a new contract at a higher premium rate with the District of Columbia which commenced in October 1994 and an expansion in enrollment. A decrease in gross profit resulted from the sale in April 1994 of three outpatient surgery centers formerly operated by the Company and the sale in September 1994 of the Company's two remaining centers.

The Government Managed Health Care Services division gross profit increased in 1995 for two reasons. First, the Company incurred two large write-offs in fiscal 1994 that were non-recurring. One write-off of $2.1 million related to a PRIMUS contract which was modified in fiscal 1995 and currently operates at a modest profit. The second write-off of $3.1 million related to two long-term care nursing home contracts. This write-off was prompted by lower than anticipated margins as one of the facilities reached full utilization, an anticipated rate increase at one facility that did not materialize, and actual costs in excess of previous

estimates. The Company did not experience similar write-offs in fiscal 1995. The second reason for the gross profit increase in 1995 compared with 1994 is an overall decrease in expenses at the Company's PRIMUS and NAVCARE projects, resulting from enhanced management efforts to control costs. In addition to the increases discussed above, the Government Managed Health Care Services division gross profits decreased due to the completion of a large medical staffing project in July 1994.

General and administrative expenses increased 16% or $2.7 million, to $19.6 million for fiscal 1995 from $16.9 million for fiscal 1994. This increase is predominantly a function of the Company's initiatives in the Commercial Managed Health Care Services division and is due to: (i) twelve months of general and administrative expenses associated with the Company's Medicaid HMO in fiscal 1995, compared with only eight months in fiscal 1994, and (ii) increased corporate compensation costs related to both the hiring of additional managed health care professionals in conjunction with the Company's commercial market initiatives and the expansion of support service personnel.

Interest expense decreased 33%, or $1.1 million, to $2.2 million in fiscal 1995 from $3.3 million in fiscal 1994. This decrease is primarily a function of the decrease in the Company's long-term debt resulting from the sale of three outpatient surgery centers in April 1994, the sale of the Reston office building in July 1994, and the sale of the remaining two outpatient surgery centers in September 1994.

Miscellaneous income and expense changed by $1,519,000 from an expense of $504,000 in 1994 to income of $1,015,000 in 1995. This increase is the net result of a few large income and expense items in fiscal 1995. Included in the fiscal 1995 amount is an expense or loss amount of $750,000 related to the sublease of the Company's former headquarters facility in Alexandria, Virginia, an income amount of $650,000 related to the removal of a valuation allowance which had been established in fiscal 1994 related to receivables from officers, an income amount of $540,000 related to the removal of a valuation allowance against a note receivable from a tenant in the Reston, Virginia building, and a gain amount of $340,000 related to the sale of the remaining two outpatient surgery centers.

The effective income tax rates of 36% in fiscal 1995 and 25% in fiscal 1994 represent the combined federal and state income tax rates adjusted as necessary. The 1994 income tax rate is less than the 1995 income tax rate primarily as a result of a valuation allowance relating to certain deferred tax assets.

The Company earned net income of $952,000 in 1995 compared with a net loss of $9.3 million in 1994, resulting in primary and fully diluted earnings per share of $0.08 in 1995, compared with a primary and fully diluted loss of $0.93 per share in 1994.

YEAR ENDED APRIL 30, 1994 COMPARED TO YEAR ENDED APRIL 30, 1993

The Company's revenues increased 18% to $148.6 million in 1994 compared with $126 million in 1993. This overall growth largely resulted from significant growth in the Commercial Managed Health Care Services division revenues.

Commercial Managed Health Care Services division revenue increased five-fold from $8.6 million in fiscal 1993 to $43.2 million in 1994. This increase in revenues occurred through acquisitions and the commencement of new projects. During fiscal 1994, the Company acquired a Medicaid HMO, a case management and utilization review company, and an outpatient surgery center. The Medicaid HMO, acquired in August 1993, provided approximately two-thirds of the revenue growth since its acquisition. Additionally, the Company commenced two new ISOC projects in June 1993, involving the management of three family health centers for large, self-insured employers. Also, in May 1994, the Company established a walk-in family health center at the site of a former PRIMUS clinic.

Government Managed Health Care Services division revenue decreased by 13% to $102.2 million. Substantially all of this net decrease resulted from the completion of four PRIMUS/NAVCARE contracts. In addition, the eleven re-awarded projects were at reduced contractual rates. Additional decreases in revenue included: (i) a significant permanent reduction in the utilization of services on an Army Hospital nurse staffing contract, (ii) decreased revenues on two long-term care nursing home projects resulting from actual costs being greater than expected, and (iii) a decrease in utilization of services on a Navy Hospital

nurse staffing contract which was completed in early fiscal 1995. The Company was not awarded the follow-on contract. The impact of these revenue decreases was somewhat offset by increases in revenue from an increase in covered lives and contract price on a correctional facility contract, increased utilization of services on the Company's two affordable health care clinics, increased utilization of services on one mental health project and an expansion of services on another mental health project.

Other revenue consisted of the operations of the Reston, Virginia office building acquired in May 1993. This building was sold in July 1994.

PHP's gross profit decreased 10% to $8.3 million in fiscal 1994, compared to $9.2 million in fiscal 1993. This decrease is a net result of significant increases in the Commercial Managed Health Care Services division and significant decreases in the Government Managed Health Care Services division.

A little over one-half of the increase in gross profit in the Commercial Managed Health Care Services division was due to the Company's newly acquired Medicaid HMO. Commercial Managed Health Care Services gross profits also increased due to: (i) the acquisition in May 1993 of an outpatient surgery center (which was subsequently sold), (ii) the commencement of operations at two new ISOC projects in June 1993, and (iii) a managed care consulting services contract started and completed in fiscal 1994. Also, in fiscal 1993 the Company incurred a direct cost write-off related to a project to assist in the development of a direct health care delivery system which upon contract finalization was not reimbursed to the Company. In addition, Commercial Managed Health Care Services gross profits were adversely affected by the operation of three walk-in family health centers which were operated at the sites of former PRIMUS contract sites. Because of the losses incurred, two of these locations were closed down within five months; the third continued to operate until December 1994.

The Government Managed Health Care Services division gross profit decreased substantially due to three major reasons. First, during fiscal 1994 the Company earned significantly less gross profit from its PRIMUS/NAVCARE contracts. This occurred because: (i) four contracts were completed early in fiscal 1994; (ii) the contractual rates on the eleven projects the Company was re-awarded were reduced from prior levels; and (iii) the Company experienced higher labor, pharmaceutical, and other medical services costs in the operation of these contracts compared with the prior year. Second, the Company reported less gross profit on two long-term care nursing home contracts due to lower than anticipated margins as one of the facilities became fully utilized, the absence of an anticipated rate increase at one facility, and actual costs in excess of amounts previously estimated. These adjustments resulted in write-offs in the fourth quarter of fiscal 1994 of $3.1 million. Lastly, the Company wrote down an account receivable and established a contract loss provision amounting in total to $2.1 million during the fourth quarter on a PRIMUS contract. This contract was re-awarded to the Company in late fiscal 1993 and has been serving a population with a substantially different demographic mix than the assumptions used to compete for the contract award.

Gross profit from other services resulted from the operations of the Company's office building in Reston, Virginia. This gross profit included a one-time gain on lease termination of approximately $1,046,000. Subsequent to year end, in July 1994 the Company sold this building. See Note 9 of Notes to Consolidated Financial Statements.

General and administrative expenses increased to $16.9 million in 1994 compared to $13.2 million in 1993. This increase is largely a function of the Company's managed health care service initiatives and is due to: (i) general and administrative expenses associated with the Company's Medicaid HMO, acquired in August 1993, (ii) increased corporate compensation costs related to the hiring of additional managed health care professionals in conjunction with the marketing of the Company's integrated systems of care, and (iii) increased corporate compensation costs due to the expansion of support service personnel.

The Company had an operating loss of $8.6 million in 1994, compared to an operating loss of $4.0 million in 1993. This decrease was the net result of decreases in gross profit margin and increases in general and administrative expenses discussed above.

Interest expense increased to $3.3 million in 1994 compared to $1.1 million in 1993. This increase was due to an increase in the interest rate on the Company's primary banking agreement from 4.4% at April 30,

1993, to 7.75% at April 30, 1994. In addition, the Company incurred interest expense in 1994 related to the $10.0 million in nonrecourse debt associated with the purchase of the office building in Reston, Virginia in May 1993. Also, the Company's interest expense increased due to higher outstanding debt amounts in 1994 compared with 1993 associated with certain investments the Company made beginning in fiscal 1994 in the acquisition and development of property and equipment at several project sites.

The effective income tax rates of 25% in 1994 and 33% in 1993 represent the combined federal and state income tax rates adjusted for nondeductible and nontaxable items. The 1994 income tax rate is less than the 1993 income tax rate primarily as a result of a valuation allowance relating to certain deferred tax assets. In the states where the 1994 loss is not allowed to be carried back these losses can be utilized on a carryforward basis.

The Company incurred a net loss of $9.3 million in 1994, compared to a net loss of $3.8 million in 1993, resulting in a net loss per share of $0.93 in 1994, compared with a net loss per share of $0.38 in 1993.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended April 30, 1995, operations used $3.9 million in cash. This represents an increase in cash used by operations of $3.4 million compared with the $500,000 used by operations in the prior year. In general, the increase in cash used by operations is a result of an increase in accounts receivable related to the BCBSNJ contract and the Company's Medicaid HMO.

The Company's number of days revenue in average outstanding receivables was 53 days for the six months ended October 31, 1995 compared to 33 days for the prior year six month period. These changes are a result of changes in the Company's mix of business, specifically certain commercial revenues that are on a prepaid basis.

In July 1994, the Company, through a wholly owned subsidiary, sold its office building in Reston, Virginia for a gross sales price of approximately $14.8 million. Using the proceeds from the sale, the Company paid in full the related non-recourse mortgage notes of approximately $9.4 million and made an advance payment of $2 million on the Company's $15.0 million term note with its primary bank.

In September 1994, the Company sold its remaining two outpatient surgery centers for $11.8 million in cash. As part of the sale, the purchasers assumed approximately $5 million in existing related notes payable. Using the proceeds from this sale, the Company made an advance payment in October 1994 of $5 million on the $15.0 million term note with its primary bank.

In April 1995, the Company increased its available borrowings under its revolving promissory note up to $22 million with its primary bank. In conjunction with this increase, certain of the financial covenants were restructured.

The Company's bank credit agreement provides for a secured credit facility, collateralized by all of the Company's assets, and consists of a $22 million revolving loan facility (the "Revolving Loan") and a $15 million term loan facility with an outstanding balance of $4.1 million at April 30, 1995. Interest on borrowings under the credit facility accrues at a rate per annum equal to the bank's prime rate plus 1% and is payable monthly. Principal amounts outstanding under the Term Loan are payable in quarterly installments of $342,000, with final payment due upon maturity of the Term Loan in April 1998. The Revolving Loan terminates and is due and payable in November 1996. The Revolving Loan functions similar to a line of credit with daily advances and repayments and contains a letter of credit facility under which the bank will issue, for the account of the Company, irrevocable stand-by letters of credit in connection with certain contract performance requirements. The amount of the outstanding stand-by letters of credit reduces the amount of funds available under the Revolving Loan. The credit agreement contains certain covenants which, in addition to other restrictions, limit the amount of capital expenditures and additional borrowings. Under the credit agreement, the Company is also precluded from the payment of cash dividends without the bank's approval, and is required to maintain certain financial ratios.

The Company believes that the current cash equivalents, anticipated cash flow generated by operations and expanded borrowing capabilities will be sufficient for known future capital needs of the Company. There

may be, however, further expansion opportunities which require additional external financing and the Company may, from time to time, consider obtaining such funds through the public and private issuance of equity or debt securities.

IMPACT OF INFLATION

Inflation is considered in all contract proposals with contract terms in excess of one year. The consideration of inflationary factors is particularly important with respect to unit-price, fixed-rate-labor hour, and fixed-price contracts. Historically, inflation has not had a significant impact of the operations of the Company. While health care costs nationally are increasing, the Company's primary exposure relating to this trend has been related to salaries of health care professionals and costs of pharmaceuticals which the Company estimates and prices into all of its long term contracts. The Company believes that only one of its existing contracts could be significantly impacted by other inflationary health care trends. The Company may however become involved in future contracts where inflation and increasing health care costs may be an important factor.

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Set forth below is certain information with respect to the Company's

operations for the last six fiscal quarters. The information for each of these quarters is unaudited, but includes all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation of the information presented.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED					
	FISCAL YEAR 1995				FISCAL YEAR 1996	
	JULY 31	OCT. 31	JAN. 31	APRIL 30	JULY 31	OCT. 31
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
Revenues	$ 43,638	$ 48,180	$ 57,004	$ 55,309	$ 46,171	$ 48,877
Direct costs	37,919	42,948	52,078	49,108	37,654	39,141
Gross profit	5,719	5,232	4,926	6,201	8,517	9,736
General and administrative expenses	4,761	4,832	4,294	5,773	6,733	7,199
Operating income	958	400	632	428	1,784	2,537
Other income (expense):						
Interest expense	(819)	(565)	(376)	(449)	(524)	(573)
Interest income	84	125	106	107	201	203
Miscellaneous income (expense)	(20)	391	22	622	31	37
Minority interest	(73)	(86)	--	--	--	--
Earnings before income taxes	130	265	384	708	1,492	2,204
Income tax expense	39	103	139	254	567	875
Net earnings	$ 91	$ 162	$ 245	$ 454	$ 925	$ 1,329
Net earnings per common share	$ 0.01	$ 0.01	$ 0.02	$ 0.04	$ 0.07	$ 0.10
Weighted average common shares outstanding, fully diluted	10,205	11,125	11,506	12,481	12,825	13,603

</TABLE>

BUSINESS

OVERVIEW

PHP Healthcare Corporation designs, develops and operates patient-oriented Integrated Systems of Care ("ISOCs") which serve the needs of managed care organizations, self-insured employers, health care providers and provider systems, and government agencies. The Company develops and operates each integrated system by: (i) developing and maintaining a network of physicians, hospitals, and other providers; (ii) organizing and managing the individual and group practices of physicians who participate in the network; (iii) operating information systems to coordinate and integrate the services, measure outcomes, and provide financial results of the system; and (iv) entering into contracts with various third party payors, such as HMOs, insurers, or employee health benefit plans on behalf of the network. The Company manages 15 ISOCs for its clients and has two more ISOCs under development, owns a 30,000-member Medicaid HMO primarily serving the District of Columbia, and manages inpatient and outpatient health care services under 34 government contracts, providing care in over 70 health care facilities. As of October 31, 1995, the Company contracted with or employed over 3,000 physicians.

INDUSTRY

The Health Care Financing Administration has estimated that national health spending in 1994 was approximately $1 trillion. Health care in the United States historically has been delivered through a fragmented system of health care providers on a fee-for-service basis which provides few incentives for the efficient utilization of resources and has contributed to increases in health care costs. Employers, insurance companies and government agencies have increasingly turned to managed care in an attempt to effectively manage the costs of health care. This focus on cost containment and the shift to managed care is forcing hospital and physician providers to seek ways to organize themselves into more efficient health care delivery systems. At the same time, payors and their intermediaries, including HMOs and governmental agencies, are seeking to contract with organized networks that can provide a full array of health care services. To achieve this, many payors and their intermediaries, including HMOs and governmental entities, are increasingly looking to outside companies which offer skilled management and advanced information systems. In addition, these payors and intermediaries often seek to share the risk of

providing services through capitation arrangements which provide for fixed payments for patient care over a specified period of time.

STRATEGY

The Company works closely with its clients to design systems which best suit their needs and those of their constituents. PHP strives to assure that its clients and their constituents receive cost effective, high quality care in a timely fashion from the most appropriate health care provider. The Company develops ISOCs to serve managed care organizations, self-insured employers, health care providers and provider systems, and government agencies. It also serves as a network integrator, using the ISOC model, to assist health care providers in creating and managing integrated health care delivery systems. The Company provides the business and medical management expertise, information systems, and marketing to strategically link health care components into delivery systems with significant competitive advantages. Key components and concepts behind the Company's ISOC strategy include:

FOCUS ON MANAGED CARE. The Company designs physician and hospital networks in a particular local market to meet the needs of HMOs and other managed care payors in specified service areas, identifying and recruiting primary and specialty care physicians and integrating such physicians with hospitals into a network that provides comprehensive medical coverage to enrollees. The Company seeks to benefit from the movement among employers and payors to reduce health care costs and the trend toward prepaid managed health care. The Company believes that its network structure and management techniques enable it to effectively contain costs and negotiate favorable capitation and shared-risk arrangements through implementation of information systems, utilization and quality management systems, referral procedures and risk management programs, and assistance with physician credentialing and contracting with payors.

CREATE AND DEVELOP FULLY INTEGRATED HEALTH CARE DELIVERY NETWORKS. The Company designs and develops provider networks and physician practice management capabilities centered around the primary care provider. Each multi-specialty provider network is designed to meet the specific medical needs of a targeted

community. The Company believes that these networks can (i) provide physicians and hospitals with greater access to managed care contracts by facilitating contractual relationships with multiple HMOs, (ii) establish a single point of entry into an integrated heath care delivery network for HMOs and other payors and (iii) offer patients a comprehensive range of medical care in convenient locations through primary and specialty providers conveniently located in target markets.

UTILIZE INFORMATION SYSTEMS. The Company's information systems enable physicians, nurses, hospitals, insurance companies, administrators and others involved in patient care to share information on a timely basis without duplication. Information is collected on all aspects of each patient encounter within the ISOC, including measures reflecting clinical outcomes, access, service availability, cost-efficiency, and patient satisfaction. Physicians are directly assisted in the exam room with an automated patient record that is electronically updated with progress notes and other data, such as laboratory results. An outcomes tracking system provides information on patient satisfaction, patient health status and ambulatory care and hospital outcomes. The utilization review/case management system provides critical information regarding the need for referrals and the management of high cost episodes of care. Finally, a data warehouse/repository provides physicians with a longitudinal medical record, containing complete medical records of all patients. It provides administrators with complete clinical and financial records of each encounter of every member of the ISOC, which allows both fixed and ad hoc reporting capabilities for comparing physician performance within the system, as well as "benchmark" comparisons of financial and clinical performance of the ISOC to other health care plans.

FOCUS ON PRIMARY CARE PHYSICIANS. The Company's strategy is to affiliate (on an exclusive basis where appropriate) with primary care physicians which the Company believes are increasingly the principal determinants of the location of patient care and the amount and degree of ancillary services, including referrals to specialists. The primary care physician represents the initial point of access into a fully integrated health care delivery system in which, in many cases, the primary care physician is capable of providing similar levels of quality of care for significantly less cost than specialist providers. PHP's ISOC models are based on a foundation of primary care physicians and related care-givers who are employed or managed by the Company, and who deliver care at Company-owned or managed primary care facilities and offices. These centers provide laboratory, radiology and pharmacy services in addition to primary care physician and nursing services. Purchasing, billing, payroll and all administrative functions are performed and managed by experienced executive and administrative personnel, freeing physicians and other care-givers to devote their time to patient care.

DESIGN PATIENT ORIENTED PROGRAMS. PHP's ISOCs are constructed with the

recognition that the need and demand for costly health care services are, to a large degree, generated by the decisions and actions of patients. PHP has the ability to manage patient-oriented educational programs. Disease-specific offerings, wellness training, prevention programs, decision assist programs, after hours nurse triage and other components are all integrated into the system. The result is a system of care that empowers patients to become knowledgeable and active participants who, in partnership with their providers, optimize decisions affecting resource utilization, as well as individual health and productivity.

DEVELOP NEW MARKETS. The Company's growth strategy is based on actively developing existing and new markets, and making selective acquisitions and joint ventures in such markets. The Company develops existing markets by: (i) capturing additional revenues from existing practices as patients migrate from traditional fee-for-service plans to capitated managed care programs, (ii) adding new physicians to existing networks and (iii) contracting with payors to expand the number of capitated lives within existing physician practices. In addition, the Company grows by developing new physician and hospital networks in identified markets to serve managed care organizations, self-insured employers, health care providers and provider systems and government agencies through selected acquisitions and joint ventures and by serving as a network integrator.

DEVELOPMENT

PHP was founded in 1975. At that time, the Company's primary focus was the provision of health care services to government agencies. The Company's government contracts required the Company to manage

health care providers in a variety of delivery sites. These sites include hospitals (both acute care and psychiatric), skilled nursing facilities, staffing services, and, most significantly, primary care settings. In 1992, management realized that the knowledge, expertise and skills which the Company had acquired in managing health care providers for government agencies could also be applied to serve the commercial managed care market. At the same time, management supplemented the Company's existing competencies with additional skills and capabilities in order to take full advantage of the opportunities available in commercial managed care. Over the past several years, therefore, PHP invested resources to (i) acquire enhanced capabilities in benefit design, network development and medical management, (ii) develop health care information systems capable of supporting integrated health care delivery systems and (iii) employ and retain executives with experience in the commercial managed care environment.

In 1993, PHP acquired EastWest Research Corporation ("EastWest"), a consulting firm specializing in the design, development, and maintenance of provider networks. The EastWest acquisition provided the Company with the capabilities necessary to identify specialists and inpatient facilities to complement PHP's primary care centers and create a total care system within a community. A second key acquisition was the acquisition of Health Cost Consultants, Inc. ("HCC"), a consulting firm engaged in the design and implementation of utilization management systems, case management techniques, and medical protocols that can be applied at point-of-service and from remote locations. This system permits support personnel and primary care physicians to make the necessary decisions for each patient on-site and to coordinate care with specialists and hospitals directly. In addition, over the past two years the Company has actively recruited and hired additional medical personnel with managed care expertise. With the addition of these resources, the Company acquired the means necessary to integrate and manage health care providers in provider networks to address the needs of commercial managed care entities. Further, these resources provided the Company with the capability to demonstrate to such entities that PHP's integrated systems can potentially improve access, enhance quality and reduce cost.

PHP recently established a Company-owned ISOC to provide services to D.C. Chartered beneficiaries in the District of Columbia and announced the formation of a limited liability company with St. Vincent's Health Services Corporation that will establish and manage an ISOC in Fairfield County, Connecticut. The Company also incorporated Virginia Chartered Health Plan, Inc. ("Virginia Chartered") in the Commonwealth of Virginia and received a license from the Commonwealth's Bureau of Insurance to operate an HMO in August of 1995. Initial enrollment began in Richmond and the Tidewater area in October 1995. In November 1995, the Company agreed, subject to regulatory approval, to sell a 30% interest in Virginia Chartered to University Health Services, Inc. ("UHS"), a non-stock corporation created by Virginia Commonwealth University. The Company intends to model Virginia Chartered on its Medicaid HMO in the District of Columbia. Virginia Chartered will be supported, pursuant to a management contract, by the corporate services of the Company's Medicaid HMO in the District of Columbia. Approximately 50 employees are expected to be assigned to Virginia Chartered, providing the necessary management functions to develop and manage an ISOC in the health plan's service area.

OPERATIONS

Until fiscal 1994, PHP operated almost exclusively as a provider of health care services to federal, state and local government agencies. During the past two fiscal years, however, the Company has invested significant resources to refocus its business from that of a government contractor to that of a full service managed care company. To better serve the needs of the commercial and government health care marketplace, the Company has realigned its operations into two related but distinct divisions: Commercial Managed Health Care Services and Government Managed Health Care Services.

COMMERCIAL MANAGED HEALTH CARE SERVICES

BLUE CROSS BLUE SHIELD OF NEW JERSEY. In March 1994, PHP entered into an agreement with Medigroup, Inc., a wholly owned subsidiary of Blue Cross and Blue Shield of New Jersey, Inc. ("BCBSNJ"), to provide ten complete integrated systems of care for beneficiaries throughout the State of New Jersey. Under this contract, PHP designed and built and is currently managing ten family-health-center-based ISOCs throughout New Jersey. As part of the management agreement, PHP recruited physicians and other center staff,

developed an integrated referral network of medical and surgical specialists, and designed the utilization, case management and quality assurance systems. All ten ISOCs are currently operational. The BCBSNJ contract is for a term of ten years on a cost-reimbursement-plus-management fee basis. The contract provides for PHP to participate in certain cost savings experienced by BCBSNJ and requires PHP to refund a portion of its management fee if the costs savings do not meet certain targets.

The agreement with BCBSNJ provides BCBSNJ the right to terminate the agreement without cause upon 90 days' notice. If it elects to terminate the agreement on this basis, BCBSNJ is required to pay to PHP a termination fee, payable over a three-year period, in an amount dependent on the remaining term of the agreement. The termination payment would be $45 million if such a termination were effected prior to 1997, and the amount of the termination payment is reduced by $5 million on January 1 of each year thereafter, beginning with January 1, 1997.

The agreement also contains provisions permitting termination for cause in the event of a material breach, the failure to achieve certain cost savings targets over a period of time, certain changes in control of PHP, certain regulatory changes that result in BCBSNJ no longer offering managed care products, or upon the occurrence of certain other circumstances, including PHP's failure to cause all ten centers to be fully operational by March 31, 1995. Although nine of the ten centers were fully operational by March 31, 1995, one center was not fully operational until September 1995. The Company believes, for various reasons, that BCBSNJ may not validly terminate the agreement based upon the date of completion of the tenth center. The parties have also discussed the possibility of renegotiating the agreement or otherwise altering their relationship on a mutually agreeable basis, although no specific proposal is presently under consideration. There can be no assurance that BCBSNJ will not seek to terminate the agreement based upon the date of completion of the tenth center or on any other basis or that, if BCBSNJ does seek to do so, that the Company will be successful in preventing such a termination.

CONNECTICUT HEALTH ENTERPRISES. In November 1995, PHP and St. Vincent's Health Services Corporation ("St. Vincent's"), an affiliate of the Daughters of Charity National Health System East, Inc. (the "Daughters of Charity-East"), formed Connecticut Health Enterprises, L.L.C. ("CHE"), a limited liability company that will develop an ISOC in Fairfield County, Connecticut. The ISOC is expected to operate as an alliance of PHP, St. Vincent's, Fairfield County physicians and other hospitals and ancillary providers.

CORPORATE HEALTH CENTERS. The Company has introduced key elements of its ISOC to self-insured employers through its contracts to deliver employer-sponsored health care at primary care facilities developed and operated by PHP. The Company's corporate health center contracts generally provide for PHP to design, construct, equip and operate the centers. In late 1992, PHP commenced operations on two contracts at two assembly facilities to provide occupational health care services for Chrysler Corporation employees. In June 1993, the Company opened two family practice centers in the Tampa/Clearwater, Florida service area for GTE Corporation ("GTE"), and one family health venture for Bethlehem Steel Corporation ("Bethlehem") near its Pennsylvania headquarters. The GTE centers provide primary medical care to approximately 25,000 GTE employees, retirees and their families and the Bethlehem facility serves approximately 37,000 Bethlehem employees, retirees and their families. In addition, the Company has developed a network of area medical and surgical specialists to assist the other GTE health care professionals in providing comprehensive health care services to the GTE beneficiaries. In February 1995, PHP commenced operations of a family health center for Northwestern Steel & Wire Company ("Northwestern") providing medical services for approximately 10,000 Northwestern employees, retirees and dependents in Sterling, Illinois. PHP also developed an outside provider network of medical and surgical specialists to

complement the primary care services offered in the center. The Company's corporate health center contracts call for payment based on a cost-reimbursement-plus-fixed-fee, or fixed-rate per labor hour basis and generally provide for terms ranging from three to five years. The initial term of the GTE contract expires on December 31, 1995 and a proposed renewal of the agreement is under discussion.

D.C. CHARTERED HEALTH PLAN. D.C. Chartered Health Plan, Inc. ("D.C. Chartered") was formed in August 1988 and acquired by PHP in August 1993. D.C. Chartered was a pioneer in the development of managed health care for Medicaid beneficiaries receiving Aid to Families with Dependent Children

("AFDC"). Currently, over 29,000 AFDC recipients and approximately 1,000 commercial employees and their dependents are enrolled in D.C. Chartered. The District of Columbia first started providing managed care for Medicaid beneficiaries in 1988. D.C. Chartered was one of the first to offer managed care to Medicaid beneficiaries in the District. Approximately 44,000 Medicaid beneficiaries are currently enrolled in managed care plans (over 65% of whom are D.C. Chartered members) pursuant to a District mandate which began implementation in the spring of 1994.

Each member enrolled in D.C. Chartered is assigned a primary care physician. D.C. Chartered has over 600 physicians under contract, including 93 primary care physicians (eight of whom exclusively support D.C. Chartered). D.C. Chartered's members receive prescriptions, health education, nutrition counseling, transportation to and from appointments, and -- when necessary -- referrals to specialists and hospital services. Following D.C. Chartered's acquisition by PHP, the Company installed key elements of its ISOC to support the health plan, including network development, utilization review and quality assurance services. As PHP's ISOC continued to evolve, additional capabilities have been implemented at D.C. Chartered, including the Company's information systems. In March 1995, PHP opened a primary care health center in the District of Columbia. The Chartered Family Health Center ("FHC") is modeled on PHP's ISOC model. D.C. Chartered also contracts with nine D.C. hospitals which are included in the ISOC. The FHC has a full-time staff of board certified family, pediatric, obstetrics/gynecology and internal medicine physicians. D.C. Chartered's staff also includes nurses, radiology and laboratory technicians, pharmacists and medical assistants.

Under a provider agreement with the D.C. Department of Human Services (the "Department"), D.C. Chartered receives a monthly fixed, per capita fee subdivided between a risk and non-risk portion for services provided to AFDC and AFDC-related Medicaid enrollees. Under the agreement, the capitated fee is allocated to a non-risk portion covering physician, outpatient, and other services and a risk portion covering inpatient hospital services. At the end of each contract period, for the non-risk portion, D.C. Chartered must provide an accounting of its costs and services to enable the Department to determine the final amount due to D.C. Chartered or the Department under the agreement. The non-risk portion of the capitation fee may not exceed the federal fee-for-service upper payment limit for covered Medicaid services. D.C. Chartered assumes full financial risk for inpatient hospital services and assumes all gains or losses from the provision of such services. The agreement requires D.C. Chartered to maintain an escrow account in an amount based on its estimated expenditures, which the Department may use to recover capitation payments and the cost of care for enrollees in the event of a default. The Department reserves the right to terminate the agreement if a default occurs. The agreement is subject to annual renewal.

D.C. Chartered's business strategy lies in its fundamental commitment to promoting access and emphasizing prevention and health maintenance, as well as treatment. Many elements of D.C. Chartered focus on increasing access to its services by (i) improving knowledge and awareness of benefits, (ii) providing extensive wellness and preventative health care services, and (iii) directly providing transportation to and from health care appointments. Management believes that this commitment enhances D.C. Chartered's ability to control cost, and improves accountability within the system.

GOVERNMENT MANAGED HEALTH CARE SERVICES

PHP provides a wide variety of health care services under various contracts with government agencies. Under its government contracts, the Company provides managed care services in five service groups: (i) ambulatory care -- outpatient primary care for defined populations; (ii) medical staffing -- the recruitment and provision of qualified medical, nursing and mental health specialists and technicians; (iii) mental health -- inpatient and outpatient psychiatric services for certain defined populations; (iv) long-term care -- the management of skilled and intermediate care nursing facilities; and (v) total managed care -- comprehensive health care programs for defined beneficiary populations. The Company's government contracts are generally awarded for a base period of less than one year, have two to four one-year renewals at the option of the government agency and generallly may be modified or terminated for the convenience of the government agency at any time during the contract.

AMBULATORY CARE. PHP provides managed outpatient primary care services for various defined populations. Included in the Company's Ambulatory Care service group are its PRIMUS and NAVCARE programs. PHP is under contract with the U.S. Departments of the Army, Navy and Air Force to provide managed outpatient health care services to military dependents, retired military personnel and their dependents, and in certain circumstances, active military personnel, as part of the Army and Air Force PRIMUS programs and the Navy NAVCARE program. PHP established the first PRIMUS center in 1985 and is a leading provider of these services to the military. Pursuant to these contracts, the Company designs, equips, staffs and manages primary care centers which provide a wide variety of medical and pharmaceutical services to the eligible population. These services include the provision of physicians, nurses, pharmacists and technical and support staff. These services are generally provided in Company-owned and Company-operated facilities consistent with the basic plan of the PRIMUS/NAVCARE program. All of the Company's PRIMUS and NAVCARE centers meet the standards for accreditation established for ambulatory care clinics by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), an independent commission which conducts voluntary accreditation programs. The centers provide various preventive services, including physical examinations, pharmaceutical products, orthopedic and other medical services, including minor surgery, for pediatric and adult populations. The PRIMUS and NAVCARE centers are designed with laboratory and radiology equipment on location and are open 365 days per year with extended hours Monday through Friday. All military beneficiaries entitled to receive care at military treatment facilities are eligible for care at the PRIMUS and NAVCARE centers at no cost to them.

The Company leases six and owns three facilities for its PRIMUS and NAVCARE centers. The terms of these leases expire from fiscal years 1996-1999. The Company will remain obligated under some of the leases and will own such facilities regardless of the duration or funding of the related PRIMUS and NAVCARE contracts. These types of contracts are generally awarded on a unit-price and/or fixed fee basis. The units of service upon which payments are based are outpatient visits, with the contractual payment per visit varying depending on the type of service provided. The fixed fee portion is generally a per month amount to cover basic operating costs.

MEDICAL STAFFING. The military has turned to private sector contractors to provide medical staff and management support to its hospitals. Through its national recruiting network and program staffing experience, PHP recruits qualified medical, nursing and mental health specialists and technicians to augment military health care staff on a long-term basis. PHP currently provides staff to render nursing services for the Madigan Army Hospital in the state of Washington, social work services for 30 Army bases located in over nineteen states, and radiology services for Offutt Air Force Base in Nebraska. These types of contracts are generally awarded on a fixed-rate-labor hour basis.

MENTAL HEALTH. PHP staffs and manages, for the South Carolina Department of Mental Health, the Dowdy Gardner Psychiatric Nursing Care Center for geriatric patients with chronic medical problems. In addition, the Company staffs and manages inpatient and outpatient psychiatric services for the Army at Fitzsimmons Army Medical Center in Colorado and at Fort Hood in Texas. These types of contracts are generally awarded on a fixed-price or unit-price basis. For contracts awarded on a unit-price basis, the payment is based upon inpatient beds per day.

LONG-TERM CARE. In October 1989, PHP began applying its expertise, gained in providing skilled nursing and specialty services to geriatric patients, to the field of long-term care. During fiscal year 1990, the Company began staffing and managing a new 150 bed skilled and intermediate care nursing facility under a contract with the Alabama Department of Veterans Affairs. During fiscal 1991, the Company began staffing and managing a similar 220 bed facility for veterans under a contract with the South Carolina Department of Mental Health. The Company believes it is one of only a few private companies working with state governments to meet the long-term care needs of a rapidly growing population of military veterans. These types of contracts are generally awarded on a unit-price basis. The units upon which payment is based are inpatient beds per day. In August 1994 the Company was selected to manage three skilled and intermediate care nursing facilities for the Alabama Department of Veteran Affairs. This contract award included the facility currently managed by the Company and two other facilities, one with 150 beds, the other with 120 beds. The term of this contract is three years and the price is on a per inpatient bed day basis.

TOTAL MANAGED CARE. PHP provides specialized comprehensive managed health care programs for maximum, medium and minimum security facilities. The Company presently provides such a program for the Arkansas Department of Corrections under a unit-price contract. The units upon which payment is based are average number of inmates per month. This contract was re-awarded to the Company in July 1991 for an initial year with five option years; the price for each of the last

four option years will be negotiated annually. Correctional facilities are complex and unique environments for delivering medical and mental health care services. The Company incorporates into its correctional facilities programs its understanding of how these facilities must be managed and how security and other special issues affect program design and administration.

GOVERNMENT CONTRACTING REGULATION

During the fiscal year ended April 30, 1995, approximately 50% of the Company's revenues were derived from 34 separate contracts with various government agencies to provide health care to various government sponsored populations. The Company received approximately 33% of its total revenues under 27 contracts with agencies of the federal government. The approximate percentages of government contract revenues realized by the Company by type of revenue were as follows: unit-price contracts, 72%; fixed-price contracts, 13%; cost-reimbursement-plus-fee contracts, 9%; and fixed-rate-labor hour contracts, 6%. The Company's contracts with government agencies generally provide for payment by the agencies on a monthly or bi-weekly basis and do not involve reimbursement to the Company under the Medicare or Medicaid programs or direct payment to the Company by patients.

The Company's contracts with government agencies are obtained primarily through the competitive bidding process as governed by applicable federal and state statutes and regulations. Contracts are generally awarded for a base period of less than one year and corresponding with the government agency's fiscal year, having two to four one-year renewals at the option of the government agency, and are subject to appropriation of funds annually by the appropriate legislative body. There is, therefore, no assurance that the Company will be able to retain its contracts or, if retained, that all of such contracts will be fully funded.

Under the competitive bidding process, unsuccessful bidders may protest the award of a contract to another bidder in accordance with a government appeals process if they believe the award was improper. Such protests could result in the rebidding, delay or loss of contracts.

The Company generally performs services under fixed-price, unit-price, cost-reimbursement-plus-fee and fixed-rate-labor hour contracts. Under fixed-price contracts, the government agency pays the Company an agreed upon price for services rendered. Under unit-price contracts, the Company receives a fixed dollar amount per unit of service provided, intended to cover direct costs, related indirect costs and fee. Under cost-reimbursement-plus-fee contracts, the government agency reimburses the Company for allowable costs incurred and pays the Company a negotiated fixed fee, up to contract funding amounts. Under fixed-rate-labor hour contracts, the Company receives a fixed hourly rate intended to cover salary costs, other direct costs, related indirect costs and fee.

Under fixed-price, unit-price and fixed-rate-labor hour contracts, the Company realizes benefits or detriments resulting from unanticipated cost variances. Under unit-price contracts, the Company also realizes benefits and detriments occasioned by unanticipated variances in unit quantities and resulting revenues.

Under the Truth in Negotiations Act, the U.S. Government is entitled for three years after final payment on certain negotiated contracts or contract modifications to examine all of the Company's cost records with respect to such contracts to determine whether the Company furnished complete, accurate, and current cost or pricing data to the Government in connection with the negotiation of the price of the contract or modification. The U.S. Government also has the right after final payment to seek a downward adjustment to the price of a contract or modification if it determines that the contractor failed to disclose complete, accurate, and current data.

Section 31 of the Federal Acquisition Regulation governs the allowability of costs incurred by the Company in the performance of U.S. Government contracts to the extent that such costs are included in its

proposals or are allocated to its U.S. Government contracts during performance of those contracts. In the opinion of management of the Company, costs proposed, incurred, and billed to the U.S. Government in connection with the Company's performance of its U.S. Government contracts complied with Section 31 of the Federal Acquisition Regulation in all material respects.

The Company's U.S. Government contracts are subject to possible termination, reduction or modification as a result of changes to or reductions in the Government's requirements or budgetary resources. Contracts may be modified or terminated for the convenience of the U.S. Government at any time during the term of the contract. If a contract is modified, the price of the contract would be equitably adjusted to reflect the change or reduction. If a contract were to be terminated for convenience, the Company would be reimbursed for its allocable, reasonable and allowable costs incurred through the date of

termination and would be paid a reasonable profit or fee on the work actually performed. If it is determined that the terminated contract would have been in a loss position if fully performed, a "loss ratio" will be applied to reduce the Company's recovery of incurred costs so that the recovery will reflect a proportionate amount of that anticipated loss. In either event, the Company would be entitled to recover the costs incurred directly as a result of the termination of the contracts, such as filing a settlement proposal.

The Company believes that it has complied in all material respects with applicable government requirements. In certain circumstances in which a contractor has not complied with the terms of a contract or with regulations or statutes, the contractor may be debarred or suspended from obtaining future contracts for a specified period of time. Any such suspension or debarment of the Company could have a material adverse effect upon the Company's business.

State governments with which the Company contracts have statutory or regulatory provisions relating to government contracting which are generally comparable to the U.S. Government.

LIMITATIONS ON REIMBURSEMENT

A major portion of the Company's revenues are derived from third party payors, such as governmental programs, private insurance plans and managed care organizations. In particular, for the year ended April 30, 1995 and the six months ended October 31, 1995, approximately 22% and 29%, respectively, of the Company's revenues were derived from the Medicaid program, a cooperative state-federal program for medical assistance to the poor. Reflecting a trend in the health care industry, third party payors increasingly are negotiating with health care providers such as the Company concerning the prices charged for medical services, with the goal of lowering reimbursement and utilization rates. There can be no assurance that any future reduction in reimbursement rates would be offset through enhancement of operating efficiencies, or that any such enhancement of operating efficiencies would occur. Third party payors may also deny reimbursement if they determine that a treatment was not performed in accordance with the cost-effective treatment methods established by such payors, was experimental or for other reasons. In addition, funding for governmental programs, such as Medicaid, is under increased scrutiny.

The U.S. Congress has passed a fiscal year 1996 budget reconciliation bill that provides for reductions in the rate of spending increases over the next seven years of approximately $270 billion in the Medicare program and $165 billion in the Medicaid program. The bill provides, among other things, for converting the federal share of the Medicaid program to a block grant and for gradually reducing the overall growth of the federal share from approximately ten percent annually to approximately four percent by fiscal year 2000. The annual increase in the federal share would vary from state to state based on a variety of factors. Although the initial reconciliation bill was vetoed by the President, no assurance can be given that reductions in the rate of increase in spending for these programs, if ultimately signed into law, would not have a material adverse effect on the Company's operations. Any loss of revenue caused by trends in the health care industry toward cost containment and oversight could have a material adverse effect on the Company's business.

HEALTH CARE REGULATION

The health care industry is subject to extensive federal regulation relating to licensure, conduct of operations and prices for services.

The laws of many states prohibit physicians from splitting fees with non-physicians and prohibit non-physician entities from practicing medicine. These laws vary from state to state, have been subject to limited judicial and regulatory interpretation, and are enforced by the courts and by regulatory authorities with broad discretion. Although the Company seeks to structure its operations so as to comply with these laws, there can be no assurance that the Company's present or future operations will not be successfully challenged as violating, or determined to have violated, such laws, or that the enforceability of the provisions of agreements governing such operations will not be limited. Any such result could have a material adverse effect on the Company.

The laws in most states also regulate the business of insurance and the operation of health maintenance organizations ("HMOs"). Many states also regulate the establishment and operation of networks of health care providers. Although the Company seeks to structure its operations so as to comply with these laws in the states in which it does business, there can be no assurance that future interpretations of insurance laws and health care network laws by the regulatory authorities in these states or in the states into which the Company may expand will not require licensure or a restructuring of some or all of the Company's operations. The Company's Medicaid HMO is not presently subject to licensure requirements in the District of Columbia. However, legislation has been proposed which would require the licensure of HMOs in the District of Columbia and subject the Company to additional regulatory requirements. The Company is unable to predict what HMO legislation or regulation, if any, will be

adopted in the District of Columbia and what effect, if any, such legislation or regulation would have on the Company's business. No assurance can be given that future HMO legislation or regulation in the District of Columbia or in other states will not have a material adverse effect on the Company's business, financial condition or results of operation.

Anti-fraud and abuse amendments codified under the Social Security Act of 1935, as amended (the "Social Security Act"), prohibit certain business practices and relationships that may affect the provision and cost of health care services reimbursable under the Medicare and Medicaid programs. These amendments include anti-kickback provisions prohibiting the solicitation, payment, receipt or offering of any direct or indirect remuneration for the referral of Medicare or Medicaid patients or for the ordering or providing of Medicare or Medicaid covered services, items or equipment. Sanctions for violating the anti-kickback provisions include criminal penalties and civil sanctions, including fines and possible exclusion from the Medicare and Medicaid programs. In addition, Section 1877 of the Social Security Act (the "Stark law") restricts physician referrals to certain providers, including hospitals, with which they have a financial arrangement. Sanctions for violation of the Stark law include civil money penalties and exclusion from the Medicare and Medicaid programs. The Stark law and the anti-kickback provisions of the Social Security Act are broadly worded and often vague, and the future interpretation of these provisions and their applicability to the Company's operations cannot be predicted with certainty. Although the Company seeks to arrange its business relationships so as to comply with these laws, there can be no assurance that the Company's present or future operations will not be accused of violating, or be determined to have violated, such provisions. Any such result could have a material adverse effect on the Company.

HEALTH CARE REFORM

In recent years, an increasing number of legislative proposals have been introduced in Congress and in some state legislatures that would effect major changes in the health care system, either nationally or at the state level. The Company is unable to predict what health care reform legislation, if any, will be adopted and what effect, if any, such legislation may have on the Company's business. No assurance can be given that future health care reform legislation will not have a material adverse effect on the Company's business, financial condition or results of operations.

Provisions in the fiscal year 1996 reconciliation bill passed by Congress, if signed into law, would eliminate the federally mandated individual entitlement to Medicaid benefits and give the states wide latitude in setting eligibility standards and benefit levels. In addition, the bill would reduce for a number of states the level of state spending necessary to qualify for the maximum federal matching. Such changes, if

adopted, could result in a reduction in the number of individuals participating in the Medicaid program. No assurance can be given that such changes would not have a material adverse effect on the Company's business.

COMPETITION

The Company has numerous competitors who compete with the Company for contracts to provide health care services to federal, state and local government agencies and to employers and others in the private sector. The competition for a particular contract may consist of national, regional and/or local providers, depending on the type of health care services involved. A number of these firms are larger and have greater financial resources and larger technical staffs than the Company. Federal, state and local government agencies also can be considered to be in competition with the Company, in that they may provide services of a similar nature to those provided by the Company. It is not possible to predict the extent of competition which present or future activities of the Company will encounter because of changing competitive conditions, government requirements, government budgeting, technological developments and other factors.

LEGAL PROCEEDINGS

The Company is a defendant in various legal proceedings incidental to its business, including actions involving medical malpractice claims, employment matters and contractual arrangements. In the opinion of management, after consultation with counsel, these proceedings will not have a material adverse effect on the Company's financial position, results of operations or cash flows. See Note 11(c) of Notes to the Consolidated Financial Statements and Note 6 of Notes to the Condensed Consolidated Financial Statements.

MANAGEMENT

DIRECTORS AND OFFICERS

The following table sets forth certain information with respect to the Company's directors and officers.

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
Charles H. Robbins	65	Chairman, Chief Executive Officer and a Director
Jack M. Mazur	53	President and a Director
Michael D. Starr	52	Senior Executive Vice President, Treasurer, Chief Executive Officer, Government Managed Care Services and a Director
John P. Cole	54	Executive Vice President
John E. Murphy	60	Executive Vice President
William J. Lubin	43	Senior Vice President and Chief Executive Officer, Commercial Managed Care Services
Robert L. Bowles, Jr.	55	President, D.C. Chartered Health Plans, Inc.
Anthony M. Picini	40	Senior Vice President and Chief Financial Officer
Frank L. Provato, M.D.	47	Senior Vice President and Corporate Medical Director
Ben Rosenbaum III	56	Corporate Secretary and General Counsel
Jerrold J. Hercenberg	45	Senior Vice President and Counsel for Managed Care and General Counsel, D.C. and Virginia Chartered Health Plans
Julien J. Lavoie	64	Senior Vice President, Information Systems and a Director
Debbie L. Scheff-Gricius	42	President, Health Cost Consultants, Inc.
David E. Berman	46	Senior Vice President
George E. Schaefer, M.D.	73	Senior Vice President, Medical Affairs and a Director
Paul T. Cuzmanes	50	Director
Joseph G. Mathews	61	Director
Charles P. Reilly	53	Director
Donald J. Ruffing	74	Director

</TABLE>

The following are brief summaries of the business experience during at least the past five years of each of the directors and officers of the Company.

CHARLES H. ROBBINS founded the Company in 1976 and has been Chairman of the Board since its inception. He also served as President of the Company from its inception through October 1995. From 1973 to 1975, Mr. Robbins was Vice President and Director of Operations of Tabershaw/Cooper Associates, Inc., a medical consulting firm, and Technical Director, Health and Medical Systems of Informatics Inc.; from 1971 to 1973 he was Manager, Medical Information Systems of Computer Science Corporation; and from 1961 to 1970 he held various positions with the Office of the Surgeon General of the United States Army and the Army Medical Department. In those positions, Mr. Robbins was engaged in directing studies and developing programs relating to various health care related activities.

JACK M. MAZUR has been a director of the Company since 1976 and has served as President since October 1995. Prior to his election as President, Mr. Mazur was Chief Executive Officer of the Company's Commercial Managed Care Services Division. From August 1989 to October 1995, Mr. Mazur served as Senior

Executive Vice President of the Company, from June 1986 to October 1993 as Secretary of the Company, and from 1976 through May 1986 as an advisor to the President and Chairman and as Assistant Secretary of the Company.

MICHAEL D. STARR has been employed by the Company in various financial and operational positions since 1976 and has been a director since 1985. Mr. Starr was Controller of the Company from 1976 to 1981, Vice President, Finance and Administration from 1981 to 1986, and has been Executive Vice President since March 1986.

JOHN P. COLE joined the Company in 1993 and heads the marketing of the Company's commercial products and services. He previously served as President of J.P. Cole and Associates, a health care marketing firm, and in senior management positions with major insurance companies, including Prudential, Blue Cross of California, Lincoln National Corporation and Aetna Health Plans.

JOHN E. MURPHY, a retired Colonel in the United States Air Force, joined the Company as Vice President of Managed Care in 1991 and became Executive Vice President in 1995. Colonel Murphy's 35 years of health care management experience include 31 years of Active Duty in the Air Force Medical Service. From 1985 to 1989, he served as the Assistant Surgeon General for Health Care Support, United States Air Force, as Chief of the Medical Services Corps, and was an advisor to the Surgeon General on matters of health services administration and management. During his appointment as Assistant Surgeon General, Mr. Murphy served as the Chief Hospital Administrator for a health care system consisting of 80 hospitals and 42 free-standing ambulatory care health centers with an annual budget of $3 billion.

WILLIAM J. LUBIN joined PHP in August 1994 as Senior Vice President for Managed Care. In late 1994 he assumed the position of Chief Operating Officer,

Commercial Managed Care. In October 1995, he became Chief Executive Officer of Commercial Managed Care Services. Prior to joining PHP, Mr. Lubin held management positions with Aetna Health Plans, Travelers Insurance Companies, Lincoln National, and Blue Cross and Blue Shield of Connecticut.

ROBERT L. BOWLES, JR. joined the Company in August 1993 in connection with the Company's acquisition of D.C. Chartered Health Plan, Inc. Mr. Bowles is the founder of D.C. Chartered and has more than 30 years experience in administration and management of health care services and operations for corporations and the military.

ANTHONY M. PICINI has been with the Company since 1989. Previously, Mr. Picini was with the accounting firm of KPMG Peat Marwick, where he managed the auditing and accounting of both public and private companies.

FRANK L. PROVATO, M.D. has been with the Company since 1993. He is responsible for developing health care solutions for clients, providing input on physician recruitment and the total quality management program, and establishing clinical protocols and standards of medical care. Dr. Provato has 23 years of diverse background in clinical medicine, health care administration, occupational health, and employee benefits administration. Prior to joining PHP, he served as Vice President and Corporate Medical Director for GTE Corporation, where he was responsible for the development of health care cost management strategies and the implementation of a GTE-sponsored primary care health center in Tampa, Florida.

BEN ROSENBAUM III has been with the Company since 1993. Prior to joining the Company, he was a partner with the law firm Carey, Rosenbaum, Niemi & Skaggs. Mr. Rosenbaum has been engaged in the practice of law since 1966 and has been a member of numerous professional, business and civic organizations, including the Health Care Forum of the American Bar Association.

JERROLD J. HERCENBERG has been with the Company since March 1995. Before joining PHP, Mr. Hercenberg was a partner with McDermott, Will & Emery's Washington office and a member of the law firm's Health Department. Prior thereto, Mr. Hercenberg served as Senior Legal Advisor in the office of the Administrator, Health Care Financing Administration.

JULIEN J. LAVOIE joined the Company as a Director in 1989. Mr. Lavoie was Federal Program Manager of EDS Communications Corporation, a contract services company, from 1987 to 1991, when he became Vice

President of the Company. Previously, Mr. Lavoie served as President of Productivity Management Services, Inc., a service company in the U.S. government privatization program, from 1986 to 1987, and was Vice President, Integration Services, for the Martin Marietta Data Systems Corporation, a major government contractor, from 1983 to 1986.

DEBBIE L. SCHEFF-GRICIUS is President of Health Cost Consultants, Inc., the Company's utilization management subsidiary. She has over ten years experience in the health care industry and over fifteen years experience in information systems. At HCC, Ms. Scheff-Gricius was responsible for the in-house development of a utilization review and case management system, marketed nationwide, which is currently being used to manage all business operations within the Company. Ms. Scheff also served as Vice President, Promotion and Self Insurance Institute of America. As Vice President of The Commons Management Group, Ms. Scheff managed the development and implementation of health care data systems for clients in private industry, business coalitions, HMOs, PPOs, Utilization Review Organizations, and hospitals.

DAVID E. BERMAN founded EastWest Research Corporation where he served as President from 1978 until joining the Company as Senior Vice President in 1994. Mr. Berman is responsible for strategic business development and special projects. Mr. Berman has over fifteen years of health care consulting experience, directing numerous engagements involving HMO, PPO, IPA and PHO development, financial and actuarial studies, feasibility analyses, strategic planning, CON development, policy research and evaluation, and technical assistance under the Medicare and Medicaid programs.

GEORGE E. SCHAEFER, M.D. served as Vice President/Medical Director of the Company from 1980 to 1993 and a Director of the Company since 1981. Dr. Schaefer currently serves as Vice President Medical Affairs. Prior to joining the Company, Dr. Schaefer was a private consultant from 1978 to 1980. Dr. Schaefer was Surgeon General of the United States Air Force from 1975 to 1978 and retired from the Air Force with the rank of Lieutenant General. Dr. Schaefer held various positions with the Air Force, commencing as a Flight Surgeon in 1947, through various command positions from 1949 to 1975, and became Deputy Surgeon General and then Surgeon General of the Air Force in 1975.

PAUL T. CUZMANES joined the Company as a Director in October 1989. Mr. Cuzmanes is a partner with the law firm of Wilson, Elser, Moskowitz, Edelman & Dicker and has been engaged in the practice of law since 1976. Mr. Cuzmanes

specializes in health care law, commercial law and the representation of municipalities. He is also a fellow in the American Society of Pharmaceutical Law.

JOSEPH G. MATHEWS joined the Company as a Director in July 1993. Since 1985, Mr. Mathews has owned and operated Joseph G. Mathews & Associates, an insurance brokerage firm. Mr. Mathews' professional designations include Chartered Financial Consultant and Master of Science Financial Services. In addition to serving on the Company's Board, Mr. Mathews is a member of the boards of directors of Lake of the Ozarks General Hospital, Mark Twain Bank, Sanford Brown College and Learfield Communication. Mr. Mathews also serves on the Lindenwood College Board.

CHARLES P. REILLY joined the Company as a Director in 1991. Mr. Reilly is the managing general partner of Shamrock Investments, a financial advisory and investment firm that specializes in the health care industry. From 1979 until founding Shamrock Investments in 1987, Mr. Reilly served as Director, Senior Executive Vice President and Chief Development Officer for American Medical International Corporation, a large multi-hospital management company. In that position, Mr. Reilly was responsible for the acquisition of new health care facilities and related business both in the United States and abroad, oversaw the development of the company's integrated health care services and facilities and directed the activities of AMI Group Health Services, a division of American Medical International Corporation. Mr. Reilly currently serves as Chairman of the Board of Directors of Dynamic Health, Inc., an acute care hospital company, and as a director of G & L Realty Corporation, a NYSE health care real estate investment trust. Mr. Reilly has served as a director, trustee and governing council member of the Federation of American Healthcare Systems, The National Committee for Quality Health Care and the American Hospital Association, and has previously served as a board director for several corporations. From August 1994 to August 1995, Mr. Reilly was an employee of the Company, serving as chairman of the Executive Council.

DONALD J. RUFFING joined the Company as a Director in 1991. Mr. Ruffing is a retired Colonel in the United States Air Force. In 1990, Mr. Ruffing served as a team member of the Peer and Application Reviews, Refugee Mental Health Programs for the National Institute of Mental Health. From 1980 to 1985, Mr. Ruffing served as a project manager for the Company at St. Elizabeth's Hospital. Mr. Ruffing completed 32 years in medical services management with the Air Force. Upon his retirement, he was the Chief of the Air Force Medical Service Corps, Office of the Surgeon General, where he was responsible for developing plans, policies and procedures for the management of the Air Force Medical Service Corps.

DESCRIPTION OF DEBENTURES

The Debentures will be issued under an indenture dated as of December 15, 1995 (the "Indenture"), between the Company and IBJ Schroder Bank & Trust Company, as trustee (the "Trustee"). The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the Indenture, including the definition therein of certain terms. Wherever particular sections or defined terms of the Indenture are referred to, such sections or defined terms are incorporated herein by reference. Copies of the proposed form of Indenture are available from the Company or the Initial Purchasers upon request.

GENERAL

The Debentures will be unsecured obligations of the Company, will be limited to $69,000,000 in aggregate principal amount (including the Initial Purchasers' over-allotment option) and will mature on December 15, 2002. The Debentures will bear interest at the rate per annum shown on the front cover of this Offering Memorandum from the date of original issuance of Debentures pursuant to the Indenture or from the most recent Interest Payment Date to which interest has been paid or provided for, payable semi-annually on June 15 and December 15 of each year, commencing June 15, 1996, to the Person in whose name the Debenture (or any predecessor Debenture) is registered at the close of business on the preceding June 1 or December 1, as the case may be. Interest on the Debentures will be paid on the basis of a 360-day year of twelve 30-day months.

Principal of, premium, if any, and interest on, the Debentures will be payable (i) in respect of Debentures held of record by the Depository Trust Company ("DTC") or its nominee in same day funds on or prior to the payment dates with respect to such amounts and (ii) in respect of Debentures held of record by holders other than DTC or its nominee, at the office of the Trustee in New York, New York, and the Debentures may be surrendered for transfer, exchange or conversion at the office of the Trustee in New York, New York. In addition, with respect to Debentures held of record by holders other than DTC or its nominee, payment of interest may be made, at the option of the Company, by check

mailed to the address of the persons entitled thereto as it appears in the register for the Debentures on the Regular Record Date for such interest.

The Debentures will be issued only in registered form, without coupons and in denominations of $1,000 or any integral multiple thereof. No service charge will be made for any transfer or exchange of the Debentures, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge and any other expenses (including the fees and expenses of the Trustee) payable in connection therewith. The Company is not required (i) to issue, register the transfer of or exchange any Debentures during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Debenture selected for redemption in whole or in part, except the unredeemed portion of Debentures being redeemed in part.

All moneys paid by the Company to the Trustee or any Paying Agent for the payment of principal of and premium and interest on any Debenture which remain unclaimed for two years after such principal, premium or interest become due and payable may be repaid to the Company. Thereafter, the Holder of such Debenture may, as an unsecured general creditor, look only to the Company for payment thereof.

The Indenture does not contain any provisions that would provide protection to Holders of the Debentures against a sudden and dramatic decline in credit quality of the Company resulting from any takeover, recapitalization or similar restructuring, except as described below under "Certain Rights to Require Repurchase of Debentures."

CONVERSION RIGHTS

The Debentures will be convertible into Common Stock at any time after the 60th day following the date of original issuance of the Debentures and prior to redemption or final maturity, initially at the conversion price of $27.25 per share. The right to convert Debentures which have been called for redemption will terminate at the close of business on the second business day preceding the Redemption Date. See "Optional Redemption" below.

The conversion price will be subject to adjustment upon the occurrence of any of the following events: (i) the subdivision, combination or reclassification of outstanding shares of Common Stock; (ii) the payment in shares of Common Stock of a dividend or distribution on any class of capital stock of the Company; (iii) the issuance of rights or warrants to all holders of Common Stock entitling them to acquire shares of Common Stock at a price per share less than the Current Market Price; (iv) the distribution to holders of Common Stock of shares of capital stock other than Common Stock, evidences of indebtedness, cash or assets (including securities, but excluding dividends or distributions paid exclusively in cash and dividends, distributions, rights and warrants referred to above); (v) a distribution consisting exclusively of cash (excluding any cash distributions referred to in (iv) above) to all holders of Common Stock in an aggregate amount that, together with (A) all other cash distributions (excluding any cash distributions referred to in (iv) above) made within the 12 months preceding such distribution and (B) any cash and the fair market value of other consideration payable in respect of any tender offer by the Company or a subsidiary of the Company for the Common Stock consummated within the 12 months preceding such distribution, exceeds 12.5 percent of the Company's market capitalization (being the product of the Current Market Price times the number of shares of Common Stock then outstanding) on the date fixed for determining the stockholders entitled to such distribution; and (vi) the consummation of a tender offer made by the Company or any subsidiary of the Company for the Common Stock which involves an aggregate consideration that, together with (X) any cash and other consideration payable in respect of any tender offer by the Company or a subsidiary of the Company for the Common Stock consummated within the 12 months preceding the consummation of such tender offer and (Y) the aggregate amount of all cash distributions (excluding any cash distributions referred to in (iv) above) to all holders of the Common Stock within the 12 months preceding the consummation of such tender offer, exceeds 12.5 percent of the Company's market capitalization at the date of consummation of such tender offer. No adjustment of the conversion price will be required to be made until cumulative adjustments amount to at least one percent of the conversion price, as last adjusted. Any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

In addition to the foregoing adjustments, the Company will be permitted to reduce the conversion price as it considers to be advisable in order that any event treated for federal income tax purposes as a dividend of stock or stock rights will not be taxable to the holders of the Common Stock or, if that is not possible, to diminish any income taxes that are otherwise payable because of such event. In the case of any consolidation or merger of the Company with any other corporation (other than one in which no change is made in the Common Stock), or any sale or transfer of all or substantially all of the assets of the

Company, the Holder of any Debenture then outstanding will, with certain exceptions, have the right thereafter to convert such Debenture only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock into which such Debenture might have been converted immediately prior to such consolidation, merger, sale or transfer; and adjustments will be provided for events subsequent thereto that are as nearly equivalent as practical to the conversion price adjustments described above.

Fractional shares of Common Stock will not be issued upon conversion, but, in lieu thereof, the Company will pay a cash adjustment based upon the then Closing Price at the close of business on the day of conversion. If any Debentures are surrendered for conversion during the period from the close of business on any Regular Record Date through and including the next succeeding Interest Payment Date (except any such Debentures called for redemption), such Debentures when surrendered for conversion must be accompanied by payment in next day funds of an amount equal to the interest thereon which the registered Holder on such Regular Date is to receive. Except as described in the preceding sentence, no interest will be payable by the Company on converted Debentures with respect to any Interest Payment Date subsequent to the date of conversion. No other payment or adjustment for interest or dividends is to be made upon conversion.

The Indenture will provide that, in the event of the occurence of certain events affecting the rights (the "Rights") distributed pursuant to the Company's Rights Agreement, dated as of April 10, 1992, with Riggs National Bank, NA (the "Rights Agreement"), appropriate adjustments to the conversion price will be

made. In lieu of any such adjustment, the Company may amend the Rights Agreement to provide that upon conversion of the Debentures the holder thereof will receive, in addition to the Common Stock issuable upon such conversion, the Rights which attached to such shares of Common Stock or would have attached to such shares if the Rights had not become separated from the Common Stock pursuant to the provisions of the Rights Agreement.

SUBORDINATION

The payment of the principal of and premium, if any, and interest on the Debentures will, to the extent set forth in the Indenture, be subordinated in right of payment to the prior payment in full of all Senior Indebtedness. If there is a payment or distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshalling of assets or any bankruptcy, insolvency or similar proceedings of the Company, the holders of all Senior Indebtedness will be entitled to receive payment in full of all amounts due or to become due thereon or provision for such payment in money or money's worth before the Holders of the Debentures will be entitled to receive any payment in respect of the principal of or premium, if any, or interest on the Debentures. In the event of the acceleration of the Maturity of the Debentures, the holders of all Senior Indebtedness will first be entitled to receive payment in full in cash of all amounts due thereon or provision for such payment in money or money's worth before the Holders of the Debentures will be entitled to receive any payment for the principal of or premium, if any, or interest on the Debentures. No payments on account of principal of or premium, if any, or interest on the Debentures or on account of the purchase or acquisition of Debentures may be made if there has occurred and is continuing a default in any payment with respect to Senior Indebtedness, any acceleration of the maturity of any Senior Indebtedness of if any judicial proceeding is pending with respect to any such default.

Senior Indebtedness is defined in the Indenture as (a) all secured indebtedness of the Company for money borrowed, excluding the claims of trade creditors of the Company, whether outstanding on the date of execution of the Indenture or thereafter created, incurred or assumed, except any such other indebtedness that by the terms of the instrument or instruments by which such indebtedness was created or incurred expressly provides that it (i) is junior in right of payment to the Debentures or (ii) ranks PARI PASSU in right of payment with the Debentures, and (b) any amendments, renewals, extensions, modifications, refinancings and refundings of any of the foregoing. The term "indebtedness for money borrowed" when used with respect to the Company is defined to mean (i) any obligation of, or any obligation guaranteed by, the Company for the repayment of borrowed money (including without limitation fees, penalties and other obligations in respect thereof), whether or not evidenced by bonds, debentures, notes or other written instruments, (ii) any deferred payment obligation of, or any such obligation guaranteed by, the Company for the payment of the purchase price of property or assets evidenced by a note or similar instrument, and (iii) any obligation of, or any such obligation guaranteed by, the Company for the payment of rent or other amounts under a lease of property or assets which obligation is required to be classified and accounted for as a capitalized lease on the balance sheet of the Company under generally accepted accounting principles.

The Debentures are obligations exclusively of the Company. A portion of the

operations of the Company are currently conducted through subsidiaries, which are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Debentures or to make any funds available therefor, whether by dividends, loans or other payments. In addition, the payment of dividends and certain loans and advances to the Company by such subsidiaries may be subject to certain statutory or contractual restrictions, are contingent upon the earnings of such subsidiaries and are subject to various business considerations.

The Debentures will be effectively subordinated to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Company's subsidiaries. Any right of the Company to receive assets of any such subsidiary upon the liquidation or reorganization of any such subsidiary (and the consequent right of the Holders of the Debentures to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that the Company is itself recognized as a creditor of such subsidiary, in which case the claims of the Company would still be subordinate to any security interest in the assets of such subsidiary and any indebtedness of such subsidiary senior to that held by the Company.

The Indenture does not limit or prohibit the incurrence of Senior Indebtedness. At October 31, 1995, the aggregate amount of Senior Indebtedness outstanding and the aggregate amount of indebtedness and other liabilities of the Company and its subsidiaries to which the Debentures are effectively subordinated was approximately $42.8 million. The Company also expects to incur Senior Indebtedness from time to time in the future.

OPTIONAL REDEMPTION

The Debentures will be redeemable, at the Company's option, in whole or from time to time in part, at any time on or after December 17, 1998, upon not less than 15 nor more than 60 days' notice mailed to each Holder of Debentures to be redeemed at its address appearing in the Security Register and prior to Maturity at the following Redemption Prices (expressed as percentages of the principal amount) plus accrued interest to the Redemption Date (subject to the right of Holders of record on the relevant Regular Record Date to receive interest due on an Interest Payment Date that is on or prior to the Redemption Date).

If redeemed during the 12-month period beginning December 15, in the year indicated (December 17, in the case of 1998), the redemption price shall be:

<TABLE>
<CAPTION>

YEAR	REDEMPTION PRICE
<S>	<C>
1998	103.71%
1999	102.79%
2000	101.86%
2001	100.93%

</TABLE>

No sinking fund is provided for the Debentures.

CONSOLIDATION, MERGER AND SALE OF ASSETS

The Company will not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, or permit any Person to consolidate with or merge into the Company or convey, transfer or lease its properties substantially as an entirety to the Company, unless (a) if applicable, the Person formed by such consolidation or into which the Company is merged or the Person or corporation which acquires the properties and assets of the Company substantially as an entirety is a corporation, partnership or trust organized and validly existing under the laws of the United States or any state thereof or the District of Columbia and expressly assumes payment of the principal of and premium, if any, and interest on the Debentures and performance and observance of each obligation of the Company under the Indenture, (b) after consummating such consolidation, merger, transfer or lease, no Default or Event of Default will occur and be continuing, (c) such consolidation, merger or acquisition does not adversely affect the validity or enforceability of the Debentures and (d) the Company has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease complies with the provisions of the Indenture.

CERTAIN RIGHTS TO REQUIRE REPURCHASE OF DEBENTURES

In the event of any Repurchase Event (as defined below) occurring after the date of issuance of the Debentures and on or prior to Maturity, each Holder of Debentures will have the right, at the Holder's option, to require the Company

to repurchase all or any part of the Holder's Debentures on the date (the "Repurchase Date") that is 30 days after the date the Company gives notice of the Repurchase Event as described below at a price (the "Repurchase Price") equal to 100% of the principal amount thereof, together with accrued and unpaid interest to the Repurchase Date. On or prior to the Repurchase Date, the Company shall deposit with the Trustee or a Paying Agent an amount of money sufficient to pay the Repurchase Price of the Debentures which are to be repaid on or promptly following the Repurchase Date.

Failure by the Company to provide timely notice of a Repurchase Event, as provided for below, or to repurchase the Debentures when required under the preceding paragraph will result in an Event of Default under the Indenture whether or not such repurchase is permitted by the subordination provisions of the Indenture.

On or before the 15th day after the occurrence of a Repurchase Event, the Company is obligated to mail to all Holders of Debentures a notice of the occurrence of such Repurchase Event, the Repurchase Date, the date by which the repurchase right must be exercised, the Repurchase Price for Debentures and the procedures which the Holder must follow to exercise this right. To exercise the repurchase right, the Holder of a Debenture must deliver, on or before the close of business on the Repurchase Date, irrevocable written notice to the Company (or an agent designated by the Company for such purpose) and to the Trustee of the Holder's exercise of such right, together with the certificates evidencing the Debentures with respect to which the right is being exercised, duly endorsed for transfer. Such written notice is irrevocable.

A "Repurchase Event" shall have occurred upon the occurrence of a Change in Control (as defined below) or a Termination of Trading (as defined below).

A "Change in Control" shall occur when: (i) all or substantially all of the Company's assets are sold as an entirety to any person or related group of persons; (ii) there shall be consummated any consolidation or merger of the Company (A) in which the Company is not the continuing or surviving corporation (other than a consolidation or merger with a wholly owned subsidiary of the Company in which all shares of Common Stock outstanding immediately prior to the effectiveness thereof are changed into or exchanged for the same consideration) or (B) pursuant to which the Common Stock would be converted into cash, securities or other property, in each case, other than a consolidation or merger of the Company in which the holders of the Common Stock immediately prior to the consolidation or merger have, directly or indirectly, at least a majority of the total voting power of all classes of capital stock entitled to vote generally in the election of directors of the continuing or surviving corporation immediately after such consolidation or merger in substantially the same proportion as their ownership of Common Stock immediately before such transaction; (iii) any person, or any persons acting together which would constitute a "group" for purposes of Section 13(d) of the Exchange Act, together with any affiliates thereof, shall beneficially own (as defined in Rule 13d-3 under the Exchange Act) at least 50% of the total voting power of all classes of capital stock of the Company entitled to vote generally in the election of directors of the Company; (iv) at any time during any consecutive two-year period, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of the Company was approved by a vote of 66 2/3% of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Company then in office; or (v) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution.

A "Termination of Trading" shall occur if the Common Stock (or other common stock into which the Debentures are then convertible) is neither listed for trading on a U.S. national securities exchange nor approved for trading on an established automated over-the-counter trading market in the United States.

The right to require the Company to repurchase Debentures as a result of the occurrence of a Repurchase Event could create an event of default under Senior Indebtedness of the Company, as a result of which any repurchase could, absent a waiver, be blocked by the subordination provisions of the Debentures. See "Subordination." Failure by the Company to repurchase the Debentures when required will result in an Event of Default with respect to the Debentures whether or not such repurchase is permitted by the subordination provisions. The Company's ability to pay cash to the Holders of Debentures upon a repurchase may be limited by certain financial covenants contained in the Company's Senior Indebtedness.

In the event a Repurchase Event occurs and the Holders exercise their rights to require the Company to repurchase Debentures, the Company intends to comply with applicable tender offer rules under the Exchange Act, including Rules 13e-4 and 14e-1, as then in effect, with respect to any such purchase.

The foregoing provisions would not necessarily afford Holders of the Debentures protection in the event of highly leveraged or other transactions involving the Company that may adversely affect Holders. In addition, the foregoing provisions may discourage open market purchases of the Common Stock or a non-negotiated tender or exchange offer for such stock and, accordingly, may limit a stockholder's ability to realize a premium over the market price of the Common Stock in connection with any such transaction.

RULE 144A INFORMATION REQUIREMENT

The Company has agreed to furnish to the Holders or beneficial holders of the Debentures and prospective purchasers of the Debentures designated by the holders of the Debentures, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act until the earlier of the date on which the Company registers the Debentures and the underlying Common Stock for resale under the Securities Act or the Resale Restriction Termination Date.

EVENTS OF DEFAULT

The following are Events of Default under the Indenture with respect to the Debentures: (a) default in the payment of principal of or any premium on any Debenture when due (even if such payment is prohibited by the subordination provisions of the Indenture); (b) default in the payment of any interest on any Debenture when due, which default continues for 30 days (even if such payment is prohibited by the subordination provisions of the Indenture); (c) failure to provide timely notice of a Repurchase Event as required by the Indenture; (d) default in the payment of the Repurchase Price in respect of any Debenture on the Repurchase Date therefor (even if such payment is prohibited by the subordination provisions of the Indenture); (e) default in the performance of any other covenant of the Company in the Indenture continued for 60 days after written notice by the Holders of at least 25% in aggregate principal amount of the Outstanding Debentures as provided in the Indenture; (f) default under any bond, debenture, note or other evidence of indebtedness for money borrowed by the Company or any subsidiary of the Company or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any subsidiary of the Company, whether such indebtedness now exists or shall hereafter be created, which default shall constitute a failure to pay the principal of indebtedness in excess of $5,000,000 when due and payable after the expiration of any applicable grace period with respect thereto or shall have resulted in indebtedness in excess of $5,000,000 becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged, or such acceleration having been rescinded or annulled, within a period of 30 days after there shall have been given to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Outstanding Debentures a written notice specifying such default and requiring the Company to cause such indebtedness to be discharged or cause such acceleration to be rescinded or annulled; and (g) certain events in bankruptcy, insolvency or reorganization of the Company or any subsidiary of the Company.

If an Event of Default with respect to the Debentures shall occur and be continuing, the Trustee or the Holders of not less than 25% in aggregate principal amount of the Outstanding Debentures may declare the principal of and premium, if any, on all such Debentures to be due and payable immediately, but if the Company cures all Events of Default (except the nonpayment of interest on, premium, if any, and principal of any Notes) and certain other conditions are met, such declaration may be canceled and past defaults may be waived by the Holders of a majority in principal amount of Outstanding Debentures. If an Event of Default shall occur as a result of an event of bankruptcy, insolvency or reorganization of the Company or any subsidiary of the Company, the aggregate principal amount of the Debentures shall automatically become due and payable. The Company is required to furnish to the Trustee annually a statement as to the performance by the Company of certain of its obligations under the Indenture and as to any default in such performance. The Indenture provides that the Trustee may withhold notice to the Holders of the Debentures of any continuing default (except in the payment of the principal of or premium, if any, or interest on any Debentures) if the Trustee considers it in the interest of Holders of the Debentures to do so.

MODIFICATION, AMENDMENTS AND WAIVERS

Modifications and amendments of the Indenture may be made by the Company and the Trustee without the consent of the Holders to: (a) cause the Indenture to be qualified under the Trust Indenture Act; (b) evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Debentures; (c) add to the covenants of the Company for the benefit of the Holders or an additional Event of Default, or surrender any right or power conferred upon the Company; (d) secure the Debentures; (e) make provision with respect to the conversion rights of Holders in the event of a consolidation, merger or sale of assets involving the Company,

as required by the

Indenture; (f) evidence and provide for the acceptance of appointment by a successor Trustee with respect to the Debentures; (g) cure any ambiguity, correct or supplement any provision which may be defective or inconsistent with any other provision, or make any other provisions with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture, PROVIDED, HOWEVER, that no such modification or amendment may adversely affect the interest of the Holders in any material respect.

Modifications and amendments of the Indenture may be made by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Outstanding Debentures; PROVIDED, HOWEVER, that no such modification or amendment may, without the consent of the Holder of each Outstanding Debenture, (a) change the Stated Maturity of the principal of, or any installment of interest on, such Debenture, (b) reduce the principal amount of, or premium, if any, or interest on, such Debenture, (c) adversely affect the right to convert such Debenture or modify the subordination provisions in the Indenture in a manner adverse to the Holder, (d) change the place or currency of payment of principal of, or premium, if any, or interest on, such Debenture, (e) adversely affect the right to require the Company to repurchase Debentures, (f) impair the right to institute suit for the enforcement of any such payment on or with respect to such Debenture, or (g) reduce the percentage in principal amount of Outstanding Debentures, the consent of whose Holders is required for modification or amendment of the Indenture or for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults.

The Holders of a majority in aggregate principal amount of the Outstanding Debentures may, on behalf of all Holders of Debentures, waive compliance by the Company with certain restrictive provisions of the Indenture. The Holders of a majority in aggregate principal amount of the Outstanding Debentures may, on behalf of all Holders of Debentures, waive any past default under the Indenture with respect to the Debentures, except a default in the payment of principal of, or premium, if any, or interest or in respect of a provision which under the Indenture cannot be modified or amended without consent of the Holder of each Outstanding Debenture.

SATISFACTION AND DISCHARGE

The Company may discharge its obligations under the Indenture while Debentures remain Outstanding if (a) all Outstanding Debentures will become due and payable at their scheduled maturity within one year or (b) all Outstanding Debentures are scheduled for redemption within one year, and in either case the Company has deposited with the Trustee an amount sufficient to pay and discharge all Outstanding Debentures on the date of their scheduled maturity or the scheduled date of redemption.

DELIVERY AND FORM OF DEBENTURES

Debentures sold to Qualified Institutional Buyers in reliance on Rule 144A under the Securities Act will be initially deposited with, or on behalf of, DTC and registered in the name of Cede & Co., as DTC's nominee, in the form of a global Debenture (the "Rule 144A Global Debenture"). Interests in the Rule 144A Global Debenture will be shown in, and transfers thereof will be effected only through, records maintained by DTC and its participants ("participants"). Debentures sold to persons outside the United States in offshore transactions pursuant to Regulation S under the Securities Act ("Regulation S Purchasers") will be issued in definitive registered form without coupons (the "Certificated Debentures"). Only Debentures held by Qualified Institutional Buyers may be represented by the Rule 144A Global Debenture. The Rule 144A Global Debenture will be (i) reduced in principal amount to reflect the subsequent transfer by owners of beneficial interest in the Rule 144A Global Debenture to a Regulation S Purchaser or another person who is not a Qualified Institutional Buyer or (ii) increased in principal amount to reflect the subsequent transfer of a Certificated Debenture to a Qualified Institutional Buyer from a Regulation S Purchaser or another person who is not a Qualified Institutional Buyer. In addition, Qualified Institutional Buyers may request that Debentures held by them and represented by the Rule 144A Global Debenture be issued in the form of Certificated Debentures. If DTC is at any time unwilling or unable to continue as depositary for Debentures represented by the Rule 144A Global Debenture and a successor depositary is not named within 90 days the Company will issue Certificated Debentures in exchange for Debentures represented by the Rule 144A Global Debenture, which will bear any legend required under the caption "Notice

to Investors." Transfer of the Debentures, whether as an interest in the Rule 144A Global Debenture or as Certificated Debentures, must be made in accordance with the Indenture. For a description of the restrictions on transfer of the Debentures, see "Notice to Investors."

DTC is a limited-purpose trust company that was created to hold securities for its participating organizations (collectively, the "Participants" or "DTC's Participants" and to facilitate the clearance and settlement of transactions in such securities between Participants through electronic book-entry changes in accounts of its Participants. DTC's Participant's include securities brokers and dealers (including the Initial Purchasers), banks and trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies (collectively, the "Indirect Participants" or "DTC's Indirect Participants") that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through DTC's Participants or DTC's Indirect Participants.

The Company expects that pursuant to procedures established by DTC (i) upon deposit of the Rule 144A Global Debenture, DTC will credit the accounts of Participants designated by the Initial Purchasers with portions of the principal amount of the Rule 144A Global Debenture and (ii) ownership of the Debentures evidenced by the Rule 144A Global Debenture will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to DTC's Participants), DTC's Participants and DTC's Indirect Participants. Prospective purchasers are advised that the laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer Debentures evidenced by the Rule 144A Global Debenture will be limited to such extent.

So long as DTC or its nominee is the registered owner of any Debentures, DTC or such nominee will be considered the sole holder under the Indenture of any Debentures evidenced by the Rule 144A Global Debenture. Beneficial owners of Debentures evidenced by the Rule 144A Global Debenture will not be considered the owners or holders thereof under the Indenture for any purpose, including with respect to the giving of any directions, instructions or approvals to the Trustee thereunder. Neither the Company nor the Trustee will have any responsibility or liability for any aspect of the records of DTC or for maintaining, supervising or reviewing any records of DTC relating to the Debentures.

Payments in respect of the principal of, premium, if any, and interest on any Debentures registered in the name of DTC or its nominee on the applicable record date will be payable by the Trustee to or at the direction of DTC or its nominee in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, the Company and the Trustee may treat the persons in whose names Debentures, including Debentures represented by the Rule 144A Global Debenture, are registered as the owners thereof for the purpose of receiving such payments. Consequently, neither the Company nor the Trustee has or will have any responsibility or liability for the payment of such amounts to beneficial owners of Debentures. The Company believes, however, that it is currently the policy of DTC to immediately credit accounts of the relevant Participants with such payments, in amounts proportionate to their respective holdings of beneficial interests in the relevant security as shown on the records of DTC. Payments by DTC's Participants and DTC's Indirect Participants to the beneficial owners of Debentures will be governed by standing instructions and customary practice and will be the responsibility of DTC's Participants and DTC's Indirect Participants.

Neither the Company nor the Trustee will be liable for any delay by DTC or its nominee in identifying the beneficial owners of Debentures and the Company and the Trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominees for all purposes.

PAYMENTS OF PRINCIPAL AND INTEREST

The Indenture will require that payments in respect of the Debentures (including principal, premium, if any, and interest) held of record by DTC (including Debentures evidenced by the Rule 144A Global

Debenture) be made in same day funds. Payments in respect of the Debentures held of record by holders other than DTC may, at the option of the Company, be made by check and mailed to such holders of record as shown on the register for the Debentures.

GOVERNING LAW

The Indenture and Debentures will be governed by and construed in accordance with the laws of the State of New York, without giving effect to such State's conflicts of laws principles.

INFORMATION CONCERNING THE TRUSTEE

The Company and its subsidiaries may maintain deposit accounts and conduct other banking transactions with the Trustee in the ordinary course of business.

REGISTRATION RIGHTS; LIQUIDATED DAMAGES

The Company and the Initial Purchasers will enter into a Registration Rights Agreement on or prior to the closing date for the offering being made hereby (the "Closing Date"). Pursuant to the Registration Rights Agreement, the Company will agree to file with the Commission within 60 days after the Closing Date a registration statement (the "Shelf Registration Statement") on Form S-1 or Form S-3, if the use of such form is then available, to cover resales of Transfer Restricted Securities by the holders thereof who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement. The Company will use its best efforts to cause the Shelf Registration Statement to be declared effective by the Commission on or prior to 90 days from the Closing Date. For purposes of the foregoing, "Transfer Restricted Securities" means each Debenture and any underlying share of Common Stock until the date on which such Debenture or underlying share of Common Stock has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement, the date on which such Debenture or underlying share of Common Stock is distributed to the public pursuant to Rule 144 under the Securities Act or on the date such Debenture or share of Common Stock may be sold or transferred pursuant to Rule 144(k) (or any similar provisions then in force).

If (i) the applicable Shelf Registration Statement is not filed with the Commission on or prior to 60 days after the Closing Date, or the applicable Shelf Registration Statement has not been declared effective by the Commission within 90 days after the Closing Date, or (ii) the Shelf Registration Statement is filed and declared effective but shall thereafter cease to be effective without being succeeded immediately by an additional registration statement filed and declared effective (each such event referred to in clauses (i) and (ii), a "Registration Default"), the Company will pay liquidated damages to each Holder of Transfer Restricted Securities. The amount of liquidated damages payable during any period during which a Registration Default shall have occurred and be continuing is that amount which is equal to one-quarter of one percent (25 basis points) per annum per $1,000 principal amount of Debentures or $.07 per annum per share of Common Stock (subject to adjustment in the event of stock splits, stock recombinations, stock dividends and the like) constituting Transfer Restricted Securities. All accrued liquidated damages shall be paid to holders of Debentures by wire transfer of immediately available funds or by federal funds check by the Company on each Damages Payment Date (as defined in the Registration Rights Agreement). Following the cure of a Registration Default, liquidated damages will cease to accrue with respect to such Registration Default.

Holders of the Debentures will be required to make certain representations to the Company (as described in the Registration Rights Agreement) in connection with the Shelf Registration Statement within the time periods set forth in the Registration Rights Agreement in order to have their Debentures and Common Stock included in the Shelf Registration Statement.

The Company shall cause the Shelf Registration Statement to be effective for a period of three years from the effective date thereof or such shorter period that will terminate when each of the Transfer Restricted Securities covered by the Registration Statement ceases to be a Transfer Restricted Security.

The foregoing summary of certain provisions of the Registration Rights Agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Registration Rights Agreement. Copies of the Registration Rights Agreement are available from the Company or the Initial Purchasers upon request.

ABSENCE OF PUBLIC MARKET

The Debentures have not been registered under the Securities Act and will be subject to significant restrictions on resale. See "Notice to Investors." There is no existing market for the Debentures and there can be no assurance as to the liquidity of any markets that may develop for the Debentures, the ability of the holders to sell their Debentures or at what price holders of the Debentures will be able to sell their Debentures. Future trading prices of the Debentures will depend upon many factors including, among other things, prevailing interest rates, the Company's operating results, the price of the Common Stock and the market for similar securities. The Initial Purchasers have informed the Company that they intend to make a market in the Debentures offered hereby; however, the Initial Purchasers are not obligated to do so and any such market making activity may be terminated at any time without notice to the holders of the Debentures. See "-- Registration Rights; Liquidated Damages." The Debentures have been designated for trading in the PORTAL Market; however, the Company does not intend to apply for listing of the Debentures on any securities exchange.

DESCRIPTION OF CAPITAL STOCK

The Company's authorized capital stock consists of 25,000,000 shares of Common Stock, par value $.01 per share, and 500,000 shares of Preferred Stock,

par value $.01 per share. No shares of Preferred Stock are outstanding. Certain Preferred Stock Purchase Rights were distributed pursuant to a dividend distribution declared April 10, 1992, and 50,000 shares of Preferred Stock were designated and reserved as Series A Junior Participating Preferred Stock for issuance upon exercise of such rights. As of October 31, 1995, 10,934,080 shares of Common Stock (including 88,572 shares held in escrow) were outstanding and held by approximately 950 shareholders of record.

COMMON STOCK

Subject to the prior rights of any shares of Preferred Stock which may be issued in the future, the holders of the Common Stock are entitled to receive dividends as and when declared by the Board of Directors out of funds legally available for dividends, and, in the event of liquidation, dissolution or winding up of the Company, to share ratably in all assets remaining after payment of liabilities. The holders of the Common Stock are entitled to one vote for each share of Common Stock held of record on all matters submitted to a vote of shareholders. Since holders of Common Stock do not have cumulative voting rights, holders of more than 50% of the outstanding shares of Common Stock present and voting at an annual meeting at which a quorum is present can elect all the directors of the Company. The holders of Common Stock have no preemptive rights or conversion rights and are not subject to further calls or assessments by the Company. There are no redemption or sinking fund provisions applicable to the Common Stock.

The Transfer Agent for the Company's Common Stock is The Bank of New York.

PREFERRED STOCK

The Board of Directors is authorized to issue shares of Preferred Stock from time to time in one or more classes or series and to fix by resolution or resolutions (without further stockholder action) the voting rights, if any, and the designations, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, including, without limitation, the dividend rights, conversion rights, rights and terms of redemption (including sinking fund provisions) and liquidation rights of each such class or series. In addition, the Board of Directors is empowered to determine the number of shares constituting each class and series of Preferred Stock and, subject to compliance with applicable law, to increase or decrease the number of shares of each such class or series. The Board of Directors may, without shareholder approval, issue Preferred Stock with voting and conversion rights which could adversely affect the voting power of holders of Common Stock.

PREFERRED STOCK PURCHASE RIGHTS

The description of certain Preferred Stock Purchase Rights distributed pursuant to a dividend distribution declared by the Company's Board of Directors on April 10, 1992, and of the shares of Series A Junior Participating Preferred Stock reserved for issuance upon exercise of such Rights, is incorporated by reference to Item 1 of the Company's Form 8-A, dated April 10, 1992, filed with the Securities and Exchange Commission on April 13, 1992.

The Preferred Stock Purchase Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of the Rights being acquired. The Rights should not interfere with any merger or other business combination approved by the Board of Directors since the Rights may be redeemed by the Company.

CERTAIN PROVISIONS OF THE COMPANY'S CERTIFICATE AND BY-LAWS

The Company's Certificate of Incorporation (as amended, the "Certificate") provides that the Board of Directors consists of three classes of directors serving for staggered three-year terms. As a result, one-third of the Company's Board of Directors will be elected each year. The classified board provision could prevent a party who acquires control of a majority of the outstanding voting stock of the Company from obtaining control of the Board of Directors until the second annual stockholders meeting following the date the acquirer obtains the controlling interest. Subject to the rights of holders of Preferred Stock of the Company, any vacancy on the Board of Directors may be filled only by the remaining directors then in office.

The Company has 500,000 authorized and unissued shares of Preferred Stock. The Certificate grants the Board of Directors broad power to establish the designations, powers, preferences and rights of any series of Preferred Stock. Such stock could be used by the Board of Directors for defensive purposes, including its issuance or sale to third parties or use in recapitalization transactions.

In order for a stockholder to nominate a candidate for director, under the Company's By-laws, timely notice of the nomination must be given to the Company

in advance of the meeting. Such notice must be given in respect to an election to be held at an annual meeting of stockholders not less than 90 days before the anniversary of the immediately preceding annual meeting, and must be given in respect to an election to be held at a special meeting of stockholders within 10 days after the notice of the meeting is given to stockholders. The stockholder filing the notice of nomination must describe various matters regarding the nominee, including such information as name, address, occupation and shares held.

In order for a stockholder to bring other business before an annual stockholder meeting, timely notice must be received by the Company not less than 60 days nor more than 90 days before the meeting (but if the Company gives less than 70 days notice of the meeting, then such notice must be received within 10 days after the notice of the meeting is mailed or other public disclosure of the meeting is made). Such notice must include a description of the proposed business, the reasons therefore, and other specified matters.

Under the By-laws, special meetings of stockholders may be called only by the Board of Directors or the President of the Company, and may not be called by stockholders. In addition, the Certificate provides that any action required or permitted to be taken by the stockholders of the Company at an annual or special meeting of stockholders must be effected at a duly called meeting and may not be taken or effected by a written consent of the stockholders in lieu thereof.

The By-laws may be amended by the Board of Directors or by affirmative vote of the holders of two-thirds of the stock issued and outstanding and entitled to vote thereon. Certain provisions of the Certificate, including provisions concerning the classified Board of Directors and the ability of stockholders to take action only at an annual or special meeting of stockholders, may only be amended by the affirmative vote of the holders of two-thirds of the stock issued and outstanding and entitled to vote thereon. The foregoing summary is qualified in its entirety by reference to the full text of the Company's Certificate and By-laws.

These provisions are designed in part to make it more difficult and time-consuming to obtain majority control of the Board of Directors of the Company or otherwise to bring a matter before stockholders without the Board's consent, and thus reduce the vulnerability of the Company to an unsolicited takeover proposal.

These provisions are designed to enable the Company to develop its business in a manner which will foster its long-term growth, with the threat of a takeover not deemed by the Board to be in the best interest of the Company and its stockholders and the potential disruption entailed by such a threat reduced to the extent practicable. On the other hand, these provisions may have an adverse effect on the ability of stockholders to influence the governance of the Company and the possibility of stockholders receiving a premium above market price for their securities from a potential acquiror who is unfriendly to management.

DELAWARE GENERAL CORPORATION LAW SECTION 203

As a corporation organized under the laws of the State of Delaware, the Company is subject to Section 203 of the Delaware General Corporation Law which restricts certain business combinations between the Company and an "interested stockholder" (in general, a stockholder owning 15% or more of the Company's outstanding voting stock) or its affiliates or associates for a period of three years following the date on which the stockholder becomes an "interested stockholder." The restrictions do not apply if (i) prior to an interested stockholder becoming such, the Board of Directors approves either the business combination or the transaction in which the stockholder becomes an interested stockholder (ii) upon consummation of the transaction in which any person becomes an interested stockholder, such interested stockholder owns at least 85% of the voting stock of the Company outstanding at the time the transaction commences (excluding shares owned by certain employee stock ownership plans and persons who are both directors and officers of the Company) or (iii) on or subsequent to the date an interested stockholder becomes such, the business combination is both approved by the Board of Directors and authorized at an annual or special meeting of the Company's stockholders, not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock not owned by the interested stockholder.

REGISTRATION RIGHTS

In September 1994, the Company entered into registration rights agreements with certain stockholders in connection with the issuance of common stock to Shamrock Investors and the merger of J.P. Cole & Associates, Inc. and Paragon Ambulatory Surgery, Inc. into the Company. Under these registration rights agreements, Shamrock Investors has the right to demand one registration on Form S-3 of the shares of Common Stock held by it. In addition, Shamrock Investors, Charles P. Reilly, Michael E. Gallagher, Jonathan Spees and John P. Cole have certain "piggy-back" registration rights under the Securities Act with respect to the Common Stock held by such stockholders. Accordingly, if the Company

proposes to effect certain registrations of its securities under the Securities Act, the Company is required to notify such stockholders and to include in such registration all of the shares of Common Stock requested to be included by such stockholders, subject to the right of an underwriter participating in the offering to limit the number of shares included in such registration. The Company shall not be required to include such shares in an underwriting unless the holders thereof enter into an underwriting agreement upon terms and conditions agreed upon by the Company and the underwriter (except as to monetary obligations of the holders not contemplated by the registration rights agreements). Any such stockholders requesting registration shall pay their own expenses and shall bear, on a pro rata basis with other requesting stockholders, all incremental registration expenses that result from the inclusion of such shares in a registration.

The Company may delay, suspend or withdraw any registration or qualification of securities required pursuant to the registration rights agreements for a period not exceeding 120 days if the Company determines in good faith that any such registration would adversely affect an offering or contemplated offering of any securities of the Company or any other contemplated material corporate event. In addition, the Company shall not be required to effect more than one registration in any twelve-month period in which such stockholders were afforded the opportunity to register securities.

The holders of such registration rights, covering in the aggregate 955,714 shares of Common Stock (including shares issuable upon the exercise of options or the conversion of convertible securities), may request that the Company include some or all of the registrable securities held by them in the Shelf Registration Statement to be filed following completion of this offering. See "Description of Debentures -- Registration Rights; Liquidated Damages."

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a general discussion of certain United States federal income tax considerations relevant to holders of the Debentures. This discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, Internal Revenue Service ("IRS") rulings, and judicial decisions now in effect, all of which are subject to change (possibly with retroactive effect) or different interpretations.

This discussion does not deal with all aspects of United States federal income taxation that may be relevant to holders of the Debentures or shares of Common Stock and does not deal with tax consequences arising under the laws of any foreign, state or local jurisdiction. This discussion is for general information only, and does not purport to address all of the tax consequences that may be relevant to particular purchasers in light of their personal circumstances, or to certain types of purchasers (such as certain financial institutions, insurance companies, tax-exempt entities, dealers in securities or persons who hold the Debentures or Common Stock in connection with a straddle) who may be subject to special rules. This discussion assumes that each holder holds the Debentures and the shares of Common Stock received upon conversion thereof as capital assets.

For the purpose of this discussion, a "Non-U.S. Holder" refers to any holder who is not a United States person. The term "United States person" means a citizen or resident of the United States, a corporation or partnership created or organized in the United States or any state thereof, or an estate or trust, the income of which is includible in income for United States federal income tax purposes regardless of its source.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THEIR PARTICIPATION IN THIS OFFERING, OWNERSHIP AND DISPOSITION OF THE DEBENTURES, INCLUDING CONVERSION OF THE DEBENTURES, AND THE EFFECT THAT THEIR PARTICULAR CIRCUMSTANCES MAY HAVE ON SUCH TAX CONSEQUENCES.

OWNERSHIP OF THE DEBENTURES

INTEREST ON DEBENTURES. Interest paid on a Debenture will be taxable to a holder as ordinary interest income in accordance with the holder's method of tax accounting at the time that such interest is accrued or (actually or constructively) received. The Company anticipates that the Debentures will not be issued with original issue discount ("OID") within the meaning of the Code.

CONSTRUCTIVE DIVIDEND. Certain corporate transactions, such as distributions of cash to holders of Common Stock, may cause a deemed distribution to the holders of the Debentures if the conversion price or conversion ratio of the Debentures is adjusted to reflect such corporate transaction. Such deemed distributions will be taxable as a dividend, return of capital, or capital gain in accordance with the earnings and profits rules discussed under "Dividends on Shares of Common Stock."

SALE OR EXCHANGE OF DEBENTURES OR SHARES OF COMMON STOCK. In general, a

holder of a Debenture will recognize gain or loss upon the sale, redemption, retirement or other disposition of the Debenture measured by the difference between the amount of cash and the fair market value of any property received (except to the extent attributable to the payment of accrued interest) and the holder's adjusted tax basis in the Debenture. A holder's tax basis in a Debenture generally will equal the cost of the Debenture to the holder increased by the amount of market discount, if any, previously taken into income by the holder or decreased by any bond premium theretofore amortized by the holder with respect to the Debenture. (For the basis and holding period of shares of Common Stock, see "Conversion of Debentures.") In general, each holder of Common Stock into which the Debentures have been converted will recognize gain or loss upon the sale, exchange, redemption, or other disposition of the Common Stock under rules similar to those applicable to the Debentures. Special rules may apply to redemptions of Common Stock which may result in the amount paid being treated as a dividend. Subject to the market discount rules discussed below, the gain or loss on the disposition of the Debentures or shares of Common Stock will be capital gain or loss and will be long-term gain or loss if the Debentures or shares of Common Stock have been held for more than one year at the time of such disposition.

CONVERSION OF DEBENTURES. A holder of a Debenture will not recognize gain or loss on the conversion of the Debenture into shares of Common Stock, except to the extent that the Common Stock issued upon the conversion is attributable to accrued interest on the Debenture. The holder's aggregate tax basis in the shares of Common Stock received upon conversion of the Debenture will be equal to the holder's aggregate basis in the Debenture exchanged therefor (less any portion thereof allocable to cash received in lieu of a fractional share). The holding period of the shares of Common Stock received by the holder upon conversion of the Debenture will include the period during which the holder held the Debenture prior to the conversion.

Cash received in lieu of a fractional share of Common Stock should be treated as a payment in exchange for such fractional share. Gain or loss recognized on the receipt of cash paid in lieu of such fractional shares generally will equal the difference between the amount of cash received and the amount of tax basis allocable to the fractional shares.

MARKET DISCOUNT. The resale of a Debenture may be affected by the "market discount" provisions of the Code. For this purpose, the market discount on a Debenture will generally be equal to the amount, if any, by which the stated redemption price at maturity of the Debenture immediately after its acquisition exceeds the holder's tax basis in the debenture. Subject to a de minimis exception, these provisions generally require a holder of a Debenture acquired at a market discount to treat as ordinary income any gain recognized on the disposition of such Debenture to the extent of the "accrued market discount" on such Debenture at the time of disposition. In general, market discount on a Debenture will be treated as accruing on a straight-line basis over the term of such Debenture, or, at the election of the holder, under a constant yield method.

In addition, any holder of a Debenture acquired at a market discount may be required to defer the deduction of a portion of the interest on any indebtedness incurred or maintained to purchase or carry the Debenture until the Debenture is disposed of in a taxable transaction. The foregoing rule will not apply if the holder elects to include accrued market discount in income currently.

If a holder acquires the Debenture at a market discount and receives Common Stock upon conversion of the Debenture, the amount of accrued market discount with respect to the converted Debenture through the date of the conversion will be treated, under regulations to be issued, as ordinary income on the disposition of the Common Stock.

DIVIDENDS ON SHARES OF COMMON STOCK. Distributions on shares of Common Stock will constitute dividends for United States federal income tax purposes to the extent of current or accumulated earnings and profits of the Company as determined under United States federal income tax principles. Dividends paid to holders that are United States corporations may qualify for the dividends-received deduction. Individuals, partnerships, trusts, and certain corporations, including certain foreign corporations, are not entitled to the dividends-received deduction.

To the extent, if any, that a holder receives a distribution on shares of Common Stock that would otherwise constitute a dividend for United States federal income tax purposes but that exceeds current and accumulated earnings and profits of the Company, such distribution will be treated first as a non-taxable return of capital reducing the holder's basis in the shares of Common Stock. Any such distribution in excess of the holder's basis in the shares of Common Stock will be treated as a capital gain.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS APPLICABLE TO NON-U.S. HOLDERS

INTEREST ON DEBENTURES. Generally, interest paid on the Debentures to a

Non-U.S. Holder will not be subject to United States federal income tax if: (i) such interest is not effectively connected with the conduct of a trade or business within the United States by such Non-U.S. Holder; (ii) the Non-U.S. Holder does not actually or constructively own 10% or more of the total voting power of all classes of stock of the Company entitled to vote and is not a controlled foreign corporation with respect to which the Company is a "related person" within the meaning of the Code; and (iii) the beneficial owner, under penalty of perjury, certifies that he or she is not a United States person and provides his or her name and address. If certain requirements are satisfied, the certification described in paragraph (iii) above may be provided by a securities clearing organization, a bank, or other financial institution that holds customers' securities in the ordinary

course of its trade or business. For this purpose, the holder of a Debenture would be deemed to own constructively the Common Stock into which it could be converted. If a holder is not exempt from tax under these rules, he or she will be subject to United States federal income tax withholding at a rate of 30% unless the interest is effectively connected with the conduct of a United States trade or business, in which case the interest will be subject to the United States federal income tax on net income that applies to United States persons generally. Non-U.S. Holders should consult applicable income tax treaties, which may provide different rules.

SALE OR EXCHANGE OF DEBENTURES OR SHARES OF COMMON STOCK. A Non-U.S. Holder generally will not be subject to United States federal income tax on gain recognized upon the sale or other disposition (including a redemption) of a Debenture or shares of Common Stock received upon conversion thereof (including the receipt of cash in lieu of a fractional share upon such conversion) unless (i) the gain is effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder, or (ii) in the case of a Non-U.S. Holder who is a nonresident alien individual and holds the Common Stock as a capital asset, such holder is present in the United States for 183 or more days in the taxable year and certain other circumstances are present. If the Company is a "United States real property holding corporation," a Non-U.S. Holder may be subject to federal income tax with respect to gain realized on the disposition of such Debentures or Common Stock, and the proceeds of disposition would be subject to withholding. Any amount withheld pursuant to these rules will be creditable against such Non-U.S. Holder's United States federal income tax liability and may entitle such Non-U.S. Holder to a refund upon furnishing the required information to the Internal Revenue Service. Non-U.S. Holders should consult applicable income tax treaties, which may provide different rules.

CONVERSION OF DEBENTURES. A Non-U.S. Holder generally will not be subject to United States federal income tax on the conversion of a Debenture into shares of Common Stock. To the extent a Non-U.S. Holder receives cash in lieu of a fractional share on conversion, such cash may give rise to gain that would be subject to the rules described above with respect to the sale or exchange of a Debenture or Common Stock.

DIVIDENDS ON SHARES OF COMMON STOCK. Generally, any distribution on shares of Common Stock to a Non-U.S. Holder will be subject to United States federal income tax withholding at a rate of 30% unless the dividend is effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder, in which case the dividend will be subject to the United States federal income tax on net income that applies to United States persons generally (and, with respect to corporate holders and under certain circumstances, the branch profits tax). Non-U.S. Holders should consult any applicable income tax treaties, which may provide for a lower rate of withholding or other rules different from those described above. A Non-U.S. Holder may be required to satisfy certain certification requirements in order to claim treaty benefits or otherwise claim a reduction of or exemption from withholding under the foregoing rules.

INFORMATION REPORTING AND BACKUP WITHHOLDING

U.S. HOLDERS. Information reporting and backup withholding may apply to payments of interest or dividends on or the proceeds of the sale or other disposition of the Debentures or shares of Common Stock made by the Company with respect to certain noncorporate U.S. holders. Such U.S. holders generally will be subject to backup withholding at a rate of 31% unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information, or otherwise establishes, in the manner prescribed by law, an exemption from backup withholding. Any amount withheld under backup withholding is allowable as a credit against the U.S. holder's federal income tax, upon furnishing the required information.

NON-U.S. HOLDERS. Generally, information reporting and backup withholding of United States federal income tax at a rate of 31% may apply to payments of principal, interest and premium (if any) to Non-U.S. Holders if the payee fails to certify that he or she is a Non-U.S. person or if the Company or any of its paying agents has actual knowledge that the payee is a United States person.

The 31% backup withholding tax generally will not apply to dividends paid to foreign holders outside the United States that are subject to 30% withholding discussed above or that are not so subject because a

tax treaty applies that reduces or eliminates such withholding. In that regard, under temporary regulations, dividends payable at an address located outside of the United States to a foreign holder are not subject to the backup withholding rules.

The payment of the proceeds on the disposition of Debentures or shares of Common Stock to or through the United States office of a United States or foreign broker will be subject to information reporting and backup withholding at a rate of 31% unless the owner provides the certification described above or otherwise establishes an exemption. The proceeds of the disposition by a Non-U.S. Holder of Debentures or shares of Common Stock to or through a foreign office of a broker will not be subject to backup withholding. However, if such broker is a U.S. person, a controlled foreign corporation for United States tax purposes, or a foreign person 50% or more of whose gross income from all sources for certain periods is from activities that are effectively connected with a United States trade or business, information reporting will apply unless such broker has documentary evidence in its files of the owner's foreign status and has no actual knowledge to the contrary or unless the owner otherwise establishes an exemption. Both backup withholding and information reporting will apply to the proceeds from such dispositions if the broker has actual knowledge that the payee is a U.S. holder.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in the Purchase Agreement dated the date hereof, each Initial Purchaser named below has severally agreed to purchase, and the Company has agreed to sell to such Initial Purchaser, the principal amount of Debentures set forth opposite the name of such Initial Purchaser below.

<TABLE>
<CAPTION>

INITIAL PURCHASER	PRINCIPAL AMOUNT
<S>	<C>
.....	$ 30,000,000
.....	30,000,000
Total.....	$ 60,000,000

</TABLE>

The Initial Purchasers are obligated to take and pay for the total principal amount of Debentures offered hereby (other than those covered by the over-allotment option described below) if any are taken.

The Company has been advised by the Initial Purchasers that the Initial Purchasers propose to offer the Debentures offered hereby initially at the price set forth on the cover page hereof to Qualified Institutional Buyers in reliance on Rule 144A under the Securities Act, and outside the United States to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. See "Notice to Investors." After the initial offering, the price to investors may be changed by the Initial Purchasers.

The Initial Purchasers have agreed that, except as set forth above, they will not offer, sell or deliver the Debentures (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the last closing date with respect to the Debentures, within the United States or to, or for the account or benefit of U.S. persons, and the Initial Purchasers will have sent to each dealer to which they sell Debentures during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Debentures within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them in Regulation S under the Securities Act. Resales of the Debentures and the Common Stock issuable upon conversion of the Debentures are restricted as described under "Notice to Investors."

In addition, until 40 days after the later of the commencement of the offering and the last closing date with respect to the Debentures, an offer or sale of the Debentures within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another valid exemption therefrom.

Each Initial Purchaser has represented to and agreed with the Company and

the other Initial Purchaser that (i) it has not offered or sold and prior to the date that is six months after the closing date with respect to

the offering being made hereby will not offer or sell any Debentures to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not constituted and will not constitute an offer to the public within the meaning of the Public Offers of Securities Regulations 1995 (the "Regulations"), (ii) it has complied with and will comply with all applicable provisions of the Financial Services Act 1986 and the Regulations with respect to anything done by it in relation to the Debentures in, from, or otherwise involving the United Kingdom, and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document in connection with the offer of the Debentures to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom such document may otherwise lawfully be issued or passed on.

The Company has granted to the Initial Purchasers an option, exercisable for 30 days from the date of this Offering Memorandum, to purchase up to an additional $9,000,000 aggregate principal amount of the Debentures at the offering price set forth on the cover page hereof less discounts and commissions. The Initial Purchasers may exercise such option to purchase an additional aggregate principal amount of Debentures solely for the purpose of covering over-allotments, if any, incurred in connection with the sale of the Debentures offered hereby.

The Company and the Initial Purchasers have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

The Debentures have not been registered under the Securities Act and may not be offered or sold except as set forth above. The Initial Purchasers have advised the Company that they presently intend to make a market in the Debentures; however, they are not obligated to do so and any such market-making activity may be discontinued at any time without notice. Accordingly, no assurance can be given as to the liquidity of or the trading market for the Debentures.

The Debentures have been designated for trading in the PORTAL Market.

The Company and each of its officers and directors and certain of its stockholders, holding in the aggregate 3,186,834 shares of Common Stock outstanding as of October 31, 1995, have agreed that for a period of 120 days after the date of this Offering Memorandum they will not, without the prior written consent of , sell, offer to sell, contract to sell or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable for any shares of Common Stock except, in the case of the Company, in certain limited circumstances.

NOTICE TO INVESTORS

Each purchaser of Debentures from the Initial Purchasers, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Company and the Initial Purchasers as follows:

1. It understands and acknowledges that the Debentures are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A under the Securities Act, that the Debentures and the Common Stock issuable upon conversion of the Debentures (the Debentures and such Common Stock are collectively referred to herein as the "Restricted Securities") have not been registered under the Securities Act or any other applicable securities law and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in a transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

2. It is either:

   a. a "qualified institutional buyer" as defined in Rule 144A promulgated under the Securities Act (a "QIB"), and is aware that any sale of the Debentures to it will be made in reliance on Rule 144A. Such acquisition will be for its own account or for the account of another QIB; or

b. an institution that, at the time the buy order for the Debentures was originated, was outside the United States and was not a U.S. person (and was not purchasing for the account or benefit of a U.S. person) within the meaning of Regulation S under the Securities Act.

3. It acknowledges that neither the Company nor the Initial Purchasers nor any person representing the Company or the Initial Purchasers has made any representation to it with respect to the Company or the offering or sale of any Debentures, other than the information contained in this Offering Memorandum, which has been delivered to it and upon which it is relying in making its investment decision with respect to the Debentures. It has had access to such financial and other information concerning the Company and the Debentures as it has deemed necessary in connection with its decision to purchase the Debentures, including an opportunity to ask questions of and request information from the Company and the Initial Purchasers.

4. It is purchasing the Debentures for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Restricted Securities pursuant to Rule 144A, Regulation S or any exemption from registration available under the Securities Act. It agrees on its own behalf and on behalf of any investor account for which it is purchasing the Debentures and each subsequent holder of the Restricted Securities by its acceptance thereof will agree not to offer, sell or otherwise transfer such Restricted Securities prior to the date which is three years after the later of the date of original issue and the last date on which the Company or any affiliate of the Company was the owner of such Restricted Securities (or any predecessor thereto) (the "Resale Restriction Termination Date") unless such offer, sale or other transfer is (a) to the Company, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) for so long as the Restricted Securities are eligible for resale pursuant to Rule 144A, to a person the holder reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act, or (e) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. Each purchaser acknowledges that the Company and the Trustee or The Bank of New York, as transfer agent of the Company's Common Stock, as applicable, reserve the right prior to any offer, sale or other transfer prior to the Resale Restriction Termination Date of the Restricted Securities pursuant to clauses (d) or (e) above to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Company and the Trustee or The Bank of New York, as transfer agent of the Company's Common Stock, as applicable. Each purchaser acknowledges that each Restricted Security will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES NOT TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS THREE YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATED PERSON OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) UNLESS SUCH OFFER, SALE

OR OTHER TRANSFER IS (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON THE HOLDER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE

SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE [TRUSTEE'S] [TRANSFER AGENT'S] RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE [TRUSTEE] [TRANSFER AGENT]. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE THEN HOLDER OF THIS SECURITY AFTER THE RESALE RESTRICTION TERMINATION DATE.

5. If it is (i) a purchaser in a sale that occurs outside the United States within the meaning of Regulation S under the Securities Act and (ii) a "dealer" or a person "receiving a selling concession, fee or other remuneration" within the meaning of Regulation S under the Securities Act, it acknowledges that until the expiration of the "40-day restricted period" within the meaning of Rule 903(c)(3) of Regulation S under the Securities Act, any offer or sale of the Restricted Securities shall not be made by it within the United States within the meaning of Regulation S or to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902(o) of the Securities Act.

6. It acknowledges that it is not acquiring the Debentures for or on behalf of, and will not transfer the Debentures to, any person considered to be using assets of any pension or welfare plan (as defined in Section 3 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) that is subject to Title I of ERISA or Section 4975 of the Code, except that such a purchase for or on behalf of such a pension or welfare plan shall be permitted:

(a) to the extent such purchase is made by or on behalf of a bank collective investment fund maintained by the purchaser in which no plan (together with any other plans maintained by the same employer organization) has an interest in excess of 10% of the total assets in such collective investment fund and the conditions of Section III of Prohibited Transaction Class exemption 91-38 issued by the Department of Labor are satisfied;

(b) to the extent such purchase is made by or on behalf of an insurance company pooled separate account maintained by the purchaser in which no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total of all assets in such pooled separate account and the conditions of Section III of Prohibited Transaction Class Exemption 90-I issued by the Department of Labor are satisfied;

(c) to the extent that such purchase is made by or on behalf of an "insurance company general account" maintained by the purchaser and the amount of such general account's reserves and liabilities for the general account contract(s) (as such term is used in Prohibited Transaction Class Exemption 95-60 issued by the U.S. Department of Labor) held by or on behalf of any plan, as defined by the annual statement of life insurance companies approved by the National Association of Insurance Commissioners (the "NAIC Annual Statement"), together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of all other plans maintained by the same employer (or any affiliate thereof as defined in Section V(a)(1) of Prohibited Transaction Class Exemption 95-60) or by the same employee organization, as defined

by the NAIC Annual Statement, in the general account does not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with the state of domicile of the insurer and the conditions of Section IV of Prohibited Transaction Class Exemption 95-60 are satisfied; PROVIDED, HOWEVER, that, for purposes of determining whether the foregoing percentage limitation is satisfied, the amount of reserves and liabilities for the general account contract(s) held by or on behalf of a plan shall be determined before reduction for credits on account of any reinsurance ceded on a coinsurance basis; or

(d) to the extent such purchase is made on behalf of such a plan by (i) an investment advisor registered under the Investment Advisers Act of 1940 that had as of the last day of its most recent fiscal year total assets under its management and control in excess of $50 million and had stockholders' or partners' equity in excess of $750,000, as shown in its most recent balance sheet prepared in accordance with generally accepted accounting principles, or (ii) a bank as defined in Section 202(a)(2) of the Investment Advisers Act of 1940 with equity capital in excess of one million dollars as of the last day

of its most recent fiscal year and, in either case, such investment adviser or bank is otherwise a qualified professional asset manager, as such term is used in Prohibition Transaction Exception 84-14 issued by the Department of Labor, and the assets of such plan when combined with the assets of other plans established or maintained by the same employer (or affiliate thereof) or employee organization and managed by such investment advisor or bank represent no more than 20% of the total client assets managed by such investment advisor or bank and the conditions of Part I of such exemption are otherwise satisfied.

7. It acknowledges that the Company, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or warranties deemed to have been made by it by its purchase of Debentures are no longer accurate, it shall promptly notify the Initial Purchasers and the Company. If it is acquiring any Debentures as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

LEGAL MATTERS

The validity of the issuance of the Debentures offered hereby and the Common Stock issuable upon conversion of the Debentures will be passed upon for the Company by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), Washington, D.C. Certain legal matters in connection with this offering will be passed upon for the Initial Purchasers by Dewey Ballantine, New York, New York.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company as of and for the year ended April 30, 1995, included in this Offering Memorandum, have been audited by Coopers & Lybrand L.L.P., independent certified public accountants, as stated in their report appearing herein. That report includes an explanatory paragraph regarding the adjustments described in the first paragraph of Note 8 to those consolidated financial statements that were applied to retroactively restate the 1995, 1994 and 1993 consolidated financial statements and footnotes thereto for the effects of a two-for-one stock split effected as a stock dividend in November 1995.

The consolidated financial statements of the Company as of April 30, 1994 and 1993 and for each of the years in the two-year period ended April 30, 1994, included in this Offering Memorandum but prior to the adjustments described in the first paragraph of Note 8 to those consolidated financial statements that were applied to retroactively restate the 1994 and 1993 consolidated financial statements and footnotes thereto for the effects of a 2-for-1 stock split effected as a stock dividend in November 1995, have been audited by KPMG Peat Marwick LLP, independent certified public accountants, as stated in their report appearing herein.

On January 9, 1995, the Company solicited Statements of Qualifications from several independent accounting firms, including KPMG Peat Marwick LLP, the Company's public accountants for the fiscal years ended April 30, 1994 and April 30, 1993, to provide audit services for its consolidated financial statements for the year ended April 30, 1995. On January 11, 1995, KPMG Peat Marwick LLP indicated that it had decided not to stand for re-appointment and, therefore, would not submit a Statement of Qualifications. The decision to solicit proposals to perform audit services was recommended by the Audit Committee and approved by the Board of Directors.

The audit reports of KPMG Peat Marwick LLP on the Company's consolidated financial statements as of and for the fiscal years ended April 30, 1994 and 1993 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principle except with respect to the Company's adoption of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, in fiscal year ended April 30, 1994. In addition, during fiscal year 1993 and 1994 and any subsequent interim period during which KPMG Peat Marwick LLP served as the Company's independent public accountants, there were no disagreements with KPMG Peat Marwick LLP on any matter of accounting principles, or practices, financial statement disclosure, or auditing scope or procedures which, if not satisfied to KPMG Peat Marwick LLP's satisfaction, would have caused it to make a reference to the subject matter of the disagreement in connection with its reports. In connection with its audit of the Company's consolidated financial statements for the fiscal year ended April 30, 1994, KPMG Peat Marwick LLP issued a letter relating to internal controls to the Board of Directors that identified what KPMG Peat Marwick LLP considered to be a reportable condition relating to timely financial reporting and the Company's accounting decision-making process.

On March 17, 1995, the Company engaged Coopers & Lybrand L.L.P. as the Company's independent accounting firm to provide audit services for the Company's consolidated financial statements.

AVAILABLE INFORMATION

Each purchaser of the Debentures from the Initial Purchasers will be furnished with a copy of this Offering Memorandum and any related amendments or supplements to this Offering Memorandum (as so

amended or supplemented, unless the context otherwise requires, the "Offering Memorandum"). Each person receiving this Offering Memorandum acknowledges that (i) such person has been afforded an opportunity to request from the Issuers, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein, (ii) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision and (iii) except as provided pursuant to (i) above, no person has been authorized to give any information or to make any representation concerning the Debentures offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by the Company or the Initial Purchasers. While any Debentures remain outstanding, the Company will make available, upon request, to any holder and any prospective purchaser of Debentures the information required pursuant to Rule 144A(d)(4) under the Securities Act during any period in which the Company is not subject to Section 13 or 15(d) of the Exchange Act. Any such request and requests for the agreements summarized herein should be directed to: Anthony M. Picini, Senior Vice President and Chief Financial Officer of the Company, at 11440 Commerce Park Drive, Reston, Virginia 22091 (telephone number 703-758-3600).

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files periodic reports, proxy statements and other information with the Commission. Such reports and other information filed by the Company with the Commission in accordance with the Exchange Act may be inspected, without charge, at the Public Reference Section of the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the regional offices of the Commission located at 7 World Trade Center, 13th Floor, New York, New York 10048 and at Citicorp Center, 500 West Madison Street, Chicago, Illinois 60661. Copies of all or any portion of the material may be obtained from the Public Reference Section of the Commission upon payment of the prescribed fees. Such materials can also be inspected at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents previously filed with the Commission by the Company pursuant to the Exchange Act are incorporated by reference in this Offering Memorandum and made a part hereof: the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 1995; the Company's Quarterly Reports on Form 10-Q for the quarter ended July 31, 1995 and the quarter ended October 31, 1995; the Company's Current Reports on Form 8-K dated January 11, 1995, March 22, 1995 and November 30, 1995; and the description of the Company's Common Stock contained in the Company's Registration Statement on Form 8-A dated July 20, 1992, including any amendments or reports filed for the purpose of updating such description.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date hereof and prior to the termination of the Offering shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

The Company will provide without charge to any person to whom this Offering Memorandum is delivered, upon written or oral requests of such person, a copy of any or all of the documents which have been incorporated by reference in this Offering Memorandum, other than exhibits to such documents unless such exhibits are specifically incorporated by reference into the documents so incorporated. Requests for such copies should be directed to: Anthony M. Picini, Senior Vice President and Chief Financial Officer of the Company, at 11440 Commerce Park Drive, Reston, Virginia 22091 (telephone number 703-758-3600).

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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<CAPTION>

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
PHP Healthcare Corporation:

We have audited the consolidated balance sheet of PHP Healthcare Corporation and subsidiaries as of April 30, 1995 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Company as of April 30, 1994 and for each of the years in the two-year period ended April 30, 1994, prior to the restatement described in the following paragraph, were audited by other auditors whose report thereon, dated September 12, 1994, expressed an unqualified opinion on those statements and also included an explanatory paragraph related to the adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," in fiscal year 1994.

We also audited the adjustments described in the first paragraph of Note 8 that were applied to retroactively restate the 1995, 1994 and 1993 consolidated financial statements and footnotes thereto for the effects of a two-for-one stock split effected as a stock dividend in November, 1995. In our opinion, such adjustments are appropriate and have been properly applied to the 1995, 1994 and 1993 consolidated financial statements and footnotes thereto.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PHP Healthcare Corporation and subsidiaries as of April 30, 1995 and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Washington, D.C.
July 6, 1995, except for the first paragraph of Note 8
as to which the date is November 20, 1995.

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
PHP Healthcare Corporation:

We have audited the consolidated balance sheet of PHP Healthcare Corporation and subsidiaries as of April 30, 1994, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended April 30, 1994. These consolidated financial statements

are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PHP Healthcare Corporation and subsidiaries at April 30, 1994, and the results of their operations and their cash flows for each of the years in the two-year period ended April 30, 1994, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 6 to the consolidated financial statements, the Company adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", in fiscal year 1994.

KPMG PEAT MARWICK LLP

Washington, D.C.
September 12, 1994

PHP HEALTHCARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

APRIL 30, 1994 AND 1995

ASSETS

<TABLE>
<CAPTION>

<S>	1994 <C>	1995 <C>
	(IN THOUSANDS, EXCEPT SHARE DATA)	
Current assets:		
Cash and cash equivalents	$ 2,370	$ 1,178
Accounts receivable, net (note 3)	18,915	24,537
Contract settlement receivable, net (note 3)	6,700	8,022
Pharmaceutical and medical supplies	1,537	1,089
Receivables from officers (note 10)	1,586	2,912
Income tax receivable (note 6)	3,332	592
Other current assets	1,689	2,099
Total current assets	36,129	40,429
Property and equipment, net (note 4)	37,431	23,096
Excess of cost over fair value of net assets acquired, net of accumulated amortization of $1,244 in 1994 and $810 in 1995 (note 9)	12,109	3,092
Deferred income taxes (note 6)	--	1,125
Receivables from officers, net (note 10)	--	885
Other assets	1,442	2,523
	$ 87,111	$ 71,150

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current maturities of notes payable to banks (note 5)	$ 2,534	$ 1,368
Current maturities of notes payable -- other (note 5)	2,055	879
Accounts payable	7,944	6,405
Claims payable -- medical services	6,388	6,000
Accrued salaries and benefits	7,374	8,129
Deferred income taxes (note 6)	--	1,507
Billings in excess of costs	2,098	719
Total current liabilities	28,393	25,007
Notes payable to banks, net of current maturities (note 5)	36,469	23,280
Notes payable -- other, net of current maturities (note 5)	3,174	1,174
Deferred gain on sale of building (note 9)	--	1,085
Deferred lease obligation (note 11)	207	272

Total liabilities	68,243	50,818
Minority interest (note 9)	1,572	4
Stockholders' equity (notes 7, 8, 9 and 10):		
Preferred stock, $.01 par value, 500,000 shares authorized, none issued	--	--
Common stock, $.01 par value, 25,000,000 shares authorized, 14,141,702 and 14,146,702 shares issued in 1994 and 1995, respectively	141	141
Additional paid-in-capital	27,723	29,373
Note receivable from sale of stock (note 7)	--	(900)
Retained deficit	(2,522)	(1,570)
Treasury stock, 3,990,084 common shares in 1994 and 3,330,020 common shares in 1995, at cost	(8,046)	(6,716)
Total stockholders' equity	17,296	20,328
Commitments and contingencies (notes 3, 5, 10, and 11)		
	$ 87,111	$ 71,150

</TABLE>

See accompanying notes to consolidated financial statements.

PHP HEALTHCARE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED APRIL 30, 1993, 1994 AND 1995

<TABLE>
<CAPTION>

	1993	1994	1995
<S>	<C>	<C>	<C>
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Revenues	$ 126,026	$ 148,683	$ 204,131
Direct costs	116,840	140,397	182,053
Gross profit	9,186	8,286	22,078
General and administrative expenses	13,201	16,936	19,660
Operating income (loss)	(4,015)	(8,650)	2,418
Other income (expense):			
Interest expense	(1,071)	(3,288)	(2,209)
Interest income	74	186	422
Miscellaneous income (expense) (note 10)	(325)	(504)	1,015
Minority interest in earnings of subsidiaries	(225)	(213)	(159)
Earnings (loss) before income taxes	(5,562)	(12,469)	1,487
Income tax expense (benefit) (note 6)	(1,806)	(3,135)	535
Net earnings (loss)	$ (3,756)	$ (9,334)	$ 952
Net earnings (loss) per common share (note 8):			
Primary	$ (.38)	$ (.93)	$ .09
Fully diluted	$ (.38)	$ (.92)	$ .08
Weighted average number of common shares outstanding (note 8):			
Primary	9,996	10,085	11,226
Fully diluted	9,996	10,117	11,910

</TABLE>

See accompanying notes to consolidated financial statements.

PHP HEALTHCARE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED APRIL 30, 1993, 1994 AND 1995

<TABLE>
<CAPTION>

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	NOTE RECEIVABLE FROM SALE OF STOCK	RETAINED EARNINGS (DEFICIT)	TREASURY STOCK	
	SHARES	AMOUNT				SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
				(IN THOUSANDS)			
Balances at April 30, 1992	14,124	$ 141	$ 27,219	$ --	$ 10,568	3,826	$ (5,302)
Shares issued to directors	18	--	84	--	--	--	--
Purchase of treasury stock	--	--	--	--	--	400	(3,221)
Net loss	--	--	--	--	(3,756)	--	--
Balances at April 30, 1993	14,142	141	27,303	--	6,812	4,226	(8,523)
Treasury stock issued in acquisition	--	--	420	--	--	(236)	477
Net loss	--	--	--	--	(9,334)	--	--
Balances at April 30, 1994	14,142	141	27,723	--	(2,522)	3,990	(8,046)
Shares issued to directors	--	--	60	--	--	(26)	52
Exercise of stock options	4	--	14	--	--	--	--
Treasury stock issued in acquisition	--	--	1,079	--	--	(434)	875
Sale of treasury stock	--	--	497	(900)	--	(200)	403
Net earnings	--	--	--	--	952	--	--
Balances at April 30, 1995	14,146	$ 141	$ 29,373	$ (900)	$ (1,570)	3,330	$ (6,716)

<CAPTION>

	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>
Balances at April 30, 1992	$ 32,626
Shares issued to directors	84
Purchase of treasury stock	(3,221)
Net loss	(3,756)
Balances at April 30, 1993	25,733
Treasury stock issued in acquisition	897
Net loss	(9,334)
Balances at April 30, 1994	17,296
Shares issued to directors	112
Exercise of stock options	14
Treasury stock issued in acquisition	1,954
Sale of treasury stock	--
Net earnings	952
Balances at April 30, 1995	$ 20,328

</TABLE>

See accompanying notes to consolidated financial statements.

PHP HEALTHCARE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30, 1993, 1994 AND 1995

<TABLE>
<CAPTION>

	1993	1994	1995
<S>	<C>	<C>	<C>
		(IN THOUSANDS)	
Cash flows from operating activities:			
Net earnings (loss)	$ (3,756)	$ (9,334)	$ 952
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:			
Minority interest in earnings of subsidiaries	225	213	159
Depreciation and amortization	2,964	4,158	3,401
Increase (decrease) in deferred income taxes	(258)	99	382
Other items, net	589	650	(378)
Changes in operating assets and liabilities, net of effects from purchase/sale of subsidiaries:			

Decrease (increase) in accounts receivable, net	(1,057)	1,439	(6,069)
Increase in contract settlement receivable, net	--	(4,100)	(1,322)
Decrease (increase) in income tax receivable	(1,546)	(1,185)	2,741
Decrease (increase) in pharmaceutical and medical supplies	(645)	(35)	264
Decrease (increase) in other current assets	(331)	1,706	(499)
Increase in other assets	(440)	(681)	(1,081)
Increase (decrease) in accounts payable	2,000	1,672	(1,539)
Increase (decrease) in claims payable	--	1,523	(388)
Increase in accrued salaries and benefits	734	1,815	852
Increase (decrease) in billings in excess of costs	(1,099)	1,616	(1,465)
Increase (decrease) in deferred lease obligation	1	(25)	63
Net cash used in operating activities	(2,619)	(469)	(3,927)
Cash flows from investing activities:			
Acquisition of property and equipment	(11,148)	(20,769)	(6,217)
Net proceeds from the sale of property and equipment	--	--	14,045
Acquisition of property held for sale	(2,021)	--	--
Deposit on acquisition of subsidiary	(3,200)	3,200	--
Acquisition of subsidiaries, net of cash acquired (note 9)	(142)	(3,842)	(811)
Disposition of subsidiaries, net of cash conveyed (note 9)	--	8,992	10,790
Net cash provided by (used in) investing activities	(16,511)	(12,419)	17,807
Cash flows from financing activities:			
Net proceeds under revolving promissory notes	9,017	4,939	6,590
Borrowings on notes payable	20,040	14,102	751
Repayments on notes payable	(6,227)	(5,699)	(20,845)
Receivables from officers	(602)	(1,587)	(1,561)
Purchase of treasury stock	(3,221)	--	--
Issuance of treasury stock to directors	--	--	112
Proceeds from the exercise of stock options	--	--	14
Distributions paid to limited partners	(209)	(485)	(133)
Contributions from limited partners	260	--	--
Net cash provided by (used in) financing activities	19,058	11,270	(15,072)
Net decrease in cash and cash equivalents	(72)	(1,618)	(1,192)
Cash and cash equivalents, beginning of year	4,060	3,988	2,370
Cash and cash equivalents, end of year	$ 3,988	$ 2,370	$ 1,178
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 949	$ 3,203	$ 1,922
Income taxes	16	5	22
Supplemental disclosure of non-cash investing and financing activities (note 9):			
Sale of treasury stock for note receivable	--	--	$ 900
Forfeiture of acquisition note and corresponding excess cost over fair value of assets acquired	--	--	$ 50

</TABLE>

See accompanying notes to consolidated financial statements.

PHP HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 1994 AND 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) ORGANIZATION AND BUSINESS

PHP Healthcare Corporation and its subsidiaries (the Company) operate in a single industry providing health care and related support services primarily on a contractual basis to federal, state and local government agencies, and commercial entities.

In fiscal 1992, the Company commenced the management of ambulatory surgery centers acquired or developed through its majority owned subsidiary, Paragon Ambulatory Surgery, Inc. (Paragon). In fiscal 1995, the Company acquired the remaining ownership interest in Paragon. Immediately thereafter, the Company sold all of its interest in the remaining two ambulatory surgery centers managed by Paragon.

In fiscal 1994, the Company acquired the operations of a health maintenance organization, D.C. Chartered Health Plan, Inc. (CHP), serving the District of Columbia Medicaid and Aid for Families with Dependent Children (AFDC) residents.

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of PHP Healthcare

Corporation and its majority owned subsidiaries. All significant intercompany account balances and transactions have been eliminated in consolidation.

(C) REVENUE RECOGNITION

The Company engages in fixed-price, unit-price, cost-reimbursement-plus-fee, and fixed-rate-labor hour contracts. Revenue on fixed-price contracts and unit-price contracts is recognized using either the percentage-of-completion method or as services are performed based on contracted rates. The percentage-of-completion method measures revenue principally by comparing the cost of services performed to date with the total estimated cost of services required through completion applied to the entire estimated contract value. Revenue on cost-reimbursement-plus-fee contracts is recognized on the basis of direct and indirect costs incurred during the period plus the fee earned. Revenue on fixed-rate-labor hour contracts is recognized as services are performed based on contractual rates.

Billings in excess of costs represents amounts billed in accordance with contract provisions for which future contract services are to be performed.

Costs to complete estimates are reviewed periodically and revised as required. Provisions are made for the full amount of anticipated losses, if any, on all contracts in the period in which they are first determinable.

Costs under cost-reimbursement contracts with the federal government are subject to government audit upon contract completion. Therefore, all contract costs, including direct and indirect expenses, are potentially subject to adjustment prior to final reimbursement. Management believes that adequate provisions for such adjustments, if any, have been made in the accompanying consolidated financial statements. All indirect expense recovery rates for fiscal year 1990 and prior have been approved by the U.S. government.

Patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered primarily based on contractually determined rates.

The percentages of the Company's revenues derived from individual customers comprising more than 10% of consolidated revenues were as follows: 72%, 49% and 33% for 1993, 1994 and 1995, respectively, from the federal government; none, 15% and 22% for 1993, 1994 and 1995, respectively, from the District of Columbia; none, none and 17% for 1993, 1994, and 1995, respectively, from Blue Cross/Blue Shield of New Jersey.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's accounts and contract settlement receivables related to the individual customers noted above are $9.3 million, $9.95 million, and $7.2 million from the federal government, the District of Columbia, and Blue Cross/Blue Shield of New Jersey, respectively, at April 30, 1995.

(D) CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. Cash equivalents consist of money market accounts and certificates of deposit amounting to $1.7 million and $100,000 at April 30, 1994 and 1995, respectively.

(E) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation on buildings, furniture and equipment is computed on a straight-line or accelerated method over estimated useful lives of 3 to 30 years. Leasehold improvements and equipment under capital lease are amortized using the straight-line method over the shorter of the lease term or estimated useful lives of the assets.

Construction in progress consists of all construction related costs, excluding land acquisition cost, incurred for property under development. Depreciation on these properties commences when construction is complete and the assets are placed into service.

Property held for sale, consisting of land and equipment, are stated at the lower of cost or net realizable value. Property held for sale is included as other current assets.

(F) EXCESS OF COST OVER FAIR VALUE OF NET ASSETS ACQUIRED

The excess of the purchase price over the estimated fair value of tangible and identifiable intangible net assets acquired is capitalized and amortized on a straight-line basis over periods of estimated benefit of 10 to 40 years.

Contingent amounts payable related to acquired entities achieving certain profitability goals are recorded as additional excess cost over fair value of assets acquired ($977,000 and $569,000 in 1994 and 1995, respectively) and are amortized on a straight line basis over the remaining amortization period. The Company assesses the recoverability of this intangible asset by determining whether the balance can be recovered through estimated undiscounted future operating cash flows of the acquired operation. The amount of impairment, if any, is measured based on projected discounted future operating cash flows.

(G) PRECONTRACT COSTS

Recoverable costs directly related to contracts incurred prior to commencement of services are capitalized as precontract costs and amortized to contract expense over the estimated period of benefit, generally 1 to 2 years and are included as other current assets.

(H) INCOME TAXES

Effective May 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES (SFAS 109). The cumulative effect of this change in accounting for income taxes on the consolidated financial statements was immaterial. SFAS 109 requires a change from the deferred method of accounting for income taxes. Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pursuant to the deferred method under APB Opinion 11, which was applied in 1993 and prior years, deferred income taxes are recognized for income and expense purposes using the tax rate applicable for the year of the calculation. Under the deferred method, deferred taxes are not adjusted for subsequent changes in tax rates.

(I) HEALTH CARE SERVICES EXPENSE AND CLAIMS PAYABLE

Medical health care services expense includes claims paid and payable and capitation payments paid to certain providers. Claims payable are estimated based on actuarial evaluations of providers' claims submitted and include provisions for incurred but not reported claims. Health care services expense is included as direct costs.

(J) TREASURY STOCK

The Company uses the cost method of accounting for treasury stock. Issuances of treasury stock are relieved from treasury at the then weighted average cost per share. The difference between the issuance value of the shares and the weighted average cost per share is recorded as additional paid-in-capital.

(K) EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding, which are adjusted for the assumed exercise of stock options, stock warrants, and convertible debt, if dilutive. Common share equivalents, which include dilutive stock options and warrants, are computed using the treasury stock method. The convertible debt is computed using the "if converted" method.

(L) RECLASSIFICATIONS

Certain amounts in the 1993 and 1994 consolidated financial statements have been reclassified to conform with the 1995 presentation.

(2) JOINT VENTURE

In February 1992, the Company and Blue Cross of California entered into an agreement to form and fund a joint venture management company in connection with a development effort related to the operation of the CHAMPUS Reform Initiative (CRI) contract for California and Hawaii. As of April 30, 1993, approximately $1.1 million was advanced by the Company to fund incremental direct costs incurred by the management company. On July 28, 1993 the Department of Defense announced the award of the CRI contract to another bidder. Accordingly, in fiscal 1993, the Company wrote-off its investment in the joint venture management company represented by the advances of $1.1 million.

(3) ACCOUNTS RECEIVABLE

Accounts receivable, net includes the following at April 30 (in thousands):

<TABLE>
<CAPTION>

Contract receivables:	1994	1995
<S>	<C>	<C>
Billed:		
Contracts in process	$ 8,508	$ 10,921
Final billings on completed contracts	--	260
Contract claim	1,900	1,900
	10,408	13,081
Unbilled:		
Incurred costs and accrued profits	8,331	11,876
Retainages	154	485
	8,485	12,361
Total contract receivables	18,893	25,442
Patient service receivables	1,554	385
Other receivables	554	748
Total	21,001	26,575
Less allowance for doubtful accounts receivable	(2,086)	(2,038)
Accounts receivable, net	$ 18,915	$ 24,537

</TABLE>

In April 1994, the Company submitted a Request for Equitable Adjustment (REA) under a contract with the Department of the Army for material changes in the nature of the contract requirements from those represented during the contract proposal process. The REA was denied by the Army and the Company has submitted a claim for its increased costs of performance under the contract pursuant to the Contracts Dispute Act of 1978. Billed accounts receivable of $1.9 million as of April 30, 1994 and 1995, have been fully reserved pending further actions by the Board of Contract Appeals.

Substantially all net receivables are expected to be collected within one year.

CONTRACT SETTLEMENT RECEIVABLE

CHP, the Company's wholly owned health maintenance organization, earns substantially all of its revenue under a prepaid Medicaid contract with the D.C. Department of Human Services (DCDHS) to provide health care services to the Medicaid recipients of the District of Columbia. The Medicaid program is jointly funded by the District of Columbia and the Health Care Finance Administration (HCFA) of the Department of Health and Human Services (HHS).

Under a three-year contract ended September 30, 1994, interim payments were provided on an enrollment basis with a final settlement at the end of the contract period, subject to a defined upper payment limit as determined by HCFA of HHS. Final settlement with DCDHS and HCFA is subject to an audit of CHP's activities. The Company believes final settlement should result in amounts due the Company at April 30, 1995 in excess of $20 million, which is expected to be lower than the actual upper payment limit. Due to the complexity inherent in the contract and the definition of the settlement process as provided for in the contract, the Company has recorded amounts due under the contract of $6.7 million and $8.0 million at April 30, 1994 and 1995, which represents the Company's conservative interpretation of amounts due under the contract. The Company believes that final settlement will occur during fiscal 1996. In addition, proposed congressional legislation is pending which upon passage would in management's opinion result in a retroactive entitlement of the full recovery of the settlement receivable.

(3) ACCOUNTS RECEIVABLE (CONTINUED)

Effective October 1, 1994, CHP entered into a new one-year contract with

DCDHS. CHP receives capitation payments for the inpatient services under the risk portion of the contract. Additionally, CHP receives interim payments with an annual final settlement for the other services under the non-risk portion of the contract. At April 30, 1995, CHP recorded accounts receivable of $1.9 million, for the difference between what was due under the contract versus what was received. Final settlement of amounts due under this contract is subject to an audit of the Company's activities by DCDHS.

(4) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at April 30 (in thousands):

<TABLE>
<CAPTION>

	1994	1995
<S>	<C>	<C>
Land	$ 6,451	$ 3,969
Buildings	22,822	9,202
Leasehold improvements	4,807	6,612
Equipment	11,260	12,277
Furniture and fixtures	3,544	3,914
Vehicles	125	125
Construction in progress	178	7
	49,187	36,106
Less accumulated depreciation and amortization	(11,756)	(13,010)
Property and equipment, net	$ 37,431	$ 23,096

</TABLE>

As of April 30, 1994 and 1995, $1,056,000 in furniture and fixtures and related accumulated depreciation of $202,000 and $415,000, respectively, were obligated under capital leases.

Depreciation and amortization expense for property and equipment totaled $2.6 million, $3.6 million and $3.1 million for the years ended April 30, 1993, 1994 and 1995, respectively.

(5) NOTES PAYABLE

(A) NOTES PAYABLE TO BANKS

The notes payable to banks consists of the following at April 30 (in thousands):

<TABLE>
<CAPTION>

	1994	1995
<S>	<C>	<C>
Various term notes, collateralized by certain land, building, fixtures and equipment, with market adjusting interest rates ranging between 6.75% and 7.25% at April 30, 1994, with final payment due dates from March 1995 to February 1998; the Company was released from these obligations in October 1994 (note 9(b))	$ 2,124	--
Term note of $15 million collateralized by all assets, interest due monthly at 1% above bank prime (10% at April 30, 1995), principal due in quarterly installments of $342,000 with final payment due in April 1998	12,857	4,102
Revolving promissory note, collateralized by all assets, with a maximum credit line of $15 million in 1994 and $22 million in 1995, interest due monthly at 1% above bank prime (10% at April 30, 1995), due August 1996	13,956	20,546
Nonrecourse term notes of $10 million, collateralized by certain real property, interest due monthly at 6.25% for the first three years and 8% for the next two years, principal due April 1998, repaid in July 1994 (note 9(c))	9,416	--
Term note of $650,000, collateralized by the assignment of a certificate of deposit of equal amount, interest due monthly at a minimum of the bank's certificate of deposit rate plus 2%, due December 1995, repaid in July 1994	650	--
Total notes payable to banks	39,003	24,648
Less current maturities	(2,534)	(1,368)
Notes payable to banks, net of current maturities	$ 36,469	$ 23,280

</TABLE>

Scheduled maturities of notes payable to banks at April 30, 1995 are as

follows (in thousands): $1,368 in 1996, $21,914 in 1997, and $1,366 in 1998.

The Company repaid $7 million on its term note during fiscal 1995 upon the sale of its office building and two ambulatory surgery centers and as a result, the quarterly term note repayments were reduced to $342,000 from $536,000.

The revolving promissory note contains a letter of credit facility whereby the bank will issue for the account of the Company, irrevocable stand-by letters of credit in connection with certain contract performance requirements. The amount of outstanding stand-by letters of credit reduces the amount of funds available under the revolving note agreement. Under this agreement, the Company had issued stand-by letters of credit amounting to approximately $1 million and $2.2 million at April 30, 1994 and 1995, respectively.

The revolving promissory note functions similar to a line of credit with daily advances and repayments. Accordingly, revolving promissory note activity is presented as a net amount in the consolidated statements of cash flows.

During the year ended April 30, 1994, the Company secured an additional temporary revolving credit facility from its primary bank of $4.5 million bearing interest at the bank's prime rate plus 1%. Borrowings under this facility were repaid in full in April 1994, and the facility is no longer available.

The Company's credit agreement contains certain covenants which, in addition to other restrictions, limit the amount of capital expenditures and additional borrowings. The Company is also precluded from the payment of cash dividends without the bank's approval, and is required to maintain certain financial ratios.

(5) NOTES PAYABLE (CONTINUED)
(B) NOTES PAYABLE -- OTHER

The notes payable -- other consists of the following at April 30 (in thousands):

<TABLE>
<CAPTION>

	1994	1995
<S>	<C>	<C>
Installment debt with a face value of $2 million, collateralized by a security interest in Paragon's management agreement with the ambulatory surgery centers, discounted at an effective interest rate of 8.5% with varying semi-annual installment payments beginning December 1992, due June 1995; the Company was released from this obligation in October 1994 (note 9(b))	$ 929	--
Term note of $3.8 million, secured by an assignment of partnership interests, interest based on the prime rate with a base of 7.5% and a ceiling of 10%, principal and interest due in five annual installments ending April 1997. The Company was released from this obligation in October 1994 (note 9(b))	2,278	--
Various collateralized term notes of $651,000 in 1994 and $591,000 in 1995, interest from 6% to 12.7% with various installment payments due August 1997	536	393
Insurance notes of $457,000 in 1994 and $246,000 in 1995, monthly installments of principal and interest, interest from 7.3% to 7.6% due November 1995	271	166
Obligations under capital leases, for certain equipment and fixtures, monthly installments of principal and interest of $27,000, interest at 4.1%, due May 1998	1,215	935
Convertible promissory notes of $500,000, interest due annually on April 30 at 7%, convertible into common stock at $4.50 per share starting September 1995, due September 1999 (notes 7(a) and 9(a))	--	500
Promissory notes of $417,000, interest at 7%, monthly payments due August 1995 (note 9(a))	--	59
Total notes payable -- other	5,229	2,053
Less current maturities	(2,055)	(879)
Notes payable -- other, net of current maturities	$ 3,174	$ 1,174

</TABLE>

Scheduled maturities of notes payable -- other at April 30, 1995 are as follows (in thousands): $879 in 1996, $324 in 1997, $323 in 1998, $27 in 1999, and $500 in 2000.

The Company's weighted average interest rate on short-term borrowings outstanding at April 30, 1994 and 1995 was 7.3% and 8.7%, respectively.

(6) INCOME TAXES

Income tax expense (benefit) consists of the following at April 30 (in thousands):

	CURRENT	DEFERRED	TOTAL
1993:			
Federal	$ (794)	$ (866)	$ (1,660)
State	(70)	(76)	(146)
	$ (864)	$ (942)	$ (1,806)
1994:			
Federal	$ (2,911)	$ 90	$ (2,821)
State	(323)	9	(314)
	$ (3,234)	$ 99	$ (3,135)
1995:			
Federal	$ (270)	$ 752	$ 482
State	(30)	83	53
	$ (300)	$ 835	$ 535

Income tax expense (benefit) differs from the amounts computed by applying the U.S. federal income tax rate of 34 percent to earnings (loss) before income taxes as follows:

	1993	1994	1995
Computed "expected" tax expense (benefit)	$ (1,891)	$ (4,239)	$ 506
Increase (decrease) in income tax resulting from:			
State income tax expense (benefit), net of federal income taxes	(96)	(496)	69
Non-deductible subsidiary losses (excluded earnings)	71	113	(205)
Amortization of excess cost over fair value of assets acquired	46	49	196
Nondeductible items related to sale of subsidiary	--	--	1,489
Change in the valuation allowance allocated to income tax expense	--	1,515	(1,707)
Other	64	(77)	187
	$ (1,806)	$ (3,135)	$ 535
Effective income tax rate	(32.5%)	(25.1%)	36.0%

(6) INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at April 30, 1994 and 1995, are as follows:

	1994	1995
Deferred tax assets:		
Accounts receivable, principally due to differing recognition methods	$ 1,209	$ 560
Property and equipment, principally due to difference in depreciation	655	823
Land and building, due to valuation methods	230	793
Accrued employee benefits	821	1,092

Accrued contract and sublease losses	338	295
State and federal net operating loss carryforwards	855	1,722
Alternative minimum tax credit carryforwards	455	400
Total gross deferred tax assets	4,563	5,685
Less valuation allowance	(2,160)	--
Net deferred tax assets	$ 2,403	$ 5,685
Deferred tax liabilities:		
Accounts receivable, principally due to differing recognition methods	$ 1,722	$ 5,503
Property and equipment, principally due to difference in depreciation	487	414
Precontract costs	118	73
Deferred lease obligations	76	77
Total deferred tax liabilities	$ 2,403	$ 6,067
Net deferred income tax liability	$ --	$ 382

</TABLE>

The valuation allowance for deferred tax assets was $2,160,000 at April 30, 1994. The valuation allowance was reduced in fiscal year 1995 by $2,160,000 and is zero as of April 30, 1995. Completion of fiscal year 1994 income tax returns during fiscal year 1995 resulted in a decrease of $453,000 to the income tax receivable due to the inability to carryback certain subsidiary losses. Accordingly, there was a corresponding increase in net deferred tax assets during fiscal year 1995.

For the year ended April 30, 1993, the deferred income tax benefit results from differences between the amount of income and expense recognized for financial statement reporting and tax filing purposes. The major items comprising these differences and the related tax effects are as follows (in thousands):

<TABLE>
<CAPTION>

	1993
<S>	<C>
Excess tax over book revenues	$ (301)
Contract retainages	(182)
Reduction in valuation of assets	(211)
Excess book over tax loss on sublease	(135)
Excess book over tax depreciation	(84)
Compensatory stock options	(74)
Excess book over tax vacation expense	18
Other	27
	$ (942)

</TABLE>

As of April 30, 1995, the Company has federal and state net operating loss carryforwards of approximately $3.7 million and $4.6 million, respectively, available to offset future federal and state taxable income,

(6) INCOME TAXES (CONTINUED)
expiring principally in fiscal years 2008 and 2009. These carryforwards have certain annual dollar limits. In addition, the Company has alternative minimum tax credit carryforwards of approximately $400,000 which are available to reduce future federal regular income taxes, if any, over an indefinite period.

(7) CAPITAL STOCK

(A) NOTE RECEIVABLE

On September 29, 1994, the Company sold 200,000 shares of treasury stock at $4.50 per share for a note receivable in the amount of $900,000 to a financial advisory services firm in which the managing director is also a director of the Company and the two partners in the firm are also employees of the Company. The note receivable is collateralized by a pledge and escrow of 300,000 shares of the Company's common stock and by convertible notes payable of $500,000 by the Company to the same parties.

(B) ADDITIONAL PAID-IN-CAPITAL AND TREASURY STOCK

The Company purchased 400,000 shares of its common stock at an average price of $8.06 per share during the year ended April 30, 1993. These shares are held as treasury stock.

In August 1993, the Company issued 236,048 shares of treasury stock in exchange for 100% of the common stock of D.C. Chartered Health Plan, Inc. Additionally, the acquisition terms provided for a guarantee of the future market price of 132,370 shares of the stock at $4.38 per share on August 31, 1995. The Company recognized additional paid-in-capital of $173,736, equal to the difference between the market price on the date of acquisition and the guaranteed future market price for those shares.

In September 1994, the Company issued 380,000 shares of treasury stock in exchange for the minority interests in Paragon and issued 54,286 shares of treasury stock in exchange for 100% of the common stock of J.P. Cole & Associates. The J.P. Cole & Associates acquisition terms provided for future consideration of an additional 88,572 shares of the Company's treasury stock, which are held in escrow (note 10(d)).

(C) STOCK RIGHTS

On April 10, 1992, the Board of Directors of the Company declared a dividend distribution of one preferred stock purchase right (the Rights) for each share of common stock outstanding at April 20, 1992 or issued thereafter. The Board of Directors also designated and reserved 50,000 shares of preferred stock as "Series A Junior Preferred Stock". Each Right when exercisable, entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, at an exercise price of $85, subject to adjustment. The Rights will become exercisable after public announcement that, without consent of a majority of disinterested members of the Board of Directors, a third party has acquired or obtained beneficial ownership of 15% or more of the outstanding Common Shares or 10 business days after commencement or public announcement of an offer of such an event. The Rights, which do not have voting rights, expire in April 2002, and may be redeemed in whole by the Company at $.01 per Right at any time prior to their expiration or the acquisition by a third party of 15% or more of the Company's Common Stock. In the event that the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power is sold, provision shall be made so that each holder of a Right shall have the right to receive, upon exercise thereof at the then current exercise price, that number of shares of common stock of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the Right. At April 30, 1994, and 1995, 10,151,618 and 10,816,682 rights are outstanding, respectively.

(D) DIRECTORS' RETAINER PLAN

Commencing on May 1, 1993, and thereafter for any fiscal quarter, each Director of the Company may elect to have the full amount of his retainer paid in the form of common shares of the Company under this plan. The number of shares issued is calculated based on the then current market value of the stock. The

(7) CAPITAL STOCK (CONTINUED)
Board of Directors of the Company has authorized 100,000 common shares for issuance under this plan. In October 1994, the Company issued 25,778 shares of treasury stock to the Board of Directors, pursuant to the Directors' Plan.

(8) STOCK OPTIONS AND WARRANTS

On October 16, 1995, the Board of Directors of the Company declared a two-for-one split of its Common Stock, payable on November 20, 1995. This was effected in the form of a 100 percent stock dividend of 7,073,351 shares to shareholders on record as of November 1, 1995. Stockholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying from additional paid in capital to common stock the par value of the additional shares arising from the split. In addition, for all periods presented, all references in the consolidated financial statements and footnotes thereto to number of shares, per share amounts, weighted average shares outstanding, as well as, stock option, stock warrant and related price information have been restated to give retroactive effect to the two-for-one stock split effected on November 20, 1995.

In November 1986, the Board of Directors adopted and the shareholders approved the Company's 1986 Stock Option Plan. Effective May 1, 1991, the Board of Directors adopted, and effective September 30, 1991 the shareholders approved, the Amended and Restated PHP Healthcare Corporation 1986 Stock Option Plan (the Plan).

The Plan provided for the granting of options to purchase a maximum of 1,500,000 shares of the Company's stock to eligible employees and officers of the Company. In November 1994, the shareholders approved an increase in the maximum to 3,500,000 shares. The Plan provides for the granting of options which qualify as incentive stock options as well as non-qualified stock options. All incentive stock options granted under the Plan must have an exercise price of not less than 100% of the fair market value of the common stock on the date of grant, and non-qualified stock options must have an exercise price of not less than 60% of the fair market value of the common stock on the date of grant. All options granted prior to April 30, 1991, under the Plan may be exercised no earlier than two years from the date of grant. All options granted since April 30, 1991, are exercisable ratably on an annual basis over three to five years from the date of grant. Options are canceled 90 days after termination of employment if not exercised.

The following is a summary of activity of the stock option plan in 1993, 1994 and 1995:

<TABLE>
<CAPTION>

	SHARES	PRICE	AMOUNT
<S>	<C>	<C>	<C>
Options outstanding at April 30, 1992	1,409,500	1.95-11.25	$ 12,723,449
Options granted in1993	70,000	4.06	284,375
Options exercised in 1993	--	--	--
Options canceled in 1993	4,600	6.50-11.25	43,675
Options outstanding at April 30, 1993	1,474,900	1.95-11.25	12,964,149
Options granted in 1994	34,000	3.00	102,000
Options exercised in 1994	--	--	--
Options canceled in 1994	14,100	6.50-11.25	129,175
Options outstanding at April 30, 1994	1,494,800	1.95-11.25	12,936,974
Options granted in 1995	2,678,650	3.04-5.94	11,567,330
Options exercised in 1995	5,000	2.88	14,375
Options canceled in 1995	1,334,150	3.04-11.25	12,235,072
Options outstanding at April 30, 1995	2,834,300	$ 1.95-11.25	$ 12,254,857
Options exercisable at April 30, 1995	91,738		

</TABLE>

(8) STOCK OPTIONS AND WARRANTS (CONTINUED)

On June 10, 1994, the Stock Option Committee of the Board of Directors adopted a resolution whereby each holder of outstanding stock options under the Plan is allowed to surrender outstanding stock options on or before September 15, 1994, in return for an equal number of options with an exercise price equal to 60% of the fair market value of the Company's common stock on June 10, 1994. The new options vest ratably in one-third increments over three years and expire in ten years. A total of 1,315,700 options were surrendered and canceled with a corresponding issuance of new options with a grant price of $3.04 under the provisions of this resolution.

The Company has also granted options outside of the Plan. The following is a summary of stock option activity outside of the Plan in 1993, 1994 and 1995:

<TABLE>
<CAPTION>

	SHARES	PRICE	AMOUNT
<S>	<C>	<C>	<C>
Options outstanding at April 30, 1992	152,500	3.80-5.50	$ 683,250
Options granted in 1993	--	--	--
Options exercised in 1993	--	--	--
Options canceled in 1993	67,500	3.80	256,500
Options outstanding at April 30, 1993	85,000	3.80-5.50	426,750
Options granted in 1994	--	--	--
Options exercised in 1994	--	--	--
Options canceled in 1994	--	--	--
Options outstanding at April 30, 1994	85,000	3.80-5.50	426,750
Options granted in 1995	324,286	4.50	1,459,287
Options exercised in 1995	--	--	--

Options canceled in 1995	--	--	--
Options outstanding at April 30, 1995	409,286	$ 3.80-5.50	$ 1,886,037
Options exercisable at April 30, 1995	220,000		

</TABLE>

To the extent any options are granted at an exercise price less than the fair market value at the date of the grant, the Company records compensation expense equal to the difference in such prices ratably over the applicable vesting period. The Company recorded compensation expense of $207,000, $207,000, and $1,065,000 in 1993, 1994, and 1995, respectively, in the consolidated statement of operations relating to options.

In conjunction with the acquisition of EastWest Research Corporation on November 1, 1992, the Company issued 20,000 stock warrants at $5.75 per share, 20,000 stock warrants at $7.50 per share, and 20,000 stock warrants at $12.00 per share. In December 1994, 25% of these warrants were canceled. The 45,000 remaining warrants are exercisable in varying percentages after two years and expire seven years from the date of issuance. The value assigned to these warrants was immaterial. The number of these stock warrants which are exercisable at April 30, 1995 is 4,500.

(9) ACQUISITION, DEVELOPMENT, AND SALE OF SUBSIDIARIES

(A) ACQUISITION OF REMAINING INTERESTS IN PARAGON

Effective September 29, 1994, the Company acquired the remaining 49% ownership interest in Paragon for $125,000 in cash, notes payable of $917,000 and 380,000 shares of the Company's treasury stock. After one year, $500,000 of the notes payable are convertible into Company stock at a conversion price of $4.50 per share. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the acquired share of tangible and identifiable intangible assets and liabilities based on their respective fair values. The excess cost over the estimated fair value of the acquired share of

(9) ACQUISITION, DEVELOPMENT, AND SALE OF SUBSIDIARIES (CONTINUED)
net assets approximated $1.9 million. Subsequent to the acquisition, Paragon was merged into the Company. The results of operations for Paragon have been included in the consolidated statements from November 5, 1991, when the Company first purchased the majority interest. If the purchase of the remaining ownership interest had occurred on May 1, 1993 or 1994, the effect on the Company's results of operations would have been immaterial.

(B) SALE OF SURGERY CENTERS

Effective April 1, 1994, Paragon sold 100% of its interest in three separate surgery centers represented by four wholly owned subsidiaries for approximately $9.3 million in cash. The related gain on disposition of approximately $200,000 is included as miscellaneous income in fiscal year 1994.

Effective September 30, 1994, the Company sold 100% of its interest in two separate ambulatory surgery centers for approximately $11.75 million in cash plus the assumption of related notes payable of approximately $5 million. The related gain on disposition after the write-off of the excess cost over the estimated fair value of net assets resulting from the acquisition of the centers is approximately $340,000 and is included as miscellaneous income in fiscal year 1995.

(C) PURCHASE AND SALE OF OFFICE BUILDING

On May 4, 1993, the Company, through a wholly owned subsidiary, purchased an office building in Reston, Virginia for approximately $12 million. The building contains approximately 165,000 square feet of rentable commercial office space of which approximately 113,000 square feet was under lease at the time of the purchase. The Company is utilizing a portion of the available office space for consolidation and expansion of its corporate operations. In conjunction with the purchase, the Company obtained financing in the form of nine year, nonrecourse mortgage notes of approximately $10 million with interest rates which vary during the term of the notes from 6.25% to 8.0% per annum.

In July 1994, the Company, through a wholly owned subsidiary, sold the office building in Reston, Virginia for approximately $14.8 million. The Company leases approximately 55,000 square feet of the building under a 15 year lease and accordingly, the gain on this sale of approximately $1.2 million has been

deferred and is being amortized ratably over the life of this lease. In conjunction with this sale, the Company repaid in full non-recourse notes of approximately $9.4 million.

(D) ACQUISITION OF HEALTH MAINTENANCE ORGANIZATION

On August 31, 1993, the Company exchanged 236,048 shares of common stock valued at $722,897 for 100% of the common stock of D.C. Chartered Health Plan, Inc. (CHP). Additionally, the Company provided a guarantee of the future price of a portion of those shares issued valued at $173,736, as described in note 7(b). This acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the acquired tangible and identifiable intangible assets and assumed liabilities based on their respective fair values. The excess cost over the estimated fair value of the acquired net assets of approximately $1.9 million is being amortized on a straight line basis over 40 years. The results of operations for CHP are included in the consolidated statements from August 31, 1993. If the purchase had occurred on May 1, 1992 or 1993, the effect on the Company's results of operations and net loss per common share would have been immaterial. Unaudited pro forma consolidated revenues of the Company would have been approximately $149.6 million and $160.5 million for the years ended April 30, 1993 and 1994.

(E) ACQUISITION OF UTILIZATION MANAGEMENT FIRM

On September 10, 1993, the Company acquired 100% of the common stock of Health Cost Consultants, Inc. (HCC) for $332,000 in cash and a two year note of $175,000. This acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the acquired tangible and identifiable intangible assets and assumed liabilities based on their respective fair values. There

(9) ACQUISITION, DEVELOPMENT, AND SALE OF SUBSIDIARIES (CONTINUED)
was no excess cost over the estimated fair value of the acquired net assets. The results of operations for HCC are included in the consolidated statements from September 10, 1993. If the purchase had occurred on May 1, 1992 or 1993, the effect on the Company's net income and loss per share would have been immaterial.

(F) SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

<TABLE>
<CAPTION>

	1993	1994	1995
<S>	<C>	<C>	<C>
Acquisition of subsidiaries			
Fair value of assets acquired	$ 94	$ 7,597	$ 1,343
Excess of cost over fair value of assets acquired	778	4,900	2,439
Liabilities assumed including seller financed long-term debt	(616)	(6,725)	--
Notes payable issued	--	--	(1,017)
Value of stock and guarantee issued	--	(897)	(1,954)
Cash paid	256	4,875	811
Less cash acquired	(114)	(1,033)	--
Acquisition of subsidiaries, net of cash acquired	$ 142	$ 3,842	$ 811
Disposition of subsidiaries			
Fair value of assets sold	--	$ 9,886	$ 5,964
Write-off of excess of cost over fair value of assets	--	4,114	11,130
Liabilities assumed by purchaser	--	(4,670)	(5,721)
Cash received	--	9,330	11,373
Less cash conveyed	--	(338)	(583)
Disposition of subsidiaries, net of cash	--	$ 8,992	$ 10,790

</TABLE>

(10)RELATED-PARTY TRANSACTIONS

(A) LEGAL AND FINANCIAL ADVISORY SERVICES

During 1993, 1994, and 1995, legal services were provided by law firms in which one director of the Company is a partner. During the years ended April 30, 1993, 1994, and 1995 total billings approximated $298,000, $315,000, and $257,000, respectively, all of which was expensed in the consolidated statements

of operations. At April 30, 1993, 1994, and 1995 amounts due the law firms approximated $9,000, $200,000 and $142,000, respectively.

In 1993, 1994, and 1995, financial advisory services were provided the Company by a firm in which the managing general partner was also a director of the Company and the two partners in the firm are also employees of the Company. During 1993, 1994 and 1995, total billings approximated $39,000, $10,000, and $86,000, respectively. At April 30, 1993, 1994, and 1995, no amounts were due the firm.

In 1993, financial advisory services relating to acquisitions were provided to Paragon by the same firm in which the managing general partner and one other partner were two of the minority shareholders of the subsidiary. During fiscal years 1993 and 1994, and 1995, total billings from this firm to Paragon approximated $491,000, none and none, respectively. These amounts were included in the cost of surgery center acquisitions. At April 30, 1993, 1994 and 1995, no amounts were due the firm for these services. In addition, during 1993, 1994 and 1995, approximately $50,000, none and none, respectively, was paid to the financial advisory firm for rent of shared office facilities with Paragon.

(B) SENIOR EXECUTIVE LOAN PROGRAM

On November 5, 1992, the Board of Directors approved a Senior Executive Loan Program (the Program). Loans made pursuant to this Program may not exceed two and one-half times the executive's

(10)RELATED-PARTY TRANSACTIONS (CONTINUED)
annual salary. The loans are to be repaid in one year and bear interest at two percent above the Company's short-term borrowing rate. The loans are collateralized by Company stock owned by the senior executive or a second position in stock previously pledged provided there remains sufficient equity in the stock. In 1994, the Program was amended to increase the maximum credit limit from two and one-half to three and one-half times the executive's total annual salary and the due dates on the amounts outstanding were extended for twelve months to March 1995. In 1995, the due dates were extended an additional twelve months. As of April 30, 1994 and 1995, a total of $1.6 million and $2.9 million, respectively, was outstanding (including accrued interest) to two directors/officers under the Program.

(C) OTHER NOTES AND ADVANCES

The Company has advanced amounts to an officer of a subsidiary of the Company in the form of promissory notes due from October 1995 to April 1998. The notes bear interest rates from 8% to 10.75%. One of the notes is collateralized by the officer's stock in the Company. As of April 30, 1994 and 1995, the amounts outstanding were $383,000 and $357,000, respectively.

In accordance with the Board of Directors' approval, the Company makes premium payments relating to certain insurance policies on behalf of certain officers of the Company. These advances are owed to the Company and are collateralized by assignment of the underlying cash surrender value and related death benefit. During 1994, $650,000 of these amounts were reserved, representing the excess of the advances over the accumulated cash surrender value. During 1995, the officers signed promissory notes bearing interest at 7% and due in April 2002 for the amounts advanced; accordingly, the previously recorded reserve was eliminated. The establishment of the reserve and subsequent elimination are included as miscellaneous expense and income. The promissory notes total $885,000 at April 30, 1995.

(D) J.P. COLE & ASSOCIATES

During fiscal year 1994, the Company entered into an agreement with an affiliate, J.P. Cole & Associates, which performed exclusive marketing services for the Company. The operating results of the affiliate have been combined with the Company's consolidated financial statements since August 1993. One of the minority shareholders of the affiliate is a director of the Company. A sales and service agreement with the affiliate provided for the payment of commissions related to successful marketing efforts as defined.

Effective September 30, 1994, the Company purchased the affiliate for $100,000 in cash, 142,858 shares of the Company's common stock, and options to purchase 142,858 shares of the Company's common stock at $4.50 per share. Under the terms of the purchase agreement, 88,572 shares of the 142,858 shares of the common stock issued are held in escrow subject to forfeiture absent the achievement of certain performance conditions. Additionally, options to purchase 54,286 shares of common stock are immediately exercisable and options to purchase 88,572 shares of common stock are exercisable subject to achievement of certain performance conditions.

(11)COMMITMENTS AND CONTINGENCIES

(A) LEASES AS LESSEE

The Company has several noncancelable operating leases, principally for office space and equipment, that expire on various dates over the next fifteen years. The office leases provide for increased real estate taxes and building operating costs through annual adjustments. Total rental expense for operating leases for the years ended April 30, 1993, 1994 and 1995 was approximately $3.25 million, $3.1 million, and $4.3 million, respectively.

Future minimum rental payments under noncancelable operating leases at April 30, 1995, are as follows: $3.2 million in 1996, $3.1 million in 1997, $2.2 million in 1998, $1.2 million in 1999, $1.0 million in 2000, and $9.3 million thereafter.

(11)COMMITMENTS AND CONTINGENCIES (CONTINUED)

At April 30, 1994 and 1995, the deferred lease obligations of $207,000, and $272,000 respectively, represent the excess of rent expense, recorded on a straight-line basis, over the cash payments required under certain leases.

(B) LEASES AS LESSOR

The Company leased office space to third parties in the building which it owned (see note 9(c)) and sublets office space at another facility. These leases expire on various dates over the next nine years and provide for increased real estate taxes and building operating costs through annual adjustments. For the years ended April 30, 1994 and 1995, total rental income from operating leases of $2.2 million and $600,000 are included as revenues. Additionally, income from lease terminations of $1.0 million is included as revenue for the year ended April 30, 1994.

In fiscal year 1995, the Company removed a $540,000 valuation allowance related to a tenant note receivable because its collectibility was no longer considered uncertain. Payments on this note are to commence in August 1995 for a duration of two years.

In July 1994, the Company entered into a sublease agreement as lessor for approximately 15,700 square feet of office space in Alexandria, Virginia. The resultant net loss for amounts owing on the original lease for this space of approximately $750,000 is included as miscellaneous expense in fiscal year 1995.

(C) COMMITMENTS AND CONTINGENCIES -- OTHER

The Company is a defendant in various legal actions. The principal actions allege or involve claims under contractual arrangements, employment matters and medical malpractice with an estimated possible range of loss between approximately $400,000 and $1.2 million in excess of insurance coverage. The Company has recorded reserves of $400,000 related to these actions at April 30, 1995. In the opinion of management, after consultation with legal counsel, the possible additional losses related to these actions, if any, will not result in any material adverse effect on the Company's consolidated financial position, results of operations, or cash flows. The Company maintains medical malpractice insurance coverage which provides for reimbursement of any claim amounts in excess of $250,000 per incident.

(12)EMPLOYEE BENEFIT AND HEALTH PLANS

(A) EMPLOYEE BENEFIT PLAN

The Company has a qualified defined contribution savings plan covering substantially all full-time employees as allowed under Section 401(k) of the Internal Revenue Code. The plan permits participant contributions and requires a minimum contribution from the Company, which vests over two years, based on participants' contributions. Participants may elect to defer up to 12% of their annual compensation by contributing to the plan. Total expenses related to this plan for the years ended April 30, 1993, 1994 and 1995 were $181,000, $235,000, and $187,000, respectively.

A second qualified defined contribution savings plan was adopted in November 1993 for all employees of one of the Company's subsidiaries. Subsequent to the merger of this subsidiary into the Company in September 1994, the plan was terminated. No contribution from the Company was required and participants were allowed to defer up to 17% of their annual compensation by contributing to the plan.

(B) EMPLOYEE WELFARE PLAN

The Company has a contributory employee welfare benefit plan covering

substantially all employees which provides health and medical benefits to the plan participants. Participation is at the discretion of the employee. Claims in excess of $100,000 per person per year are underwritten by an insurance company. Total cost of the plan for the years ended April 30, 1993, 1994, and 1995 was $1.5 million, $2.6 million, and $2.4 million, respectively.

(13) FOURTH QUARTER INFORMATION (UNAUDITED)

Fourth quarter 1994 revenues, earnings and earnings per share amounts declined from previous quarters primarily as a result of certain events that occurred during the fourth quarter. The more significant events, on a pre-tax basis, relate to: a reduction of $1.5 million on an account receivable and a related $550,000 contract loss provision on a government contract for which the Company has filed a claim; a reduction in revenue of $3.1 million on two long-term contracts accounted for using the percentage of completion method resulting from actual and future billings and costs varying from previous estimates; a reduction in revenue of $1.1 million on ten PRIMUS/NAVCARE contracts resulting from decreased utilization of contract services and increased contract costs; and legal fees and settlements on three malpractice lawsuits totaling approximately $800,000.

CONDENSED CONSOLIDATED BALANCE SHEETS

APRIL 30 AND OCTOBER 31, 1995

ASSETS

<TABLE>
<CAPTION>

<S>	APRIL 30, 1995 <C>	OCTOBER 31, 1995 (UNAUDITED) <C>
	(IN THOUSANDS, EXCEPT SHARE DATA)	
Current assets:		
Cash and cash equivalents	$ 1,178	$ 3,293
Accounts receivable, net (note 2)	24,537	30,260
Contract settlement receivable, net (note 2)	8,022	8,022
Pharmaceutical and medical supplies	1,089	995
Receivables from officers	2,912	3,090
Income tax receivable	592	388
Other current assets	2,099	3,366
Total current assets	40,429	49,414
Property and equipment, net	23,096	22,457
Excess of cost over fair value of assets acquired, net of accumulated amortization of $810 in April and $885 in October	3,092	3,017
Deferred income taxes	1,125	1,125
Receivables from officers, net	885	885
Other assets	2,523	2,951
	$ 71,150	$ 79,849
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of notes payable to bank (note 3)	$ 1,368	$ 1,368
Current maturities of notes payable -- other (note 3)	879	845
Accounts payable	6,405	8,659
Claims payable -- medical services	6,000	8,469
Accrued salaries and benefits	8,129	9,580
Income taxes payable	--	1,442
Deferred income taxes	1,507	1,507
Billings in excess of costs	719	1,490
Total current liabilities	25,007	33,360
Notes payable to bank, net of current maturities (note 3)	23,280	19,865
Notes payable -- other, net of current maturities (note 3)	1,174	2,213
Deferred gain on sale of building	1,085	1,045
Other liabilities	272	669
Total liabilities	50,818	57,152

Minority interest	4	4
Stockholders' equity (note 5):		
Preferred stock, $.01 par value, 500,000 shares authorized, none issued	--	--
Common stock, $.01 par value, 25,000,000 shares authorized, 14,146,702 shares issued in April and October	141	141
Additional paid-in-capital	29,373	29,426
Note receivable from sale of stock	(900)	(900)
Retained earnings (deficit)	(1,570)	684
Treasury stock, 3,330,020 common shares in April and 3,301,194 common shares in October, at cost	(6,716)	(6,658)
Total stockholders' equity	20,328	22,693
Contingencies (notes 2 and 6)		
	$ 71,150	$ 79,849

</TABLE>

See accompanying notes to condensed consolidated financial statements.

PHP HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

THREE MONTHS AND SIX MONTHS ENDED OCTOBER 31, 1994 AND 1995

(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS		SIX MONTHS	
	1994	1995	1994	1995
<S>	<C>	<C>	<C>	<C>
Revenues	$ 48,180	$ 48,877	$ 91,818	$ 95,047
Direct costs	42,948	39,141	80,867	76,794
Gross profit	5,232	9,736	10,951	18,253
General and administrative expenses	4,832	7,199	9,593	13,932
Operating income	400	2,537	1,358	4,321
Other income (expense):				
Interest expense	(565)	(573)	(1,384)	(1,098)
Interest income	125	203	209	404
Miscellaneous income	391	37	371	69
Minority interest in earnings of subsidiaries	(86)	--	(159)	--
Earnings before income taxes	265	2,204	395	3,696
Income tax expense	103	875	142	1,442
Net earnings	$ 162	$ 1,329	$ 253	$ 2,254
Net earnings per common and common equivalent share (note 5)	$ 0.01	$ 0.10	$ 0.02	$ 0.17
Weighted average number of common and common equivalent shares outstanding (note 5)	11,018	13,211	10,765	12,957

</TABLE>

See accompanying notes to condensed consolidated financial statements.

PHP HEALTHCARE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED OCTOBER 31, 1994 AND 1995

<TABLE>
<CAPTION>

	1994	1995

<S>	<C>	<C>
	(UNAUDITED)	
	(IN THOUSANDS)	
Net cash provided by operating activities	$ 4,683	$ 5,924
Cash flows from investing activities:		
Acquisition of property and equipment	(2,499)	(1,333)
Disposition of property and equipment	151	--
Net proceeds from sale of property and equipment	14,181	--
Acquisition of subsidiaries, net of cash acquired	(694)	--
Disposition of subsidiaries, net	10,826	--
Net cash provided by (used in) investing activities	21,965	(1,333)
Cash flows from financing activities:		
Net repayments under revolving promissory notes	(9,023)	(2,731)
Borrowings on notes payable	504	1,918
Repayments on notes payable	(19,206)	(1,597)
Increase in receivables from officers	--	(178)
Proceeds from the exercise of stock options	--	112
Distributions paid to limited partners	(133)	--
Net cash used in financing activities	(27,858)	(2,476)
Net increase (decrease) in cash and cash equivalents	(1,210)	2,115
Cash and cash equivalents, beginning of period	2,370	1,178
Cash and cash equivalents, end of period	$ 1,160	$ 3,293

</TABLE>

See accompanying notes to condensed consolidated financial statements.

PHP HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1995
(UNAUDITED)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

In the opinion of the Company, the interim condensed consolidated financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The interim condensed consolidated financial statements should be read in conjunction with the Company's April 30, 1994 and 1995 audited consolidated financial statements. The year-end condensed consolidated balance sheet data was derived from audited consolidated financial statements but does not include all disclosures required by generally accepted accounting principles. The interim operating results are not necessarily indicative of the operating results for the full fiscal year. Certain amounts in the fiscal year 1995 condensed consolidated financial statements have been reclassified to conform with the fiscal year 1996 presentation.

(B) NEW ACCOUNTING PRONOUNCEMENTS

In October 1995, the Financial Accounting Standards Board (FASB) issued SPAS No. 123, "Accounting for Stock-Based Compensation." As permitted by the Standard, the Company does not intend to adopt the provisions for recognizing compensation expense for grants to employees of stock, stock options, and other equity instruments based on a new fair value method. Accordingly, this Standard is not expected to have any impact on amounts recorded in the Company's consolidated financial statements. However, beginning with fiscal year 1997, the Standard will require the Company to disclose additional information in the footnotes to its annual consolidated financial statements, including pro forma net income and earnings per share under the new fair value method.

(2) ACCOUNTS RECEIVABLE

(A) CONTRACT CLAIM

In April 1994, the Company submitted a Request for Equitable Adjustment (REA) under a contract with the Department of the Army for material changes in the nature of the contract requirements from those represented during the contract proposal process. The REA was denied by the Army and the Company has submitted a claim for its increased costs of performance under the contract pursuant to the Contracts Dispute Act of 1978. Billed accounts receivable of

$1.9 million as of April 30, were fully reserved pending further actions by the Board of Contract Appeals. In September 1995 the Company reached a settlement with the Department of the Army in the amount of $300,000. Accordingly, the Company recognized $300,000 of revenue.

(B) CONTRACT SETTLEMENT RECEIVABLE

CHP, the Company's wholly owned health maintenance organization, earns substantially all of its revenue under a prepaid Medicaid contract with the D.C. Department of Human Services (DCDHS) to provide health care services to the Medicaid recipients of the District of Columbia. The Medicaid program is jointly funded by the District of Columbia and the Health Care Finance Administration (HCFA) of the United States Department of Health and Human Services (HHS).

Under a three-year contract ended September 30, 1994, interim payments were provided on an enrollment basis with a final settlement at the end of the contract period, subject to a defined upper payment limit as determined by HCFA of HHS. Final settlement with DCDHS and HCFA is subject to an audit of CHP's activities. The Company believes final settlement should result in amounts due the Company at April 30, 1995 in excess of $20 million, which is expected to be lower than the actual upper payment limit. Due to the complexity inherent in the contract and the definition of the settlement process as provided for in the contract, the Company has recorded amounts due under the contract of $8.0 million at April 30 and

(2) ACCOUNTS RECEIVABLE (CONTINUED)
October 31, 1995, which represents the Company's conservative interpretation of amounts due under the contract. The Company believes that final settlement will occur during fiscal 1996. In addition, proposed congressional legislation is pending which upon passage would in management's opinion result in a retroactive entitlement of the full recovery of the settlement receivable.

Effective October 1, 1994, CHP entered into a new contract with DCDHS. CHP receives capitation payments for the inpatient services under the risk portion of the contract. Additionally, CHP receives interim payments with an annual final settlement for the other services under the non-risk portion of the contract. At April 30 and October 31, 1995, CHP recorded accounts receivable of $1.9 million and $7.7 million, respectively, for the difference between what was due under the contract versus what was received. Final settlement of amounts due under this contract is subject to an audit of the Company's activities by DCDHS.

(3) NOTES PAYABLE

(A) NOTES PAYABLE TO BANK

The notes payable to bank consists of the following:

<TABLE>
<CAPTION>

	APRIL 30, 1994	OCTOBER 31, 1995
	(IN THOUSANDS)	
<S>	<C>	<C>
Term note of $15 million collateralized by all assets, interest due monthly at 1% above bank prime (9.75% at October 31, 1995), principal due in quarterly installments of $342,000 with final payments due in April 1998	$ 4,102	$ 3,418
Revolving promissory note, collateralized by all assets, with a maximum credit line of $22 million, interest due monthly at 1% above bank prime (9.75% at October 31, 1995), due November 1996	20,546	17,815
Total notes payable to bank	24,648	21,233
Less current maturities	(1,368)	(1,368)
Notes payable to bank, net of current maturities	$ 23,280	$ 19,865

</TABLE>

On November 27, 1995, the Company extended its credit agreement with its primary bank, in particular, the revolving promissory note was extended until November 30, 1996 under similar terms.

(3) NOTES PAYABLE (CONTINUED)

(B)NOTES PAYABLE -- OTHER

The notes payable -- other consists of the following:

<TABLE>
<CAPTION>

	APRIL 30, 1994	OCTOBER 31, 1995
	(IN THOUSANDS)	
<S>	<C>	<C>
Various collateralized term notes of $2,025,000, interest from 10.4% to 12.7% with various installment payments due October 2000	$ 393	$ 1,478
Insurance notes of $732,000, monthly installments of principal and interest, interest from 6.8% to 7.6% due April 1996	166	289
Obligations under capital leases, for certain equipment and fixtures, monthly installments of principal and interest of $27,000, interest at 4.1%, due May 1998	935	791
Convertible promissory notes of $500,000, interest due annually on April 30 at 7%, convertible into common stock at $9.00 per share starting September 1995, due September 1999	500	500
Promissory notes of $417,000, interest at 7%, repaid in August 1995	59	-
Total notes payable -- other	2,053	3,058
Less current maturities	(879)	(845)
Notes payable -- other, net of current maturities	$ 1,174	$ 2,213

</TABLE>

(4) CONVERTIBLE DEBT

On November 29, 1995, the Company announced its intention to make a private offering of $60 million in aggregate principal amount of convertible subordinated debentures due 2002. The Company expects to finalize the offering in December, 1995. The debentures will be unsecured obligations, convertible into PHP common stock and subordinated to all present and future senior indebtedness of the Company.

The debentures and the underlying common stock have not been registered under the Securities Act of 1933 (Securities Act) and may not be offered or sold absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state securities laws.

The debentures will be offered only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) in reliance on the registration on the exemption from the registration requirements provided by Rule 144A, and outside the United States to certain persons in reliance on Regulation S under the Securities Act.

(5) STOCK SPLIT

On October 16, 1995, the Board of Directors of the Company declared a two-for-one split of its Common Stock payable on November 20, 1995. This was effected in the form of a 100 percent stock dividend of 7,073,351 shares to shareholders on record as of November 1, 1995. Stockholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying from additional paid in capital to common stock the par value of the additional shares arising from the split. In addition, for all periods presented, all references in the consolidated financial statements and footnotes thereto to number of shares, earnings per share amounts, weighted average shares outstanding, as well as, stock option, stock warrant and related price information have been restated to give retroactive effect to the two-for-one stock split effected on November 20, 1995.

(6) CONTINGENCIES

The Company is a defendant in various legal actions. The principal actions allege or involve claims under contractual arrangements, employment matters and medical malpractice with an estimated possible range of loss between approximately $100,000 and $1.7 million in excess of insurance coverage. The Company has recorded reserves of $100,000 related to these actions at October 31, 1995. In the opinion of

(6) CONTINGENCIES (CONTINUED)

management, after consultation with legal counsel, the possible additional losses related to these actions, if any, will not result in any material adverse effect on the Company's consolidated financial position, results of operations, or cash flows. The Company maintains medical malpractice insurance coverage which provides for reimbursement of any claim amounts in excess of $250,000 per incident.

(7) AGREEMENT TO SELL MINORITY INTEREST IN VIRGINIA CHARTERED HEALTH PLAN

The Company has agreed to sell 30% of its interest in a wholly-owned subisidiary, Virginia Chartered Health Plan, Inc. to University Health Services, Inc. ("UHS"). UHS is a non-stock corporation created by Virginia Commonwealth University to promote the entry of the Medical College of Virginia Hospitals into managed care. The proposed transaction is subject to regulatory approval and other conditions and is expected to be completed prior to January 31, 1996.

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS OFFERING MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY INITIAL PURCHASER. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE SUCH DATE.

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<CAPTION>

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$60,000,000

[LOGO]

6 1/2% CONVERTIBLE
SUBORDINATED DEBENTURES
DUE 2002

CONFIDENTIAL
OFFERING MEMORANDUM

DECEMBER 13, 1995
