FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
SEC Accession No. 0000950115-96-001835

FILER

MEDIQ INC

CIK:**350920**| IRS No.: **510219413** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-K405** | Act: **34** | File No.: **001-08147** | Film No.: **96688269**
SIC: **7350** Miscellaneous equipment rental & leasing

Mailing Address
ONE MEDIQ PLZ
PENNSAUKEN NJ 08110

Business Address
ONE MEDIQ PLZ
PENNSAUKEN NJ 08110
6096656300

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

FORM 10-K

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

For the fiscal year ended: September 30, 1996 Commission File Number: 1-8147

MEDIQ Incorporated
(Exact name of registrant as specified in its charter)

Delaware	51-0219413
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One MEDIQ Plaza, Pennsauken, New Jersey	08110
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (609) 665-9300

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

<TABLE>
<CAPTION>

Title of each class	Name of each exchange on which registered
<S>	<C>
Common Stock, Par Value $1.00	American Stock Exchange
Series A Preferred Stock, Par Value $.50	American Stock Exchange
7.25% Convertible Subordinated Debentures due 2006	American Stock Exchange
7.50% Exchangeable Subordinated Debentures due 2003	American Stock Exchange

</TABLE>

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

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

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant as of December 20, 1996 (reference is made to the final paragraph of Part I herein for a statement of the assumptions upon which this calculation is based):

Common Stock	$84,412,000
Series A Preferred Stock	$13,828,000

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

The number of shares outstanding of each of the registrant's classes of stock as of December 20, 1996:

Class	
Common Stock	18,496,755 Shares
Series A Preferred Stock	6,330,501 Shares

Documents Incorporated by Reference

Certain portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on March 5, 1997 (which is expected to be filed with the Commission not later than 120 days after the end of the registrant's last fiscal year) are incorporated by reference into Part III of this report.

Exhibit Index appears on page 41.

PART I

ITEM 1. BUSINESS

General

MEDIQ Incorporated ("MEDIQ" or the "Company"), through its wholly-owned subsidiary, MEDIQ/PRN Life Support Services, Inc. ("MEDIQ/PRN"), operates the largest movable critical care and life support medical equipment rental business in the United States. MEDIQ/PRN rents a wide variety of movable equipment for use by acute care hospitals, alternative care facilities, nursing homes, and home health care companies. MEDIQ/PRN constitutes the Company's principal business, accounting for 98% and 97% of consolidated revenues from continuing operations in 1996 and 1995, respectively. MEDIQ/PRN also participates in a joint venture through a limited liability company. MEDIQ PRN/HNE, L.L.C., d/b/a SpectraCair, which rents health care providers mattress systems designed to treat, prevent or manage pressure ulcers. The Company's other operating subsidiary, MEDIQ Management Services, Inc., is a provider of health care management and consulting services to health care providers and management and other administrative services to diagnostic imaging centers. During fiscal 1996, the Company continued to pursue its previously announced strategy of divesting substantially all operating assets other than MEDIQ/PRN and MEDIQ Management Services and using the proceeds thereof to reduce indebtedness.

In September 1996, the Company entered into an agreement with NutraMax Products, Inc. ("NutraMax") pursuant to which NutraMax agreed to repurchase all of its shares owned by the Company, for a purchase price of approximately $36.3 million, or $9.00 per share, and the Company sold its ownership interest in HealthQuest, Inc. for $75,000 which approximated carrying value. In October 1996, PCI Services, Inc. ("PCI") was acquired by Cardinal Health, Inc. ("Cardinal"). In that transaction the Company received 1,449,000 shares (adjusted for stock split) of Cardinal stock in exchange for its 46% ownership interest in PCI. The Company anticipates selling its Cardinal shares during fiscal 1997. In November 1996, the Company sold substantially all of the assets of MEDIQ Mobile X-Ray Services, Inc. ("Mobile X-Ray") for $5.3 million in cash and shares of Integrated Health Services ("IHS") common stock with a value of $5.2 million with the possibility of the Company receiving additional cash consideration based upon the occurrence of certain future events. These transactions essentially complete the implementation of the Company's strategic plan to dispose of its non-core assets.

On October 1, 1996, the Company together with its wholly-owned subsidiary, MEDIQ/PRN entered into a $260 million Credit Agreement with a group of lenders. The facility comprises a $25 million working capital line of credit, $135 million in term loans and a $100 million acquisition facility. Initial drawings on the facility were used to prepay all of the Company's senior debt (except capital leases) including MEDIQ/PRN's outstanding $100 million 12-1/8% Senior Secured Notes due 1999, and MEDIQ/PRN's subordinated obligations. The new facility may also be used, among other things, to finance the redemption or repurchase of the Company's other publicly-traded debt, or to finance strategic acquisitions.

The Company also intends to expand its core businesses through strategic acquisitions, which would be financed, at least in part, by drawings under its new credit facility. However, there can be no assurance that any transactions will occur, or if they occur that they will be successfully integrated with the Company's existing operations.

The Company was incorporated in 1977. Its principal offices are located at One MEDIQ Plaza, Pennsauken, New Jersey.

MEDIQ/PRN Life Support Services, Inc.

MEDIQ/PRN provides essential cost-effective services to its customers. In order to maximize operating efficiency, health care providers often choose to rent movable medical equipment rather than incur the capital costs required to finance equipment purchases and the on-going expenses required for maintenance and repair. In addition, renting patient-ready equipment provides a vital adjunct that permits health care providers to meet periods of increased patient census without the need for investing capital in stand-by equipment. MEDIQ/PRN meets these needs by renting a wide variety of equipment to health care providers across the continuum of care. As of September 30, 1996, MEDIQ/PRN had available for rent over 650 different types of medical equipment, including adult and infant ventilators, adult, infant, neonatal and fetal monitors, infusion and suction pumps, incubators, infant warmers, pulse oximeters, sequential compression devices, oxygen concentrators and other movable critical care

equipment for use in respiratory care, intensive care, labor and delivery, pediatric, neonatal intensive care and other departments of acute care general hospitals and for use in alternative care facilities, nursing homes, and by home health care providers. MEDIQ/PRN's customers rent equipment, which is delivered in most cases within two hours of a request, 24 hours a day, 365 days a year through 74 branch offices in major cities nationwide and 11 independent distributors. MEDIQ/PRN offers its customers a wide selection of rental programs including (i) daily, weekly or monthly rentals with fixed rate terms, (ii) longer-term rentals with pricing related to the length of the rental term, and (iii) "usage" rentals on a per use, per hour or per day basis.

MEDIQ/PRN also offers its Comprehensive Asset Management Program (CAMP), which analyzes a customer's total critical care equipment activity from all sources for the previous year. CAMP includes a menu of logistics and outsourcing services for movable medical equipment assets including equipment, personnel, maintance, documentation and tracking. MEDIQ/PRN also has programs where it acquires all or part of the customer's equipment and rents the equipment back to the customer, eliminating the customer's burdens of ownership, under utilization and seasonal usage. MEDIQ/PRN's customers can benefit from the use of CAMP through the reduction of biomedical and other hospital staff, lower equipment maintenance expenses and the elimination or reduction of capital expenditures for equipment. MEDIQ/PRN also offers its CAMP (Registered) Plus logistics program that provides similar management services for multi-site health care networks to manage, service and transport movable patient care equipment. A proprietary bar-code based asset management system provides customers maximum utilization of owned equipment. The system provides information used to track equipment, capture lost patient charges, control inventory and equipment migration, reduce the need for supplemental rentals and manage overall capital planning.

MEDIQ/PRN provides a logistics and distribution service to equipment manufacturers to reduce their transportation costs through utilization of MEDIQ/PRN's national branch office network.

MEDIQ/PRN also distributes a variety of disposables, accessories, and repair parts used with critical care equipment. MEDIQ/PRN provides one-stop shopping for supplies from all the leading manufacturers, and is the exclusive distributor of accessories and supplies for all the respiratory care equipment manufactured by Siemens Medical Systems, Inc.

MEDIQ/PRN also provides complete service, including annual/major/electrical safety inspections, preventive maintenance and repairs for most brands and models of critical care equipment through a nationwide team of over 140 trained, experienced biomedical technicians. Service and repairs can be performed on-site, or pick up and delivery is available for servicing at one of MEDIQ/PRN's 85 locations or two major service centers.

MEDIQ/PRN meets the needs of its customers for pre-owned equipment with a complete remarketing program of every major equipment category. Health care facilities can acquire pre-owned critical care equipment substantially below the cost of purchasing new units.

MEDIQ/PRN also offers its customers complete programs for ventilator reconditioning including replacement of parts, calibration, operational verification and cosmetics.

No single customer accounted for more than 10% of MEDIQ/PRN's revenues during fiscal 1996 or 1995.

Seasonality

MEDIQ/PRN's business is seasonal, with demand historically peaking during periods of increased hospital census, which generally occurs in the winter months during the Company's second fiscal quarter.

Quality Assurance

Quality control/quality assurance and risk management procedures are conducted for all of MEDIQ/PRN's medical equipment by trained biomedical technicians to ensure compliance with safety, testing and performance standards at all branch offices. All equipment is serviced and tested prior to delivery to customers in accordance with MEDIQ/PRN's Pre-Delivery Inspection Program, which is primarily derived from the Emergency Care Research Institute's ("ECRI's") programs. Most types of medical equipment rented by MEDIQ/PRN require routine servicing at scheduled intervals based upon hours of usage or passage of time, including complete testing and inspection of all components that may need to be replaced or refurbished. Routine servicing is conducted by MEDIQ/PRN's trained personnel at all of its branch locations. Major repairs are performed at MEDIQ/PRN's Pennsauken, New Jersey or Santa Fe Springs, California maintenance facilities by its biomedical equipment technicians.

Suppliers

MEDIQ/PRN acquires substantially all of its medical equipment, repair parts, accessories or disposable products from approximately 100 suppliers. MEDIQ/PRN has entered into a long-term agreement with a vendor to purchase $7 million of certain products. MEDIQ/PRN is not dependent upon any single supplier and believes that alternative purchasing sources of medical equipment are available to MEDIQ/PRN should they be needed.

Competition

The medical equipment rental industry is highly competitive, and MEDIQ/PRN encounters competition in all regions in which it operates. MEDIQ/PRN's competitors include (i) national and regional medical equipment rental and leasing companies and medical equipment distributors which rent medical equipment to health care providers; (ii) medical equipment manufacturers which sell medical equipment directly to health care providers; and (iii) general leasing and financing companies and financial institutions, such as banks, which finance the acquisition of medical equipment by health care providers. MEDIQ/PRN believes that key factors influencing the decision regarding the selection of a medical equipment rental vendor include availability and quality of medical equipment, service and price.

Discontinued Operations

In the fourth quarter of fiscal 1996, the Company entered into an agreement with NutraMax (NASDAQ:NMPC), a leading private label health and personal care products company. Pursuant to this agreement, the Company anticipates selling to NutraMax all of the 4,037,258 shares of NutraMax common stock owned by the Company at a price of $9.00 per share. Under the terms of the agreement, the Company will receive from NutraMax $19.9 million in cash and an interest-bearing promissory note in the amount of $16.4 million. The note is payable when NutraMax shares owned by the Company, which currently are held in escrow in support of the Company's 7.50% Exchangeable Subordinated Debentures, are released from that escrow. The NutraMax shares are to be released from escrow upon the purchase or redemption of the 7.50% debentures. Upon closing of the transaction, the Company will realize an after-tax gain of $6.2 million. The cash proceeds from this transaction will be used to reduce debt.

On October 11, 1996, PCI, a leading provider of integrated pharmaceutical packaging services, was acquired by Cardinal. As a result, the Company received 966,000 shares of Cardinal stock which, based on the closing price on October 11, 1996 had a market value of $79.2 million. The Company recognized an after tax gain of $31.8 million in the first quarter of fiscal 1997. In December 1996, Cardinal's common stock split 3 for 2 and, accordingly, the Company now owns 1,449,000 shares of Cardinal which have an aggregate market value of $81.3 million based upon the closing price of $56.125 per share on December 20, 1996. The Company anticipates selling its Cardinal shares in fiscal 1997 and using the proceeds to reduce debt.

In the second quarter of fiscal 1995, the Company adopted a plan to sell the following four non-core businesses: Medifac, Inc. ("Medifac"), a provider of health care facility planning, architectural and development services; Health Examinetics, Inc. ("Health Examinetics"), a provider of mobile health testing services; MEDIQ Mobile X-Ray Services, Inc. ("Mobile X-Ray"), a provider of portable X-ray and EKG services; and MEDIQ Imaging Services, Inc. ("MEDIQ Imaging"), a provider of diagnostic imaging services in mobile and fixed sites. In the fourth quarter of fiscal 1995, the Company revised the plan to include the operations of HealthQuest, Inc. ("HealthQuest"), a provider of case management and utilization review services. As a result, operating results and net assets of these five businesses have been reported as discontinued operations. Discontinued operations also include the Company's equity investment in InnoServ Technologies, Inc. ("InnoServ") (NASDAQ:ISER) which, through its various subsidiaries, provides hospitals, clinics and private physicians' offices with maintenance services for diagnostic imaging equipment, shared mobile computed tomography and cardiac catheterization services and other radiological parts and supplies. The Company owns 2,030,000 shares of InnoServ common stock, or approximately 40% of the outstanding shares. The present business operations of InnoServ include the business of the Company's former subsidiary, MEDIQ Equipment and Maintenance Services, Inc., which was merged with InnoServ in 1994. The Company anticipates divesting its investment in InnoServ in fiscal 1997. See footnote B to the Company's consolidated financial statements for certain financial information about discontinued operations.

In November 1996, the Company sold substantially all of the assets of Mobile X-Ray to Symphony Diagnostics, Inc., a subsidiary of Integrated Health Services, Inc. (NYSE:IHS) for $5.3 million in cash and shares of Integrated Health Services common stock with a value of $5.2 million at the closing with the possibility of the Company receiving additional cash consideration based upon the occurrence of certain future events.

In September 1996, the Company sold its ownership interest in

HealthQuest, Inc. for cash of $75,000 which approximated its carrying value.

In August 1995, the Company sold the assets of MEDIQ Imaging to NMC Diagnostic Services, Inc., a division of W. R. Grace and Co. for approximately $17 million in cash and the assumption of $9.7 million of debt.

In June 1995, the Company sold Medifac and certain related assets to the management of Medifac for approximately $11 million in cash and notes, and the assumption of $26.9 million of non-recourse debt.

The Company expects to sell Health Examinetics to its management for cash and an interest bearing note aggregating $1.7 million. The Company presently anticipates that the sale transaction will be completed in fiscal 1997.

Financial Information about Industry Segments

The Company operates primarily in one business segment, exclusive of discontinued operations. The Company, through MEDIQ/PRN, rents medical equipment on a short-term basis nationwide. In fiscal 1996, this segment represented more than 90% of the consolidated revenues, operating profits and assets exclusive of corporate assets, which include net assets of discontinued operations of $54.7 million at September 30, 1996.

Government Regulations

The Company's businesses are subject to Federal, state and local regulations relating to the operation of such businesses. The Company is unable to predict whether, or to what extent, new legislation or regulations affecting its businesses will be enacted and, if enacted, what impact they will have on the Company. In addition, government reimbursement of medical expenses are, to an increasing extent, made at fixed rates unrelated to actual costs. Consequently, hospitals and other health care

providers are expected to continue to emphasize cost-containment and cost-efficiency measures, which the Company believes will increase the demand for its products and services. The following is a summary of some of the significant regulations currently affecting the operations of MEDIQ/PRN and the Company's other operations.

Compliance with FDA Regulations - The FDA regulates companies which manufacture, prepare, propagate, compound or process medical devices. Device manufacturers must comply with registration and labeling regulations, submit premarket notifications or obtain premarketing approvals, comply with medical device reporting, tracking and post-market surveillance regulations and with device good manufacturing practices ("GMPs"), and are subject to FDA inspection. The GMP regulations specify the minimum standards for the manufacture, packing, storage, and installation of medical devices, and impose certain record keeping requirements. The FDA currently does not regulate MEDIQ/PRN or organizations which provide similar services as MEDIQ/PRN as device manufacturers. However, any company which services, repairs or reconditions medical devices could be subject to regulatory action by the FDA if its activities cause the devices to become adulterated or mislabeled. In addition, no assurance can be given that in the future the FDA will not regulate as device manufacturers companies such as MEDIQ/PRN, which acquire ownership of devices, recondition or rebuild such devices and rent them to customers or which service, repair or recondition devices owned by others. The Company is unable to predict the cost of compliance if any such regulations were to be adopted. MEDIQ/PRN is required to comply with certain other device tracking and reporting regulations administered by the FDA.

See also "Legal Proceedings" herein for certain additional information.

Employees

As of December 1, 1996, the Company and its wholly-owned subsidiaries have approximately 800 employees, of which approximately 100 are employees of discontinued operations. The Company believes relations with employees are satisfactory.

ITEM 2. PROPERTIES

The Company's principal facility is located in Pennsauken, New Jersey, where the Company's corporate offices and a portion of its operating activities are located, including MEDIQ/PRN's corporate offices. The Company and its wholly-owned subsidiaries also lease office and warehouse space in approximately 80 locations throughout the United States for local and regional operations. The properties owned and leased by the Company and its wholly-owned subsidiaries are believed to be adequate for the Company's operations.

ITEM 3. LEGAL PROCEEDINGS

MEDIQ Imaging, the assets of which were sold by the Company in August 1995, is presently the subject of a criminal and civil investigation by the United States Attorney's Office for the District of New Jersey and the Department of Health and Human Services. The investigation has focused on advice given by certain MEDIQ Imaging employees to physician customers of MEDIQ Imaging relating to the reassignment of certain Medicare claims. The Company and MEDIQ Imaging voluntarily reported the issue to the U.S. Government in January 1995 after learning that the advice given by the employees may have been inconsistent with the regulations relating to reassignment. The Company and MEDIQ Imaging have been cooperating in the investigation. In August 1995, in connection with the sale of MEDIQ Imaging, the Company provided the U.S. Government with a guarantee of approximately $7.1 million in connection with any settlement or judgment obtained by the U.S. Government. Management believes that there has been no violation of any statute or regulation by MEDIQ Imaging or any of its officers, directors or employees. Although the Company believes there has been no violation, if the U.S. Government obtains a judgment, the amount of the judgment against MEDIQ Imaging may exceed the guarantee amount. However,

management and outside counsel are not aware of any evidence that would enable the U.S. Government to proceed against the Company beyond the limits of the guarantee.

MEDIQ Mobile X-Ray Services, Inc. ("Mobile X-Ray"), the assets of which the Company sold in November 1996, is presently the subject of an investigation by the Wage and Hour Division of the United States Department of Labor (the "DOL"). The DOL has indicated that it believes that the practice of treating technologists as exempt professionals is incorrect. The Company maintains that the practice of treating x-ray technologists as exempt is correct and proper. A request for an official position statement has been sent to the Wage and Hour Administrator of the DOL. The DOL has indicated that it will broaden the scope of the investigation to include technologists at all other Mobile X-Ray locations. Potential liability is retroactive from the day a lawsuit is initiated by the Solicitor of Labor and could include double liquidated damages and penalties. No suit has been filed at this time.

On November 28, 1995, in the United States District Court for the Middle District of Pennsylvania, ATS Medical Servces, Inc. ("ATS"), a former subsidiary of the Company, and the president of ATS each pled guilty to one count of misprision of a felony in violation of Title 18, United States Code, Section 4. In addition, ATS agreed to repay the government $2.1 million for excess reimbursement received by ATS from the Medicare Program from 1988 through 1992. The payment is part of a settlement agreement entered into between ATS, the United States Government and Gerard Callie, a former ATS employee, who had filed a civil lawsuit on behalf of the government against ATS pursuant to the False Claim Act, Title 31, United States Code, Sections 3729 - et seq., relating to ATS's alleged excess reimbursement. The court sentenced ATS, on June 24, 1996, to a term of probation of two years. The court imposed no fine on ATS. A mandatory special assessment of $200 was imposed and paid by ATS. In November 1996, in connection with the sale of Mobile X-Ray, the outstanding balance of this obligation was paid with a portion of the proceeds of the sale.

On June 12, 1996, the Company, ATS and Mobile X-Ray Services were sued in the United States District Court for the Middle District of Pennsylvania by Gerard and Sharon Callie, who are both former employees of ATS. The lawsuit alleges that the Callies were wrongfully terminated and asserts claims pursuant to the whistleblower provisions of the False Claims Act and the Pennsylvania Wage Payment and Collection Law. The plaintiffs made a demand for damages totaling nearly $800,000. The Company believes it has no liability and intends to vigorously defend this case.

In addition, the Company has pending several legal claims incurred in the normal course of business, which in the opinion of management, will not have material effect on the consolidated financial statements. See Note I to the Company's Consolidated Financial Statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended September 30, 1996.

For the purposes of calculating the aggregate market value of the shares of common stock of the Company held by nonaffiliates, as shown on the cover page of this report, it has been assumed that all the outstanding shares were held by nonaffiliates except for the shares beneficially owned by directors and executive officers of the Company. However, this should not be deemed to constitute an admission that all directors and executive officers of the Company

are, in fact, affiliates of the Company, or that there are not other persons who may be deemed to be affiliates of the Company. Further information concerning shareholdings of officers, directors and principal shareholders is included in the Company's definitive proxy statement filed or to be filed with the Securities and Exchange Commission.

PART II

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

The Company's Common Stock and its Series A Preferred Stock, which is convertible into Common Stock, are listed on the American Stock Exchange. The following table sets forth the high and low sales prices for the Company's Common and Preferred Stocks on the American Stock Exchange for the past two fiscal years.

	Common Stock		Preferred Stock	
Fiscal year ended September 30,	High	Low	High	Low
1996:				
First Quarter	$5.438	$4.000	$4.500	$4.125
Second Quarter	5.438	4.000	5.000	4.000
Third Quarter	6.500	4.938	6.125	4.875
Fourth Quarter	6.000	5.500	5.625	5.500
1995:				
First Quarter	$4.063	$3.563	$3.813	$3.625
Second Quarter	5.750	3.750	5.500	3.750
Third Quarter	6.188	5.125	5.750	5.063
Fourth Quarter	6.188	5.063	5.875	5.375

As of December 1996, there were approximately 2,000 holders of record of the Company's Common Stock and approximately 350 holders of record of the Company's Preferred Stock. Since a portion of the Company's Common Stock and Preferred Stock is held in "street" or nominee name, the Company is unable to determine the exact number of beneficial holders.

The Company did not pay any dividends in fiscal 1996 or 1995. The terms of the Company's Credit Agreement, entered into on October 1, 1996, preclude the payment of cash dividends until October 1, 1997.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below has been derived from the audited financial statements of the Company. This data is qualified in its entirety by reference to, and should be read in conjunction with the Company's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

<TABLE>
<CAPTION>

	Year Ended September 30,				
	1996	1995(2)	1994	1993	1992
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Summary Statement of Operations Data:					
Revenues	$ 136,066	$ 132,241	$ 81,498	$ 89,994	$ 102,195
Operating income	25,446	24,202	1,354	8,614	4,573
Interest expense	(27,307)	(29,241)	(21,335)	(21,043)	(18,815)
Other (1)	(4,695)	1,381	7,381	1,918	(6,810)
Loss from continuing operations before income tax expense (benefit)	(6,556)	(3,658)	(12,600)	(10,511)	(21,052)
Loss from continuing operations	(6,178)	(3,346)	(8,254)	(5,145)	(11,220)

Per Share Data:					
Loss from continuing operations	$ (.25)	$ (.14)	$ (.34)	$ (.21)	$ (.47)
Cash dividends per common share	$ --	$ --	$ .09	$ .12	$ .06
Cash dividends per preferred share	$ --	$ --	$ .05	$ .07	$ .03
Weighted average shares outstanding	24,967	24,604	24,405	24,366	24,007

	September 30,				
	1996	1995	1994(2)	1993	1992
	(in thousands)				
Summary Balance Sheet Data:					
Current assets	$ 44,793	$ 44,436	$ 35,041	$ 42,500	$ 48,431
Investments in discontinued operations	54,717	70,162	99,911	98,095	116,598
Property, plant and equipment	122,706	132,823	149,051	117,748	112,621
Total assets	297,863	334,169	377,795	308,827	315,280
Current liabilities	35,054	64,685	59,610	47,001	45,303
Senior debt, net of current portion	192,461	136,949	162,436	115,604	131,014
Subordinated debt, net of current portion	41,229	81,907	103,388	86,229	63,539
Stockholders' equity	17,445	31,517	36,280	44,574	58,748

</TABLE>

Notes to Selected Consolidated Financial Data

(1) The Company recorded a $6 million reserve on the note receivable from MHM Services, Inc. ("MHM") in 1996. Net gains (losses) from the sale of assets were $.6 million, ($.4) million, $4.7 million, ($.3) million and $3.0 million in 1996, 1995, 1994, 1993 and 1992, respectively. In 1992, the Company recorded a loss reserve of $10.6 million for an investment in a real estate limited partnership.

(2) On September 30, 1994, MEDIQ/PRN acquired the critical care and life support rental equipment inventory of KCI. The purchase price, which was primarily financed with long-term debt, approximated $88 million, including transaction costs and the assumption of certain capital lease obligations.

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

General

During fiscal 1996 the Company continued to pursue its previously announced strategy of divesting substantially all operating assets other than MEDIQ/PRN and MEDIQ Management Services and using the proceeds thereof to reduce indebtedness.

In September 1996, the Company entered into an agreement with NutraMax Products, Inc. ("NutraMax") pursuant to which NutraMax agreed to repurchase all of its shares owned by the Company, for a purchase price of approximately $36.3 million, or $9.00 per share, and the Company sold its ownership interest in HealthQuest, Inc. for $75,000 which approximated carrying value. In October 1996, PCI Services, Inc. ("PCI") was acquired by Cardinal Health, Inc. ("Cardinal"). In that transaction the Company received 1,449,000 shares (adjusted for stock split) of Cardinal stock in exchange for its 46% ownership interest in PCI. The Cardinal shares are anticipated to be sold during fiscal 1997. Accordingly, the Company's equity investments and equity in earnings of PCI and NutraMax have been classified as discontinued operations in the Company's consolidated financial statements. In November 1996, the Company sold substantially all of the assets of MEDIQ Mobile X-Ray Services, Inc. ("Mobile X-Ray") for $5.3 million in cash and shares of Integrated Health Services ("IHS") common stock with a value of $5.2 million with the possibility of the Company receiving additional cash consideration based upon the occurrence of certain future events. These transactions essentially complete the implementation of the Company's strategic plan to dispose of its non-core assets.

With the $88 million acquisition in 1994 of the movable medical equipment of KCI Therapeutic Services, Inc., a subsidiary of Kinetic Concepts, Inc. ("KCI"), MEDIQ/PRN, the Company's core business, strengthened its position as the leading company in the United States renting movable critical care to acute care hospitals, alternative care facilities, nursing homes and health care providers on an "as-needed basis." With the successful integration of these assets into its 85 office distribution network, MEDIQ/PRN expanded its market presence into all 50 states, increased market share and improved its service standards.

The Company intends to continue to seek to expand its core businesses through other strategic acquisitions. However, there can be no assurances that the Company will be successful in identifying suitable acquisition candidates, consummating any transactions or, if it completes any acquisition transaction, in successfully integrating the operations of any acquired entity.

The Company's other operating subsidiary is MEDIQ Management Services, Inc., a provider of management and consulting services to health care providers and management and other administrative support services to diagnostic imaging centers. MEDIQ/PRN also participates in a joint venture through a limited liability company, MEDIQ PRN/HNE, L.L.C., d/b/a SpectraCair, which rents health care providers mattress systems designed to treat, prevent or manage pressure ulcers.

Discontinued Operations

In the fourth quarter of fiscal 1996, the Company entered into an agreement with NutraMax (NASDAQ:NMPC), a leading private label health and personal care products company. Pursuant to this agreement the Company anticipates selling to NutraMax all of the 4,037,258 shares of NutraMax common stock owned by the Company at a price of $9.00 per share. Under the terms of the agreement, the Company will receive from NutraMax $19.9 million in cash and an interest-bearing promissory note in the amount of $16.4 million. The note is payable when NutraMax shares owned by the Company, which currently are held in escrow in support of the Company's 7.50% Exchangeable Subordinated Debentures, are released from that escrow. The NutraMax shares are to be released from escrow upon the purchase or redemption of the 7.50% debentures. Upon the closing of the transaction, the Company will realize an after-tax gain of $6.2 million. The cash proceeds from this transaction will be used to reduce debt.

On October 11, 1996, PCI, a leading provider of integrated pharmaceutical packaging services, was acquired by Cardinal. As a result, the Company received 966,000 shares of Cardinal stock which, based on the closing price on October 11, 1996 had a market value of $79.2 million. The Company realized an after tax gain of $31.8 million in the first quarter of fiscal 1997. In December 1996, Cardinal's common stock split 3 for 2 and the Company now owns 1,449,000 shares which have an aggregate market value of $81.3 million based upon the closing price of $56.125 per share on December 20, 1996. The Company anticipates selling its Cardinal shares in fiscal 1997 and using the proceeds to reduce debt.

In the second quarter of fiscal 1995, the Company adopted a plan to sell the following four non-core businesses: Medifac, Inc. ("Medifac"), a provider of health care facility planning, architectural and development services; Health Examinetics, Inc. ("Health Examinetics"), a provider of mobile health testing services; MEDIQ Mobile X-Ray Services, Inc. ("Mobile X-Ray"), a provider of portable X-ray and EKG services; and MEDIQ Imaging Services, Inc. ("MEDIQ Imaging"), a provider of diagnostic imaging services in mobile and fixed sites. In the fourth quarter of fiscal 1995, the Company revised the plan to include the operations of HealthQuest, Inc. ("HealthQuest"), a provider of case management and utilization review services. As a result, operating results for fiscal 1995 and net assets of these five businesses for fiscal 1995 and 1996 have been reported as discontinued operations. Discontinued operations also include the Company's equity investment in InnoServ Technologies, Inc. which is anticipated to be divested during fiscal 1997.

In November 1996, the Company sold substantially all of the assets of Mobile X-Ray to Symphony Diagnostics, Inc., a subsidiary of Integrated Health Services, Inc. (NYSE:IHS) for $5.3 million in cash and shares of Integrated Health Services common stock with a value of $5.2 million at the closing with the possibility of the Company receiving additional cash consideration based upon the occurrence of certain future events.

In September 1996, the Company sold its ownership interest in HealthQuest, Inc. for $.75,000 which approximated its carrying value.

In August 1995, the Company sold the assets of MEDIQ Imaging to NMC Diagnostic Services, Inc., a division of W.R. Grace & Co., for approximately $17 million in cash and the assumption of $9.7 million of debt.

In June 1995, the Company sold Medifac and certain related assets to the management of Medifac for approximately $11 million, consisting of $6 million in cash and $5 million in notes, and the assumption of $26.9 million of non-recourse debt.

The Company expects to sell Health Examinetics to its management for cash and an interest bearing note aggregating $1.7 million. The Company presently anticipates that the sale transaction will be completed in fiscal 1997.

Results of Operations

Fiscal Year 1996 Compared with Fiscal Year 1995

Revenues from continuing operations were $136.1 million, as compared to $132.2 million in the prior year, an increase of $3.9 million, or 3%. Revenue growth aggregating $6.2 million was primarily attributable to the sale of repair parts, accessories and disposable products, outsourcing services and sales of equipment. This growth was partially offset by lower equipment rentals as a result of the absence in fiscal 1996 of a sustained flu season, the non-renewal of a number of long-term rental

contracts as a result of customer purchases and a trend in the marketplace of better utilization of equipment of customers partially offset by an increase in the number or rental customers. The Company expects this trend to continue, with increased potential for its CAMP and CAMP Plus programs as customers seek to reduce capital and operating expenses.

Operating income from continuing operations was $25.4 million, as compared to $24.2 million in 1995, an increase of $1.2 million, or 5%. The improvement in operating income was attributable to reductions in corporate overhead of $4.1 million, as compared to fiscal 1995, as a result of non-recurring expenses in fiscal 1995 associated with the activities of the Special Committee of the Board of Directors and the reduction in corporate personnel in connection with the corporate restructuring plan adopted in the first quarter of fiscal 1996. This reduction was partially offset by a restructuring charge of $2.2 million for employee severance costs incurred in connection with a plan approved by the Board of Directors to downsize corporate functions and consolidate certain activities with the operations of MEDIQ/PRN.

Interest expense decreased 7%, to $27.3 million, from $29.2 million in 1995. The decrease was primarily attributable to a net reduction in indebtedness and was partially offset by an increase in the interest rate of MEDIQ/PRN's $100 million Senior Secured Notes from 11-1/8% to 12-1/8% effective October 1, 1995.

Interest income of $1.5 million was consistent with the prior year and was primarily derived from the Company's note receivable from MHM Services, Inc., ("MHM" formerly a wholly-owned subsidiary of the Company which was spun-off to shareholders in August 1993).

Other charges and credits for 1996 included the establishment of a reserve on the note receivable from MHM of $6 million as a result of the Company's analysis of the financial condition of MHM and a charge of $.6 million related to the excess of the purchase price over the carrying value of a warrant issued by MEDIQ/PRN in 1992 to a lender in connection with the financing of an acquisition. The purchase price of the warrant was $1.6 million. These charges were partially offset by gains on the sales of operating assets of $.6 million. Fiscal 1995 included a loss of $1.1 million from the sale of the Company's equity interest in New West Eyeworks, Inc. in April 1995 for $3.0 million, and income of $.6 million representing a portion of the contingent proceeds earned in 1995 from the prior year sale of the Company's interest in a kidney stone treatment center.

The pretax loss from continuing operations before extraordinary item was $6.6 million for 1996, as compared to a pretax loss of $3.7 million in the prior year. The increase in pretax loss was attributable to the reserve on the note receivable from MHM, the restructuring charge and the charge related to the repurchase of the MEDIQ/PRN warrant partially offset by net reductions in interest expense and corporate overhead. The pretax loss in 1995 included non-recurring expenses of $1.7 million related to the strategic activities of the Board of Directors and a loss of $1.1 million on the sale of the Company's equity interest in New West Eyeworks.

The income tax benefit related to continuing operations was $.4 million, as compared to a benefit of $.3 million in the prior year. The Company's effective tax rates were disproportionate compared to the statutory rates as a result of goodwill amortization and the non-recognition for state income tax purposes of certain operating losses.

Revenues from discontinued operations (excluding equity investors) were $36.8 million in 1996, as compared to $78.4 million in 1995. The net loss from discontinued operations was $10.7 million in 1996, as compared to $1.6 million in 1995, and consisted principally of revisions to the estimates of sales proceeds for the disposal of the Company's investments in discontinued operations, including reserves relating to investigations as discussed in Item 3. "Legal Proceedings" and Note I to the Consolidated Financial Statements.

In connection with repayments of debt, the Company realized an extraordinary gain of $1.7 million, or $1.1 million net of taxes in 1996.

Fiscal Year 1995 Compared with Fiscal Year 1994

Revenues from continuing operations were $132.2 million, as compared to $81.5 million in the prior year, an increase of $50.7 million, or 62%. This revenue growth was primarily attributable to the KCI acquisition. The Company incorporated the additional movable medical equipment obtained from the acquisition on September 30, 1994 into its national distribution network with the addition of six branch offices, which resulted in substantially higher revenues.

Operating income from continuing operations was $24.2 million, as compared to $1.4 million in 1994. The improvement in operating income was attributable to additional revenues and improved operating margins resulting from the KCI acquisition. Non-operating activities, including corporate overhead, accounted for operating losses of $7.8 million in 1995, as compared to $6.1 million in 1994.

Operating income from continuing operations in 1995 was adversely affected by corporate general and administrative expenses of approximately $1.7 million incurred in connection with the Company's corporate strategic activities during the year. These activities, which included the formation and activities of a Special Committee of the Board of Directors to explore alternative ways of maximizing shareholder value, were concluded in October 1995 when the Board accepted the recommendation of the Special Committee to reject two outstanding offers to acquire the Company and terminate any further efforts to sell the Company at that time.

Interest expense increased 37%, to $29.2 million, from $21.3 million in 1994. Increased debt associated with financing MEDIQ/PRN's acquisition of KCI on September 30, 1994, resulted in higher interest expense, partially offset by lower interest at the corporate level. Net cash proceeds from the sale of discontinued operations in June and August 1995 aggregating approximately $24 million were used to reduce notes payable to banks and other long-term debt.

Interest income was $1.5 million in 1995 and $1.4 million in 1994 and was primarily derived from the Company's note receivable from MHM.

Other charges and credits for 1995 included a loss of $1.1 million from the sale of the Company's equity interest in New West Eyeworks, Inc. in April 1995 for $3.0 million, and income of $.6 million representing a portion of the contingent proceeds earned in 1995 from the prior year sale of the Company's interest in a kidney stone treatment center. Fiscal 1994 included a gain of $4.0 million related to the sale of the kidney stone treatment center and gains totaling $1.4 million from dividends and the sale of other assets, including a portion of the Company's equity interest in New West Eyeworks.

The pretax loss was $3.7 million for 1995, as compared to a pretax loss of $12.6 million in the prior year. The improvement in pretax income was attributable to MEDIQ/PRN and the success of its integration of the assets acquired in the KCI acquisition into its nationwide distribution network. Fiscal 1995 included non-recurring expenses of $1.7 million related to the strategic activities of the Board of Directors and a loss of $1.1 million on the sale of the Company's equity interest in New West Eyeworks. The pretax loss in 1994 included gains from the sale of the Company's interest in a kidney stone treatment center and other assets totaling $5.4 million.

The income tax benefit related to continuing operations was $.3 million, as compared to $4.3 million in the prior year. The Company's effective tax rates were disproportionate compared to the statutory rates as a result of goodwill amortization and the non-recognition for state income tax purposes of certain operating losses.

Revenues from discontinued operations were $78.4 million in 1995, as compared to $86.6 million in 1994. The net loss from discontinued operations was $1.6 million in 1995, consisting of net income of $3.1 million from operations partially offset by a net loss on disposal of $4.7 million as compared to net income of $1.0 million in the prior year.

Liquidity and Capital Resources

In 1996, cash provided by operating activities increased to $29.1 million, as compared to $24.7 million in the prior year. This increase was principally the result of increased operating income and reduced working capital requirements.

Net cash used in investing activities was $16.9 million for 1996, primarily attributable to expenditures for rental medical equipment totaling $18.1 million, the repurchase of the MEDIQ/PRN warrant for $1.6 million partially offset by proceeds from the sale of assets and discontinued operations of $5.5 million. The Company presently anticipates capital expenditures of approximately $14 million during fiscal 1997, primarily for rental medical equipment. The Company intends to finance the rental medical equipment expenditures with cash from operations.

Net cash used in financing activities was $11.9 million for 1996 and consisted primarily of debt repayments of $39 million partially offset by borrowings of $25.7 million and proceeds from exercise of stock options of $1.4 million.

On October 1, 1996, the Company, together with MEDIQ/PRN entered into a $260 million Credit Agreement with a group of lenders led by Banque Nationale de Paris as Administrative Agent and Initial Issuing Bank and NationsBank, N.A. as the Documentation Agent (the "Credit Agreement"). The Credit Agreement provides for four separate loans, a Term A loan ($35 million), a Term B loan ($100 million), an Acquisition Revolver ($100 million) and a Working Capital Revolver ($25 million). The amounts available under the Credit Agreement allowed the Company to refinance substantially all of its existing senior debt, its outstanding lines of credit, all of MEDIQ/PRN's subordinated debt, and MEDIQ/PRN's $100 million 12-1/8% Senior Secured Notes due 1999. Upon completion of the financing, the Company had $40 million available under the Acquisition Revolver and $10 million available under the Working Capital Revolver both of which were available to the Company upon continued compliance with certain financial covenants and/or ratios.

The loans bear interest at either the prime rate plus a factor or at a Eurodollar rate plus a factor. The factor changes quarterly based upon the Company's leverage ratio. On October 1, 1996, the Company's interest rate on the Term A loan, the Acquisition Revolver and the Working Capital Revolver was prime (8.25% at September 30, 1996) plus 1.25% or Eurodollar (5.38 % at September 30, 1996) plus 2.75% and the interest rate on the Term B loan was prime plus 1.75% or Eurodollar plus 3.25%. The loans are collateralized by substantially all of the assets of the Company. The proceeds from the sales of PCI, NutraMax, Mobile X-Ray and Health Examinetics aggregating approximately $128 million, must be utilized to repay outstanding advances under the Acquisition Revolver upon receipt.

The Term A loan is payable in quarterly installments of $1.2 million beginning December 31, 1996 through September 30, 2001 and in quarterly installments of $2.75 million from December 31, 2001 through September 30, 2002. The Term B loan is payable in quarterly installments of $.25 million beginning December 31, 1996 through September 30, 2002, quarterly installments of $8.5 million in fiscal 2003 and quarterly installments of $15 million in fiscal 2004. The Company can borrow and repay under the Acquisition Revolver until March 31, 1998 in accordance with the Credit Agreement. On March 31, 1998, the Acquisition Revolver converts to a term loan which will be repaid in quarterly installments beginning on June 30, 1998. The first two installments will be at 5.0% of the converted

balance and all remaining quarterly payments will be at 5.625% of the converted balance. The Working Capital Revolver terminates on September 30, 2002 at which time all outstanding balances are due.

The Credit Agreement requires the Company to maintain certain financial ratios and imposes certain other financial and dividend limitations. The terms of the Company's Credit Agreement preclude the payment of dividends until October 1, 1997.

As a result of the refinancing, the Company recognized in the first quarter of 1997, an extraordinary charge of $13 million before taxes resulting from the write-off of deferred charges and premiums incurred related principally to the tender offer to purchase the $100 million Senior Secured Notes, and a non-recurring charge of $11 million for the purchase of a warrant to purchase 10% of MEDIQ/PRN issued in connection with financing the KCI acquisition.

Accordingly, the Company has reflected the outstanding balances of its lines of credit, subordinated debt and Senior Secured Notes as long-term senior debt on its Consolidated Balance Sheet at September 30, 1996.

The Company may also use a portion of the new credit facility to redeem or repurchase its 7.25% convertible subordinated debentures and its 7.50% exchangeable subordinated debentures. However, except to the extent required by the terms of the indentures pursuant to which these debentures were issued, there can be no assurance that any such redemption or repurchase will occur.

In accordance with the terms of the Credit Agreement, effective November 15, 1996, the Company entered into interest rate hedge transactions which terminate in January 2000. Under one of these transactions, on $50 million of borrowings, the Company's base Eurodollar borrowing rate is fixed at 6.26% per annum, instead of a floating Eurodollar rate. Under the second hedge transaction, on an additional $50 million of borrowings, the Company's base Eurodollar rate cannot be lower than 5.25% or greater than 7.43%.

The Company's 7.25% convertible subordinated debentures due 2006 require the Company to offer to repurchase a portion of the debentures if stockholders' equity is $40 million or less at the end of two consecutive fiscal quarters.

Since June 30, 1994, the Company's stockholders' equity has been less than $40 million. The Company repurchased $22.5 million principal amount of debentures in fiscal 1996. As of September 30, 1996, the Company is required to either repurchase or offer to redeer $11.25 million of debentures in fiscal 1997. These debentures were reclassified to long-term senior debt in connection with the terms of the refinancing discussed above since the redemption of the 7.25% debentures must be made from drawings on the Acquisition Revolver. In November and December 1996, the Company repurchased an aggregate of $2.2 million of the debentures at approximately face value in the open market. The Company is required to either repurchase or offer to redeem $9.05 million of debentures prior to January 30, 1997 pursuant to the terms of the mandatory redemption provisions of the indenture. Additionally, the Company is required to either repurchase or offer to redeem $11.25 million of debentures prior to July 30, 1997 and semi-annually thereafter until all of the debentures are repurchased or stockholders' equity is more than $40 million. Accordingly, the Company has classified $22.5 million as senior debt in accordance with the terms of the Credit Agreement.

As of September 30, 1996, the Company had lines of credit aggregating $31 million, bearing interest at rates ranging from prime (8.25% at September 30, 1996) to prime plus 1.5%. At September 30, 1996, the Company had $26.4 million in borrowings and $2.0 million of letters of credit outstanding under these facilities. As a result of the refinancing discussed above, the outstanding amounts under these facilities are reflected as long-term senior debt in the Company's Consolidated Balance Sheet at September 30, 1996.

The Company expects that its primary sources of liquidity for operating activities will be generated through cash flows from MEDIQ/PRN. Proceeds from the sale of discontinued operations and miscellaneous assets will be used to repay long-term debt. The Company believes that sufficient funds will be available from operating cash flows, the sale of assets and the new credit facility to meet the Company's anticipated operating and capital requirements, including obligations to redeem or repurchase in the open market a portion or all of the 7.25% and/or 7.50% debentures as previously discussed.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Independent Auditors' Report

Board of Directors and Stockholders
MEDIQ Incorporated
Pennsauken, New Jersey

We have audited the accompanying consolidated balance sheets of MEDIQ Incorporated and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. Our audits also include the financial statement schedules listed in the index at Item 14(a)(2). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an

opinion on these financial statements and financial statement schedules 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, such consolidated financial statements present fairly, in all material respects, the financial position of MEDIQ Incorporated and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
December 26, 1996

MEDIQ INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
	(in thousands, except per share data)		
<S>	<C>	<C>	<C>
Revenues	$ 136,066	$ 132,241	$ 81,498
Costs and Expenses:			
Operating	57,468	53,164	38,654
Selling and administrative	20,795	24,714	20,364
Restructuring	2,200	--	--
Depreciation and amortization	30,157	30,161	21,126
	110,620	108,039	80,144
Operating Income	25,446	24,202	1,354
Other (Charges) Credits:			
Interest expense	(27,307)	(29,241)	(21,335)
Interest income	1,452	1,502	1,395
Other	(6,147)	(121)	5,986
Loss from Continuing Operations before Income Tax Benefit and Extraordinary Charge	(6,556)	(3,658)	(12,600)
Income Tax Benefit	(378)	(312)	(4,346)
Loss from Continuing Operations before Discontinued Operations and Extraordinary Charge	(6,178)	(3,346)	(8,254)
Discontinued Operations:			
Income from operations (net of income taxes of $2,025,000 in 1996; $3,393,000 in 1995 and $301,000 in 1994)	3,929	3,132	936
Loss on disposal (net of income taxes of ($5,406,000) in 1996 and $953,000 in 1995)	(14,598)	(4,733)	--
	(10,669)	(1,601)	936
Loss before Extraordinary Charge	(16,847)	(4,947)	(7,318)

Extraordinary Gain, Early Retirement of Debt (net of income tax expense of $587,000)	1,143	--	--
Net Loss	$ (15,704)	$ (4,947)	$ (7,318)
Earnings Per Share:			
Income (Loss) from:			
Continuing Operations	$ (.25)	$ (.14)	$ (.34)
Discontinued Operations	(.43)	(.06)	.04
Loss before Extraordinary Gain	(.68)	(.20)	(.30)
Extraordinary Gain	.05	--	--
Net Loss	$ (.63)	$ (.20)	$ (.30)
Weighted Average Shares Outstanding	24,967	24,604	24,405

</TABLE>

See Notes to Consolidated Financial Statements

MEDIQ INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	September 30, 1996	September 30, 1995
	(in thousands)	
Assets		
<S>	<C>	<C>
Current Assets:		
Cash	$ 3,219	$ 2,966
Accounts receivable (net of allowance of $2,383,000 in 1996 and $2,207,000 in 1995)	30,233	27,884
Inventories	6,614	4,181
Deferred income taxes	2,447	4,310
Other current assets	2,280	5,095
Total Current Assets	44,793	44,436
Investment in discontinued operations - restricted	54,717	70,162
Note receivable from MHM	3,967	10,733
Property, plant and equipment	122,706	132,823
Goodwill	58,321	61,744
Other assets	13,359	14,271
Total Assets	$ 297,863	$ 334,169
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 8,907	$ 6,694
Accrued expenses	17,169	20,230
Other current liabilities	458	461
Current portion of long-term debt	8,520	37,300
Total Current Liabilities	35,054	64,685
Senior debt	192,461	136,949
Subordinated debt	41,229	81,907
Deferred income taxes	7,254	13,414
Other liabilities	4,420	5,697
Commitments and contingencies	--	--
Stockholders' Equity:		
Preferred stock ($.50 par value: Authorized 20,000,000 shares; issued Series A: 6,688,000 in 1996 and 6,752,000 in 1995)	3,344	3,376
Common stock ($1 par value: Authorized 40,000,000 shares;		

issued 19,191,000 in 1996 and 19,127,000 in 1995)	19,191	19,127
Capital in excess of par value	21,517	22,124
Accumulated deficit	(21,771)	(6,067)
Treasury stock, at cost (preferred shares: 377,000 in 1996 and 377,000 in 1995; common shares: 772,000 in 1996 and 1,275,000 in 1995)	(4,836)	(7,043)
Total Stockholders' Equity	17,445	31,517
Total Liabilities and Stockholders' Equity	$ 297,863	$ 334,169

</TABLE>

See Notes to Consolidated Financial Statements

MEDIQ INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Treasury Stock
	Shares Issued	Amount	Shares Issued	Amount			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance October 1, 1993	6,838	$ 3,419	19,042	$19,042	$23,349	$ 8,281	$ (9,517)
Net loss						(7,318)	
Dividends						(2,083)	
Conversion of preferred stock to common stock	(22)	(11)	22	22	(11)		
Issuance of stock					(600)		1,309
Stock options exercised					(381)		779
Balance September 30, 1994	6,816	3,408	19,064	19,064	22,357	(1,120)	(7,429)
Net loss						(4,947)	
Conversion of preferred stock to common stock	(64)	(32)	63	63	(31)		
Stock options exercised					(202)		386
Balance September 30, 1995	6,752	3,376	19,127	19,127	22,124	(6,067)	(7,043)
Net loss						(15,704)	
Conversion of preferred stock to common stock	(64)	(32)	64	64	(32)		
Stock options exercised					(575)		2,207
Balance September 30, 1996	6,688	$ 3,344	19,191	$19,191	$21,517	$(21,771)	$ (4,836)

</TABLE>

See Notes to Consolidated Financial Statements

MEDIQ INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Cash Flows From Operating Activities		(in thousands)	
Net loss	$(15,704)	$ (4,947)	$ (7,318)

Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	30,157	30,161	21,126
Provision for doubtful accounts	1,237	993	984
Provision for deferred income taxes (benefit)	209	1,182	(3,146)
Accretion of acquisition indebtedness	621	1,402	--
Reserve on note receivable from MHM	6,000	--	--
Cash provided by discontinued operations	3,240	7,532	3,073
(Income) loss from discontinued operations	10,669	1,601	(936)
Extraordinary item, early extinguishment of debt	(1,730)	--	--
Other	488	373	(4,468)
Increase (decrease), net of effects from acquisitions:			
Accounts receivable	(2,428)	(11,305)	1,527
Inventories	(2,433)	1,758	175
Accounts payable	2,213	(108)	(1,615)
Accrued expenses	(2,973)	(3,036)	2,303
Other current assets and liabilities	(498)	(907)	1,839
Net cash provided by operating activities	29,068	24,699	13,544
Cash Flows From Investing Activities			
Proceeds from sale of assets	3,976	10,957	8,251
Proceeds from sale of discontinued operations	1,500	23,858	--
Purchase of equipment	(18,073)	(11,548)	(7,320)
Acquisitions	--	--	(70,528)
Note receivable from SpectraCair	(3,250)	--	--
Payment of Note receivable from SpectraCair	3,250	--	--
Repurchase of MEDIQ/PRN warrant	(1,625)	--	--
Other	(2,727)	(5,016)	(3,775)
Net cash provided by (used in) investing activities	(16,949)	18,251	(73,372)
Cash Flows From Financing Activities			
Borrowings	25,747	1,190	67,540
Debt repayments	(39,045)	(42,853)	(19,299)
Dividends	--	--	(2,722)
Proceeds from exercise of options	1,432	184	398
Net cash provided by (used in) financing activities	(11,866)	(41,479)	45,917
Increase (decrease) in cash	253	1,471	(13,911)
Cash:			
Beginning balance	2,966	1,495	15,406
Ending balance	$ 3,219	$ 2,966	$ 1,495
Supplemental disclosure of cash flow information:			
Interest paid	$ 25,563	$ 26,200	$ 20,440
Income taxes paid (refunded)	$ 557	$ 205	$ (2,886)
Supplemental disclosure of non-cash investing and financing activities:			
Equipment financed with long-term debt and capital leases	$ 840	1,808	$ 5,937
Portion of acquisitions financed by sellers	$ --	$ --	$ 19,384
Liabilities assumed in connection with acquisitions	$ --	$ --	$ 2,804

</TABLE>

See Notes to Consolidated Financial Statements

Note A - Summary of Significant Accounting Policies

Principles of consolidation - The consolidated financial statements include the accounts of MEDIQ Incorporated and its subsidiaries (the "Company"). Investments in companies owned 20% to 50% are accounted for under the equity method of accounting. All other investments are stated at the lower of cost or net realizable value. In consolidation, all significant intercompany transactions and balances have been eliminated.

Inventories - Inventories, which consist primarily of repair parts for rental equipment and finished goods held for sale, are stated at the lower of cost (first-in, first-out method) or market.

Property, plant and equipment - Rental equipment, machinery and equipment, buildings and improvements, and land are recorded at cost. Capital

leases are recorded at the lower of fair market value or the present value of future lease payments. The Company provides straight-line depreciation and amortization over the estimated useful lives (rental equipment and machinery and equipment - 3 to 10 years and buildings and improvements - 10 to 25 years).

Goodwill - The cost of acquired businesses in excess of net assets is amortized on a straight-line basis primarily over periods of 20 years. Accumulated amortization was $15.3 million and $12 million as of September 30, 1996 and 1995, respectively.

Carrying value of long-term assets - The Company evaluates the carrying value of long-term assets, including rental equipment, goodwill and other intangible assets, based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value.

Revenue recognition policy - Rental revenue is recognized in accordance with the terms of the related rental agreement and the usage of the related rental equipment. Revenues from other operating activities are recognized as services are rendered or as income is earned.

Subsidiary and unconsolidated affiliate stock transactions - Gains (losses) resulting from the issuance or repurchase of stock by subsidiaries and unconsolidated affiliates are recognized by the Company as equity participation in the Consolidated Statements of Operations.

Earnings (loss) per share - Primary net earnings (loss) per share are computed by dividing net earnings (loss) by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents include shares issuable upon conversion of the Company's convertible preferred stock, convertible subordinated debt and exercise of outstanding stock options.

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

New Accounting Pronouncements - In October 1995, the Financial Accounting Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"), which will be adopted by the Company in fiscal year 1997 as required by the statement. The Company has elected to continue to measure such compensation expense using the method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees,"as permitted by SFAS 123. When adopted, SFAS 123 will not have a significant effect on the Company's financial position or results of operations but will require the Company to provide expanded disclosure regarding its stock-based employee compensation plans.

Note A - Summary of Significant Accounting Policies (Continued)

Reclassification of accounts - Certain reclassifications have been made to conform prior years' balances to the current year presentation.

Note B - Dispositions

During fiscal 1996, the Company continued to pursue its previously announced strategy of divesting substantially all operating assets other than MEDIQ/PRN and Management Services, Inc. and using the proceeds thereof to reduce indebtedness.

Discontinued Operations

In the fourth quarter of fiscal 1996, the Company entered into an agreement with NutraMax (NASDAQ:NMPC), a leading private label health and personal care products company. Pursuant to this agreement, the Company anticipates selling to NutraMax all of the 4,037,258 shares of NutraMax common stock owned by the Company at a price of $9.00 per share. Under the terms of the agreement, the Company will receive from NutraMax $19.9 million in cash and an interest-bearing promissory note in the amount of $16.4 million. The note is payable when NutraMax shares owned by the Company, which currently are held in escrow in support of the Company's 7.50% Exchangeable Subordinated Debentures, are released from that escrow. The NutraMax shares are to be released from escrow upon the purchase or redemption of the 7.50% debentures. Upon closing of the transaction, the Company will realize an after-tax gain of $6.2 million. The cash proceeds from this transaction will be used to reduce debt.

On October 11, 1996, PCI, a leading provider of integrated

pharmaceutical packaging services, was acquired by Cardinal. As a result, the Company received 966,000 shares of Cardinal stock which, based on the closing price on October 11, 1996 had a market value of $79.2 million. The Company recognized an after tax gain of $31.8 million in the first quarter of fiscal 1997. In December 1996, Cardinal's common stock split 3 for 2 and, accordingly the Company now owns 1,449,000 shares which have an aggregate market value of $81.3 million based upon the closing price of $56.125 per share on December 20, 1996. The Company anticipates selling its Cardinal shares in fiscal 1997 and using the proceeds to reduce debt.

In the second quarter of fiscal 1995, the Company adopted a plan to sell the following four non-core businesses: Medifac, Inc. ("Medifac"), a provider of health care facility planning, architectural and development services; Health Examinetics, Inc. ("Health Examinetics"), a provider of mobile health testing services; MEDIQ Mobile X-Ray Services, Inc. ("Mobile X-Ray"), a provider of portable X-ray and EKG services; and MEDIQ Imaging Services, Inc. ("MEDIQ Imaging"), a provider of diagnostic imaging services in mobile and fixed sites. In the fourth quarter of fiscal 1995, the Company revised the plan to include the operations of HealthQuest, Inc. ("HealthQuest"), a provider of case management and utilization review services and the Company's equity investment in InnoServ Technologies, Inc. which is anticipated to be divested during fiscal 1997.

The Company's prior year consolidated financial statements have been restated to report the net assets and operating results of these businesses and equity investments as discontinued operations.

In November 1996, the Company sold substantially all of the assets of Mobile X-Ray to Symphony Diagnostics, Inc., a subsidiary of Integrated Health Services, Inc. (NYSE:IHS) for $5.3 million in cash and shares of Integrated Health Services common stock with a value of $5.2 million at the closing with the possibility of the Company receiving additional cash consideration based upon the occurrence of certain future events.

Note B - Dispositions (Continued)

In September 1996, the Company sold its common stock investment in HealthQuest, Inc. to management for approximately $75,000 which approximated its carrying value.

In August 1995, the Company sold the assets of MEDIQ Imaging Services, Inc., the Company's mobile and fixed site ultrasound and nuclear imaging business, to NMC Diagnostic Services Inc., a division of W.R. Grace & Co., for approximately $17 million in cash, and the assumption of $9.7 million of debt.

In June 1995, the Company sold Medifac, Inc., a health care facility planning, design and project management firm, and related assets to the management of Medifac for approximately $11 million, consisting of $6 million in cash and $5 million in notes, and the assumption of $26.9 million of non-recourse debt.

In August 1994, the Company merged its MEDIQ Equipment and Maintenance Services, Inc. ("MEMS") subsidiary with InnoServ, and the Company received 2,030,000 shares of InnoServ common stock, or approximately 40% of the outstanding shares, and warrants to purchase at $6.25 per share an additional 325,000 shares of common stock. No gain or loss resulted from the merger. The Company anticipates divesting its investment in InnoServ in fiscal 1997.

The Company expects to sell Health Examinetics to its management for cash and an interest bearing note aggregating $1.7 million. The Company presently anticipates that the sale transaction will be completed in the second quarter of fiscal 1997.

The investment in discontinued operations as of September 30, 1996 consisted of (in thousands):

	September 30,	
	1996	1995
Current assets	$50,331	$55,362
Current liabilities	9,185	8,841
Net current assets	41,146	46,521
Net fixed assets	5,387	4,726
Other noncurrent assets	8,184	18,915
	$54,717	$70,162

Revenues from discontinued operations (excluding equity investees) were $36.8

million, $78.4 million and $86.6 million in 1996, 1995 and 1994 respectively.

Sale of Other Assets

In December 1993, the Company exercised warrants to purchase 229,518 shares of common stock of New West Eyeworks, Inc. ("New West") in connection with New West's initial public offering. The warrants were issued to the Company in 1988 together with $5.1 million of New West preferred stock as partial consideration for the sale of a business. In connection with the offering, the Company received $1.9 million, representing a partial redemption of the preferred shares, net proceeds from the sale of 82,500 shares of common stock and partial payment of accumulated preferred stock dividends and accrued interest. The Company received an additional 57,143 shares of New West common stock in payment of the balance of accumulated dividends and interest. The Company recorded income of $1.2 million in 1994 related to the sale of New West common stock and the payment of dividends and interest. In April 1995, the Company sold its remaining investments in New West common stock and preferred stock for aggregate consideration of $3 million resulting in a $1.1 million pretax loss.

In September 1994, the Company sold its rights under a management contract related to a kidney stone treatment center for $4 million in cash and $3 million contingent upon future results of operations. The sale resulted in a pretax gain of $4 million in 1994 and $.6 million in 1995 representing a portion of the contingent proceeds.

Note C - Restructuring Charge

In the first quarter of fiscal 1996, the Company recorded a restructuring charge of $2.2 million for employee severance costs incurred in connection with a plan approved by the Board of Directors to downsize corporate functions and consolidate certain activities with the operations of MEDIQ/PRN. The plan resulted in the termination of 29 employees in fiscal 1996. The Company paid approximately $.9 million of severance benefits in fiscal 1996 with the balance of the restructuring obligation due over the next two fiscal years.

Note D - Acquisition

On September 30, 1994, the Company acquired the critical care and life support rental equipment inventory of KCI Therapeutic Services, Inc., a subsidiary of Kinetic Concepts, Inc. ("KCI"). The purchase price was approximately $88 million, including transaction costs and the assumption of certain capitalized lease obligations. The purchase price was allocated to assets acquired and liabilities assumed based on fair values at the date of the acquisition. The excess of the purchase price over fair values of the net assets acquired of $44.5 million was recorded as goodwill and is being amortized over twenty years.

Note E - Property, Plant and Equipment

<TABLE>
<CAPTION>

	September 30,	
	1996	1995
	(in thousands)	
<S>	<C>	<C>
Rental equipment	$211,948	$205,773
Equipment and fixtures	11,460	10,316
Building and improvements	7,486	7,272
Land	149	149
	231,043	223,510
Less accumulated depreciation and amortization	(108,337)	(90,687)
	$122,706	$132,823

</TABLE>

Depreciation and amortization expense related to property, plant and equipment was $26.3 million, $26.1 million and $19.7 million in 1996, 1995 and 1994, respectively.

Note F - Accrued Expenses

<TABLE>
<CAPTION>

	September 30,	
	1996	1995
	(in thousands)	
<S>	<C>	<C>
Interest	$ 5,359	$ 5,301
Payroll and related taxes	3,255	3,093
Pension	2,188	2,875
Property and other taxes	1,872	2,128
Other	4,495	6,833
	$ 17,169	$ 20,230

</TABLE>

Note G - Notes Payable to Financial Institutions

As of September 30, 1996, the Company had $31 million of lines of credit which bear interest at rates ranging from prime (8.25% at September 30, 1996) to prime plus 1.5% and are secured primarily by a portion of the shares of common stock of NutraMax and PCI owned by the company, certain accounts receivable, a pledge of the common stock of MEDIQ/PRN and a second mortgage on real estate. At September 30, 1996, $26.0 million in borrowings and $2.0 million of letters of credit were outstanding under these facilities. The amount of available credit fluctuated based upon the amount of eligible accounts receivable. The average amount outstanding under lines of credit in 1996 was $17.7 million and the weighted average interest rate computed on the monthly outstanding balance was 9.3%.

Pursuant to the Company's Credit Agreement more fully discussed in Note H, the Company refinanced these lines of credit. The Credit Agreement includes a working capital revolver of $25 million and expires on September 30, 2002. Accordingly, the amounts outstanding under the existing lines of credit as of September 30, 1996 have been reclassified to long-term senior debt in the Company's Consolidated Balance Sheet.

Note H - Long-Term Debt

Senior debt consisted of the following:

<TABLE>
<CAPTION>

	September 30,	
	1996	1995
	(in thousands)	
<S>	<C>	<C>
Corporate debt:		
Lines of Credit	$ 14,020	$ --
Revolving credit facility	--	567
Term loan	--	1,815
7.25% convertible subordinated debentures due 2006	22,500	--
Subsidiary debt:		
Lines of Credit	12,010	--
Senior secured notes due 1999	100,000	100,000
Term loan payable monthly through 2000 at prime plus 2%	27,448	37,493
Term loans payable	--	2,828
Capital lease obligations payable in varying installments through 1999 at fixed rates from 9% to 13.6%	6,204	9,046
10% subordinated notes due 2004	8,799	--
10% subordinated notes due 1999	10,000	--
	200,981	151,749
Less current portion	8,520	14,800
	$192,461	136,949

</TABLE>

Subordinated debt consisted of the following:

	September 30,

	1996	1995
	(in thousands)	
Corporate debt:		
7.5% exchangeable subordinated debentures due 2003	$ 34,500	$ 34,500
7.25% convertible subordinated debentures due 2006	6,729	51,729
Subsidiary debt:		
10% subordinated notes due 2004	--	8,664
10% subordinated notes due 1999	--	9,514
	41,229	104,407
Less current portion	--	22,500
	$ 41,229	$ 81,907

On October 1, 1996, the Company, together with MEDIQ/PRN entered into a $260 million Credit Agreement with a group of lenders led by Banque Nationale de Paris as Administrative Agent and Initial Issuing Bank and NationsBank, N.A. as the Documentation Agent (the "Credit Agreement"). The Credit Agreement provides for four separate loans, a Term A loan ($35 million), a Term B loan ($100 million), an Acquisition Revolver ($100 million) and a Working Capital Revolver ($25 million). The amounts available under the Credit Agreement allowed the Company to refinance substantially all of its existing senior debt, its outstanding lines of credit, all of MEDIQ/PRN's subordinated debt, and MEDIQ/PRN's $100 million 12-1/8% Senior Secured Notes due 1999. Upon completion of the financing, the Company had $40 million available

under the Acquisition Revolver and $10 million available under the Working Capital Revolver both of which were available to the Company upon compliance with certain financial covenants and/or ratios.

The loans bear interest at either the prime rate plus a factor or at a Eurodollar rate plus a factor. The factor changes quarterly based upon the Company's leverage ratio. The Company's interest rate on the Term A loan, the Acquisition Revolver and the Working Capital Revolver is prime (8.25% at September 30, 1996) plus 1.25% or Eurodollar (5.38 % at September 30, 1996) plus 2.75% and the interest rate on the Term B loan is prime plus 1.75% or Eurodollar plus 3.25%. The loans are collateralized by substantially all of the assets of the Company. The proceeds from the sales of PCI, NutraMax, Mobile X-Ray and Health Examinetics aggregating approximately $128 million must be utilized to repay outstanding advances under the Acquisition Revolver upon receipt.

The Term A loan is payable in quarterly installments of $1.2 million beginning December 31, 1996 through September 30, 2001 and in quarterly installments of $2.75 million from December 31, 2001 through September 30, 2002. The Term B loan is payable in quarterly installments of $.25 million beginning December 31, 1996 through September 30, 2002, quarterly installments of $8.5 million in fiscal 2003 and quarterly installments of $15 million in fiscal 2004. The Company can borrow and repay under the Acquisition Revolver until March 31, 1998 in accordance with the Credit Agreement. On March 31, 1998, the Acquisition Revolver converts to a term loan which will be repaid in quarterly installments beginning on June 30, 1998. The first two installments will be at 5.0% of the converted balance and all remaining quarterly payments will be at 5.625% of the converted balance. The Working Capital Revolver terminates on September 30, 2002 at which time all outstanding balances are due.

The Credit Agreement requires the Company to maintain certain financial ratios and imposes certain other financial and dividend limitations. The terms of the Company's Credit Agreement preclude the payment of cash dividends until October 1, 1997.

As a result of the refinancing, the Company recognized in the first quarter of 1997, an extraordinary charge of $13 million before taxes resulting from the write-off of deferred charges and premiums incurred related principally to the tender offer to purchase the $100 million 12-1/8% Senior Secured Notes due 1999, and a non-recurring charge of $11 million for the purchase of a warrant to purchase 10% of MEDIQ/PRN issued in connection with financing the KCI acquisition.

Accordingly, the Company has reflected the outstanding balances of its lines of credit, certain subordinated debt and Senior Secured Notes as long-term senior debt on its Consolidated Balance Sheet at September 30, 1996.

In accordance with the terms of the Credit Agreement, effective November 15, 1996, the Company entered into interest rate hedge transactions which terminate in January 2000. Under one of these transactions, on $50 million of borrowings, the Company's base Eurodollar borrowing rate is fixed at 6.26% per annum, instead of a floating Eurodollar rate. Under the second hedge

transaction, on an additional $50 million of borrowings, the Company's base Eurodollar rate cannot be lower than 5.25% or greater than 7.43%.

The 7.5% debentures are exchangeable for an aggregate of 2,255,000 shares of NutraMax common stock owned by the Company, or an equivalent of $15.30 per share, and are redeemable in whole or in part at the option of the Company after July 1996. Interest is payable semi-annually on January 15 and July 15. On October 1, 1996, the Company repurchased $6.7 million of its 7.5% debentures in the open market at a discount resulting in a pretax gain of $.4 million. This gain was recorded in the first quarter of fiscal 1997 as an extraordinary item.

Note H - Long-Term Debt (Continued)

The 7.25% debentures are convertible at any time prior to maturity into shares of the common stock of the Company at $7.50 per share. Interest is payable semi-annually on June 1 and December 1. Annual sinking fund payments are scheduled to commence in June 1997. However, because of prior open market purchases of these debentures, the Company will not be required to make the initial sinking fund payments. The Company is also required to offer to repurchase a portion of the debentures if stockholders' equity is $40 million or less at the end of two consecutive fiscal quarters. Since June 30, 1994, the Company's stockholders' equity has been less than $40 million. As of September 30, 1996, the Company is required to either repurchase or offer to redeem $11.25 million of the debentures in fiscal 1997. These debentures were reclassified to long-term senior debt in connection with the terms of the refinancing discussed above since the redemption of the 7.25% debentures must be made from drawings on the Acquisition Revolver. In November and December 1996, the Company repurchased an aggregate of $2.2 million of the debentures at approximately face value in the open market. The Company is required to either repurchase or offer to redeem $9.05 million of debentures prior to January 30, 1997 pursuant to the terms of the mandatory redemption provisions of the indenture. The Company is required to either repurchase or offer to redeem an additional $11.25 million of debentures prior to July 30, 1997 and semi-annually thereafter until all of the debentures are repurchased or stockholders' equity is more than $40 million.

In connection with repayments of debt the Company realized an extraordinary gain of $1.7 million, or $1.1 million net of taxes, in 1996.

Maturities of long-term debt giving effect to the refinancing described above are as follows:

<TABLE>
<CAPTION>

Year Ending September 30,	Senior	Subordinated	Total
		(in thousands)	
<C>	<C>	<C>	<C>
1997	$ 8,520	$ --	$ 8,520
1998	16,648	6,729	23,377
1999	27,073	--	27,073
2000	25,838	--	25,838
2001	4,892	--	4,892
Thereafter	118,010	34,500	152,510
	$200,981	$ 41,229	$242,210

</TABLE>

Note I - Commitments and Contingencies

Leases - The Company leases certain equipment, automobiles and office space. The future minimum lease payments under noncancelable operating leases and capital leases are as follows:

<TABLE>
<CAPTION>

Year Ending September 30,	Capital Leases	Operating Leases
	(in thousands)	
<C>	<C>	<C>
1997	$ 3,227	$ 4,506
1998	2,245	3,052
1999	1,435	1,537
2000	127	957
2001 and thereafter	--	325
Total minimum lease payments	7,034	$ 10,377

Amount representing interest	830
Present value of minimum lease payments	$ 6,204

</TABLE>

Note I - Commitments and Contingencies (Continued)

Total rent expense under operating leases was $5.2 million, $5.4 million and $5.2 million in 1996, 1995 and 1994, respectively. The leases, which are for terms of up to 5 years, contain options to renew for additional periods.

At September 30, 1996, rental equipment and machinery and equipment included assets under capitalized lease obligations of $11.8 million, less accumulated amortization of $3.6 million.

Purchase Commitments - Pursuant to a Distribution Agreement with a vendor dated April 1, 1996, as amended, MEDIQ/PRN has agreed to purchase $7 million of certain products by March 31, 1997. Through September 30, 1996, MEDIQ/PRN purchased $3.5 million under such agreement.

Guarantees - The Company guarantees a loan of MEDIQ PRN/HNE, L.L.C. in the aggregate amount of $7.5 million. To support the guarantee the Company has a certificate of deposit in the amount of $1.0 million with the lender.

Investigations and Legal Proceedings - MEDIQ Imaging, the assets of which were sold by the Company in August 1995, is presently the subject of a criminal and civil investigation by the United States Attorney's Office for the District of New Jersey and the Department of Health and Human Services. The investigation has focused on advice given by certain MEDIQ Imaging employees to physician customers of MEDIQ Imaging relating to the reassignment of certain Medicare claims. The Company and MEDIQ Imaging voluntarily reported the issue to the U.S. Government in January 1995 after learning that the advice given by the employees may have been inconsistent with the regulations relating to reassignment. The Company and MEDIQ Imaging have been cooperating in the investigation. In August 1995, in connection with the sale of MEDIQ Imaging, the Company provided the U.S. Government with a guarantee of approximately $7.1 million in connection with any settlement or judgment obtained by the U.S. Government. Management believes that there has been no violation of any statute or regulation by MEDIQ Imaging or any of its officers, directors or employees. Although the Company believes there has been no violation, if the U.S. Government obtains a judgment, the amount of the judgment against MEDIQ Imaging may exceed the guarantee amount. However, management and outside counsel are not aware of any evidence that would enable the U.S. Government to proceed against the Company beyond the limits of the guarantee.

MEDIQ Mobile X-Ray Services, Inc., the assets of which the Company sold in November 1996, is presently the subject of an investigation by the Wage and Hour Division of the United States Department of Labor (the "DOL"). The DOL has indicated that it believes that the practice of treating technologists as exempt professionals is incorrect. The Company maintains that the practice of treating x-ray technologists as exempt is correct and proper. A request for an official position statement has been sent to the Wage and Hour Administrator of the DOL. The DOL has indicated that it will broaden the scope of the investigation to include technologists at other Mobile X-Ray locations. Potential liability is retroactive from the day a lawsuit is initiated by the Solicitor of Labor and could include double liquidated damages and penalties.

On November 28, 1995, in the United States District Court for the Middle District of Pennsylvania, ATS Medical Servces, Inc. ("ATS"), a former subsidiary of the Company, and the president of ATS each pled guilty to one count of misprision of a felony in violation of Title 18, United States Code, Section 4. In addition, ATS agreed to repay the government $2.1 million, which was accrued in fiscal 1994, for excess reimbursement received by ATS from the Medicare Program from 1988 through 1992. The payment is part of a settlement agreement entered into between ATS, the United States Government and Gerard Callie, a former ATS employee, who had filed a civil lawsuit on behalf of the government against ATS pursuant to the False Claim Act, Title 31, United States Code, Sections 3729 - et seq., relating to ATS's alleged excess reimbursement. The court sentenced ATS, on June 24, 1996, to a term of probation of two years. The court imposed no fine on ATS. A mandatory special assessment of $200 was imposed and paid by ATS. In November 1996, in connection with the sale of Mobile X-Ray, the outstanding balance of this obligation was paid with a portion of the proceeds of the sale.

On June 12, 1996, the Company, ATS and Mobile X-Ray were sued in the United States District Court for the Middle District of Pennsylvania by Gerard and Sharon Callie, who are both former employees of ATS. The lawsuit alleges that the Callies were wrongfully terminated and asserts claims pursuant to the whistleblower provisions of the False Claims Act and the Pennsylvania Wage

Payment and Collection Law. The plaintiffs made a demand for damages totaling nearly $800,000. The Company believes it has no liability and intends to vigorously defend this case.

Although the Company has recorded additional reserves aggregating $4.0 million in 1996 based upon management's estimate of the eventual outcome of the investigations and lawsuit discussed above, the ultimate outcome of the investigations and lawsuit cannot presently be determined. These reserves are included in the Company's reserve for disposal of discontinued operations. Accordingly, no provision for any other loss that may result upon resolution of these matters has been made in the Company's consolidated financial statements.

In addition, the Company has pending several legal claims incurred in the normal course of business, which in the opinion of management, will not have a material effect on the consolidated financial statements.

Note J - Fair Value of Financial Instruments

Estimated fair value of financial instruments is provided in accordance with the requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments". The estimated fair value amounts have been determined by the Company using available market information and appropriate methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Accounts receivable and accounts payable - The carrying amounts of these items are an estimate of their fair values at September 30, 1996.

Long-term debt (excluding capital lease obligations) - The fair value of the Company's publicly traded debt is based on quoted market prices. Interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues for which quoted market prices are not available. The carrying amount and estimated fair value of long-term debt are $216.2 million and $218.7 million, respectively.

The fair value estimates presented herein are based on information available to management as of September 30, 1996, and have not been comprehensively revalued for purposes of these financial statements since that date. Current estimates of fair value may differ significantly from the amounts presented herein.

Note K - Common and Preferred Stock

Series A preferred stock is convertible on a one-for-one basis into shares of common stock, votes generally with the common stock as a single class, and in all such votes, has ten votes per share. The preferred stock participates in cash dividends at a rate equal to 60% of the amount paid on the common stock and has a $.50 per share preference in the event of dissolution or liquidation.

Note L - Income Taxes

Income tax expense (benefit) consisted of the following:

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
	(in thousands)		
<S>	<C>	<C>	<C>
Current:			
Federal	$ --	$ --	$ --
State	272	122	40
	272	122	40

Deferred:			
Federal	(810)	(1,432)	(5,211)
State	160	998	825
	(650)	(434)	(4,386)
Total income tax benefit	$ (378)	$ (312)	$(4,346)

</TABLE>

Note L - Income Taxes (Continued)

The differences between the Company's income tax expense (benefit) and the income tax expense (benefit) computed using the U.S. federal income tax rate were as follows:

	Year Ended September 30,		
	1996	1995	1994
	(in thousands)		
Statutory federal tax expense (benefit)	$(2,229)	$(1,244)	$(4,284)
State income taxes, net of federal income taxes	1,201	739	571
Goodwill amortization	368	344	370
Effects of dispositions of subsidiaries	--	--	(1,174)
Other items - net	282	(151)	171
Income tax benefit	$ (378)	$ (312)	$(4,346)

Significant components of the Company's deferred tax assets and liabilities were as follows:

	September 30,	
	1996	1995
Liabilities:	(in thousands)	
Depreciation	$ 30,105	$ 31,148
Intangible assets	13,887	11,481
Accrued Expenses	4,720	3,812
Prepaid Expenses	76	217
Other	674	2,471
Gross deferred tax liabilities	49,462	49,129
Assets:		
Net operating and capital loss carry forwards	29,478	27,662
Tax credit carry forwards	5,878	5,747
Accrued expenses and reserves	8,721	8,696
Intangible assets	231	429
Other	3,504	261
Gross deferred tax assets	47,812	42,795
Valuation allowance	(3,157)	(2,770)
	44,655	40,025
Net deferred tax liability	$ 4,807	$ 9,104

Deferred taxes of $2.0 million, $1.6 million and $1.2 million were recorded in 1996, 1995 and 1994, respectively, for the undistributed earnings of unconsolidated affiliates, which are reported as discontinued operations in fiscal 1996.

At September 30, 1996 for income tax purposes, the Company had alternative minimum tax credit carry forwards of approximately $5.1 million, net operating loss carry forwards of $51.7 million expiring through 2009, and capital loss carry forwards of $25.5 million expiring in 1999. State net operating loss carry forwards were $52.6 million, expiring through 2009. The Company also had a carry forward of Investment Tax Credit and Rehabilitation Tax Credit of $.7 million expiring through 2003.

Note M - Related Party Transactions

In connection with the spin-off of MHM Services, Inc. ("MHM") in fiscal 1993,

MHM was obligated to the Company pursuant to a promissory note with MHM in the original amount of $11.5 million due in August 1998. The note bears interest at the prime rate plus 1.5% and required interest payments only through fiscal 1995. Principal and interest payments commenced October 1, 1996. As a result of the Company's analysis of MHM's financial condition, the Company established a reserve of $6 million on the note as of September 30, 1996. The Company recorded interest income related to the MHM note of $1.1 million, $1.2 million and $.9 million in 1996, 1995 and 1994, respectively.

In 1996, 1995 and 1994, the Company incurred legal fees of approximately $657,000, $700,000 and $250,000 respectively, to a law firm in which the Company's Chairman of the Board of Directors is a partner.

In 1996, the Company incurred consulting fees of approximately $126,000 to a law firm of which another member of the Board of Directors is a partner.

The Company derived revenues of $175,000, $340,000 and $327,000 in 1996, 1995 and 1994, respectively, pursuant to agreements to provide financial management, legal and risk management services to PCI, NutraMax and MHM.

Note N - Stock Option Plans

Under the Company's stock option plans, options may be granted to officers and key employees of the Company and its subsidiaries. No option may be granted for a term in excess of ten years from the date of grant. As of September 30, 1996, 633,000 of the outstanding stock options were exercisable under the plan. The exercise prices of outstanding options represented the fair market value at dates of grant. The Company's Board of Directors has reserved a sufficient number of shares for the exercise of outstanding stock options.

A summary of the Company's stock option plan activity for common and preferred shares for the three years ended September 30, 1996 follows:

	Number of Shares	Option Price Per Share
	(in thousands)	
Outstanding at October 1, 1993	1,705	$2.73 to $4.51
Exercised	(114)	$3.06
Terminated	(149)	$2.73 to $4.51
Outstanding at September 30, 1994	1,442	$2.73 to $4.51
Granted	21	$4.02 to $4.13
Exercised	(60)	$2.73 to $3.49
Terminated	(292)	$2.73 to $4.49
Outstanding at September 30, 1995	1,111	$2.73 to $4.51
Granted	1,153	$4.00 to $5.31
Exercised	(575)	$2.84 to $3.49
Terminated	(78)	$3.49 to $4.53
Outstanding at September 30, 1996	1,611	$2.73 to $5.31

Note O - Pension Plan

The Company maintains a noncontributory pension plan which provides retirement benefits to substantially all employees. Employees generally are eligible to participate in the plan after one year of service and become fully vested after five years of service. The plan provides defined benefits based on years of credited service and compensation. The Company makes contributions that are sufficient to fully fund its actuarially determined cost, generally equal to the minimum amounts required by ERISA. Assets of the plan consist primarily of stocks, bonds and annuities.

Net periodic pension expense is comprised of the following:

<TABLE>
<CAPTION>

	Year ended September 30,		
	1996	1995	1994
	(in thousands)		
<S>	<C>	<C>	<C>
Service cost - benefits earned during the period	$ 609	$ 785	$ 1,193
Interest cost on projected benefit obligation	1,066	929	894
Actual return on plan assets	(1,463)	(1,642)	(436)
Net amortization and deferrals	544	851	(331)

Net periodic pension expense	$ 756	$ 923	$ 1,320

</TABLE>

The following table presents the funded status of the Company's pension plan and the amounts reflected in the Consolidated Balance Sheets:

	September 30,	
	1996	1995
	(in thousands)	
Actuarial present value of benefit obligations:		
Vested benefits	$(13,141)	$(10,427)
Accumulated benefit obligation	$(13,713)	$(11,291)
Projected benefit obligation	$(14,539)	$(12,606)
Plan assets at fair value	13,663	11,493
Projected benefit obligation in excess of plan assets	(876)	(1,113)
Unrecognized net gain	(1,673)	(2,345)
Balance of unrecorded transition obligation	361	647
Accrued pension liability	$ (2,188)	$ (2,811)

The actuarial assumptions used in determining net periodic pension costs were:

	Year ended September 30,		
	1996	1995	1994
Discount rate	8%	8%	8%
Expected long-term return on plan assets	8%	8%	8%
Weighted average rate of increase in compensation levels	5%	4.5%	4.5%

Note P - Business Segment Data

The Company operates primarily in one business segment, exclusive of discontinued operations which include Mobile X-Ray, MEDIQ Imaging, Health Examinetics, Medifac and HealthQuest. Discontinued operations also include the Company's equity investments in PCI, NutraMax and InnoServ. The Company, through its subsidiary MEDIQ/PRN, rents medical equipment on a short-term basis nationwide. This segment represents more than 90% of the consolidated revenues, operating profit and assets exclusive of corporate assets, which include net assets of discontinued operations of $54.7 million.

Note Q - Selected Quarterly Financial Data (Unaudited)

Selected quarterly financial data (in thousands except per share data) for 1996 and 1995 is as follows:

<TABLE>
<CAPTION>

1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
<S>	<C>	<C>	<C>	<C>	
Revenues (A)	$ 32,093	$ 36,999	$ 34,386	$ 32,588	
Operating income (A)	2,912(B)	10,161	6,899	5,474	
Income (loss) from continuing operations	(2,370)	1,273	293	(5,374)	(C)
Income (loss) from discontinued operations	1,002	1,542	(1,514)	(11,699)	(D)
Extraordinary item	1,001	--	153	(11)	
Net income (loss)	(367)	2,815	(1,068)	(17,084)	
Earnings per share:					
Income (loss) from continuing operations	(.09)	.05	.01	(.22)	
Income (loss) from discontinued operations	.04	.06	(.06)	(.47)	
Extraordinary item	.04	.11	.01	--	
Net income	(.01)	.11	(.04)	(.69)	

<CAPTION>

	First	Second	Third	Fourth

1995	Quarter	Quarter	Quarter	Quarter
<S>	<C>	<C>	<C>	<C>
Revenues (A)	$ 31,842	$ 37,036	$ 33,098	$ 30,265
Operating income (loss) (A)	4,742	10,310	6,547	2,603
Income (loss) from continuing operations	(1,338)	869	(503)	(2,374)
Income (loss) from discontinued operations	1,127	918	(689)	(2,957)
Net income (loss)	(211)	1,787	(1,192)	(5,331)
Earnings per share:				
Income (loss) from continuing operations	(.05)	.03	(.02)	(.10)
Income (loss) from discontinued operations	.04	.04	(.03)	(.12)
Net income (loss)	(.01)	.07	(.05)	(.22)

</TABLE>

(A) Reflects seasonal nature of MEDIQ/PRN's business.
(B) Includes non-recurring expenses related to the restructuring charge.
(C) Reflects $6 million reserve on MHM note receivable.
(D) Reflects adjustment of the Company's reserve for the disposal of discontinued operations.

Note R - Investments in Unconsolidated Affiliates

The Company's investments in unconsolidated affiliates, which are classified as discontinued operations in the Company's Consolidated Financial Statements, consist of NutraMax Products, Inc. and PCI Services, Inc. The following summary presents the Company's approximate ownership interest, carrying value and market value as of September 30.

	1996			1995		
	Ownership Interest	Carrying Value	Market Value	Ownership Interest	Carrying Value	Market Value
		(in thousands)				
PCI	46%	$28,127	$ 78,344	47%	$24,494	$26,234
NutraMax	47%	20,919	37,345	47%	18,598	40,373
		$49,046	$115,689		$43,092	$66,607

Summarized consolidated financial information for unconsolidated affiliates is as follows:

NutraMax Products, Inc. -- Condensed Consolidated Balance Sheet

<TABLE>
<CAPTION>

	Sept. 28, 1996	Sept. 30, 1995
	(in thousands)	
<S>	<C>	<C>
ASSETS:		
Total current assets	$ 32,882	$ 23,552
Property and equipment, net	29,207	23,714
Goodwill, net	13,415	13,978
Other assets	7,374	1,830
	$ 82,878	$ 63,074
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Total current liabilities	$ 23,391	$ 9,400
Long term debt, less current maturities	11,780	12,550
Deferred income taxes and other liabilities	1,890	1,891
Stockholders' equity	45,817	39,233
	$ 82,878	$ 63,074

</TABLE>

NutraMax Products, Inc. -- Condensed Consolidated Statements of Operations

<TABLE>
<CAPTION>

	Year Ended		
	Sept. 28, 1996	Sept. 30, 1995	Oct. 1, 1994

<S>	<C>	<C>	<C>
Net Sales	$ 80,479	$ 63,111	$ 55,958
Cost of Sales	57,686	45,916	38,752
Gross profit	22,793	17,195	17,206
Selling, general and administrative expenses	11,662	8,694	9,281
Operating Income	11,131	8,501	7,925
Other credits (charges)	(1,768)	(1,111)	(833)
Income before income tax expense	9,363	7,390	7,092
Income tax expense	3,680	2,916	2,832
Net income	$ 5,683	$ 4,474	$ 4,260

</TABLE>

Note R - Investments in Unconsolidated Affiliates (Continued)

PCI Services, Inc. - Condensed Consolidated Balance Sheets

	June 30, 1996	Sept. 30 1995
ASSETS:	(in thousands)	
Total current assets	$ 44,750	$ 36,214
Property, plant and equipment, net	84,733	61,901
Goodwill, net	18,843	10,182
Other assets	3,253	670
	$151,579	$108,967
LIABILITIES AND STOCKHOLDERS' EQUITY		
Total current liabilities	$ 27,828	$ 24,034
Long-term debt, less current maturities	55,339	27,208
Deferred income taxes and other liabilities	7,033	4,189
Stockholders' equity	61,379	53,536
	$151,579	$108,967

PCI Services, Inc. - Condensed Consolidated Statements of Operations

<TABLE>
<CAPTION>

	Nine Months Ended June 30, 1996	Year Ended September 30, 1995	1994
		(in thousands)	
<S>	<C>	<C>	<C>
Net revenue	$121,819	$129,785	$121,177
Cost of goods sold	91,061	101,586	96,092
Gross profit	30,758	28,199	25,085
Operating expenses	19,220	18,554	17,561
Income before income tax expense	11,538	9,645	7,524
Income tax expense	3,901	4,073	2,168
Net income	$ 7,637	$ 5,572	$ 5,356

</TABLE>

The summarized consolidated financial information for the current year for PCI presented above is for the nine months ended and as of June 30, 1996. On October 11, 1996, PCI was acquired by Cardinal. Accordingly, financial information as of and for the period ended September 30, 1996 is not available.

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

Not Applicable

PART III

Incorporated by Reference

The information called for by Item 10 "Directors and Executive Officers of the Registrant", Item 11 "Executive Compensation", Item 12 "Security Ownership of Certain Beneficial Owners and Management" and Item 13 "Certain Relationships and Related Transactions" is incorporated herein reference to the Company's definitive proxy statement for its Annual Meeting of Shareholders scheduled to be held March 5, 1997, which definitive proxy statement is expected to be filed with the Commission not later than 120 days after the end of the fiscal year to which this report relates.

PART IV

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

(a)(1) Financial Statements and Supplementary Data

The response to this portion of Item 14 is submitted as a separate section of this report.

(a)(2) Financial Statement Schedules

Included in Part IV of this report:

Schedule II - Valuation and Qualifying Accounts and Reserves

Other Schedules are omitted because of the absence of conditions under which they are required.

(a)(3) Exhibits

The exhibits are listed in the Index to Exhibits appearing below.

(b) The following reports on Form 8-K were filed during the quarter ended September 30, 1996.

Date of Earliest Event Requiring Report:	July 24, 1996
Date of Filing:	July 30, 1996
Items Reported:	Item 5
Subject:	PCI Services, Inc. merger with Cardinal Health, Inc.

Date of Earliest Event Requiring Report:	August 22, 1996
Date of Filing:	August 30, 1996
Items Reported:	Item 5
Subject:	Commencement of cash tender offer to purchase all of MEDIQ/PRN's 12 1/8% Senior Secured Notes Due 1999.

Date of Earliest Event Requiring Report:	September 9, 1996 (Date of Report)
Date of Filing:	September 23, 1996
Items Reported:	Item 5
Subject:	Agreement of sale with NutraMax Products, Inc.

(c) Exhibits

<TABLE>

<CAPTION>

Exhibit #	Description	Incorporation Reference
<S>	<C>	<C>
2.1	Agreement and Plan of Merger among Cardinal Health, Inc., Panther Merger Corp., PCI Services, Inc. and MEDIQ dated July 23, 1996.	Exhibit 2.1 to Schedule 13D filed by Cardinal Health, Inc. July 29, 1996
2.2	Amended and restated Stock Purchase Agreement among MEDIQ, MEDIQ Investment Services, Inc. and NutraMax Products, Inc. dated November 20, 1996	Exhibit 2(a) to Form 10-K Annual Report filed by NutraMax Products, Inc. for the fiscal year ended September 28, 1996
2.3	Affiliate Letter to Cardinal Health, Inc. from MEDIQ dated August 16, 1996.	Exhibit 4 to Current Report on Form 8-K filed October 21, 1996
2.5	Asset Purchase Agreement by and among MEDIQ Mobile X-Ray Services, Inc., MEDIQ and Symphony Diagnostic Services No. 1, Inc. dated November 6, 1996.	Filed herewith
3.1	Certificate of Incorporation.	Exhibit 3.1 to Annual Report on Form 10-K filed on January 12, 1996
3.2	By-Laws.	Exhibit 3.2 to Annual Report on Form 10-K filed on January 12, 1996
4.1	Credit Agreement among MEDIQ/PRN Life Support Services, Inc., the Lender Parties party thereto, Banque Nationale de Paris, as Administrative Agent and as Initial Issuing Bank, and NationsBank, N.A., as Documentation Agent dated October 1, 1996.	Filed herewith
4.2	Security Agreement among MEDIQ/PRN Life Support Services, Inc., the Lender Parties party thereto, Banque Nationale de Paris, as Administrative Agent and as Initial Issuing Bank, and NationsBank, N.A. as Documentation Agent dated October 1, 1996	Exhibit 4 to Schedule 13D filed October 11, 1996
4.3	Indenture dated as of June 1, 1986 between MEDIQ and Mellon Bank, N.A. for 7.25% Convertible Subordinated Debentures due 2006.	Exhibit 4.1 to S-2 Registration Statement No. 33-5089 originally filed on May 2, 1986, as amended
4.4	Convertible Subordinated Debentures due 2006.	Exhibit 4.2 to S-2 Registration Statement No. 33-5089 originally filed on May 2, 1986, as amended

</TABLE>

<TABLE>
<CAPTION>

Exhibit #	Description	Incorporation Reference
<S>	<C>	<C>
4.5	Indenture dated as of July 1, 1993 between MEDIQ and First Union Bank, N.A. (formerly First Fidelity Bank, N.A.) for 7.50% Exchangeable Subordinated Debentures due 2003.	Exhibit 4.1 to S-2 Registration Statement No. 33-61724 originally filed on April 28, 1993, as amended
4.6	7.50% Exchangeable Subordinated Debentures due 2003	Exhibit 4.2 to S-2 Registration Statement No. 33-61724 originally filed on April 28, 1993 as amended
4.7(a)	Indenture dated as of July 6, 1992 by and between MEDIQ/PRN Life	Exhibit 4.1 to Form 10-K Annual Report of MEDIQ/PRN

	Support Services, Inc. and United Jersey Bank, as Trustee.	Life Support Services, Inc. for fiscal 1992
4.7(b)	Supplemental Indenture, dated as of September 30, 1994, between MEDIQ/PRN Life Support Services, Inc. and United Jersey Bank, as Trustee.	Exhibit 4.8(b) to Form 10-K Annual Report for the fiscal year ended September 30, 1994.
4.7(c)	Second Supplemental Indenture between MEDIQ/PRN Life Support Services, Inc. and Summit Bank f/k/a United Jersey Bank, as Trustee dated October 1, 1996.	Filed herewith
4.7(d)	Amendment to Security Agreement between MEDIQ/PRN Life Support Services, Inc. and Summit Bank f/k/a United Jersey Bank and as Trustee dated October 1, 1996.	Filed herewith
4.7(e)	Defeasance Trust Agreement among Summit Bank f/k/a United Jersey Bank and MEDIQ/PRN Life Support Services, Inc. dated October 1, 1996.	Filed herewith
10.6	MEDIQ Executive Security Plan	Exhibit 10.6 to Form 10-K Annual Report filed on January 12, 1996
10.7(a)	1987 Stock Option Plan	Exhibit 10.7 to Form 10-K Annual Report filed on January 12, 1996
10.7(b)	Amendment to 1987 Stock Option Plan.	Filed herewith
10.8	Employment contract with Michael F. Sandler dated as of June 26, 1995.	Exhibit 10.8 to Form 10-K Annual Report filed on January 12, 1996

Exhibit #	Description	Incorporation Reference
10.9	Employment contract with Thomas E. Carroll dated as of April 27, 1995.	Exhibit 10.9 to Form 10-K Annual Report filed on January 12, 1996
10.10	Employment contract with Jay M. Kaplan dated as of June 20, 1995.	Exhibit 10.10 to Form 10-K Annual Report filed on January 12, 1996
11	Statement re computation of per share earnings.	Filed herewith
21	Subsidiaries of the Registrant.	Filed herewith
23	Consent of Deloitte & Touche LLP	Filed herewith
27	Financial Data Schedule	Filed herewith
99.1	Financial Statements of NutraMax Products, Inc. (approximately 47% owned by MEDIQ as of September 30, 1996).	Items 8 and 14 of the Annual Report on Form 10-K of NutraMax Products, Inc. for the fiscal year ended September 28, 1996. (File No. 0-18671).

(d) Financial Statements of Unconsolidated Affiliates:

The financial statements of NutraMax Products, Inc., an unconsolidated affiliate of the company, which are required to be filed pursuant to Item 14(d) of Form 10-K are filed herein through incorporation by reference under Rule 12b-23, promulgated under the Securities Exchange Act of 1934, as amended (the "Act"), to the Annual Report on Form 10-K of NutraMax Products, Inc. filed under

the Act, which are included as an exhibit to this Annual Report on Form 10-K pursuant to Rule 12b-23(c), and such exhibit is incorporated by reference to this Annual Report on Form 10-K under Rule 12b-32, promulgated under the act.

The financial statements of PCI Services, Inc., an unconsolidated affiliate of the Company, which are required to be filed pursuant to Item 14(d) of Form 10-K shall, pursuant to Rule 3-09(b) of Regulation S-X, will not be filed as a result of the acquisition of PCI by Cardinal Health, Inc. on October 11, 1996.

MEDIQ INCORPORATED AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994
(in thousands)

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C		COL. D	COL. E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	(1) Charged to Other Accounts	(2) Deductions	Balance at End of Period
<S>	<C>	<C>	<C>	<C>	<C>
Year ended September 30, 1996:					
Allowance for doubtful accounts	$2,207	$ 1,237	$ --	$(1,061)	$2,383
Year ended September 30, 1995:					
Allowance for doubtful accounts	$2,195	$ 993	$ --	$ 981	$2,207
Year ended September 30, 1994:					
Allowance for doubtful accounts	$1,968	$ 984	$ 246	$ 1,003	$2,195

</TABLE>

(1) Primarily represents allowances for doubtful accounts related to acquisitions.

(2) Represents accounts directly written-off net of recoveries.

SIGNATURES

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

Dated: December 29, 1996 MEDIQ Incorporated

/s/Thomas E. Carroll
BY: Thomas E. Carroll
President and
Chief Executive Officer

/s/Michael F. Sandler
BY: Michael F. Sandler
Senior Vice President - Finance,
Treasurer and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ Thomas E. Carroll Thomas E. Carroll	Director, Chief Executive Officer and President	December 29, 1996
/s/ Michael F. Sandler Michael F. Sandler	Director and Chief Financial Officer	December 29, 1996
Sheldon M. Bonovitz	Director	December 29, 1996
/s/ Lionel H. Felzer Lionel H. Felzer	Director	December 29, 1996
Mark Levitan	Director	December 29, 1996
H. Scott Miller	Director	December 29, 1996
/s/ Michael J. Rotko Michael J. Rotko	Chairman of the Board and Director	December 29, 1996
/s/ Jacob Shipon Jacob Shipon	Vice Chairman of the Board and Director	December 29, 1996

</TABLE>

ASSET PURCHASE AGREEMENT

By and Among

MEDIQ MOBILE X-RAY SERVICES, INC.,

MEDIQ INCORPORATED

and

SYMPHONY DIAGNOSTIC SERVICES NO. 1, INC.

Dated as of November 6, 1996

TABLE OF CONTENTS

Page

Page

LIST OF SCHEDULES

Schedule 1.1(a)(vii)	Third Party Consents
Schedule 1.3	Assumed Liabilities
Schedule 3.1(a)	Authority Schedule
Schedule 3.1(b)	Qualification to do Business Schedule
Schedule 3.1(e)	Financial Statements Schedule
Schedule 3.1(f)	Taxes Schedule
Schedule 3.1(g)	Assets Other than Real Property Schedule
Schedule 3.1(h)	Title to Real Property Schedule
Schedule 3.1(i)	Intellectual Property Schedule
Schedule 3.1(j)	Contracts Schedule
Schedule 3.1(j)-A	Contracts Not in Effect Schedule
Schedule 3.1(j)-B	Breaches and Defaults Schedule
Schedule 3.1(j)-C	Contracts not Current in Payments Schedule
Schedule 3.1(j)-D	Consents Schedule
Schedule 3.1(k)	Litigation; Decrees Schedule
Schedule 3.1(l)	Insurance Schedule
Schedule 3.1(m)	Benefit Plans Schedule
Schedule 3.1(n)	Absence of Changes or Events Schedule
Schedule 3.1(o)	Compliance with Applicable Laws Schedule
Schedule 3.1(p)	Licenses; Permits Schedule
Schedule 3.1(q)	Environmental Matters Schedule
Schedule 3.1(r)	Employee and Labor Relations Schedule
Schedule 3.1(s)	Special Fee Arrangements Schedule
Schedule 3.1(t)	Patient Volumes Schedule
Schedule 3.1(u)	Employees Schedule
Schedule 3.1(v)	Relationships Schedule
Schedule 3.1(w)	Questionable Payments Schedule
Schedule 3.1(x)	Reimbursement Matters Schedule
Schedule 3.1(y)	Medicare/Medicaid Participation Schedule
Schedule 3.1(z)-A	Facilities List Schedule
Schedule 3.1(z)-B	Patients List Schedule
Schedule 5.5	Non-Competition Agreement Parties

LIST OF EXHIBITS

Exhibit 2.5(d)-1	Bill of Sale

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT dated as of November 6, 1996 by and among MEDIQ Mobile X-Ray Services, Inc., a Delaware corporation ("Seller"), MEDIQ Incorporated, a Delaware corporation ("Parent"), and Symphony Diagnostic Services No. 1, Inc., a California corporation ("Buyer").

Background

WHEREAS, Seller operates a business which provides portable X-ray, EKG and nutritional services to residents of nursing homes and other institutions and home care patients, and ancillary services related thereto (the "Business");

WHEREAS, Buyer wishes to purchase and assume from Seller and Seller wishes to sell and transfer to Buyer certain assets used and liabilities arising in the Business, all as more fully described herein;

WHEREAS, Parent owns 100% of the issued and outstanding capital stock of Seller and is entering into this Agreement as an inducement to Buyer to enter into this Agreement;

NOW THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements contained in this Agreement, the parties hereto agree as follows:

ARTICLE I
PURCHASE AND SALE OF ASSETS

1.1 Assets Being Sold and Purchased.

(a) Subject to and upon the terms and conditions of this Agreement, concurrently herewith Seller shall transfer, sell, convey, assign and deliver to Buyer free and clear of all Liens, other than Permitted Liens (as hereinafter defined), and Buyer shall purchase from Seller, all of Seller's right and title to and interest in the following properties and assets as the

same exist on the date hereof:

(i) all tangible assets used in or useful or held for use in connection with the ownership or operation of the Business whether owned or leased, including, without limitation, all inventory, supplies, furnishings, moveable and other equipment, instruments, machinery, tools, vehicles, furniture and office equipment, all fixtures and leasehold improvements and other items of personal property owned by Seller;

(ii) manufacturers' and vendors' warranties in connection with the assets being transferred hereunder;

(iii) except for Excluded Contracts (as defined in Section 1.4), agreements to provide services or equipment, real estate leases, equipment maintenance agreements, non-competition and proprietary information agreements (other than such confidentiality agreements and letters of intent that arose from the sale of the Business) and other agreements related to, and incurred in the ordinary course of, the Business, including its contracts to provide portable x-ray, EKG and other ancillary services and all other Contracts (as such term is hereinafter defined in Section 3.1(j));

(iv) trade names, including but not limited to, "MMXR" and the names, service marks, trademarks, copyrights, copyright applications, trademark applications, patents, and patent applications used or useful or held for use in connection with the ownership or operation of the Business and the right to use the logos, except for the name and service mark "MEDIQ" and any derivations thereof;

(v) all prepaid expenses and deposits used or useful or held for use in connection with the ownership or operation of the Assets being transferred hereunder (the "Prepaid Expenses"), which excludes those prepaid expenses and deposits (which expenses and deposits remain the property of Seller) relating to those liabilities that are not Assumed Liabilities;

(vi) all original agreements, documents, books, instruments, papers, records, and files of all kind and nature relating to the Business (collectively, the "Records"), but excluding its charter, minute books, stock record books and corporate seal;

(vii) all consents, licenses, permits, certifications and approvals granted by any governmental or non-governmental third party (collectively, the "Third Party Consents"), to the extent transferable in accordance with applicable law, including without limitation, those specified on Schedule 1.1(a)(vii);

(viii) its past and present customer lists and all telephone numbers, patient records, including without limitation, patient x-ray films and EKGs, and files and other confidential or proprietary information

(other than confidentiality agreements and letters of intent that arose from the sale of the Business), in each case only to the extent transferable in accordance with applicable law;

(ix) its cash, cash equivalents, accounts and notes receivable and the proceeds of any Non-Assignable Receivables (as defined below);

(x) any provider or participation agreements and provider numbers relating to Medicare or Medicaid to which Seller is a party (including, without limitation, any hereafter issued with respect to Michigan) and any IPL numbers;

(xi) its goodwill and going concern value; and

(xii) all other assets that are used, useful or held for use in connection with the ownership or operation of the Business.

(b) The assets being sold and purchased hereunder are hereinafter collectively referred to as the "Assets".

1.2 Excluded Assets. Notwithstanding anything contained in Section 1.1 hereof to the contrary, Seller is not selling, assigning, transferring or conveying to Buyer any asset or item not described in Section 1.1. Without limiting the foregoing, the following assets, rights and properties are excluded from the transactions contemplated in this Agreement (the "Excluded Assets"):

(a) the ownership interest in equipment and other personal property, wherever located, leased, licensed or rented by the Company and owned by third parties who are not affiliated with Seller;

(b) refunds for Taxes (as hereinafter defined in Section 3.1(f)(i)) paid;

(c) prepaid expenses and deposits relating to those liabilities that are not Assumed Liabilities (as hereinafter defined);

(d) inter-company accounts receivable from Affiliates of Seller, and Seller's pension, profit-sharing or other funded employee benefit plan assets;

(e) the capital stock of Seller owned or held by Parent;

(f) banking or financial institution accounts or any deposit or concentration accounts or safety deposit boxes (it being understood that the

foregoing does not apply to any funds or other assets held in any such accounts, all of which are included in the Assets);

(g) Seller's rights under any Excluded Contracts except under the Agreement between Lawrence M. Smith and Parent, dated as of February 27, 1996 (which rights are expressly included as Assets) or except as expressly provided in Section 5.5(f);

(h) Medicare Provider Numbers for Pennsylvania, Ohio, Florida, Maryland, Rhode Island and Washington, D.C.;

(i) the name and service mark "MEDIQ" and any derivations thereof (the "Name");

(j) Seller's rights under this Agreement or any other Transaction Documents (as hereinafter defined); and

(k) all Accounts Receivable of Seller from governmental payors that by law may not be assigned to Buyer ("Non-Assignable Receivables") (it being understood however, that for purposes of Section 2.3 of this Agreement the Non-Assignable Receivables shall be deemed to be Accounts Receivable).

1.3 Assumption of Liabilities. (a) At Closing, Seller shall transfer to Buyer, and Buyer shall assume and shall thereafter pay, perform and discharge, to the extent not paid, performed and discharged at the Closing, all of the Assumed Liabilities.

For purposes of this Agreement "Assumed Liabilities" shall mean, without duplication:

(i) all operating trade payables, other liabilities and accrued expenses of Seller that would be classified as current liabilities ("Current Liabilities") on a balance sheet of Seller as of the Closing Date prepared in accordance with generally accepted accounting principles applied on a basis consistent with the balance sheet delivered to Buyer and included in the financial statements of Seller as at August 31, 1996 referred to in Section 3.1(e) ("GAAP"), other than: (A) any liabilities that Buyer is expressly not assuming as provided in this Agreement (other than payables under Excluded Contracts that are reflected on the Closing Balance Sheet and that constitute Current Liabilities), (B) any liability due to Parent of the type included under the heading "Intercompany Advance-Parent" on Seller's balance sheet or any other fee, loan, advance or other similar item due by Seller to Parent that does not represent a Current Liability that is a reimbursement for expenses actually incurred by Parent on Seller's behalf, (it being understood, however, that any other Liabilities due to Parent or any of its Affiliates constituting Current Liabilities shall be Assumed Liabilities), (C) any liability for taxes (other

than Buyer Taxes), (D) any obligation or liability arising out of any of the Seller's Benefit Plans (as defined in Section 3.1(m)) except as provided in Section 4.2(d), and (E) any obligation or liability to any Designated Employee (as defined in Section 4.2(c)).

(ii) those obligations that arise or accrue under the Contracts assigned by Seller to Buyer, with respect to, and only with respect to, services to be rendered or goods to be supplied or benefits to be conferred to or by Buyer or otherwise arising or accruing on or after the date that such Contracts are assigned to Buyer. Notwithstanding the foregoing, Liabilities under such Contracts that have accrued, or the performance of which is due, on or prior to such date of assignment or which are in payment or consideration for Excluded Assets, or that arise out of breaches that occurred prior to Closing, shall remain the sole responsibility of Seller except to the extent such liabilities constitute Current Liabilities; and

(iii) liabilities for severance or other payments related to the termination of employment (as opposed to accrued compensation for services rendered to Buyer) ("Employee Termination Payments") with respect to each employee of Seller (other than the Subject Employees as hereinafter defined in Section 4.1(b)) that Buyer employs as of the Closing Date through a date that ends at least sixty (60) days after the Closing Date. Within ten (10) days of request, Seller shall reimburse Buyer for any Employee Termination Payments paid or incurred by it for any employee of Seller that Buyer terminates prior to the end of such sixty (60) day period except to the extent such Employee Termination Payments exceed $150,000. Subject to

the aforesaid reimbursement obligation of Seller, Buyer shall be responsible for the payment of all Employee Termination Payments for all of Buyer's employees that are so terminated. If Buyer shall terminate the employment of any such employee prior to the end of such sixty (60) day period, then the Employee Termination Payment with respect to such terminated employee shall include any severance obligations with respect to such employee included in any Benefit Plans, severance or employment agreement disclosed in the Disclosure Schedule (and not constituting an Excluded Contract). If Buyer shall terminate the employment of any such employee on or after the end of such sixty (60) day period, then the Employee Termination Payment with respect to such terminated employee shall exclude any severance obligations included in any Benefit Plan but shall include any severance obligations with respect to such employees included in any severance or employment agreement disclosed in the Disclosure Schedule (and not constituting a Excluded Contract and not otherwise expressing assumed by Seller pursuant to said agreement).

(b) Buyer will not assume any, and Seller shall remain liable for each, Liability of Seller existing on the Closing Date, other than the Assumed Liabilities (the "Excluded Liabilities"). For purposes of this Agreement the

term "Liability" means any claim, lawsuit, liability, obligation or debt of any kind or nature whatsoever, whether absolute, accrued, due, direct or indirect, contingent or liquidated, matured or unmatured, joint or several, whether or not for a sum certain, whether for the payment of money or for the performance or observance of any obligation or condition, and whether or not of a type which would be reflected as a liability on a balance sheet in accordance with generally accepted accounting principles, including without limitation (i) malpractice claims asserted by patients or any other tort claims asserted, claims for breach of contract, or any claims of any kind asserted by patients, former patients, employees or any other party that are based on acts or omissions occurring on or before the Closing Date; (ii) amounts due or that may become due to Medicare or Medicaid or any other health care reimbursement or payment intermediary on account of Medicare or Medicaid cost report adjustments or other payment adjustments attributable to any period on or prior to the Closing Date (including, without limitation, any of the same which becomes due to any nursing home, hospital, other facility or other third party pursuant to any Contract directly, by reason of offset or indemnification, or otherwise, or any other form of Medicare or other health care reimbursement denial, recapture, adjustment or overpayment whatsoever with respect to any period on or prior to the Closing Date), or any liabilities arising out of the Middle District of Pennsylvania investigation of Seller, or out of any Questionable Payment (as defined in Section 3.1(w)) ("Reimbursement Liabilities"), (iii) any obligation or liability arising out of any Excluded Contract, unless and until it is assigned to and assumed by Buyer in accordance with Section 1.4 and any Liabilities arising out of any Excluded Asset, (iv) any obligation or liability arising out of any United States Department of Labor (or any similar State agency or department) investigation or claim with regard to any employment matters of the Business, (v) any obligation or liability arising out of any Seller's Benefit Plan (as such term is hereinafter defined in Section 3.1(m)), (vi) any liabilities arising out of Taxes due or owing by Seller, including, without limitation, to the extent such Taxes are accrued on the Closing Balance Sheet, (vii) any obligation or liability arising out of any of the matters described on Schedule 3.1(k) (viii) any obligation for bonus, unpaid vacation or salary of any Subject Employee (as hereinafter defined) outstanding on the Closing Date, except to the extent included as a Current Liability; (ix) any liability or obligation arising out of any noncompliance with law

described in the Memorandum, dated April 26, 1996, to Harvey Z. Werblowsky from Anne L. Thompson and Richard Wright; and (x) any liabilities due to Parent for management fees for repayment of working capital or other advances, to the extent such liabilities are not accrued on the Closing Balance Sheet.

1.4 Assignment of Assets.

(a) Buyer agrees to assume and Seller agrees to assign to Buyer all of the Contracts set forth on Schedule 3.1(j), except for the

Contracts set forth on Schedule 1.4(a) ("Excluded Contracts"). Notwithstanding the foregoing, to the extent that any lease, contract, license, permit, agreement, sales or purchase order, commitment, property interest, qualification or other Asset described in Section 1.1, and not constituting an Excluded Contract or otherwise excluded in Section 1.2, to be sold, assigned or conveyed to Buyer, cannot be sold, assigned or conveyed, without the approval, consent or waiver of any third person, or if such sale, assignment or conveyance or attempted sale, assignment or conveyance would constitute a breach thereof or a violation of any law, decree, order, regulation or other governmental edict (collectively, "Impracticalities"), this Agreement shall not (unless and until such Impracticality is resolved) constitute or require a sale, assignment or conveyance thereof, or an attempted sale, assignment or conveyance thereof, and each Contract covered by the foregoing sentence (a "Temporary Excluded Contract") shall be deemed to be an Excluded Contract unless and until the Impracticalities applicable to it are resolved. The foregoing sentence shall not be deemed to limit any representation or warranty made by Seller pursuant to this Agreement.

(b) Buyer and Seller shall each use commercially reasonable efforts, and shall cooperate with each other, to resolve any Impracticalities necessary to sell, assign or convey the Assets to Buyer as soon as practicable, provided that neither Seller nor Buyer shall be required to expend money, commence any litigation or offer or grant any accommodation (financial or otherwise) to any third party.

(c) With respect to any asset, contract, lease, agreement, permit, license, interest or other right of Seller (other than any Excluded Contract) which is not included in the Assets assigned to Buyer at the Closing by reason of the immediately preceding paragraphs of this Section 1.4, after the Closing), (i) the parties shall cooperate with each other, upon written request, in endeavoring to obtain the requisite third-party consent(s) to the assignment thereof to Buyer (or the resolution of any other Impracticalities), without either party being obligated, however, to make any payment to any such third party which is not otherwise due in order to obtain such consent or resolution, unless Buyer shall make such payment or agree to reimburse Seller for such payment, and (ii) if any such requisite consent cannot be obtained, Seller shall use its commercially reasonable efforts in endeavoring to obtain for Buyer, at no cost to Seller, an arrangement reasonably acceptable to Buyer designed to provide for Buyer the benefits thereof (subject to assumption and performance of all related liabilities in some other manner reasonably acceptable to Buyer and Seller to the extent they otherwise would be assumed by Buyer in accordance with this Agreement but for the failure to obtain such consent or resolve such Impracticality). A Temporary Excluded Contract shall cease to be an

Excluded Contract for the purposes of this Agreement and shall be assigned to the Buyer when the Impracticalities applicable to it are resolved.

(d) Provided that Seller complies with its obligations under Sections 1.4(b) and (c) above, Buyer agrees that Seller shall not have any liability whatsoever arising out of or relating to the failure to obtain any of the consents set forth on Schedule 3.1(j)-D.

ARTICLE II
PURCHASE PRICE AND CLOSING

2.1 Purchase Price.

(a) The aggregate purchase price for the Assets and for the NonCompetition Agreement (as hereinafter defined in Section 5.5) shall be equal to the sum of: (a) $10,502,347 payable at Closing (as hereinafter defined) subject to the adjustment provided in Section 2.3 , which amount shall be payable as follows: (i) FIVE MILLION THREE HUNDRED AND TWO THOUSAND THREE HUNDRED AND FORTY-SEVEN DOLLARS ($5,302,347) shall be payable in cash; and (ii) FIVE MILLION TWO HUNDRED THOUSAND DOLLARS ($5,200,000) shall be paid at the Closing by delivery to Seller of newly issued shares of the Common Stock, par value $.001 per share, of IHS (the "IHS Stock"), based upon the valuation and subject to the terms and conditions of Section 2.9 below; and (b) the Contingent Payment, as defined in Section 2.2(a) (collectively, the "Purchase Price"). The cash portion of the Purchase Price shall be paid by wire transfer to an account designated by Seller. Of the cash portion of the Purchase Price payable at Closing, the outstanding balance of the $2,100,000 amount due to the United States Government pursuant to the Settlement Agreement, dated as of September 25, 1995, shall be paid into an escrow account to be released to the United States Government on behalf of Seller and Parent at Closing.

(b) The Purchase Price as adjusted pursuant to this Agreement (and all other capitalizable costs) shall be allocated among the Assets as shall be determined by Buyer, subject to the consent of Seller (which consent shall not unreasonably be withheld, delayed or conditioned), in accordance with Section 1060 of the Internal Revenue Code of 1986, as amended (the "Code"). Each of the parties hereto agrees to prepare and file all tax returns (including Form 8594) in a manner consistent with such allocation and to report this transaction for Federal and state income tax purposes in accordance with such allocation of the Purchase Price.

2.2 Purchase Price Contingency.

(a) A contingent payment of $2,000,000 (the "Contingent Payment") shall be payable, if at all, only in the following amounts and as set forth in Section 2.2(d):

(i) if there occurs any EKG Transportation Reimbursement

Change (defined below) with respect to any period prior to February 1, 1998, then no portion of the Contingent Payment shall be paid;

(ii) if no EKG Transportation Reimbursement Change occurs with respect to the period prior to February 1, 1999, then fifty percent (50%) of the Contingent Payment shall be paid; and

(iii) if no EKG Transportation Reimbursement Change occurs with respect to the period prior to February 1, 2000, then the balance of the Contingent Payment shall be paid.

(b) If any portion of the Contingent Payment shall become due in accordance with subparagraph (a) above, then the payment of such portion shall be made thirty (30) days after the Date of Determination (hereinafter defined) that such portion has become due. As used herein, the phrase "Date of Determination" shall mean, with respect to any period in question, the earliest to occur of: (i) the date on which the Health Care Finance Administration ("HCFA") or any other Applicable Authority (defined below) makes a final determination (that is not in conflict with or being contested or appealed by any action or proceeding by or before or threatened by any other Applicable Authority) that any pending, threatened or currently contemplated EKG Transportation Reimbursement Change will not be enacted, promulgated or otherwise effectuated with respect to the period in question, and (ii) the last day of the period in question if no EKG Transportation Reimbursement Change shall have occurred or be so pending, threatened or currently contemplated with respect to such period in question.

(c) As used herein, the phrase "EKG Transportation Reimbursement Change" shall mean an alteration, modification or other change in the amount of EKG transportation reimbursement paid with respect to the operation of the Business before, on or after the Closing Date, from either Medicare Part A or Part B, third party billing, facility billing or direct billing, which alteration, modification or change: (i) results from any actions taken by HCFA, Medicare, U.S. Congress or any U.S. Court (an "Applicable Authority"); and (ii) has the effect of eliminating or reducing the reimbursement amount which Seller (prior to Closing) or Buyer (after the Closing) is paid for its services. Notwithstanding anything to the contrary contained in this Section 2.2, no EKG Transportation Reimbursement Change shall be deemed to have occurred if it shall only affect payments made or due to Seller prior to Closing and that do not constitute any part of the Assets.

(d) If there shall be an EKG Transportation Change, but such EKG Transportation Reimbursement Change shall be a reduction in the amount of EKG transportation reimbursement paid with respect to the operation of the Business as aforesaid by less than 40% of the amount payable on the date hereof, then, in addition to the portion of the Contingent Payment which shall be paid in accordance with subsection (a) above, if any, within thirty (30)

days after the Date of Determination of the amount of such EKG Transportation Change, Buyer shall pay to Seller a portion of the Contingent Payment which has not previously been paid in accordance with subsection (a), which portion shall be equal to the percentage set forth in Column "Y" below of the amount not previously paid which corresponds to the range of percentage reduction in EKG transportation reimbursement set forth in column "X" below.

"X" Range of % Reduction in EKG Transportation Reimbursement	"Y" % Payment of Remaining Contingent Payment
More than 40% Reduction	0
Less than or equal to 40% Reduction/ More than 30% Reduction	25%
Less than or equal to 30% Reduction/ More than 20% Reduction	35%
Less than or equal to 20% Reduction/ More than 10% Reduction	45%
Less than or equal to 10% Reduction	55%

2.3 Post-Closing Purchase Price Adjustment.

(a) In addition to any adjustment to the Purchase Price arising under Section 2.2, the Purchase Price shall be further subject to adjustment after Closing as follows: (i) if the Closing Date Working Capital (as hereinafter defined) of Seller is less than $2,700,000 (the "Required Amount") then the Purchase Price shall be reduced dollar-for-dollar by the amount of such deficiency; and (ii) if the Closing Date Working Capital of Seller shall exceed $2,700,000 then the Purchase Price shall be increased dollar-for-dollar by the amount of such excess to the extent payable as provided in Section 2.3(b)(ii). If the Closing Date Working Capital equals $2,700,000 there will be no adjustment to the Purchase Price under this Section 2.3(a). As used herein, the "Closing Date Working Capital" of Seller shall mean the excess of (x) the aggregate amount of cash and accounts receivable, inventories and prepaid expenses and other current assets of Seller, in each case, included in the Assets on the Closing Balance Sheet (as such term is hereinafter defined) over (y) the aggregate amount of current liabilities reflected on the Closing Balance Sheet (excluding therefrom any portion thereof constituting Excluded Liabilities). There shall be no accrual on the Closing Balance Sheet for any bonuses due to any Subject Employee or for any bonuses arising out of the consummation of the transactions contemplated by this Agreement, and all of such liabilities shall be Excluded Liabilities. No accrual shall be made for Employee Termination Payments.

(b) Regarding the Closing Balance Sheet. (i) At the Closing, Seller shall deliver to Buyer the balance sheet of Seller and a calculation of the amount of the Closing

Date Working Capital, certified by the Chief Financial Officer of the Seller to be his or her best good faith estimate of such balance sheet and Closing Date Working Capital as of the Closing (the "Preliminary Closing Date Balance Sheet"). The Preliminary Closing Date Balance Sheet shall be prepared in accordance with GAAP (the "Accounting Principles"). Buyer shall complete, at its own expense, a review of such calculation of the Closing Date Working Capital and shall deliver to Seller within ninety (90) days after the Closing, its written report (the "Working Capital Review") setting forth the amount of such Closing Date Working Capital as confirmed or determined in accordance with such review. The Working Capital Review must be done in accordance with the same Accounting Principles used by Seller. In the event that the Working Capital Review delivered to Seller in accordance with the provisions of this Agreement discloses that the Closing Date Working Capital was greater than $2,700,000, the Purchase Price shall be deemed to have been increased by the amount of such excess (the "Working Capital Increase"), provided that Buyer collects in respect of Accounts Receivable (hereinafter defined) at least the Target Amount (hereinafter defined). The "Target Amount" shall mean the amount of accounts receivable that must be included as current assets in the Closing Date Working Capital in order to obtain a Closing Date Working Capital amount equal to $2,700,000. Any payment by Seller to Buyer of a Purchase Price adjustment pursuant to clause (ii) below shall decrease the Target Amount by the principal amount of such payment. In the event that the Working Capital Review delivered to Seller in accordance with the provisions of this Agreement discloses that the Closing Date Working Capital was less than $2,700,000, the Purchase Price shall be deemed to have been reduced by the amount of such deficiency and Seller, upon demand, shall immediately pay the amount of such deficiency to Buyer. If Seller shall dispute the amount set forth in the Working Capital Review, it shall give notice to Buyer (a "Delay Payment Notice") within thirty (30) days after delivery to it of the Working Capital Review that the adjusting payment required above should not then be made and setting forth in reasonable detail its objections and the basis therefor, in which case the parties shall meet and in good faith attempt to resolve any disagreements within thirty (30) days after delivery to Buyer of the Delay Payment Notice. If Seller shall not have delivered a Delay Payment Notice within such thirty (30) day period, Seller shall be deemed to conclusively have accepted the determination of Buyer of the amount of Working Capital as of the Closing Date, in which case such determination shall be final and shall not be subject to further review, challenge or adjustment, absent fraud. If Seller and Buyer cannot resolve any such disputes, such disputes shall be resolved by KPMG Peat Marwick LLP or if such firm is unable to so act or is not at the time independent of both Seller and Buyer, by an independent nationally recognized accounting firm selected by

KPMG Peat Marwick LLP, which accounting firm is reasonably acceptable to both Seller and Buyer (the accounting firm so engaged shall hereinafter be referred to as the "Independent Accounting Firm"); provided, the Independent Accounting Firm shall only resolve disputes properly raised in accordance with the provisions of this Section 2.3. The Independent Accounting Firm shall be directed to make its determination as promptly as practicable (and no later than 30 days after referral to it of such dispute by Seller and Buyer) and such determination shall be final and binding upon Seller and Buyer. The expenses relating to the engagement of the Independent Accounting Firm shall be borne by the party against whom the Independent Accounting Firm shall rule; provided that if it does not clearly rule in favor of either party, the expenses shall be shared one-half by Seller and one-half by Buyer. For purposes of this Agreement, the Closing Balance Sheet shall be as set forth in the Working Capital Review, as accepted by Seller as set

forth above, or as modified by resolution of Seller and Buyer or by the Independent Accounting Firm.

(ii) Any adjustment to the Purchase Price due to Buyer pursuant to this Section shall be paid by Seller to Buyer (together with interest on such amount from the date on which it shall become due to Buyer in accordance with this Agreement until paid at a rate equal to 7% per annum) within 10 days after the final determination of such adjustment is made. Subject to subsection (c)(ii) below, any Excess Collections (hereinafter defined) shall be paid by Buyer to Seller on the fifteenth business day of each calendar month in an amount equal to all Excess Collections (hereinafter defined) during the calendar month then most recently ended, and any such payments shall be first applied against any Working Capital Increases and any excess shall thereafter be paid to Seller. "Excess Collections" means the amount of Accounts Receivable collected in excess of the Target Amount. If Buyer shall fail to timely pay any such amount in accordance with the foregoing two sentences, then such amount shall bear interest from the date on which it shall become so due to Seller until paid at a rate equal to 7% per annum, and such interest shall be payable upon demand.

(c) Accounts Receivable Collection and Reporting. (i) Commencing 90 days after the Closing Date and continuing until the first anniversary of the Closing Date, or if earlier, until all Accounts Receivable shall have been collected, Buyer shall provide quarterly reports to Seller regarding the amounts collected on the accounts receivable of the Business outstanding as of the Closing Date (the "Accounts Receivable") and Buyer's efforts to collect such accounts. Buyer shall, at Buyer's election, either (i) apply at least the same efforts in the collection of the Accounts Receivable as Buyer applies in the collection of its own accounts receivable or (ii) use substantially the same personnel and procedures to collect the Accounts Receivable as were used by the Business immediately prior to the Closing Date,

in the substantially same positions, with the substantially same responsibilities and at the substantially same salaries and hours. Buyer shall have no liability or responsibility to collect Accounts Receivable to the extent Seller fails to deliver to Buyer such documentation as Buyer shall reasonably request with respect thereto. The collection of all Accounts Receivable received from an account debtor of the Business as of the Closing Date shall be applied to the oldest outstanding invoice with such account debtor which is not then in dispute consistent with Buyer's general overpayment policies; provided, however, notwithstanding the foregoing, any payments made by an account debtor in respect of a designated account shall be applied to the account so designated. For purposes of the preceding sentence, a disputed invoice is an invoice that is the subject of a written dispute from the account debtor which is reasonably recognized by Buyer as disputed in accordance with its general policies; upon the resolution of any such dispute, such invoice shall no longer be considered disputed and collections from the account debtor shall be applied in accordance with the previous sentence as if such dispute had not arisen. Provided that Buyer has collected in respect of Accounts Receivable at least the Target Amount, then on the fifteenth (15th) business day of each calendar month until one month after the first anniversary of the Closing Date, Buyer shall provide reports to Seller regarding the amounts collected on such Accounts Receivable with respect to the preceding calendar month, and Buyer's efforts to collect such accounts.

(ii) In the event that Buyer has complied with its collection obligations set forth in this paragraph (c) but has not collected at least the Target Amount by the first anniversary of the Closing Date, (i) Buyer shall notify Seller of the amount of such Accounts Receivable actually collected by Buyer, (ii) Seller shall promptly remit to Buyer the amount, if any, by which the amount of such Accounts Receivable actually collected is less than the Target Amount (to the extent not already paid), and (iii) Buyer shall promptly remit to Seller all amounts thereafter collected by Buyer in respect of the Accounts Receivable.

2.4 Closing Date. The closing (the "Closing") of the purchase and sale of the Assets shall be held pursuant to overnight courier and escrow arrangements acceptable to all parties hereto as of 12:01 a.m. on November 6, 1996 or on such other date or in such other manner as the parties may mutually agree. The date on which the Closing shall occur is hereinafter referred to as the "Closing Date".

2.5 Closing Documents of Seller. At the Closing, Seller shall deliver or cause to be delivered to Buyer the following documents:

(a) copies of the Certificate of Incorporation of Seller as

amended to the Closing Date, certified by its Secretary and the Secretary of State of the State of Delaware;

(b) copies of the By-laws of Seller as amended to the Closing Date, certified by its Secretary;

(c) long form corporate good standing certificate with respect to Seller from the Secretary of State of the State of Delaware, dated no earlier than five (5) days prior to the Closing Date;

(d) a duly executed bill of sale (the "Bill of Sale"), in the form attached hereto as Exhibit 2.5(d)-1 and an assignment and assumption of Contracts in the form of Exhibit 2.5(d)-2, and such documents as shall be reasonably necessary to convey title to all owned motor vehicles and the registrations of all equipment included in the Assets to Buyer in a fashion consistent with the provisions of this Agreement;

(e) the Records contemplated by Section 4.3;

(f) a certificate from the Chief Financial Officer of Seller setting forth in reasonable detail the best good faith estimate of such Chief Financial Officer of the Closing Date Working Capital;

(g) a certificate dated the Closing Date and signed by the duly authorized signatories of Seller stating that the transactions contemplated hereunder have been duly authorized and approved by Seller and certifying the attached resolutions of Seller's shareholders, if applicable, and Board of Directors approving said transactions; and

(h) an affidavit that Seller is not a foreign person.

2.6 Closing Documents of Parent. At the Closing, Parent shall deliver or cause to be delivered to Buyer the following documents:

(a) copies of the Certificate of Incorporation of Parent as amended to the Closing Date, certified by its Secretary and the Secretary of State of the State of Delaware;

(b) copies of the By-laws of Parent as amended to the Closing Date, certified by its Secretary;

(c) long form corporate good standing certificate with respect to Parent from the Secretary of State of the State of Delaware, dated no

earlier than five (5) days prior to the Closing Date; and

(d) a certificate dated the Closing Date and signed by the duly authorized signatories of Parent stating that the transactions contemplated hereunder have been duly authorized and approved by Parent and certifying the attached resolutions of Parent's Board of Directors approving said transactions

2.7 Closing Documents of Buyer. At the Closing, Buyer shall deliver or cause to be delivered to Parent the following documents:

(a) copies of its Certificate of Incorporation as amended to the Closing Date, certified by its Secretary;

(b) copies of its By-laws, as amended to the Closing Date, certified by its Secretary;

(c) long form tax and corporate good standing certificate from the Secretary of State of the State of California, dated no earlier than five (5) days prior to the Closing Date;

(d) copies of the Certificate of Incorporation of Integrated Health Services, Inc. ("IHS") as amended to the Closing Date, certified by its Secretary;

(e) copies of the By-laws of IHS as amended to the Closing Date, certified by its Secretary;

(f) long form corporate good standing certificate for IHS from the Secretary of State of the State of Delaware, dated no earlier than five (5) days prior to the Closing Date;

(g) a certificate dated the Closing Date and signed by the duly authorized signatories of Buyer stating that the transactions contemplated hereunder have been

duly authorized and approved by the Buyer and certifying the attached resolutions of its Board of Directors, and if applicable, its shareholders, approves said transactions;

(h) a certificate dated the Closing Date and signed by the duly authorized signatories of IHS stating that the transactions hereunder have been duly authorized and approved by IHS including the guarantee by IHS of Buyer's performance under such transactions and certifying the attached resolutions of its Board of Directors, and if applicable, its shareholders,

approves said transactions;

(i) a duly executed assumption agreement (the "Assumption Agreement"), in the form attached hereto as Exhibit 2.7(i), and such other documents as Seller shall reasonably request to evidence Buyer's assumption of the Assumed Liabilities; and

(j) stock certificates representing the shares of IHS Stock issued to Seller in connection with this Agreement.

2.8 Legal Opinions. In addition to the other documents to be delivered at Closing, (a) Buyer shall have received the favorable opinion, dated as of the Closing Date, from Dechert Price & Rhoads, counsel for Seller and for Parent, in the form attached hereto as Exhibit 2.8(a) and (b) Parent and Seller shall have received the favorable opinion, dated as of the Closing Date, from Blass & Driggs, Esq., counsel for Buyer, in the form attached hereto as Exhibit 2.8(b).

2.9 IHS Stock.

(a) As set forth in Section 2.1(b) above, a portion of the Purchase Price shall be payable by means of the delivery to Seller of IHS Stock valued at $5,200,000 based upon a price per share (the "Initial Market Value Per Share") of such stock equal to the average closing NYSE price of such stock for the twenty (20) business day period ending on the date which is four (4) business days prior to the Closing Date.

(b) Resale Limitations. All sales of IHS Stock issued pursuant to this Agreement shall be effected solely through Smith Barney, Inc., as broker, and sales of such shares shall not at any time, in the aggregate, exceed one-hundred thousand (100,000) shares during any thirty (30) day period. The restriction on the number of shares that may be sold in accordance with this subsection (b) shall lapse at such time as the Seller or the Parent shall have sold at least 100,000 of such shares in accordance with this subsection (b). If Smith Barney, Inc. shall be unable to act as the broker for any of such sales, then IHS shall designate another broker that is reasonably acceptable to Seller through which such sales shall be made.

(c) Investment Representations. All shares of IHS Stock to be issued hereunder will be newly issued shares of IHS. Seller represents and warrants to IHS and Buyer that the IHS Stock being issued hereunder is being acquired, and will be acquired, by it for investment for its own account or the account of the Parent, to whom transfer of any of such shares is expressly permitted in accordance with this Agreement, and not with a view to or for

sale in connection with any distribution thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act") or any applicable state securities law; Seller acknowledges that the IHS Stock constitutes restricted securities under Rule 144 promulgated by the Securities and Exchange Commission (the "Commission") pursuant to the Securities Act, may have to be held indefinitely and may not be sold, transferred, assigned, pledged or otherwise disposed of except pursuant to an effective registration statement or an exemption from registration under the Securities Act and the rules and regulations thereunder. Seller and Parent have the knowledge and experience in financial and business matters, are capable of evaluating the merits and risks of the investment, and are able to bear the economic risk of such investment. Seller and Parent have been provided with such materials as are generally provided to shareholders of IHS and has had the opportunity to make inquiries of and obtain from representatives and employees of IHS such other information about IHS as they deem necessary in connection with such investment.

(d) Legends. It is understood that the certificates evidencing the IHS Stock shall bear the following (or a similar) legend (in addition to any legends which may be required in the opinion of IHS's counsel by the applicable securities laws of any state):

> THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THE SHARES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THESE SHARES UNDER THE SECURITIES ACT OF 1933 OR AN OPINION OF THE COMPANY'S COUNSEL THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT.

Upon the written request of Seller and Parent, accompanied by a legal opinion in form and substance and from counsel reasonably acceptable to IHS and setting forth that the shares evidenced by the stock certificate are freely transferable without registration under the Securities Act, IHS shall cause a new certificate, evidencing such shares and that does not bear such legend, to be issued to Seller or the Parent.

(e) Transfers. Upon prior notice to IHS, Seller shall be permitted to transfer any of the shares of IHS Stock acquired by it pursuant to this Agreement and the registration rights related thereto to Parent.

(f) Registration of IHS Stock. (i) IHS will use its best efforts to cause to be prepared, filed and declared effective by the Commission within sixty (60) to ninety (90) days following the Closing Date, a registration statement for the registration under the Securities Act of the IHS Stock issued to Seller pursuant to this Agreement, and IHS shall maintain the effectiveness of such registration statement for a period of two (2) years following the date on which it becomes effective, or for so long as Seller or Parent shall own any of the IHS Stock issued pursuant to this Agreement, whichever shall occur first, in each case except to the extent that such shares shall become freely transferable without registration under the Securities Act. If the number of

shares of IHS Stock included in the Purchase Price shall be increased pursuant to clause (ii) below, IHS shall, prior to the effective date of such registration statement estimate the number of additional shares and shall use its best efforts to include all of the newly issued shares in the registration statement.

(ii) (A) As of the date that such registration statement shall become effective, the number of shares of IHS Stock included in the Purchase Price shall be adjusted so that the number of shares issued to Seller pursuant to this Agreement shall have an aggregate fair market value (the "Adjusted Fair Market Value") equal to $5,200,000 based upon a price per share of such stock equal to the average closing NYSE price of such stock for the twenty (20) business day period ending on the date which is two (2) business days prior to such effective date (the "Adjusted Market Value Per Share"). Within five (5) business days after such effective date IHS shall deliver notice (the "Adjustment Notice") to Seller of the Adjusted Fair Market Value, the Adjusted Market Value Per Share and the number of shares to be delivered by Buyer to Seller (if the Adjusted Market Value Per Share shall be less than the Initial Market Value Per Share) or by Seller to Buyer (if the Adjusted Market Value Per Share shall be greater than the Initial Market Value Per Share) so as to effect the adjustment described in this clause (ii). The number of shares to be delivered or issued, as the case may be, shall be rounded up or down so that no fractional shares need be issued. Within five (5) business days the parties shall make the delivery of the shares of IHS Stock required in the Adjustment Notice.

(B) In lieu of (and not in addition to) the adjustment set forth in paragraph (A) above, in addition to any other remedy available at law, if the registration statement referred to in clause (i) above shall not have been declared effective on or prior to the second anniversary of the Closing Date and the Adjusted Market Value Per Share as of such second anniversary date shall be less than Initial Market Value Per Share, then, the adjustment set forth in paragraph (A) above shall be made as of such second anniversary date.

(g) Registration Procedures, etc. In connection with the registration rights granted to Seller with respect to the IHS Stock as provided in this Section 2.9, IHS agrees as follows:

(i) IHS will promptly notify Seller at any time when a prospectus relating to a registration statement covering Seller's shares under

this Section 2.9 is required to be delivered under the Securities Act, of the happening of any event known to IHS as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

(ii) IHS shall furnish Seller with such number of prospectuses as shall reasonably be requested, and Seller agrees to comply with the prospectus delivery requirements of the Securities Act in connection with any sale of IHS Stock by it.

(iii) IHS shall take all necessary action which may be required in qualifying or registering IHS Stock included in a registration statement for offering and sale

under the securities or Blue Sky laws of such states as reasonably are requested by Seller, provided that IHS shall not be obligated to qualify as a foreign corporation or dealer to do business under the laws of any such jurisdiction.

(iv) The information included or incorporated by reference in the registration statement filed pursuant to this Section 2.9 will not, at the time any such registration statement becomes effective, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein as necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading or necessary to correct any statement in any earlier filing of such registration statement or any amendments thereto. The registration statement will comply in all material respects with the provisions of the Securities Act and the rules and regulations thereunder. With respect to sales of IHS Stock sold in accordance with the provisions of this Section 2.9 pursuant to the registration statement, IHS shall indemnify Seller and its successors and assigns, and the Parent, and each person, if any, who controls Seller within the meaning of ss.15 of the Securities Act or ss.20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), against all loss, claim, damage, expense or liability (including all expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which any of them may become subject under the Securities Act, the Exchange Act or any other statute, common law or otherwise, based upon any untrue statement or alleged untrue statement of a material fact contained in such registration statement executed by IHS or based upon written information furnished by IHS filed in any jurisdiction in order to qualify IHS Stock under the securities laws thereof or filed with the Commission, any state securities commission or agency, NYSE, NASDAQ, or any securities exchange; or the omission or alleged omission

therefrom of a material fact required to be stated therein or necessary to make the statements contained therein not misleading, unless such statement or omission was made in reliance upon and in conformity with written information furnished to IHS by Seller or the Parent for use in such registration statement, any amendment or supplement thereto or any application, as the case may be. If any action is brought against Seller or any controlling person of Seller or the Parent in respect of which indemnity may be sought against IHS pursuant to this subsection, Seller or the Parent or such controlling person of Seller or the Parent shall within thirty (30) days after the receipt thereof of a summons or complaint, notify IHS in writing of the institution of such action and IHS shall assume the defense of such action, including the employment and payment of reasonable fees and expenses of counsel. Seller or any such controlling person or the Parent shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Seller or such controlling person or such Parent unless (A) the employment of such counsel shall have been authorized in writing by IHS in connection with the defense of such action, or (B) IHS shall not have employed counsel to have charge of the defense of such action, or (C) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to IHS (in which case, IHS shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events the

fees and expenses of not more than one additional firm of attorneys for Seller, such controlling person and the Parent shall be borne by IHS and such law firm shall be reasonably acceptable to IHS. Except as expressly provided in the previous sentence, in the event that Seller, any such controlling person or any the Parent assumes control of the defense of any such action or claim, IHS shall not thereafter be liable to Seller or any such controlling person or the Parent in investigating, preparing or defending any such action or claim. IHS agrees promptly to notify Seller of the commencement of any litigation or proceedings against IHS or any of its officers, directors or controlling persons in connection with the resale of IHS Stock or in connection with such registration statement. If the indemnification provided for in this Section 2.9 is held by a court of competent jurisdiction to be unavailable to Seller or any controlling person of Seller or any Parent with respect to any loss, liability, claim, damage or expense referred to herein, then IHS in lieu of indemnifying Seller or any controlling person of Seller or the Parent hereunder, shall contribute to the amount paid or payable by Seller or any controlling person of Seller or the Parent hereunder, as a result of such loss, liability, claim, damage, expense or liability in such proportion as is appropriate to reflect the relative fault of IHS on the one hand and of Seller or any controlling person of Seller or the Parent on the other hand in connection with the statements or omissions which resulted in such loss, liability, claim, damage, expense, or liability, as well

as any other relevant equitable considerations. The relative fault of IHS and of Seller or any controlling person of Seller or the Parent shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by IHS or by Seller or any controlling person of Seller or the Parent and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(v) Seller and Parent and their respective successors and assigns, shall severally, and not jointly, indemnify IHS and Buyer, their respective officers, directors and advisers, and each person, if any, who controls IHS or Buyer within the meaning of ss.15 of the Securities Act or ss.20(a) of the Exchange Act against all loss, claim, damage, expense or liability (including all expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which they may become subject under the Securities Act, the Exchange Act or any other statute, common law or otherwise, arising from information that was furnished by or on behalf of Seller, or the Parent or its, respective successors or assigns and which was included in the selling shareholder provisions in such registration statement. The indemnification rights set forth in this clause (v) shall be subject to the same procedures as are to be applied to the indemnification rights set forth in clause (iv) above, although references to Buyer and IHS on the one hand, and Seller and Parent, on the other hand, shall be reversed.

(h) Registration Expenses. Seller and the Parent shall not be responsible for, and IHS shall bear, all of the reasonable expenses of IHS related to such registration including, without limitation, the fees and expenses of its counsel and accountants, all of its other costs, fees and expenses incident to the preparation, printing, registration and filing under the Securities Act of the registration statement and all amendments and supplements thereto, the cost of furnishing copies of each preliminary prospectus, each final prospectus and each amendment or supplement thereto to underwriters, dealers and other purchasers of IHS Stock and the costs

and expenses (including fees and disbursements of its counsel) incurred in connection with the qualification of IHS Stock under the Blue Sky laws of various jurisdictions. IHS, however, shall not be required to pay underwriter's or brokerage discounts, commissions or expenses, or to pay any costs and expenses in excess in the aggregate of $20,000 for Blue Sky qualifications of Seller's (and the Parent's) IHS Stock, or to pay any costs or expenses arising out of Seller's or the Parent's failure to comply with its obligations under this Section 2.9.

(i) Notice of Sale. Except for transfers permitted under

Section 2.9(e), above, if the Seller (or the Parent) desires to transfer all or any portion of its IHS Stock, Seller (or the Parent, as the case may be) will deliver written notice to IHS, describing in reasonable detail its intention to effect the transfer and the manner of the proposed transfer.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of Seller and Parent. Seller and Parent hereby, jointly and severally, represent and warrant to Buyer as follows:

(a) Authority. This Agreement and each of the certificates, instruments, agreements and documents executed and delivered by Seller or Parent pursuant to this Agreement (Seller's "Transactions Documents") have been duly executed and delivered by Seller and Parent and constitute the legal, valid and binding obligations of Seller and Parent enforceable against each of them, in accordance with their respective terms. The Seller and Parent have all requisite corporate power and authority to enter into this Agreement and each Seller's Transaction Document and to consummate the transactions contemplated hereby and thereby. All corporate acts and other proceedings required to be taken by the Seller and Parent to authorize the execution, delivery and performance of this Agreement and each Seller's Transaction Document and the consummation of the transactions contemplated hereby and thereby have been duly and properly taken. The execution and delivery of this Agreement and the Seller's Transaction Documents do not, and the consummation of the transactions contemplated hereby and thereby and compliance with the terms hereof and thereof will not: result in any violation of or default, under, or require any consents or approvals under (i) any material note, bond, mortgage, indenture, deed of trust, license, lease, contract, commitment or agreement to which Seller or the Parent is a party or by which any of their respective properties are bound except as set forth on Schedule 3.1(a), (ii) any provision of the Certificate of Incorporation or Bylaws of Seller or Parent and (iii) any judgment, injunction, order or decree, or material statute, law, ordinance, rule or regulation applicable to Seller or Parent, or the property or assets of Seller or Parent.

(b) Organization and Standing of Seller and Parent. Seller and Parent are each a corporation duly organized and validly existing under the laws of Delaware. Seller

has full corporate power and authority and possesses all material governmental franchises, licenses, permits, authorizations and approvals necessary to enable it to use its corporate name and to own, lease or otherwise hold its properties

and assets and to carry on its business in all material respects as presently conducted. Seller is duly qualified and in good standing to do business in each jurisdiction set forth on Schedule 3.1(b) and Seller is not doing business and none of the Assets are located in any other jurisdiction where the failure to be so qualified and in good standing would have a Material Adverse Effect. Seller and Parent have delivered to Buyer true and complete copies of the Certificates of Incorporation, as amended to date, and the Bylaws, as in effect on the date hereof, of Seller and Parent.

(c) Ownership. Parent owns of record and beneficially all of the outstanding capital stock of Seller.

(d) Subsidiaries of the Seller. Seller does not, directly or indirectly, own any stock of, or any other interest in, any other corporation or business entity (including, without limitation, joint ventures and partnerships).

(e) Financial Statements. Schedule 3.1(e) sets forth the unaudited consolidated balance sheets of Seller as of September 30, 1994 (the "1994 Balance Sheet"), September 30, 1995 (the "1995 Balance Sheet"), July 31, 1996, and August 31, 1996 (the "Balance Sheet"), and the unaudited consolidated statements of income, shareholders' equity, and cash flows of Seller for the periods ended September 30, 1994, September 30, 1995, July 31, 1996, and August 31, 1996 (collectively, the "Financial Statements"). The Financial Statements have been prepared in accordance with the books and records of Seller and present fairly, in all material respects, the financial position and operations as of September 30, 1994, September 30, 1995, July 31, 1996, and August 31, 1996 and the results of operations and cash flows of Seller for the periods then ended in conformity with generally accepted accounting principles, consistently applied, except for (i) the absence of certain notes which would otherwise be required by generally accepted accounting principles and (ii) no accrual has been made in connection with the governmental inquiries described on Schedule 3.1(e). Except as set forth on Schedule 3.1(e), the income statements included in the Financial Statements do not contain any material items of special or nonrecurring income or expense or any other income not earned or expense not incurred in the ordinary course of business except as expressly specified therein, and, except as so set forth, such financial statements include all adjustments, which consist only of normal recurring accruals, necessary for such presentation. Except under general principles of successor liability law (including, without limitation, such principles arising under applicable healthcare law), there is no basis for the assertion against Seller of any material Liability of any nature or in any amount (other than Liabilities reflected on the Balance Sheet or as have been incurred since the date of the Balance Sheet in the ordinary course of business consistent with past practice) for which Buyer may become liable.

(f) Taxes.

(i) For purposes of this Agreement, (A) "Tax" or "Taxes" shall mean all Federal, state, local and foreign taxes, charges and assessments, including all interest, penalties and additions imposed with respect to such amounts and (B) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(ii) Seller has filed or caused to be filed in a timely manner (within any applicable extension periods) all Tax returns, reports and forms required to have been filed by the Code or by applicable state, local or foreign Tax laws, rules, regulations and orders (collectively, "Returns") other than those the failure which to file would not have a Material Adverse Effect; all Taxes shown to be due on such Returns have been timely paid in full; and no tax Liens have been filed and no material claims are being asserted in writing with respect to any Taxes, except as set forth on Schedule 3.1(f). True and complete copies of all Returns with respect to income or sales or use for any period during the two-year period ending on the date hereof have been delivered to Buyer, and as of the time of filing, the Returns correctly reflected in all material respects or will correctly reflect in all material respects the facts regarding the income, business, assets, operations, activities and status of Seller and any other information required to be shown therein.

(g) Assets Other than Real Property. Schedule 3.1(g) sets forth a complete description and list of all of Seller's motor vehicles, all x-ray, EKG and other equipment, all computers, all office furniture and each other item of tangible personal property included in the Assets that has a fair market value of at least $500. Except as disclosed on Schedule 3.1(g) hereto, Seller has such title to all Assets comprising personal property, tangible or intangible, reflected on the Balance Sheet or thereafter acquired, except those since sold or otherwise disposed of in the ordinary course of business, consistent with past practice, as is necessary to permit the use and enjoyment of such assets and properties in the same manner as used and enjoyed by Seller and none of such Assets are subject to any liens, claims, security interests, mortgages, pledges, charges, easements, rights of setoff, restraints on transfers, restrictions on use, options, conditional sale agreements, subleases, sublicenses or encumbrances of any kind or nature whatsoever ("Liens"), other than Permitted Liens. For the purposes of this Agreement, "Permitted Liens" means: (i) each lien set forth on Schedule 3.1(g) hereto; (ii) carriers', warehouseman's, mechanics, materialmen's, repairmen's or other like liens arising in the ordinary course of business which are not overdue for a period of more than 30 days; (iii) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of like nature incurred in the ordinary course of business, provided that each such deposit shall be included in the Assets and shall not exceed $15,000 in any one case, or $75,000 in the aggregate; (iv) pledges or deposits in connection with worker's compensation, unemployment insurance, and other social security legislation; and (v) capitalized financing leases to the extent reflected on the Balance Sheet and copies of which have been delivered to Buyer. No person

other than Seller has any right to the use or possession of any of such property (other than in the ordinary course of business in accordance with contractual rights) and no currently effective financing statement (other than Permitted Liens) with respect to such personal property has been filed in any jurisdiction, and (other than Permitted Liens) Seller has not signed any such financing statement or any security agreement authorizing any secured party thereunder to file any such financing statement. All of such personal property owned by Seller and necessary to the operation of the Business, or currently being used by Seller in the operation of the Business, comprising equipment, improvements, furniture, vehicles and other tangible personal property, whether owned or leased, is in good operating condition and repair except for normal wear and tear in the ordinary course of business. The Assets, other than the Excluded Assets, represent all of the assets, including without limitation, all property (real, personal and mixed), licenses, intellectual property, permits and authorizations, contracts, leases and other agreements that are owned by Seller, and include all of the Assets owned by Seller, other than any Excluded Assets, that are necessary or material to the operation of the Business as now operated (the "Necessary Assets"). The preceding sentence shall not apply to assets owned by any other person. This paragraph (g) does not relate to real property or interests in real property, such items being the subject of paragraph (h) of this Section 3.1.

(h) Title to Real Property. Schedule 3.1(h) sets forth a complete list of all real property and interests in real property leased by Seller. Except as disclosed on the appropriate Schedule, Seller has such leasehold interest in all real property and interests in real property shown on Schedule 3.1(h) to be leased by it, as is necessary to permit the use and enjoyment of such real property substantially in the manner such real property is now utilized by Seller, and there are no Liens (other than capitalized financing leases) affecting any such leasehold interest except for (A) easements, covenants, rights-of-way and other encumbrances or restrictions of record on the date hereof, (B) zoning, building and other statutory or regulatory restrictions, (C) liens for taxes and assessments not yet due and payable, (D) easements, covenants, rights-of-way, liens, encumbrances or other restrictions, none of which have a Material Adverse Effect.

(i) Intellectual Property. Schedule 3.1(i) sets forth a true and complete list of all material patents, trademarks, trade names, service marks and copyrights and applications therefor owned by, licensed to, or, to its Knowledge, used by Seller. Except as set forth in Schedule 3.1(i), Seller has no notice or Knowledge of any objections or claim being asserted in writing by any person with respect to the ownership, validity, enforceability or use of any such patents, trademarks, trade names, copyrights, applications therefor, or trade secrets or challenging or questioning the validity or effectiveness of any

such license which would (or would reasonably be expected to) have a Material Adverse Effect (or of the basis for any such claim).

(j) Contracts. Except as described in Schedule 3.1(j) or the other Schedules hereto, Seller is not as of the date of this Agreement a party to or bound by any:

(i) employee collective bargaining agreement or other contract with any labor union;

(ii) employment or severance agreements or non-competition or, to the extent included in the Assets, confidentiality agreements with any current or former director, officer or employee (excluding any such employment contracts or arrangements for which the total compensation during each of the last two years was less than $20,000 per person);

(iii) (A) lease or similar agreement under which Seller is lessee of, or holds or uses, any machinery, equipment, vehicle or other tangible personal property owned by a third party, (B) continuing contract for the future purchase of materials, supplies or equipment, (C) management, service, consulting or other similar type of contract, (D) distribution or sales agency agreement or arrangement, or (E) advertising agreement or arrangement, in any such case which has an aggregate future liability in excess of $25,000 or which is not terminable by Seller (x) on not more than 90 days' notice without penalty or premium or (y) for a cost of less than $25,000;

(iv) agreement or contract under which Seller has borrowed or loaned any money or issued any note, bond, indenture or other evidence of indebtedness or guaranteed indebtedness, liabilities or obligations of others, in each case for an amount in excess of $25,000 in any single case, or in excess of $100,000 in the aggregate (other than endorsements for the purpose of collection in the ordinary course of business);

(v) mortgage, pledge, security agreement, deed of trust or other document, in each case granting a lien (including liens upon properties acquired under conditional sales, capital leases or other title retention or security devices) securing obligations in excess of $25,000 in any single case, or in excess of $100,000 in the aggregate;

(vi) independent contractor agreements with any radiologist, cardiologist, or company representing a physician or other physician including annual payments in excess of $25,000 in any single case, or in excess of $100,000 in the aggregate;

(vii) agreement or arrangement for the sale of any of its assets, property or rights outside the ordinary course of business or requiring the consent of any party to the transfer and assignment of any such assets, property or rights (by sale of assets, sale of stock, merger or otherwise);

(viii) contract which contains any provisions requiring Seller or, with respect to the Business, the Parent, to indemnify or act for any other person or entity or to guaranty or act as surety for any other person or entity;

(ix) agreement restricting Seller from conducting business anywhere in the world for any period of time or restricting its use or disclosure of any confidential or proprietary information (other than those agreements not included in the Assets);

(x) partnership, joint venture or management contract or similar arrangement or agreement which involves a right to share profits or future payments with respect to the business of Seller or any portion thereof or the business of any other person or entity;

(xi) agreement granting a leasehold or other interest in real property;

(xii) contract under which the Seller performs radiological, EKG, ultrasound or other services for any nursing home or other facility or institution ("Customer Contracts"); or

(xiii) agreement not made in the ordinary and normal course of business and consistent with past practice or involving consideration in excess of $25,000 in any single case or $100,000 in the aggregate or the omission of which would otherwise cause a Material Adverse Effect.

Each agreement, contract, lease, license, commitment or instrument of Seller described on Schedule 3.1(j) or the other Schedules hereto (collectively, the "Contracts") is in full force and effect, except as expressly disclosed on Schedule 3.1(j)-A or the other Schedules hereto. Seller is not (with or without the lapse of time or the giving of notice, or both) in breach or default under any Contract, and to the Knowledge of Seller, no other party to any of the Contracts is (with or without the lapse of time or the giving of notice, or both) in breach or default thereunder, except for such breaches or defaults as are disclosed on Schedule 3.1(j)-B. Except as set forth on Schedule 3.1(j)-C all amounts payable under each of the Contracts are on a current basis. Seller has delivered to Buyer true, complete and correct copies of each written

Contract and a written description of the material terms of each oral Contract except for Customer Contracts. Each Customer Contract is in the form and substance of Exhibits 3.1(j)-A and 3.1(j)-B hereto, except for deviations that individually or in the aggregate would not be likely to and shall not have a Material Adverse Effect. At Closing, possession of each written Customer Contract shall be delivered to Buyer at the location where such Contract is presently located. Except as set forth in Schedule 3.1(j)-C, each of the Contracts is freely and fully assignable to Buyer without the consent of the remaining parties thereto. Seller has obtained the consent from each party to each Contract not set forth on Schedule 1.4(a) that is necessary for the assignment thereof to Buyer other than the consents set forth on Schedule 3.1(j)-D. Seller has not received written notice that any of the Contracts will be terminated by any party thereto pursuant to any provision thereof permitting any such party to terminate such Contract with or without cause.

(k) Litigation; Decrees. Schedule 3.1(k) sets forth a list as of the date of this Agreement of all lawsuits, claims, proceedings or investigations pending or, to the Knowledge of Seller, threatened by or against or affecting Seller or any of its properties, assets, operations or business which, if determined adversely to Seller, could reasonably be expected to have a Material Adverse Effect, or which challenge the legality of this Agreement or any action to be taken in connection herewith. To the Knowledge of Seller, Seller is not in default under any judgment, order or decree applicable to it or any of its properties.

(l) Insurance. Seller maintains such policies of fire and casualty, liability and other forms of insurance in such amounts, with such deductibles and against such risks and losses as are set forth in Schedule 3.1(l). True and complete copies of each of such policies have been delivered to Buyer.

(m) Benefit Plans.

(i) Schedule 3.1(m) sets forth a list of all "employee benefit plans" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), bonus, incentive, deferred compensation, stock or stock option plans or arrangements, and other material employee fringe benefit plans or arrangements (all the foregoing being herein called the "Seller's Benefit Plans") maintained, or contributed to, by Seller or Parent for the benefit of any employees of Seller. Seller will on request deliver to Buyer copies of (A) each of Seller's Benefit Plans (or, in the case of any unwritten Benefit Plans, written descriptions thereof), (B) the most recent annual report on Form 5500 filed with the Internal Revenue Service with respect to any of Seller's Benefit Plans (if applicable), and (C) each trust

agreement and group annuity contract relating to any of Seller's Benefit Plans.

(ii) Seller's Benefit Plans are in compliance in all respects with the applicable provisions of ERISA and the regulations and published interpretations thereunder, except where noncompliance would not have a Material Adverse Effect. None of Seller's Benefit Plans are subject to the provisions of Title IV of ERISA. Seller does not maintain or make contributions to and has not at any time in the past maintained or made contributions to any multi-employer plan subject to the terms of the Multi-employer Pension Plan Amendment Act of 1980.

(n) Absence of Changes or Events. Except as set forth in Schedule 3.1(n) or expressly in any other Schedule to this Agreement, since the Balance Sheet Date the business of Seller, has been conducted in the ordinary course consistent with past practice and Seller has not:

(i) sold, assigned, failed to replace, transferred or disposed of any of its assets or properties, except in the ordinary course of business consistent with past practice;

(ii) mortgaged, pledged or subjected to any Lien of any nature whatsoever any of the Assets, other than Permitted Liens;

(iii) made or suffered any termination of any Contract, or made or suffered any amendment of any Contract except for amendments or terminations of Contracts made in the ordinary course of business consistent with past practice;

(iv) except in the ordinary course of business, consistent with past practice, or otherwise to comply with any applicable minimum wage law, increased the salaries or other compensation of any of its employees, or made any increase in, or any additions to, other benefits to which any of such employees may be entitled;

(v) discharged or satisfied any Lien or encumbrance, other than in the ordinary course of business consistent with past practice, or failed to pay or discharge when due any Liabilities, the failure to pay or discharge which has caused a Material Adverse Effect or any actual damage or risk of loss to Seller or its Business or the Assets;

(vi) changed any of the accounting principles followed by it or the methods of applying such principles;

(vii) cancelled, modified or waived any debts or claims

held by it, other than in the ordinary course of business consistent with past practice that would have a Material Adverse Effect, or waived any rights of substantial value, whether or not in the ordinary course of business;

(viii) declared or paid or set aside or reserved any amounts for payment of any dividend or other distribution in respect of any equity or other securities, or redeemed or repurchased or agreed to redeem or repurchase any capital stock or other securities, or made any material payment to any Affiliate (as such term is hereinafter defined in Article VII) except for payments or compensation in the ordinary course of business consistent with past practice and disclosed to Buyer as such;

(ix) failed to collect, withhold and/or pay to any proper governmental agency or authority, any federal, state or local income, franchise, sales, use, withholding or similar tax required by applicable law to be so collected, withheld and/or paid, except those whose failure to collect or withhold or pay would not have a Material Adverse Effect;

(x) instituted, settled or agreed to settle any litigation, action or proceeding before any court or governmental body relating to it or its property or to its Knowledge received any threat of any such litigation, action or proceeding;

(xi) entered into any material transaction other than in the ordinary course of business consistent with past practice; or

(xii) suffered any event, circumstance or occurrence that would (or would reasonably be likely to) have a Material Adverse Effect on Seller.

(o) Compliance with Applicable Laws. Except as set forth in Schedule 3.1(o), Seller and its operations, properties and assets are in compliance with all applicable statutes, laws, ordinances, rules and regulations of any governmental authority or instrumentality, domestic or foreign, except where noncompliance would not (and would not reasonably be expected to) have a Material Adverse Effect.

(p) Licenses; Permits. To the Knowledge of Seller, all material licenses, permits or authorizations of Seller are validly held by Seller, Seller has complied in all material respects with all requirements in connection therewith and the same are not subject to suspension, modification or revocation and will not be so subject, as a result of this Agreement or the consummation of the transactions contemplated hereby, except as set forth on Schedule 3.1(p). Seller has all of the licenses, permits or authorizations which are required to carry on the business of Seller as such business is now conducted (the "Permits"), except for such licenses, permits or authorizations

the failure to obtain which would not (and would not reasonably be expected to) have a Material Adverse Effect. True and correct copies of each of such Permits have been delivered to Buyer. No Affiliate of Seller or of any other person, firm or corporation other than Seller owns or has any proprietary, financial or other interest, direct or indirect, in whole or in part in any of the Permits.

(q) Environmental Matters. Except as set forth on Schedule 3.1(q) hereto:

(i) Seller has all material permits, licenses, and other authorizations required for the operations, or conduct of the business of Seller under applicable Environmental Laws. Seller is in compliance with all terms and conditions of such authorizations, and with all applicable Environmental Laws, except for such noncompliance which would not (and would not be reasonably likely to) have a Material Adverse Effect.

(ii) During the past three (3) years, Seller has received no written notice of any citation, summons, order, complaint, penalty, investigation, or review by any governmental or other entity with respect to any violation by Seller of any Environmental Law.

(iii) Seller has received no written requests for information, notice of claim, demand, or notification that it is, or may be, potentially responsible with respect to any investigation or cleanup of any threatened or actual release of any Hazardous Substance.

(r) Employee and Labor Relations. Except as set forth in Schedule 3.1(r) hereto:

(i) there is no labor strike, dispute, slowdown or work stoppage or lockout actually pending or, to the Knowledge of Seller, threatened against or affecting Seller and during the past year there has not been any such action;

(ii) no employees of Seller are represented by any labor union or similar organization in connection with their employment relationship with Seller, and to the Knowledge of Seller, no material union organizational campaign is in progress with respect to any of the employees of Seller and no question concerning representation exists respecting such employees; and (iii) there is no unfair labor practice charge or complaint against Seller pending or, to the Knowledge of Seller, threatened before the National Labor Relations Board.

(s) Special Fee Arrangements. Schedule 3.1(s) sets forth a

true and complete list of any special fee arrangements in effect between Seller and any of its customers as of the date hereof that contain terms and conditions other than the Seller's customary terms and conditions as of the time the arrangement was entered into.

(t) Patient Volumes. Schedule 3.1(t) sets forth a true and complete list of Seller's patient volumes for x-rays, EKGs, and other exams from the commencement of fiscal year 1994 through August 31, 1996.

(u) Employees. Schedule 3.1(u) and Schedule 3.1(m) together contain a true, complete and correct list of the name, position, current rate of compensation and any vacation or holiday pay, sick pay, personal leave and any other material compensation arrangements or fringe benefits, of each current employee of Seller (together with a description of any specific arrangements or rights concerning such persons that are not reflected in any agreement or document referred to in Schedule 3.1(j)). No employee, consultant or commission agent of Seller has any vested or unvested retirement benefits or other termination benefits, except as described on Schedule 3.1(m). The Balance Sheet contains an adequate reserve for vacation and all other vested employee-related accruals.

(v) Relationships. Except as disclosed on Schedule 3.1(v), to Seller's knowledge, no Affiliate of Seller or Parent has, and at no time within the last two (2) years has had, a material ownership interest in any business, corporate or otherwise, that is a party to, or in any property that is the subject of, business relationships or arrangements of any kind relating to the operation of the Business.

(w) Questionable Payments. Except as set forth on Schedule 3.1(w), Seller has not, and to Seller's Knowledge, no Affiliate (a) has used any corporate funds of Seller or, with respect to the Business, of the Parent, in any case, to make any payment to any officer or employee of the government, or to any political party or official thereof, where such payment either (i) was, at the time, unlawful under laws applicable thereto; or (ii) was, at the time, unlawful under the Foreign Corrupt Practices Act of 1977, as amended; or (b) has made or received an illegal payment, bribe, kickback, political contribution or other similar questionable illegal payment in connection with the operation of the Business (collectively, "Questionable Payments") or made any illegal referrals in connection with the operation of the Business.

(x) Reimbursement Matters. Except as disclosed on Schedule 3.1(x), (a) Seller has not and, to the Seller's Knowledge, no nursing home, hospital or other facility with respect to which Seller provides services has received any written notice of denial or recoupment from the Medicare or

Medicaid programs, or any other third party reimbursement source (inclusive of managed care organizations) with respect to products or services provided by Seller, (b) to the Seller's Knowledge, there is no basis for the assertion after the Closing Date of any such denial or recoupment claim, and (c) neither Seller nor, to the Seller's Knowledge, any nursing home, hospital or other facility with respect to which Seller provides services has received written notice from any Medicare or Medicaid program or any other third party reimbursement source (inclusive of managed care organizations) of any pending or threatened investigations or surveys specifically with respect to, or arising out of, products or services provided by Seller, and to the Seller's Knowledge, no such investigation or survey is pending, threatened or imminent. Seller has fully and accurately disclosed to the appropriate intermediaries and carriers all material billing and business practices with respect to Medicare and Medicaid reimbursement with respect to the Business to the extent necessary for Seller to comply with applicable law. Seller has complied with all material requirements imposed by any such intermediary or carrier with respect to such billing. Seller has billed the applicable intermediaries and/or carriers for the services rendered by Seller in material compliance with all applicable Medicare and Medicaid laws, and Seller is not aware of any non-compliance by it with any state licensing or corporate practice of medicine law that would cause such billing or business practices to not be in material compliance with any of such Medicare or Medicaid laws. Seller has not received any notice from any regulatory authority or intermediary that indicates that Buyer could not continue to bill intermediaries in substantially the same manner and structure as Seller is billing on the date hereof.

(y) Medicare/Medicaid Participation. All services provided by the Seller for which Seller directly or indirectly receives payment under the Medicare or Medicaid programs are, to the extent required by law, certified for participation or enrollment in all Medicare and Medicaid programs, have a current and valid provider contract with the Medicare and Medicaid programs or other third party reimbursement source (inclusive of managed care organizations), are in compliance with the conditions of participation of such programs, and, to the extent required by law, have received all approvals or qualifications necessary for capital reimbursement, except for such certifications, contracts, compliances, approvals and qualifications which are set forth on Schedule 3.1(y) and which, individually or in the aggregate, would not have a Material Adverse Effect. Seller has delivered to Buyer true and complete copies of all Medicare and Medicaid compliance reports by the applicable licensing authority for any period after October 1, 1994 for each location of Seller for which there is a Medicare or Medicaid provider number.

(z) Customer List. Schedule 4.1(z)-A contains a complete and accurate list of each of the nursing homes, prisons and other facilities which is currently serviced by Seller in connection with the Business, and Schedule 4.1(z)-B contains a complete and accurate list of patients serviced by the facilities during the one year period ending on the date hereof.

(aa) Financial Statements and SEC Documents. Each of the balance sheets in or incorporated by reference into any annual reports filed on Form 10-K and all other reports, registration statements, definitive proxy statements or information statements filed by Parent after December 31, 1995 with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (together with the rules and regulations thereunder, the "Securities Act"), or under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended (together with the rules and regulations thereunder, the "Exchange Act") (collectively, the "Parent SEC Documents") fairly presents in all material respects the financial position of Parent as of the date it was filed and each of the statements of income and changes in shareholders' equity and cash flows or equivalent statements in such report and documents (including any related notes and schedules thereto) as of such date fairly presents in all material respects the results of operations, changes in shareholders' equity and changes in cash flows, as the case may be, of the Parent for the periods set forth therein, in each case in accordance with generally accepted accounting principles consistently applied during the periods involved, except in each case as may be noted therein, subject to normal and recurring year-end audit adjustments in the case of unaudited statements (and, where applicable, the absence of footnotes).

3.2 Representations and Warranties of Buyer. Buyer hereby represents and warrants to Seller as follows:

(a) Authority. Buyer and IHS have all requisite corporate power and authority to enter into this Agreement and each of the certificates, instruments, agreements and documents executed and delivered by Buyer pursuant to this Agreement (Buyer's "Transaction Documents") and to consummate the transactions contemplated hereby and thereby. All corporate acts and other proceedings required to be taken by Buyer and IHS to authorize the execution, delivery and performance of this Agreement and each Buyer Transaction Documents, and the consummation of the transactions contemplated hereby have been duly and properly taken. This Agreement and each Buyer Transaction Document have been duly executed and delivered by Buyer and, as applicable, IHS and constitute the legal, valid and binding obligations of Buyer and, as applicable, IHS, enforceable against Buyer and IHS in accordance with their respective terms. The execution and delivery of this Agreement and each Buyer Transaction Document, do not, and the consummation of the transactions contemplated hereby and thereby and compliance with the terms hereof will not: result in any violation of or default, under (i) any provision of the Certificate or Articles of Incorporation or Bylaws of Buyer or IHS, (ii) any material note, bond, mortgage, indenture, deed of trust, license, lease, contract, commitment or agreement to which Buyer or IHS is a party or by which any of their respective properties are bound or (iii) any judgment, injunction, order or decree, or material statute, law, ordinance, rule or regulation applicable to Buyer or IHS or to the property or assets of Buyer or IHS. No Consent is required to be obtained or made by or with respect to Buyer or IHS in connection with the execution and delivery of this

Agreement or the consummation by Buyer of the transactions contemplated hereby, other than as set forth on Schedule 3.1(a).

(b) Sufficient Funds. IHS and Buyer have sufficient funds available to pay in full the Purchase Price.

(c) Organization and Standing of Buyer. Buyer is a corporation duly organized and validly existing under the laws of California. IHS is a corporation duly organized and validly existing under the laws of Delaware. Buyer and IHS have full corporate power and authority and possess all material governmental franchises, licenses, permits, authorizations and approvals necessary to enable them to use their corporate names and to own, lease or otherwise hold their properties and assets and to carry on their business in all material respects as presently conducted.

(d) Financial Statements and SEC Documents. Each of the balance sheets in or incorporated by reference into any annual reports filed on Form 10-K and all other reports, registration statements, definitive proxy statements or information statements filed by IHS after December 31, 1995 with the SEC under the Securities Act or under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act (collectively, the "IHS SEC Documents") fairly presents in all material respects the financial position of IHS as of the date it was filed and each of the statements of income and changes in shareholders' equity and cash flows or equivalent statements in such report and documents (including any related notes and schedules thereto) as of such date fairly presents in all material respects the results of operations, changes in shareholders' equity and changes in cash flows, as the case may be, of IHS for the periods set forth therein, in each case in accordance with generally accepted accounting principles consistently applied during the periods involved, except in each case as may be noted therein, subject to normal and recurring year-end audit adjustments in the case of unaudited statements (and, where applicable, the absence of footnotes).

(e) IHS Stock. Upon delivery to Seller in accordance with the terms of this Agreement, each share of IHS Stock shall be duly authorized, validly issued, and nonassessable.

ARTICLE IV
COVENANTS

4.1 Covenants of Seller. Seller covenants and agrees as follows:

(a) Insurance. Effective as of the Closing Date and for a period of three (3) years thereafter, Seller at its own expense shall purchase and maintain a tail insurance policy with respect to all claims-made insurance policies of Seller currently in effect, such tail coverage to name Seller as insured and Buyer as an additional insured.

(b) Employment Agreements. In the event that Buyer terminates the employment (including upon expiration of the Initial Term (as such term is defined in the Employment Agreements) if Buyer elects not to extend the Initial Term pursuant to the applicable Employment Agreement) of any of William Glynn, Kenneth Levinson, or Stephen

Manty (the "Subject Employees") at any time after the one year anniversary of the Closing Date and on or prior to the expiration of the Initial Term (as such term is defined in such Employment Agreement), Seller will be solely responsible for the payment of any compensation, severance, benefits, or other amounts becoming thereafter due to such terminated Subject Employee solely under Employment Agreements between Seller and the Subject Employees in an amount not to exceed the aggregate amount that would have been due had such Employment Agreements not been amended or modified on or after the Closing Date; provided however, that any liability to any Subject Employee that constitutes a Current Liability on the Closing Balance Sheet shall be Buyer's responsibility. Any liabilities or obligations of any nature to the Subject Employees arising out of any matters occurring after the Closing or arising out of such Employment Agreements, other than those arising under the preceding sentence (or as expressly assumed by Seller under the applicable Assignment and Amendment of Employment Agreement) shall be the sole liability and responsibility of Buyer. Buyer's liabilities under this Section 4.1(c) shall be Assumed Liabilities. Any liability to Stephen Manty expressly assumed by Seller under paragraph 3 of his Assignment and Amendment of Employment Agreement shall be an Excluded Liability.

(c) COBRA. Seller shall give all notices, make all offers, pay and collect all premiums, obtain all group health plan coverage, and perform all other actions mandated by Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), which are required to be given, made, paid, obtained, and performed as a result of the Closing under this Agreement. This provision shall not be construed, however, to require Seller to maintain its group health insurance coverage following Closing, except as may be required by applicable Governmental Requirements or Section 4.2(c).

4.2 Covenants of Buyer. Buyer covenants and agrees as follows:

(a) Financial Information. Buyer will use reasonable commercial efforts to (i) hold all of the books and records of Seller delivered

to it and existing on the Closing Date and not destroy or dispose of any thereof for a period of three (3) years from the Closing Date, and thereafter if it desires to destroy or dispose of such books and records, will offer first in writing at least 60 days prior to such destruction or disposition to surrender them to Parent, provided that such books and records must be held as confidential information by Parent and Parent must state the reason it wants possession of the books and records, and (ii) promptly provide to Parent upon request, financial information provided to it by Seller with respect to Seller for the period of the current fiscal year up to Closing in accordance with past practice to allow Parent to comply with securities law, financial and tax reporting and accounting requirements.

(b) Accounts. Buyer shall pay to Parent all amounts owed to Parent by Seller on the Closing Date to the extent such amounts constitute Assumed Liabilities when they shall become due in the ordinary course of business consistent with past practice.

(c) Employees. Buyer undertakes to offer employment to all employees of Seller other than two (2) employees to be designated by Buyer (the "Designated Employees"), on such terms and with such benefits and compensation as Buyer shall deem advisable in its sole discretion. Buyer agrees, at Seller's prior written request, to use its reasonable commercial effort to continue (until no later than March 31, 1997) the employment of Ms. Perez-Lugones after the date which is thirty (30) days after the date hereof to provide Seller with such assistance as it shall reasonably request of her (within the scope of her employment arrangement or agreement with Buyer); provided that Seller shall be liable for all compensation to, and costs and expenses payable with respect to, such employee with respect to any period during which said employee is employed by Buyer at Seller's request, and if Seller requests that Buyer continue such employment, Buyer shall be entitled to reimbursement for any Employment Termination Payment due to such employee to the extent provided in Section 1.3(a)(iii) regardless of when she is thereafter terminated.

(d) Insurance. The disability, life, health, dental and vision insurance plans of Seller described on Schedule 3.1(l) shall constitute Contracts and shall be assigned to, and assumed by, Buyer as provided in Section 1.4 of this Agreement.

4.3 Mutual Covenants. Each of Seller and Buyer, as applicable, covenants and agrees as follows:

(a) Records.

(i) On the Closing Date, Seller shall cause to be

delivered to Buyer all Records and, to the extent transferred hereunder, the items described in Section 1.1(a)(viii), in the possession of Seller relating to the Business to the extent not then in the possession of Seller, subject to the following exceptions:

(A) Buyer recognizes that certain Records may contain incidental confidential information relating to Parent and not relating to Seller, and that Seller may delete and retain such information from such Records; and

(B) Seller may retain all bids received from other parties and analyses relating to Seller.

(ii) Upon reasonable written notice, Buyer and Seller agree to furnish or cause to be furnished to each other and their representatives, employees, counsel and accountants access, during normal business hours, such information (including Records pertinent to Seller) and assistance relating to Seller as is reasonably necessary for financial reporting and accounting matters, the preparation and filing of any Returns or the defense of any Tax claim or assessment or the defense or prosecution of any litigation matters; provided, however, that such access does not unreasonably disrupt the normal operations of Buyer, Seller or any of their Affiliates.

(iii) Buyer agrees that it will use its commercially reasonable efforts to make available to Seller the services of Stephen Manty (to the extent he shall continue to be employed by Buyer and within the scope of his Employment Agreement with Buyer) and/or his designees for the time period commencing on the date hereof and ending on March 31, 1997 to assist Seller with the defense of litigation matters and any investigation by the Department of Labor and oversight of accounting matters; provided that Seller shall pay to Buyer an amount equal to $4,000 per month in respect thereof and such services to Seller shall not materially interfere with the performance of his obligations to Buyer under his Employment Agreement.

(b) Publicity. Seller (and Parent) and Buyer (and IHS) agree that no public release or announcement concerning the transactions contemplated hereby shall be issued by either of them without the prior consultation and written consent (which consent shall not be unreasonably withheld) of the other, except such release or announcement as may be required by law or the rules or regulations of any United States or foreign securities exchange, in which case the party required to make the release or announcement shall allow the other party reasonable time to comment on such release or announcement in advance of

such issuance.

ARTICLE V
OTHER AGREEMENTS

5.1 Certain Understandings. Buyer acknowledges that neither Parent, Seller, nor any other person has made any representation or warranty, expressed or implied, as to the accuracy or completeness of any information regarding Seller not included in this Agreement or the Schedules hereto or the Seller's Transaction Documents, and none of Parent, Seller, or any other person will have or be subject to any liability to Buyer or any other person resulting from the distribution to Buyer, or Buyer's use of, any such information (including, without limitation, any offering memorandum, brochure or other publication provided to Buyer, and any other document or information provided to Buyer in connection with the transactions contemplated hereby).

5.2 Further Assurances. From time to time, as and when requested by either party hereto, the other party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as such other party may reasonably deem necessary or desirable to consummate the transactions contemplated by this Agreement.

5.3 Transfer Taxes. Seller shall be responsible for and shall timely pay all sales and use taxes and personal property transfer taxes imposed by any governmental entity in connection with the transfer of the Assets. Buyer shall be responsible for and shall pay all other

transfer taxes, documentary stamp taxes, recording charges and other fees and taxes imposed by any governmental entity in connection with the transfer of the Assets ("Buyer Taxes").

5.4 Use of Mediq Name. Buyer acknowledges and agrees that the name and service mark "MEDIQ" and all derivations thereof (the "Name") is owned by Parent and that by the sale of the Assets, or otherwise, Parent is not relinquishing any interest in or rights to the Name or any derivation thereof, nor permitting Buyer (after the Closing Date) to use, license or otherwise have any rights in or to the Name, except on such terms as are expressly set forth in this Section. Parent will permit use of the Name by Buyer for transition purposes during a period not to exceed 365 days subsequent to the Closing Date (the "Transition Period"), on the following terms and conditions:

(a) By the end of the Transition Period, Buyer shall have caused the removal in all material respects of the Name from all of Buyer's

assets, motor vehicles, machinery, equipment, stationery, business cards, and other documents. During the Transition Period, Buyer and Seller shall not affix, or cause to be affixed, the Name to any of its assets, vehicles, machinery or equipment.

(b) Within a reasonable period of time after the Closing Date, Buyer shall cease to use the Name in its dealings with its customers, suppliers and others with whom it does business.

(c) Buyer may use the Name solely in connection with its operation of the Business pursuant to this Section 5.4 and shall have no right to license, assign or otherwise transfer any rights in or to the Name.

5.5 Covenant Not to Compete.

(a) Each of Parent and Seller agrees that for a period of 3 years after the Closing Date neither of them nor any of their respective Affiliates shall, directly or indirectly, for himself, herself or itself, or on behalf of any other person, firm, entity or other enterprise, be employed by, be an officer, director or manager of, act as a consultant for, be a partner in, have a proprietary interest in, or loan money to any person, enterprise, partnership, association, corporation, limited liability company, joint venture or other entity which is directly or indirectly in the business of owning, operating or managing any mobile radiological, EKG, or any other business currently conducted by Seller (the "Applicable Businesses"), now or hereafter competitive with any such Applicable Business of Buyer (including, without limitation, the Business), IHS or any of their respective Affiliates, located in any state in which Buyer, IHS or Seller is currently conducting such business; provided, however, that nothing contained herein shall restrict Seller from performing its obligations under any Temporary Excluded Contracts as provided in Section 1.4(c) or restrict Parent or any of its Affiliates from operating or owning any of their existing businesses or investments or renting or leasing any equipment, provided that they do not expand into the foregoing prohibited activities. The restrictions contained in this Section 5.5 (other than the confidentiality provisions) shall not be binding upon any third party

purchaser of Parent, or of any assets, stock, division or business unit of Parent or of any Affiliate of Parent.

(b) Seller and Parent represent and warrant that there are no employees, consultants or agents of Parent having expertise in the operation of the Applicable Business or having a relationship with any customers of the Applicable Business. Notwithstanding anything to the contrary contained in this Agreement, the foregoing representation and warranty and all indemnification

rights with respect thereto shall not expire until the date that is three (3) years after the date hereof.

(c) Seller and the Parent hereby agree that, for a period of three (3) years following the date hereof, without the express written consent of IHS, none of Seller, the Parent and their respective Affiliates will directly or indirectly, for themselves or on behalf of any other person, firm, entity or other enterprise:

(i) solicit any client, facility or patient who, prior to the date hereof, was a client, facility or patient of Seller with respect to the Applicable Business; or

(ii) hire, entice away or in any other manner persuade any employee, consultant, representative or agent who was an employee, consultant, representative or agent of Seller prior to the date hereof, to alter, modify or terminate their relationship with Buyer or IHS.

(d) The Parent and Seller each acknowledges that the restrictions contained in this Section 5.5 are reasonable and necessary to protect the legitimate business interests of Buyer and IHS and that any violation thereof by either of them would result in irreparable harm to Buyer and IHS, and that damages in the event of such a breach will be difficult, if not impossible, to ascertain. Accordingly, the Parent and Seller each agrees that upon the violation by it of any of the restrictions contained in this Section 5.5, Buyer and IHS shall be entitled to obtain from any court of competent jurisdiction a preliminary and permanent injunction as well as any other relief provided at law, equity, under this Agreement or otherwise, without the necessity of posting any bond or other security whatsoever. In the event any of the foregoing restrictions are adjudged unreasonable in any proceeding, then the parties agree that the period of time or the scope of such restrictions (or both) shall be adjusted to such a manner or for such a time (or both) as is adjudged to be reasonable.

(e) The Parent and Seller each acknowledges that the covenants contained in this Section 5.5 are independent covenants and that any failure by the Buyer or IHS to perform its obligations under this Agreement shall not be a defense to enforcement of the covenants contained in this Agreement, including but not limited to a temporary or permanent injunction.

(f) Seller and Parent agree to take any and all actions necessary, including, without limitation, commencement of legal proceedings, to enforce each of the non-competition agreements set forth on Schedule 1.4(a) hereto upon the request of and in accordance with the instructions of Buyer.

Seller and Parent shall not be required to advance or expend any funds in connection with their respective obligations under this subsection (f). Buyer shall indemnify and hold harmless Seller and Parent from any loss, liability, damage, cost and expense, including without limitation, reasonable legal fees and expenses, arising out of taking any such actions at Buyer's request. Buyer acknowledges that Seller intends to terminate all Excluded Contracts (not otherwise terminated); provided that Seller shall not shorten the non-competition provisions of such agreements in effect immediately prior to their termination.

5.6 Restrictions.

(a) From and after the Closing Date, neither Seller nor the Parent shall disclose, directly or indirectly, to any person or entity, or make use of, without the express authorization of IHS and Buyer, any non-public pricing strategies or records acquired by Buyer from Seller, any proprietary data or trade secrets acquired by Buyer from Seller or any financial or other information acquired by Buyer from Seller; provided that the foregoing restrictions shall not apply to any information which:

(i) is or becomes publicly known through no wrongful act on the part of Seller or Parent; or

(ii) is or becomes available to the disclosing party on a non- confidential basis from a third party without restriction and without breach of this Agreement; or

(iii) is approved for release by written authorization signed by Buyer or IHS; or

(iv) is required to be disclosed in accordance with applicable law; provided, however, prior to making any such disclosure the party required to make such disclosure shall provide Buyer with prompt notice of such requirement to enable Buyer to seek an appropriate protective order and such party will use its best efforts to preserve the confidentiality of such information and will disclose only that portion of the information as is required to be disclosed.

(b) Each of Seller and Parent acknowledges that the restrictions contained in this Section 5.6 are reasonable and necessary to protect the legitimate business interests of Buyer and IHS, and that any violation thereof by any of them would result in irreparable harm to Buyer and IHS. Accordingly, each of Seller and Parent agrees that upon the violation by any of them of any of the restrictions contained in this Section 5.6, Buyer and

IHS shall be entitled to obtain from any court of competent jurisdiction a preliminary and permanent injunction as well as any other relief provided at law or equity, under this Agreement or otherwise, without the necessity of posting any bond or security whatsoever.

5.7 Adjustments for Medicare Reimbursement Rate Increases.

(i) If the Medicare carrier for the States of Maine, Massachusetts, New Hampshire or Vermont (each, an "Applicable State"): increases the reimbursement rate for the transport component for mobile x-ray or EKG services performed by Seller prior to the Closing Date, then the difference between the amount due with respect to the transport component for mobile x-ray or EKG services performed by Seller in all Applicable States prior to the Closing Date at the increased rate of reimbursement shall be deemed to be an Account Receivable, and accordingly, Seller shall be entitled to additional Purchase Price payments if and to the extent provided in Section 2.3(b)(ii) above; provided that such increases in Purchase Price by reason of this Section 5.7(a) shall not exceed $800,000 in the aggregate.

(b) Buyer and IHS shall cooperate and use their commercially reasonable efforts to collect any amounts that shall become due to Seller as contemplated by subsection (a) above, including, without limitation, resubmitting billing if necessary, but only to the extent that Seller has specifically identified and compiled and delivered to Buyer all of the necessary bills and records.

(c) Seller shall have the right to assume the prosecution of any action, suit, claim, proceeding or investigation relating to an increase in the Medicare reimbursement rate for the transport component for mobile x-ray or EKG services in the Applicable States that could result in an Account Receivable (as provided in subsection (a) above) (each, an "Action") in a manner consistent with the prosecution of similar Actions with respect to such reimbursement rates in the Applicable States by other businesses in the Seller's industry in such Applicable States, and Buyer and Seller agree to cooperate in good faith with each other and shall not have the right to compromise or settle an Action without the other's consent (which shall not be unreasonably withheld or delayed).

5.8 Audit. Following Closing, Seller and the Parent will cooperate with and assist Buyer in a review of the financial statements of Seller. Buyer may, at its own expense, have an audit performed of such financial statements, and Seller and the Parent will cooperate in the performance of such audit.

5.9 Billing and Collection Agent. (a) Seller hereby appoints Buyer to act as Seller's exclusive authorized agent to bill and collect all Non-Assignable Receivables, and Buyer and Seller hereby agree that the proceeds of such Non-Assignable Receivables shall be distributed in accordance with the provisions of Section 1.1 and 2.3(b) above.

(b) Buyer shall not receive a fee or any other compensation for said billing and collection services.

(c) Seller hereby constitutes and appoints Buyer its true, lawful, and irrevocable attorney to demand, receive, and enforce the billing and collection of the NonAssignable Receivables, and to give receipts, releases, and satisfactions for the same.

5.10 Benefits under Excluded Contracts. If Buyer is provided with any requested benefit under an Excluded Contract (such as use of space or access to programs available with respect to leased motor vehicles), Buyer shall reimburse Seller for its proportionate out-of-pocket cost of providing such benefit.

ARTICLE VI
INDEMNIFICATION

6.1 Indemnification by Seller and Parent. (a) Seller and Parent hereby jointly and severally agree to indemnify Buyer, IHS and their respective Affiliates and their respective officers, directors, employees and agents against and hold them harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses but excluding punitive damages and unforeseen or other consequential damages other than punitive damages and unforeseen or other consequential damages which are paid to third parties) (a "Loss") suffered or incurred by any such indemnified party, as a direct consequence of (i) any breach of any representation or warranty of Seller or Parent contained in this Agreement or any Transaction Document, which by the terms of Section 8.3 survives the Closing, (ii) any breach of any covenant of Seller contained in this Agreement or any Transaction Document, (iii) all Reimbursement Liabilities; (iv) any Loss relating to any Excluded Liability (except as expressly assumed by Buyer under Section 1.4(c)); (v) any Loss arising out of any bulk transfer act (whether relating to liabilities in general or taxes or otherwise); (vi) any Loss arising out of the noncompliance of Seller with COBRA or any like statute; (vii) any Loss that is attributable to the pre-Closing conduct by Seller and relates to matters presently being investigated by the U.S. Department of Labor with respect to Seller; and (viii) any and all actions, suits, proceedings, demands assessments, judgments, settlements (to the extent approved by Seller, such approval not to be unreasonably withheld, delayed or conditioned) costs and legal and other expenses incident to any of the foregoing; provided, however, that Seller shall not have any liability under clause (i) above until the aggregate of all Losses, for which Seller would, but for this proviso, be liable exceeds on a cumulative basis $100,000, upon which Seller shall be liable for such $100,000 amount and all other amounts under this Section 6.1; provided, further, that the aggregate liability of Seller hereunder with respect to any and all Losses shall be

limited to the aggregate amount of the final Purchase Price.

(b) Buyer acknowledges and agrees that its sole and exclusive remedy with respect to any and all claims for monetary damages relating to the subject matter of this Agreement shall be pursuant to the indemnification provisions set forth in this Article VI.

(c) Buyer acknowledges and agrees that Parent and Seller shall not have any liability under any provision of this Agreement for any Loss to the extent that such Loss is caused by actions taken by or omitted to be taken by Buyer after the Closing Date. Buyer shall take and cause its Affiliates to take all reasonable steps to mitigate any Loss to the extent the same would have been required by applicable law if Buyer's rights to compensation for damages arose under law rather than by reason of contractual rights.

(d) Buyer may offset any of its indemnification claims against payment of the Contingent Payment (as defined in Section 2.2), provided that if Seller disputes the claim, Buyer shall place the amount of the claim into an escrow account with a nationally recognized financial institution, until the dispute is settled under the procedures set forth in this Article VI.

6.2 Indemnification by Buyer. (a) The Buyer hereby agrees to indemnify Parent, Seller and their Affiliates against and hold them harmless from any Loss suffered or incurred by any such indemnified party as a direct consequence of (i) any breach of any representation or warranty of Buyer contained in this Agreement or any Transaction Document, which by the terms of Section 8.3 survives the Closing, (ii) any breach of any covenant of Buyer contained in this Agreement or any Transaction Document, (iii) any guarantee or obligation to assure performance given or made by Parent or any of its Affiliates with respect to any obligation or liability of the Business that constitutes an Assumed Liability, (iv) any Assumed Liability or any liability, expense or obligation of the Business arising after the Closing Date, (v) any use of the Name by Buyer or IHS not authorized by this Agreement and (vi) any and all actions, suits, proceedings, demands assessments, judgments, settlements (to the extent approved by Buyer, such approval not to be unreasonably withheld, delayed or conditioned) costs and legal and other expenses incident to any of the foregoing.

(b) Seller and Parent shall take all reasonable steps to mitigate any Loss to the extent the same would have been required by applicable law if the rights of Seller and Parent to compensation for damages arose under law rather than by reason of contractual rights..

6.3 Losses Net of Insurance, Etc. The amount of any Loss for which

indemnification is provided under this Article VI shall be net of (i) in the case of Section 6.1, any reserves established on the Closing Balance Sheet of the Seller, to the extent covering such Loss, (ii) any net insurance proceeds actually collected by the indemnified party covering such loss and (iii) an amount equal to the present value of the net Tax benefit, if any, attributable to such Loss and used by the indemnified party, taking into account the receipt of such recovery; it being understood that each party will use such Tax benefits as promptly as reasonably practicable. If the amount to be netted hereunder from any payment required under Sections 6.1 or 6.2 is determined after payment by the indemnifying party of any amount otherwise required to be paid to an indemnified party pursuant to this Article VI, the indemnified party shall repay to the indemnifying party, promptly after such determination, any amount that the indemnifying party would not have had to pay pursuant to this Article VI had such determination been made at the time of such payment.

6.4 Termination of Indemnification. The obligations to indemnify and hold harmless a party hereto, (i) pursuant to Sections 6.1(a)(i) and 6.2(a)(i), shall terminate when the applicable representation or warranty terminates pursuant to Section 8.3, and (ii) pursuant to the other clauses of Sections 6.1 and 6.2, shall not terminate; provided; however, that as to clauses (i) and (ii) above such obligations to indemnify and hold harmless shall not terminate with respect to any item as to which the person to be indemnified (or the related party thereto) shall have, before the expiration of the applicable period, previously made a claim by delivering a notice (stating in reasonable detail the basis of such claim) to the party providing the indemnification.

6.5 Procedures Relating to Indemnification under Sections 6.1 and 6.2. (a) A party seeking indemnification pursuant to Sections 6.1 and 6.2 (an "Indemnified Party") shall give prompt notice to the party from whom such indemnification is sought (the "Indemnifying Party") of the assertion of any claim or assessment, or the commencement of any action, suit, audit or proceeding, by a third party in respect of which indemnity may be sought hereunder (a "Third Party Claim") and will give the Indemnifying Party such information with respect thereto as the Indemnifying Party may reasonably request, but no failure to give such notice shall relieve the Indemnifying Party of any liability hereunder (except to the extent the Indemnifying Party has suffered actual prejudice thereby). The Indemnifying Party (which, in the case of Seller or Parent, must include both such parties) shall have the right, exercisable by written notice (the "Notice") to the Indemnified Party (which notice shall state that the Indemnifying Party expressly agrees that as between the Indemnifying Party and the Indemnified Party, the Indemnifying Party shall be solely obligated to satisfy and discharge the Third Party Claim) within fourteen (14) days of receipt of notice from the Indemnified Party of the commencement of or assertion of any Third Party Claim, to assume the defense of

such Third Party Claim, using counsel selected by the Indemnifying Party and reasonably acceptable to the Indemnified Party; provided, that the Indemnifying Party shall not have the right to assume a Third Party Claim if (i) the named parties to any such action (including any impleaded parties) include both the Indemnified Party and the Indemnifying Party and (ii) the Indemnified Party shall have been advised by counsel in writing that under applicable standards of professional responsibility, a conflict will arise in the event both the Indemnified Party and the Indemnifying Party are represented by the same counsel with respect to the Third Party Claim, in which case such Indemnified Party shall have the right to participate in the defense of such Third Party Claim and all Losses in connection therewith shall be reimbursed by the Indemnifying Party. In addition, if the Indemnifying Party fails to give the Indemnified Party the Notice complying with the provisions stated above within the stated time period, the Indemnified Party shall have the right to assume control of the defense of the Third Party Claim and all Losses in connection therewith shall be reimbursed by the Indemnifying Party upon demand of the Indemnified Party.

(b) If at any time after the Indemnifying Party assumes the defense of a Third Party Claim, any of the conditions set forth in clauses (i) or (ii) of subsection (a) above come

into existence the Indemnified Party shall have the same rights as set forth above as if the Indemnifying Party never assumed the defense of such claim.

(c) The Indemnifying Party or the Indemnified Party, as the case may be, shall in any event have the right to participate, at its own expense, in the defense of any Third Party Claim which the other is defending.

(d) The Indemnifying Party, if it shall have assumed the defense of any Third Party Claim in accordance with the terms hereof, shall have the right, upon thirty (30) days prior written notice to the Indemnified Party, to consent to the entry of judgment with respect to, or otherwise settle such Third Party Claim unless (i) the Third Party Claim involves equitable or other non-monetary damages or (ii) in the reasonable judgment of the Indemnified Party such settlement would have a continuing material adverse effect on the Indemnified Party's business (including any material impairment of its relationships with customers and suppliers), in which case such settlement only may be made with the written consent of the Indemnified Party, which consent shall not be unreasonably withheld. Seller shall keep Buyer appraised of any material negotiations between Seller and the U.S. Department of Labor, or any material occurrences with respect to the same (to the extent within the knowledge of Seller or the Parent), and will not enter into a settlement of such matters without Buyer's consent, such consent not to be unreasonably withheld or delayed.

(e) Whether or not the Indemnifying Party chooses to defend or prosecute any claim involving a third party, all the parties hereto shall cooperate in the defense or prosecution thereof and shall furnish such records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested in connection therewith.

ARTICLE VII
DEFINITIONS

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

"Accounting Principles" shall have the meaning set forth in Section 2.3(b).

"Accounts Receivable" shall have the meaning set forth in Section 2.3(b).

"Action" shall have the meaning set forth in Section 5.7(d).

"Affiliate" shall have the meaning given to such term in Rule 12b-2 under the Exchange Act, as in effect as of the date of this Agreement.

"Applicable Authority" shall have the meaning set forth in Section 2.2(c).

"Applicable State" shall have the meaning set forth in Section 5.7(a).

"Balance Sheet" shall have the meaning set forth in Section 3.1(e).

"Base Rate" shall have the meaning set forth in Section 5.7(a).

"Buyer" shall have the meaning set forth in the first paragraph of this Agreement.

"Buyer Taxes" shall have the meaning set forth in Section 5.3

"Buyer's Transaction Documents" shall have the meaning set forth in Section 3.2(a).

"Closing" shall have the meaning set forth in Section 2.4.

"Closing Date" shall have the meaning set forth in Section 2.4.

"Closing Date Working Capital" shall have the meaning set forth in Section 2.3(a).

"COBRA" shall have the meaning set forth in Section 4.1(e).

"Code" shall have the meaning set forth in Section 3.1(f).

"Collateral Source" shall have the meaning set forth in Section 6.3.

"Confidentiality Agreement" shall have the meaning set forth in Section 4.1(a).

"Contingent Payment" shall have the meaning set forth in Section 2.2(a).

"Contracts" shall have the meaning set forth in Section 3.1(j).

"Customer Contracts" shall have the meaning set forth in Section 3.1(j)(xii).

"Date of Determination" shall have the meaning set forth in Section 2.2(b).

"Delay Payment Notice" shall have the meaning set forth in Section 2.3(b).

"EKG Transportation Reimbursement Change" shall have the meaning set forth in Section 2.2(c).

"Environmental Laws" means federal, state and local laws, rules, regulations, codes and ordinances, and any orders, decrees, judgments or injunctions issued, promulgated, approved or entered thereunder, relating to the environment, including, without limitation, the Comprehensive Environmental Response, Compensation

and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"); the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"); the Federal Water Pollution Control Act, as amended; the Federal Clear Air Act, as amended; the Toxic Substances Control Act, as amended; the Surface Mining Control and Reclamation Act of 1977, as amended; the Safe Drinking Water Act, as amended; the Pollution Control Act of 1990, as amended; the Federal Insecticide, Fungicide and Rodenticide Act, as amended; and comparable state and local laws in effect on the date hereof.

"ERISA" shall have the meaning set forth in Section 3.1(m).

"Excess Amount" shall have the meaning set forth in Section 5.7(a).

"Excess Amount Dispute Notice" shall have the meaning set forth in Section 5.7(b).

"Excess Amount Schedule" shall have the meaning set forth in Section 5.7(b).

"Exchange Act" shall have the meaning set forth in Section 3.1(aa).

"Excluded Contracts" shall have the meaning set forth in Section 1.4(a).

"Excluded Liabilities" shall have the meaning set forth in Section 1.3(b).

"Final Excess Amount" shall have the meaning set forth in Section 5.7(b).

"Financial Statements" shall have the meaning set forth in Section 3.1(e).

"Hazardous Substances" shall have the meaning set forth in Section 101(14) of CERCLA, 42 U.S.C. Section 9601(14).

"IHS SEC Documents" shall have the meaning set forth in Section 3.2(d).

"Impracticalities" shall have the meaning set forth in Section 1.4(a).

"Indemnified Party" shall have the meaning set forth in Section 6.5.

"Indemnifying Party" shall have the meaning set forth in Section 6.5.

"Independent Accounting Firm" shall have the meaning set forth in Section 2.3(b).

"Knowledge" means, with respect to Seller, the actual knowledge of the officers of Seller.

"Liability" shall have the meaning set forth in Section 1.3(b).

"Liens" shall have the meaning set forth in Section 3.1(g).

"Loss" shall have the meaning set forth in Section 6.1(a).

"Material Adverse Effect" means a material adverse effect on the value of the Assets, the transactions contemplated by this Agreement, the financial condition, or results of operations of the Seller, or the Buyer, as the case may be. Seller or Buyer may, however, at its option, include in the Schedules of this Agreement or elsewhere items which would not have a Material Adverse Effect within the meaning of the previous sentence in order to avoid any misunderstanding, and such inclusion shall not be deemed to be an acknowledgment by the Seller or Buyer that such items would have a Material Adverse Effect or further define the meaning of such term for the purpose of this Agreement.

"Name" shall have the meaning set forth in Section 5.4.

"Non-competition Agreement" shall have the meaning set forth in Section 5.5.

"Notice" shall have the meaning set forth in Section 6.5.

"Parent SEC Documents" shall have the meaning set forth in Section 3.1(aa).

"Permitted Liens" shall have the meaning set forth in Section 3.1(g).

"Purchase Price" shall have the meaning set forth in Section 2.1.

"Preliminary Closing Date Balance Sheet" shall have the meaning set forth in Section 2.3(b).

"Questionable Payments" shall have the meaning set forth in Section 3.1(w).

"Records" shall have the meaning set forth in Section 1.1(a)(vi).

"Required Amount" shall have the meaning set forth in Section 2.3(a).

"Returns" shall have the meaning set forth in Section 3.1(f).

"SEC" shall have the meaning set forth in Section 3.1(aa).

"Securities Act" shall have the meaning set forth in Section 3.1(aa).

"Seller" shall have the meaning set forth in the first paragraph of this Agreement.

"Seller's Benefit Plans" shall have the meaning set forth in Section 3.1(m).

"Seller's Transaction Documents" shall have the meaning set forth in Section 3.1(a).

"Smith Agreement" shall have the meaning set forth in Section 1.4(a).

"Specified Party" shall have the meaning set forth in Section 6.7.

"Subject Employees" shall have the meaning set forth in Section 4.1(c).

"Tax" or "Taxes" shall have the meanings set forth in Section 3.1(f).

"Third Party Claim" shall have the meaning set forth in Section 6.5.

"Transition Period" shall have the meaning set forth in Section 5.4.

"Working Capital Increase" shall have the meaning set forth in Section 2.3(b).

"Working Capital Review" shall have the meaning set forth in Section 2.3(b).

ARTICLE VIII
MISCELLANEOUS

8.1 Assignment. This Agreement and the rights hereunder shall not be

assignable or transferable by Buyer or Seller (including by sale of stock, operation of law in connection with a merger, or sale of substantially all the assets of Buyer) without the prior written consent of the other party hereto; provided that Buyer may assign this Agreement to any other Affiliate of IHS or to any person that acquires all or substantially all of the assets of Buyer, with IHS remaining as guarantor of the assignee's obligations and liabilities under this Agreement and further provided Buyer remains liable hereunder. This Agreement shall inure to the benefit of, and be binding upon and enforceable against, the successors and permitted assigns of the respective parties hereto.

8.2 No Third-Party Beneficiaries. Except as provided in Section 4.2 and Article VI, this Agreement is for the sole benefit of the parties hereto and their permitted assigns

and nothing herein expressed or implied shall give or be construed to give to any person or entity, other than the parties hereto and such assigns, any legal or equitable rights hereunder.

8.3 Survival of Representations. The representations and warranties in this Agreement and in any other document delivered in connection herewith shall survive the Closing solely for purposes of Sections 6.1 and 6.2 of this Agreement and shall terminate at the close of business twelve months following the Closing Date, except that such time limitation shall not apply to (i) claims for misrepresentations or breaches of warranty relating to Section 3.1(f) (relating to Taxes), Section 3.1(w) (relating to Questionable Payments), Section 3.1(x) (relating to Reimbursement Matters), or Section 3.1(z) (relating to Medicare/Medicaid Participation) which may be asserted within 60 days after the expiration of the applicable statute of limitations with respect to the period to which the particular claims relate, and (ii) claims for any other misrepresentation or breach of warranty as to which Buyer has described in reasonable detail pursuant to a written notice given to Seller prior to the expiration of such 12-month period.

8.4 Expenses. Whether or not the transactions contemplated hereby are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs or expenses, except as may otherwise be expressly provided in this Agreement. None of Seller's cost and expenses arising out of the transactions contemplated by this Agreement, including without limitation, legal and accounting fees, shall be included as Current Liabilities.

8.5 Amendments. No amendment to or modification of this Agreement shall be effective unless it shall be in writing and signed by each of the parties hereto.

8.6 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (a) on the date of delivery if delivered personally; (b) on the date of transmission if sent via facsimile transmission to the facsimile number given below, and telephonic confirmation of receipt is obtained promptly after completion of transmission; (c) on the business date after delivery to a reputable nationally recognized overnight courier service or (d) three business days after being mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) If to Buyer,

Symphony Diagnostic Services
No. 1, Inc.
8181 West Broward Boulevard, Suite 370
Plantation, FL 33324
Attention: Martin Ardman
Telecopier: (954) 474-3754

With required copies to:

Integrated Health Services, Inc.
10065 Red Run Boulevard
Owings Mills, MD 21117
Attention: Marshall Elkins, Esq.

and

Blass & Driggs, Esqs.
461 Fifth Ave.
19th Floor
New York, NY 10016
Attention: Michael Blass, Esq.
Telecopier: 212-447-5428

(ii) If to Seller, to:

Mediq Mobile X-Ray Services, Inc.
90 Glacier Drive
Westwood, MA 02090
Attention: Stephen Manty
Telecopier: (617) 326-8807

With a required copy to:

Dechert Price & Rhoads
4000 Bell Atlantic Tower
1717 Arch Street
Philadelphia, PA 19103
Attention: Henry N. Nassau, Esq.
Telecopier: (215) 994-2222

(iii) If to Parent to:

Mediq Incorporated
One Mediq Plaza
Pennsauken, NJ 08110
Attention: Michael F. Sandler
Telecopier: (609) 486-4720

With a required copy to:

Dechert Price & Rhoads
4000 Bell Atlantic Tower
1717 Arch Street
Philadelphia, PA 19103
Attention: Henry N. Nassau, Esq.
Telecopier: (215) 994-2222

Such addresses may be changed, from time to time by means of a notice given in the manner provided in this Section (provided that no such notice shall be effective until it is received by the other parties hereto).

8.7 Fees. Each party hereto hereby represents and warrants that the only broker or finder that has acted for such party in connection with this Agreement or the transactions contemplated hereby or that may be entitled to any brokerage fee, finder's fee or commission in respect thereof is Robert Reisley with respect to Seller. Seller will pay all fees or commissions which may be payable to the firms so named.

8.8 Severability. If any provision of this Agreement or the application of any such provision to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

8.9 Interpretation. All references to immediately available funds or

dollar amounts contained in this Agreement shall mean United States dollars. All references to generally accepted accounting principles contained in this Agreement shall mean United States generally accepted accounting principles consistently applied. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The parties acknowledge and agree that (i) each party and its counsel have reviewed the terms and provisions of this Agreement and have contributed to its revision, (ii) the normal rule of construction, to the effect that any ambiguities are resolved against the drafting party, shall not be employed in the interpretation of it, and (iii) the terms and provisions of this Agreement shall be constructed fairly as to all parties hereto and not in favor of or against any party, regardless of which party was generally responsible for the preparation of this Agreement. All information disclosed by Seller in any Schedule hereto or any representation or warranty herein shall be deemed to have been disclosed in any other Schedule hereto or any representation or warranty herein where such disclosure of such information is required or pertains to a representation or warranty made by Seller herein; provided that a reasonable reading of such schedule, representation or warranty would clearly indicate that information contained therein is required in or pertains to another Schedule, representation or warranty. Reference in this Agreement to dollar amount thresholds (including such references in Article VIII of this Agreement) shall not, for purposes of this Agreement, be deemed to be evidence of materiality or a Material Adverse Effect.

8.10 Waiver. Waiver of any term or condition of this Agreement by any party shall be effective if in writing and shall not be construed as a waiver of any subsequent breach

or failure of the same term or condition, or a waiver of any other term of this Agreement. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

8.11 Counterparts. This Agreement may be executed in any number of counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other parties.

8.12 Entire Agreement. This Agreement, including the Schedules and Exhibits hereto and the other documents delivered pursuant to this Agreement, contain the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior and contemporaneous agreements, negotiations, correspondence, undertakings and understandings, oral

or written, relating to such subject matter. Any Confidentiality Agreements in effect between the parties hereto prior to the date hereof are hereby terminated.

8.13 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the Commonwealth of Pennsylvania applicable to agreements made and to be performed entirely within Pennsylvania, without regard to the conflicts of law principles thereof.

8.14 Joint and Several. All obligations, representations, warranties, covenants and agreements of Seller and Parent under this Agreement or any of Seller's Transaction Documents shall be joint and several obligations, representations, warranties, covenants and agreements of Seller and Parent. All obligations, representations, warranties, covenants and agreements of Buyer and IHS under this Agreement or any of Buyer's Transaction Documents shall be joint and several obligations, representations, warranties, covenants and agreements of Buyer and IHS.

[SIGNATURES ON FOLLOWING PAGE]

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

MEDIQ INCORPORATED

By: /s/ Michael F. Sandler

Name: Michael F. Sandler
Title: Senior Vice President

MEDIQ MOBILE X-RAY SERVICES, INC.

By: /s/ Michael F. Sandler

Name: Michael F. Sandler
Title: Chief Financial Officer

SYMPHONY DIAGNOSTIC SERVICES NO.1, INC.

By: /s/ Martin Ardman

Name: Martin Ardman
Title:

GUARANTEE:

The performance of all the covenants, liabilities and obligations of Symphony Diagnostic Services No. 1, Inc. hereunder are unconditionally and irrevocably, jointly and severally guaranteed as surety by Integrated Health Services, Inc., its parent.

INTEGRATED HEALTH SERVICES, INC.

By: /s/ Elizabeth B. Kelly

Senior Vice President,
Corporate Development

EXECUTION COPY

$260,000,000

CREDIT AGREEMENT

Dated as of October 1, 1996

Among

MEDIQ/PRN LIFE SUPPORT SERVICES, INC.,

as Borrower,

MEDIQ INCORPORATED

and PRN HOLDINGS, INC.,

as Parent Guarantors,

and

THE INITIAL LENDERS NAMED HEREIN,

and

BANQUE NATIONALE DE PARIS,

as Administrative Agent and Initial Issuing Bank,

and

NATIONSBANK, N.A.,

as Documentation Agent

T A B L E O F C O N T E N T S

Exhibit A-2	-	Form of Term B Note
Exhibit A-3	-	Form of Working Capital Note
Exhibit A-4	-	Form of Acquisition Note
Exhibit B	-	Form of Notice of Borrowing
Exhibit C	-	Form of Assignment and Acceptance
Exhibit D	-	Form of Security Agreement
Exhibit E	-	Form of Mortgage
Exhibit F	-	Form of Notice of Drawing
Exhibit G	-	Form of Subsidiary Guaranty
Exhibit H	-	Form of Borrowing Base Certificate
Exhibit I	-	Form of Opinion of Counsel to the Loan Parties
Exhibit J	-	Form of Solvency Opinion
Exhibit K-1	-	Form of Borrower Solvency Certificate
Exhibit K-2	-	Form of MEDIQ Solvency Certificate

CREDIT AGREEMENT

CREDIT AGREEMENT dated as of October 1, 1996 among MEDIQ/PRN LIFE SUPPORT SERVICES, INC., a Delaware corporation (the "Borrower"), MEDIQ INCORPORATED, a Delaware corporation ("MEDIQ"), PRN Holdings, Inc., a Delaware corporation ("Holdings", and together with MEDIQ, the "Parent Guarantors"), the banks, financial institutions and other institutional lenders listed on the signature pages hereof as the Initial Lenders (the "Initial Lenders"), Banque Nationale de Paris ("BNP"), as administrative agent (the "Administrative Agent") for the Lender Parties (as hereinafter defined), BNP as the initial issuing bank (the "Initial Issuing Bank"), and NationsBank, N.A. ("NationsBank"), as documentation agent for the Lender Parties (the "Documentation Agent", and together with the Administrative Agent and any successors appointed pursuant to Article VIII hereof, the "Agents").

PRELIMINARY STATEMENTS:

(1) The Borrower and MEDIQ/PRN Life Support Services - I, Inc., direct, wholly owned Subsidiaries (as hereinafter defined) of Holdings, Holdings, a direct, wholly owned Subsidiary of MEDIQ, and MEDIQ have incurred Debt (as hereinafter defined) pursuant to various indentures and other agreements, and the Borrower and MEDIQ intend to refinance part of such Debt (the "Refinancing").

(2) The Borrower has requested that the Lender Parties lend to the Borrower up to $260,000,000 in order to effect the Refinancing, to pay transaction fees and expenses in connection with the Refinancing and the other transactions contemplated hereby, to finance certain permitted acquisitions and to provide working capital for the Borrower and for other general corporate purposes permitted by this Agreement.

(3) The Lender Parties have indicated their willingness to agree to lend such amounts on the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquisition Advance" has the meaning specified in Section 2.01(f).

"Acquisition Borrowing" means a borrowing consisting of simultaneous Acquisition Advances of the same Type made by the Acquisition Lenders.

"Acquisition Commitment" means, with respect to any Acquisition Lender at any time, the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Acquisition Commitment" or, if such Lender has entered into one or more Assignments and Acceptances, set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 9.07(d) as such Lender's "Acquisition Commitment", as such amount may be reduced at or prior to such time pursuant to Section 2.05.

"Acquisition Facility" means, at any time, the aggregate amount of the Acquisition Lenders' Acquisition Commitments at such time.

"Acquisition Facility Sublimit" means, at any time, an amount equal to $100,000,000 minus the sum of (i) the Acquisition Advances outstanding at such time, (ii) the value of MEDIQ's common stock used in any Investment pursuant to Section 5.02(f)(i) at the time of such Investment and (iii) the amount of Subordinated Notes outstanding at such time.

"Acquisition Lender" means any Lender that has an Acquisition Commitment.

"Acquisition Note" means a promissory note of the Borrower payable to the order of any Acquisition Lender, in substantially the form of Exhibit A-4 hereto, evidencing the indebtedness of the Borrower to such Lender resulting from the Acquisition Advances made by such Lender.

"Acquisition Reduction Amount" has the meaning specified in Section 2.06(b)(viii).

"Administrative Agent" has the meaning specified in the recital of parties to this Agreement.

"Administrative Agent's Account" means the account of the Administrative Agent maintained by the Administrative Agent at the Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10048, ABA No. 026007689, for further credit to Account No. 750420-701-03 or such other account maintained by the Administrative Agent and designated by the Administrative Agent in a written notice to the Lender Parties and the Borrower.

"Advance" means a Term A Advance, a Term B Advance, an Acquisition Advance, a Working Capital Advance or a Letter of Credit Advance.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person means the possession, direct or indirect, of the power to vote 5% or more of the Voting Stock of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Agents" has the meaning specified in the recital of the parties to this Agreement.

"Alternative Lender" means any Lender that elects not to be secured directly or indirectly by any Margin Stock Collateral by notice to the Administrative Agent to such effect, but shall be in all other respects and for all other purposes, except where specifically provided otherwise, a Lender.

"Applicable Lending Office" means, with respect to each Lender

Party, such Lender Party's Domestic Lending Office in the case of a Base Rate Advance and such Lender Party's Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

"Applicable Margin" means (a) with respect to Advances outstanding under the Term A Facility, the Acquisition Facility or the Working Capital Facility, a

percentage per annum determined by reference to the Leverage Ratio as set forth below:

Leverage Ratio	Base Rate Advances	Eurodollar Rate Advances
Level I		
less than or equal to 2.0:1.0	0.25%	1.75%
Level II		
greater than 2.0:1.0, but less than or equal to 2.5:1.0	0.50%	2.00%
Level III		
greater than 2.5:1.0, but less than or equal to 3.0:1.0	0.75%	2.25%
Level IV		
greater than 3.0:1.0, but less than or equal to 3.5:1.0	1.00%	2.50%
Level V		
greater than 3.5:1.0	1.25%	2.75%

and (b) with respect to Advances outstanding under the Term B Facility, a percentage per annum determined by reference to the Leverage Ratio as set forth below:

Leverage Ratio	Base Rate Advances	Eurodollar Rate Advances
Level I		
less than or equal to 2.5:1.0	1.25%	2.75%
Level II		
greater than 2.5:1.0, but less than or equal to 3.0:1.0	1.50%	3.00%
Level III		
greater than 3.0:1.0	1.75%	3.25%

The Applicable Margin for each Advance shall be determined by reference to the Leverage Ratio in effect from time to time; provided, however, that (A) no change in the Applicable Margin shall be effective until three Business Days after the date on which the Administrative Agent receives financial statements pursuant to Section 5.03(c) or (d) and a certificate of the chief financial officer of the Borrower demonstrating such ratio

and (B) if the Borrower has not submitted to the Administrative Agent the information described in clause (A) of this proviso as and when required under Section 5.03(c) or (d), as the case may be, the Applicable Margin shall be at Level V for the Term A Advances, Acquisition Advances and Working Capital Advances, and at Level III for the Term B Advances, for so long as such information has not been received by the Administrative Agent. Until the delivery of financial statements for the year ended September 30, 1996, the Applicable Margin shall be at Level V for the Term A Advances, Acquisition Advances and Working Capital Advances, and at Level III for the Term B Advances. In the event that at least $60,000,000 in aggregate Net Cash Proceeds from Permitted Asset Sales shall not have been received by the Borrower prior to the Conversion Date, the Applicable Margin for all Advances shall immediately be increased by 0.50% per annum until such time as the Borrower receives such amount.

"Appropriate Lender" means, at any time, with respect to (a) any of the Term A, Term B, Acquisition or Working Capital Facilities, a Lender that has a Commitment with respect to such Facility at such time and (b) the Letter of Credit Facility, (i) the Issuing Bank and (ii) if the other Working Capital Lenders have made Letter of Credit Advances pursuant to Section 2.03(c) that are outstanding at such time, each such other Working Capital Lender.

"Asset Sale Blocked Account" shall have the meaning specified in the Security Agreement.

"Asset Sale Release Amount" means the aggregate amount of the Working Capital Advances repaid with funds released from the Asset Sale Blocked Account pursuant to Section 2.16(B) less the aggregate amount of any proceeds from Working Capital Advances deposited in the Asset Sale Blocked Account.

"Asset Sale Threshold Date" means the date on which MEDIQ or its Subsidiaries shall have completed all Permitted Asset Sales (whether or not the sale of Health Examinetics is completed) such that the Borrower shall have received an aggregate of at least $60,000,000 of Net Cash Proceeds from Permitted Asset Sales.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender Party and an Eligible Assignee and accepted by the Administrative Agent, in accordance with Section 9.07 and in substantially the form of Exhibit C hereto.

"Available Amount" of any Letter of Credit means, at any time, the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing).

"Bank Hedge Agreement" means any interest rate Hedge Agreement required or permitted under Article V that is entered into by and between the Borrower and any Lender Party or any Affiliate of any Lender Party.

"Base Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the higher of:

(a) the rate of interest announced publicly by BNP in New York, New York, from time to time, as its prime rate (and such term shall not be construed to be its best or most favorable rate); and

(b) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means an Advance that bears interest as provided in Section 2.07(a)(i).

"Beneficial Ownership" or "Beneficially Own" have the meanings specified in the Securities Exchange Act of 1934 and Rules 13d-3 and 13d-5 thereunder.

"BNP" has the meaning specified in the recital of parties to this Agreement.

"Borrower" has the meaning specified in the recital of parties to this Agreement.

"Borrower's Account" means the account of the Borrower maintained by the Borrower with BNP at its office at 499 Park Avenue, New York, New York 10022, Account No. 200877-001-91, or such other account as the Borrower and the Administrative Agent may from time to time designate as the "Borrower's Account".

"Borrowing" means a Term A Borrowing, a Term B Borrowing, an Acquisition Borrowing or a Working Capital Borrowing.

"Borrowing Base Certificate" means a certificate in substantially the form of Exhibit H hereto, duly certified by the chief financial officer of the Borrower.

"Business Day" means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in the London interbank market.

"Capital Expenditures" means, for any Person for any period, the sum of, without duplication, (a) all cash expenditures made, directly or indirectly, by such Person or any of its Subsidiaries during such period for equipment, fixed assets, real property or improvements, or for replacements or substitutions therefor or additions thereto, that have been or should be, in accordance with GAAP, reflected as additions to property, plant or equipment on a Consolidated balance sheet of such Person (other than the use of insurance proceeds for any such expenditure for the replacement of any item listed in this clause (a)) plus (b) the aggregate principal amount of all Debt (including Obligations under Capitalized Leases and Obligations secured by purchase money Liens permitted under Section 5.02(a)(v)) assumed or incurred in connection with any such expenditures less (c) the aggregate principal amount of any Investments permitted under Section 5.02(f)(i) made after the date hereof that would otherwise qualify as Capital Expenditures.

"Capitalized Leases" means all leases that have been or should be, in accordance with GAAP, recorded as capitalized leases.

"Cash Equivalents" means any of the following, to the extent owned by the Borrower, MEDIQ or any of their Subsidiaries free and clear of all Liens other than Liens created under the Collateral Documents and having a maturity of not greater than 180 days from the date of acquisition thereof: (a) readily marketable direct obligations of the Government of the United States or any agency or instrumentality thereof or obligations unconditionally guaranteed by the full faith and credit of the Government of the United States, (b) insured certificates of deposit of or time deposits with any commercial bank that is a Lender Party or a member of the Federal Reserve System, issues (or the parent of which issues) commercial paper rated as described in clause (c), is organized under the laws of the United States or any State thereof and has combined capital and surplus of at least $1 billion, (c) commercial paper in an aggregate amount of no more than $5,000,000 per issuer outstanding at any time, issued by any corporation organized under the laws of any State of the United States and rated at least "Prime-1" (or the then equivalent grade) by Moody's Investors Service, Inc. or "A-1" (or the then equivalent grade) by Standard & Poor's Ratings Group or (d) money market or mutual funds that invest only in Cash Equivalents of the types described in clauses (a), (b) and (c) above.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time.

"CERCLIS" means the Comprehensive Environmental Response, Compensation and Liability Information System maintained by the U.S. Environmental Protection Agency.

"Citibank Account" means the account in the name of the Borrower maintained with Citibank, N.A. for purposes of funding certain obligations under the Borrower's health plan.

"Clean-Down Period" means, commencing June 1, 1997, with respect to any Fiscal Year of the Borrower, any period of 30 consecutive days selected by the Borrower commencing on any day during the period from the first day of June of such Fiscal Year to the first day of September of such Fiscal Year.

"Collateral" means all "Collateral" and "Intellectual Property Collateral" referred to in the Collateral Documents and all other property that is or is intended to be subject to any Lien in favor of the Administrative Agent for the benefit of the Secured Parties.

"Collateral Documents" means the Security Agreement, the Mortgage, the landlord consents from the Persons listed on Schedule 3.01(g)(xviii) and any other document or agreement that creates or purports to create a Lien in favor of the Administrative Agent for the benefit of the Secured Parties.

"Commitment" means a Term A Commitment, a Term B Commitment, an Acquisition Commitment, a Working Capital Commitment or a Letter of Credit Commitment.

"Confidential Information" means information that the Borrower furnishes to the Administrative Agent or any Lender Party on a confidential basis, but does not include any such information that is or becomes generally available to the public or that is or becomes available to the Administrative Agent or such Lender Party from a source other than the Borrower, which source to the knowledge of the Administrative Agent or such Lender Party is not under a duty of confidentiality.

"Congress Account" means the account in the name of the Borrower maintained with Congress Financial Corporation, in an amount not to exceed $100,000, maintained for purposes of collateralizing certain indemnity obligations of Borrower to Congress Financial Corporation pursuant to the Congress Agreement.

"Congress Agreement" means collectively the Release Agreements and Cash Collateral Agreement, each dated as of September 30, 1996, between Borrower, MEDIQ/PRN Life Support Services-I, Inc. and Congress Financial Corporation.

"Consolidated" refers, with respect to any Person, to the consolidation of accounts of such Person and its Subsidiaries in accordance with GAAP.

"Conversion", "Convert" and "Converted" each refer to a conversion of Advances of one Type into Advances of the other Type pursuant to Section 2.09 or 2.10.

"Conversion Date" means the last day of the calendar month in the month that is 18 months following the date of the Initial Extension of Credit.

"Current Assets" of any Person means all assets of such Person that would, in accordance with GAAP, be classified as current assets of such Person.

"Current Liabilities" of any Person means (a) all Debt of such Person that by its terms is payable on demand or matures within one year after the date of determination other than Funded Debt and (b) all other items that in accordance with

GAAP would be classified as current liabilities of a company conducting a business the same as or similar to that of such Person.

"Debt" of any Person means, without duplication, (a) all

indebtedness of such Person for borrowed money, (b) all Obligations of such Person for the deferred purchase price of property or services (other than trade payables not overdue by more than 60 days incurred in the ordinary course of such Person's business), (c) all Obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all Obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all Obligations of such Person as lessee under Capitalized Leases, (f) all Obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities, (g) all Obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any capital stock of or other ownership or profit interest in such Person or any other Person or any warrants, rights or options to acquire such capital stock other than Obligations of such Person in respect of management profit sharing plans, valued, in the case of Redeemable Preferred Stock, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends, (h) all Obligations of such Person in respect of Hedge Agreements (other than for purposes of calculating the financial covenants in Section 5.04), (i) all Debt of others referred to in clauses (a) through (h) above or clause (j) below guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (i) to pay or purchase such Debt or to advance or supply funds for the payment or purchase of such Debt, (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Debt or to assure the holder of such Debt against loss, (iii) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (iv) otherwise to assure a creditor against loss, and (j) all Debt referred to in clauses (a) through (i) above of another Person secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt.

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Defaulted Advance" means, with respect to any Lender Party at any time, the portion of any Advance required to be made by such Lender Party to the Borrower pursuant to Section 2.01 or 2.02 at or prior to such time which has not been made by such Lender Party or by the Administrative Agent for the account of such Lender Party pursuant to Section 2.02(d) as of such time. In the event that a portion of a Defaulted Advance shall be deemed made pursuant to Section 2.15(a), the remaining portion of such Defaulted Advance shall be considered a Defaulted Advance originally required to be made pursuant to Section 2.01 on the same date as the Defaulted Advance so deemed made in part.

"Defaulted Amount" means, with respect to any Lender Party at any time, any amount required to be paid by such Lender Party to the Agents or any other Lender Party hereunder or under any other Loan Document at or prior to such time which has not been so paid as of such time, including, without limitation, any amount required to be paid by such Lender Party to (a) Issuing Bank pursuant to Section 2.03(c) to purchase a portion of a Letter of Credit Advance made by the Issuing Bank, (b) the Administrative Agent pursuant to Section 2.02(d) to reimburse the Administrative Agent for the amount of any Advance made by the Administrative Agent for the account of such Lender Party, (c) any other Lender Party pursuant to Section 2.13 to purchase any participation in Advances owing to such other Lender Party and (d) the Administrative Agent or the Issuing Bank pursuant to Section 8.05 to reimburse the Administrative Agent or the Issuing Bank for such Lender Party's ratable share of any amount required to be paid by the Lender Parties to the Administrative Agent or the Issuing Bank as provided therein. In the event that a portion of a Defaulted Amount shall be deemed paid pursuant to Section 2.15(b), the remaining portion of such

Defaulted Amount shall be considered a Defaulted Amount originally required to be paid hereunder or under any other Loan Document on the same date as the Defaulted Amount so deemed paid in part.

"Defaulting Lender" means, at any time, any Lender Party that, at such time (a) owes a Defaulted Advance or a Defaulted Amount or (b) shall take any action or be the subject of any action or proceeding of a type described in Section 6.01(f).

"Discontinued Subsidiary" means any of the Subsidiaries listed on Schedule IV hereto.

"Documentation Agent" has the meaning specified in the recital of parties to this Agreement.

"Domestic Lending Office" means, with respect to any Lender Party, the office of such Lender Party specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it

became a Lender Party, as the case may be, or such other office of such Lender Party as such Lender Party may from time to time specify to the Borrower and the Administrative Agent.

"EBITDA" means, for any period, the sum, determined on a Consolidated basis, of (a) net income (or net loss) excluding net income (or net loss) from or arising from any Persons listed on Schedule III, (b) Interest Expense, (c) income tax expense, (d) depreciation expense, (e) amortization expense and (f) extraordinary or unusual losses deducted in calculating net income less extraordinary or unusual gains added in calculating net income in each case of MEDIQ and its Subsidiaries, determined in accordance with GAAP for such period; provided, however, that for MEDIQ and its Subsidiaries, for any Monthly Rolling Period or Quarterly Rolling Period, as the case may be, ending on or before May 31, 1997, EBITDA, for each month or quarter, as the case may be, ending on or before June 30, 1996, shall be deemed to be the amount set forth for such month or quarter on Schedule II.

"Eligible Assignee" means with respect to any Facility: (i) a Lender; (ii) an Affiliate of a Lender; (iii) a commercial bank organized under the laws of the United States, or any State thereof, and having a combined capital and surplus of at least $1,000,000,000; (iv) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof, and having a combined capital and surplus of at least $1,000,000,000; (v) a commercial bank organized under the laws of any other country that is a member of the OECD or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow or a political subdivision of any such country, and having a combined capital and surplus of at least $1,000,000,000, so long as such bank is acting through a branch or agency located in the United States; (vi) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership, trust or other entity) that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and having a combined capital and surplus of at least $500,000,000; and (vii) any other Person approved by the Administrative Agent and the Borrower, such approval not to be unreasonably withheld or delayed; provided, however, that neither any Loan Party nor any Affiliate of a Loan Party shall qualify as an Eligible Assignee under this definition.

"Eligible Collateral" means, collectively, Eligible Inventory and Eligible Receivables.

"Eligible Inventory" means any Inventory owned by the Borrower and its Ongoing Subsidiaries free and clear of all Liens (other than Permitted Liens and Liens

in favor of the Secured Parties securing the Secured Obligations) other than the following:

(a) Inventory consisting of "perishable agricultural commodities" within the meaning of the Perishable Agricultural Commodities Act of 1930, as amended, and the regulations thereunder, or on which a Lien has arisen or may arise in favor of agricultural producers under comparable state or local laws;

(b) Inventory located on leaseholds as to which the lessor has not entered into a consent and agreement providing the Administrative Agent with the right to receive notice of default, the right to repossess such Inventory at any reasonable time pursuant to such consent and agreement and such other rights as may be reasonably acceptable to the Administrative Agent;

(c) Inventory that is obsolete, unusable or otherwise unavailable for sale;

(d) Inventory with respect to which the representations and warranties set forth in Section 9 of the Security Agreement applicable to Inventory are not true and correct;

(e) Inventory consisting of promotional, marketing, packaging or shipping materials and supplies;

(f) Inventory that fails to meet all standards imposed by any governmental agency, or department or division thereof, having regulatory authority over such Inventory or its use or sale;

(g) Inventory that is subject to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third party from whom the Borrower has received written notice of a dispute in respect of any such agreement;

(h) Inventory located outside the United States;

(i) Inventory that is not in the possession of or under the sole control of the Borrower or not in a leased facility in respect of which the owner has entered into a consent and agreement providing the Administrative Agent with the right to receive notice of default, the right to repossess such Inventory at any reasonable time pursuant to such consent and agreement and such other rights as may be reasonably acceptable to the Administrative Agent;

(j) Inventory consisting of work in progress;

(k) Inventory in respect of which the Security Agreement, after giving effect to the related filings of financing statements that have then been made, if any, does not or has ceased to create a valid and perfected first priority lien or security interest in favor of the Secured Parties securing the Secured Obligations and as to which no other Liens exist, other than Permitted Liens; and

(l) Inventory not recorded under a perpetual inventory system reasonably acceptable to the Administrative Agent.

The value of such Eligible Inventory shall be its book value determined in accordance with GAAP on a basis consistent with current practice of the Borrower or in accordance with the "average cost" method of accounting in accordance with GAAP unless the Administrative Agent determines, in its reasonable discretion that such Eligible Inventory shall be valued at a lower value.

"Eligible Receivables" means any Receivables owned by the Borrower and its Ongoing Subsidiaries free and clear of all Liens (other than Permitted Liens and Liens in favor of the Secured Parties securing the Secured Obligations) other than the following:

(a) Receivables that do not arise out of sales of goods or rendering of services in the ordinary course of the Borrower's

business;

(b) Receivables on terms other than those normal or customary in the Borrower's business;

(c) Receivables owing from any Person that is an Affiliate of the Borrower;

(d) Receivables more than 120 days past original invoice date;

(e) Receivables owing from any Person from which an aggregate amount of more than 50% of the Receivables owing are more than 120 days past original invoice date;

(f) Receivables owing from any Person that has asserted any claim, demand or liability, by action, suit, counterclaim or other judicial or arbitral proceeding;

(g) Receivables owing from any Person that shall take or be the subject of any action or proceeding of a type described in Section 6.01(f);

(h) Receivables (i) owing from any Person that is also a supplier to or creditor of the Borrower (to the extent such Person has any right of setoff but only to the extent of such setoff) unless such Person has waived any right of set-off in a manner acceptable to the Administrative Agent or (ii) representing any manufacturer's or supplier's credits, discounts, incentive plans or similar arrangements entitling the Borrower to discounts on future purchase therefrom;

(i) Receivables arising out of sales to account debtors outside the United States;

(j) Receivables arising out of sales on a bill-and-hold, guaranteed sale, sale-or-return, sale on approval or consignment basis or subject to any right of return, set-off or charge-back;

(k) Receivables owing from an account debtor that is an agency, department or instrumentality of the United States or any State thereof; and

(l) Receivables in respect of which the Security Agreement, after giving effect to the related filings of financing statements that have then been made, if any, does not or has ceased to create a valid and perfected first priority lien or security interest in favor of the Secured Parties securing the Secured Obligations or as to which any other Lien exists, other than Permitted Liens.

The value of such Eligible Receivables shall be their book value determined in accordance with GAAP unless the Administrative Agent determines, in its reasonable discretion, that such Eligible Receivables shall be valued at a lower value.

"Environmental Action" means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, any Environmental Permit or Hazardous Material or arising from alleged injury or threat to health, safety or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" means any federal, state, local or foreign

statute, law, ordinance, rule, regulation, code, order, writ, judgment, injunction, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, health, safety or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under any Environmental Law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" means any Person that for purposes of Title IV of ERISA is a member of the controlled group of any Loan Party, or under common control with any Loan Party, within the meaning of Section 414 of the Internal Revenue Code.

"ERISA Event" means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan unless the 30-day notice requirement with respect to such event has been waived by the PBGC; or (ii) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of such Section) are met with respect to a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of a Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such Plan within the following 30 days; (b) the application for a minimum funding waiver with respect to a Plan; (c) the provision by the administrator of any Plan of a notice of intent to terminate such Plan, pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (d) the cessation of operations at a facility of any Loan Party or any ERISA Affiliate in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by any Loan Party or any ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for imposition of a lien under Section 302(f) of ERISA shall have been met with respect to any Plan; (g) the adoption of an amendment to a Plan requiring the provision of security to such Plan, pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate a Plan pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, such Plan.

"Eurocurrency Liabilities" has the meaning specified in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Lender Party, the office of such Lender Party specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender Party (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender Party as such Lender Party may from time to time specify to the Borrower and the Administrative Agent.

"Eurodollar Rate" means, for any Interest Period for all Eurodollar Rate Advances comprising part of the same Borrowing, an interest rate per annum equal to the rate per annum obtained by dividing (a) the average of the respective rates per annum posted by each of the principal London offices of banks posting rates as displayed on the Telerate screen, page 3750 or such other page as may replace such page on such service for the purpose of displaying the London interbank offered rate of major banks for deposits in U.S. dollars at approximately 11:00 A.M. (London time) two Business Days before the first day of such Interest Period for deposits in amounts and durations comparable to such Borrowing and such Interest Period (and rounded upward to the next whole multiple of 1/16 of 1%) by (b) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Interest Period.

"Eurodollar Rate Advance" means an Advance that bears interest as provided in Section 2.07(a)(ii).

"Eurodollar Rate Reserve Percentage" for any Interest Period for all Eurodollar Rate Advances comprising part of the same Borrowing means the reserve percentage applicable two Business Days before the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with respect to liabilities or assets consisting of or including Eurocurrency Liabilities (or with respect to any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Rate Advances is determined) having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Excess Cash Flow" means, for any period, the sum of (a) Consolidated pretax income (or pretax loss) of MEDIQ and its Subsidiaries for such period less (b) Consolidated income tax expense of MEDIQ and its Subsidiaries for such period

paid in cash plus (c) an amount equal to the aggregate amount of all noncash charges deducted in arriving at Consolidated pretax income (or pretax loss) for each such period plus (d) an amount (whether positive or negative) equal to the change in Consolidated Current Liabilities (only to the extent not duplicated herein) of MEDIQ and its Ongoing Subsidiaries during such period less (e) an amount equal to the aggregate amount of all noncash credits included in arriving at such Consolidated pretax income (or pretax loss) less (f) an amount (whether positive or negative) equal to the change in Consolidated Current Assets (excluding cash and Cash Equivalents, and to the extent not duplicated herein) of MEDIQ and its Ongoing Subsidiaries during such period less (g) an amount equal to the amount of all Capital Expenditures of MEDIQ and its Ongoing Subsidiaries paid in cash during such period to the extent permitted by this Agreement less (h) an amount equal to the aggregate amount of all regularly scheduled principal payments of Funded Debt made during such period, together with any optional prepayments of Term Advances, and, from and after the Conversion Date, the Acquisition Advances, made during such period in accordance with Section 2.06(a) less (i) an amount equal to the aggregate amount of Consolidated pretax income of MEDIQ and its Subsidiaries resulting from any transaction (other than asset sales in the ordinary course of business) creating Net Cash Proceeds or Extraordinary Receipts for such period to the extent included in pretax income of MEDIQ and its Subsidiaries for such period plus (j) any cash received in respect of any Obligations secured by purchase money Liens or Obligations under Capitalized Leases. Notwithstanding anything to the contrary contained herein, (i) gains or losses from Permitted Asset Sales and (ii) any items in respect of Discontinued Subsidiaries otherwise included in any clause of the foregoing sentence of this definition shall not be included in "Excess Cash Flow".

"Excess Cash Flow Basket" means, at any time, the aggregate amount of Excess Cash Flow for each prior Fiscal Year not used to make any mandatory prepayment pursuant to Section 2.06(b)(i) minus (x) the aggregate amount of any payment or prepayment made from the Excess Cash Flow Basket pursuant to Sections 5.02(f), 5.02(g) and 5.02(k), and (y) any payment for Capital Expenditures made pursuant to the third proviso in 5.04(f).

"Excess Cash from Permitted Asset Sales" means, at any time, an amount equal to the aggregate amount of Net Cash Proceeds from Permitted Asset Sales not previously applied to prepay Acquisition Advances or Working Capital Advances pursuant to Section 2.06 prior to such time.

"Existing Debt" means Debt of the Loan Parties (excluding any Discontinued Subsidiary) and their respective Subsidiaries outstanding immediately before this Agreement becomes effective.

"Extraordinary Receipt" means any cash received by or paid to or for the account of any Person not in the ordinary course of business, including, without limitation, tax refunds, pension plan reversions, proceeds of insurance (excluding proceeds of business interruption insurance to the extent such proceeds constitute compensation for lost earnings), condemnation awards (and payments in lieu thereof) and indemnity payments less the amount of taxes payable in connection with or as a result of the receipt of such funds; provided, however, that if the amount of taxes deducted is greater than the amount actually so paid for taxes, the amount of such excess shall constitute an Extraordinary Receipt, provided, further, that an Extraordinary Receipt shall not include cash receipts received from proceeds of insurance to the extent that such proceeds in respect of loss or damage to equipment, fixed assets or real property are applied (or in respect of which expenditures were previously incurred) to replace or repair the equipment, fixed assets or real property in respect of which such proceeds were received in accordance with the terms of the Loan Documents, so long as such application is made in the ordinary course of business.

"Facility" means the Term A Facility, the Term B Facility, the Acquisition Facility, the Working Capital Facility or the Letter of Credit Facility.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period (i) to the rate published by the Telerate service on page five of its daily report as the "ASK" rate as of 10:00 A.M. (New York City time) for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) or (ii) if the Telerate service shall cease to publish or otherwise shall not publish such rates for any day that is a Business Day, to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Final Maturity Date" means the earlier of September 30, 2004 and the date of repayment in full or termination in whole of all of the Facilities pursuant to Section 2.05 or 6.01.

"Fiscal Year" means a fiscal year of the Borrower and its Consolidated Subsidiaries ending on September 30 in any calendar year.

"Fixed Charge Coverage Ratio" means, with respect to any Person for any Rolling Period, the ratio of (a) Consolidated EBITDA for such Person and its Subsidiaries for such Rolling Period less the sum of (i) Capital Expenditures (net of sales of rental equipment in the ordinary course of business) of such Person and its Subsidiaries during such Rolling Period less any Capital Expenditures made pursuant to the second proviso of Section 5.04(f) during such Rolling Period and (ii) income taxes of such Person and its Subsidiaries that have been paid in cash during such Rolling Period, other than taxes paid with respect to the Permitted Asset Sales to (b) the sum of (i) Interest Expense of such Person and its Subsidiaries for such Rolling Period and (ii) regularly scheduled principal payments of Funded Debt (other than the Subordinated Notes) of such Person and its Subsidiaries for such Rolling Period; provided, however, that for any such Rolling Period ending on or before August 31, 1997, the amounts determined in accordance with clauses (b)(i) and (ii) of this definition included in the calculation of the "Fixed Charge Coverage Ratio" shall be the actual amounts for the period from and after October 1, 1996 to and including the last date of such Rolling Period which amounts shall from and after October 1, 1996 each be multiplied by a fraction (x) the numerator of which is equal to 12 and (y) the denominator of which is the actual number of calendar months from October 1, 1996 to and including the last date of such Rolling Period.

"Funded Debt" of any Person means Debt of such Person that by its terms matures more than one year after the date of creation or matures within one year from such date but is renewable or extendible, at the option of such Person, to a date more than one year after such date or arises under a revolving credit or similar agreement that obligates the lender or lenders to extend credit during a period of more than one year after such date, including, without limitation, all amounts of Funded Debt of such Person required to be paid or prepaid within one year after the date of determination; provided, however, that, with respect to the Borrower, Funded Debt shall not include Debt permitted pursuant to Section 5.02(b)(ii)(G).

"Guaranteed Obligations" has the meaning specified in Section 7.01.

"GAAP" has the meaning specified in Section 1.03.

"Guarantors" means the Parent Guarantors and the Subsidiary Guarantors.

"Hazardous Materials" means (a) petroleum or petroleum products, by-products or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

"Health Examinetics" means Health Examinetics, Inc., a Delaware corporation, a wholly owned Subsidiary of MEDIQ.

"Hedge Agreements" means interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts and other similar agreements.

"Hedge Bank" means any Lender Party in its capacity as a party to a Bank Hedge Agreement.

"Holdings Notes" means the promissory notes issued by Holdings to the order of KCI Therapeutic Services, Inc. dated September 30, 1994.

"Indemnified Party" has the meaning specified in Section 9.04(b).

"Initial Extension of Credit" means the earlier to occur of the initial Borrowing hereunder and the initial issuance of a Letter of Credit hereunder.

"Initial Issuing Bank" has the meaning specified in the recital of parties to this Agreement.

"Initial Lenders" has the meaning specified in the recital of parties to this Agreement.

"InnoServ" means InnoServ Technologies, Inc., a California corporation.

"Insufficiency" means, with respect to any Plan, the amount, if any, of its unfunded benefit liabilities, as defined in Section 4001(a)(18) of ERISA.

"Interest Coverage Ratio" means, with respect to any Person for any Rolling Period, the ratio of (a) Consolidated EBITDA of such Person and its Subsidiaries for such Rolling Period to (b) Interest Expense of such Person and its Subsidiaries for such Rolling Period; provided, however, that for any such Rolling Period ending on or before August 31, 1997, the amounts determined in accordance with clause (b) of this definition included in the calculation of the "Interest Coverage Ratio" shall be the actual amounts for the period from and after October 1, 1996 to and including the last date of such Rolling Period which amounts shall from and after October 1, 1996 each be multiplied by a fraction (x) the numerator of which is equal to 12 and (y) the denominator of which is the actual number of calendar months from the October 1, 1996 to and including

the last date of such Rolling Period.

"Interest Expense" means, with respect to any Person for any period, the amount by which (a) interest expense (including the interest component on obligations under Capitalized Leases but excluding amortization of deferred financing fees and expenses to the extent included in interest expense), whether paid or accrued, on all Debt of such Person and its Subsidiaries for such period, including, without limitation and without duplication, (i) interest expense in respect of Debt resulting from Advances, (ii) interest expense in respect of the Subordinated Notes, (iii) commissions, discounts and other fees and charges payable in connection with letters of credit (including, without limitation, any Letters of Credit) and (iv) any net payment payable in connection with interest rate Hedge Agreements less any net credits received in connection with interest rate Hedge Agreements exceeds (b) interest income, whether paid or accrued, of such Person for such period.

"Interest Period" means, for each Eurodollar Rate Advance comprising part of the same Borrowing, the period commencing on the date of such Eurodollar Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance, and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months, as the Borrower may, upon notice received by the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(a) the Borrower may not select any Interest Period with respect to any Eurodollar Rate Advance under a Facility that ends after any principal repayment installment date for such Facility unless, after giving effect to such selection, the aggregate principal amount of Base Rate Advances and of Eurodollar Rate Advances having Interest Periods that end on or prior to such principal repayment installment date for such Facility shall be at least equal to the aggregate principal amount of Advances under such Facility due and payable on or prior to such date;

(b) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Borrowing shall be of the same duration;

(c) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest

Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the immediately preceding Business Day;

(d) whenever the first day of any Interest Period occurs on a day of a calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month; and

(e) prior to the end of the first calendar month immediately following the date of the Initial Extension of Credit, the Borrower may select an Interest Period equal to the period from such date to the end of such calendar month.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"Inventory" means all Inventory referred to in Section 1(d) of the Security Agreement.

"Investment" in any Person means any loan or advance to such Person, any purchase or other acquisition of any capital stock or other ownership or profit interest, warrants, rights, options, obligations, other securities or the assets comprising a substantial part or all of the business of such Person or of an operating division of such Person, any capital contribution to such Person or any other investment in such Person, including, without limitation, any arrangement pursuant to which the investor incurs Debt of the types referred to in clause (i) or (j) of the definition of "Debt" in respect of such Person.

"Investor Group" shall be those Persons listed on Schedule 6.01(k) hereto.

"Issuing Bank" means the Initial Issuing Bank and each Eligible Assignee which is either an Agent or any other Lender as may be approved by the Borrower (such approval not to be unreasonably withheld) to which a Letter of Credit Commitment hereunder has been assigned pursuant to Section 9.07.

"L/C Cash Collateral Account" has the meaning specified in the Security Agreement.

"L/C Related Documents" has the meaning specified in Section 2.04(c)(ii)(A).

"Lender Party" means any Lender or the Issuing Bank.

"Lenders" means the Initial Lenders and each Person that shall become a Lender hereunder pursuant to Section 9.07.

"Letter of Credit" has the meaning specified in Section 2.01(d).

"Letter of Credit Advance" means an advance made by the Issuing Bank or any Working Capital Lender pursuant to Section 2.03(c).

"Letter of Credit Agreement" has the meaning specified in Section 2.03(a).

"Letter of Credit Commitment" means, with respect to the Issuing Bank at any time, the amount set forth opposite the Issuing Bank's name on Schedule I hereto under the caption "Letter of Credit Commitment" or, if the Issuing Bank has entered into an Assignment and Acceptance set forth for the Issuing Bank in the Register maintained by the Administrative Agent pursuant to Section 9.07(d) as the Issuing Bank's "Letter of Credit Commitment", as such amount may be reduced at or prior to such time pursuant to Section 2.05.

"Letter of Credit Facility" means, at any time, an amount equal to the Issuing Bank's Letter of Credit Commitment at such time, as such amount may be reduced at or prior to such time pursuant to Section 2.05.

"Leverage Ratio" means, with respect to any Person for any Rolling Period, the ratio of (a) Funded Debt (other than (i) contingent obligations of the type described in clause (f) or (h) in the definition of "Debt" and (ii) Debt permitted under Section 5.02(b)(i)(A)) of such Person and its Subsidiaries as of the last day of such Rolling Period minus, in each case as of the last day of such Rolling Period, (i) the principal amount of the NutraMax Note to the extent secured by the NutraMax Letter of Credit, so long as such NutraMax Letter of Credit is issued by a financial institution and on terms and conditions acceptable to the Administrative Agent and (ii) the amount on deposit in the Asset Sale Blocked Account to (b) Consolidated EBITDA of such Person and its Subsidiaries for such Rolling Period, provided, that if any Investment pursuant to Section 5.02(f)(i) or (vi) shall have occurred, such Consolidated EBITDA shall include the EBITDA of or attributable to such

Investment for (x) with respect to any Monthly Rolling Period, the 12 months ended on the last day of such Monthly Rolling Period and (y) with respect to any Quarterly Rolling Period, the four fiscal quarters ended on the last day of such Quarterly Rolling Period.

"Lien" means any lien, security interest or other charge or encumbrance of any kind, or any other type of preferential arrangement, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property.

"Loan Documents" means (a) for purposes of this Agreement and the Notes and any amendment, supplement or modification hereof or thereof and for all other purposes other than for purposes of the Collateral Documents, (i) this Agreement, (ii) the Notes, (iii) the Collateral Documents, (iv) each Letter of Credit Agreement and (v) the Subsidiary Guaranty and (b) for purposes of the Collateral Documents, (i) this Agreement, (ii) the Notes, (iii) the Collateral Documents, (iv) each Letter of Credit Agreement, (v) the Subsidiary Guaranty, (vi) each Bank Hedge Agreement, and (vii) each Blocked Account Letter (as defined in the Security Agreement) in each case as amended or otherwise modified from time to time.

"Loan Parties" means the Borrower and the Guarantors.

"Loan Value" means:

(a) with respect to Eligible Inventory up to 50% of the value of the Eligible Inventory consisting of rental equipment for sale in the ordinary course of business, disposable medical supplies, and parts for rental equipment; and

(b) with respect to Eligible Receivables up to 80% of the value of the Eligible Receivables;

provided, however, that the Administrative Agent may, in its reasonable discretion based on an analysis of changes in the Borrower's operations or credit and collection experience arising after the date hereof that may dilute the value of Eligible Collateral revise from time to time the percentage of the value of any individual item of Eligible Collateral that shall be used in determining Loan Value; provided further that any increase in such percentage shall require the approval of the Required Lenders.

"Margin Stock" has the meaning specified in Regulation U and/or Regulation G.

"Margin Stock Collateral" means any Collateral which qualifies as Margin Stock or proceeds thereof.

"Material Adverse Change" means any material adverse change in the business, condition (financial or otherwise), operations, performance, properties or prospects of the Borrower or the Loan Parties and their Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, condition (financial or otherwise), operations, performance, properties or prospects of the Borrower or the Loan Parties and their Subsidiaries taken as a whole, (b) the rights and remedies of the Administrative Agent or any Lender Party under any Loan Document or Related Document or (c) the ability of the Borrower or the Loan Parties and their Subsidiaries taken as a whole to perform their Obligations under any Loan Document or Related Document to which they are or are to become parties.

"MEDIQ" has the meaning specified in the recital of parties to this Agreement.

"MEDIQ Mobile X-Ray" means MEDIQ Mobile X-Ray Services, Inc., a Delaware corporation, and a wholly owned Subsidiary of MEDIQ.

"Monthly Rolling Period" means with respect to any month the consecutive 12-month period ending on the last day of such month.

"Mortgage" has the meaning specified in Section 3.01(g)(viii).

"Multiemployer Plan" means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which any Loan Party or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of any Loan Party or any ERISA Affiliate and at least one Person other than the Loan Parties and the ERISA Affiliates or (b) was so maintained and in respect of which any Loan Party or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"Net Cash Proceeds" means, with respect to any sale, lease, transfer or other disposition of any asset or the sale or issuance of any Debt (excluding any Debt issued by any Discontinued Subsidiary) or capital stock or other ownership or profit interest, any securities convertible into or exchangeable for capital stock or other ownership or profit interest or any warrants, rights, options or other securities to acquire capital stock or other ownership or profit interest by any Person, or any Extraordinary Receipt received by or paid to or for the account of any Person, which

shall include the receipt of any cash dividend by MEDIQ or any of its Subsidiaries other than such dividends permitted under Section 5.02(g), the aggregate amount of cash received from time to time (whether as initial consideration or through payment or disposition of deferred consideration) by or on behalf of such Person in connection with such transaction (excluding, without limitation, any cash received in respect of any Obligations under Capitalized Leases or any Obligations secured by purchase money Liens included in clause (j) of the definition of "Excess Cash Flow"), after deducting therefrom only (without duplication) (a) reasonable and customary brokerage commissions, underwriting fees and discounts, legal fees, finder's fees and other similar fees and commissions, (b) the amount of taxes payable in connection with or as a result of such transaction and (c) the amount of any Debt secured by a Lien on such asset that, by the terms of such transaction, is required to be repaid upon such disposition, in each case to the extent, but only to the extent, that the amounts so deducted are properly attributable to such transaction or to the asset that is the subject thereof and are, in the case of clauses (a) and (c), at the time of receipt of such cash or when otherwise required by the terms of the particular arrangement or entered into in connection therewith, actually paid to a Person that is not an Affiliate of such Person or any Loan Party or any Affiliate of any Loan Party and, in the case of clause (b), on the earlier of the dates on which the tax return covering such taxes is filed or required to be filed, actually paid to a Person that is not an Affiliate of such Person or any Loan Party or any Affiliate of any Loan Party, provided that if the amount deducted pursuant to clause (b) above is greater than the amount actually so paid for taxes, the amount of such excess shall constitute "Net Cash Proceeds."

"Note" means a Term A Note, a Term B Note, an Acquisition Note or a Working Capital Note.

"Notice of Borrowing" has the meaning specified in Section 2.02(a).

"Notice of Issuance" has the meaning specified in Section 2.03(a).

"NPL" means the National Priorities List under CERCLA.

"NutraMax" means NutraMax Products, Inc., a Delaware corporation, in

which a Subsidiary of MEDIQ has an equity investment.

"NutraMax Escrow Agreement" means the Agreement dated as of July 30, 1993 between MEDIQ, MEDIQ Investment Services, Inc., a Delaware corporation, and First Fidelity Bank, as escrow agent.

"NutraMax Letter of Credit" means the letter of credit to be issued by a financial institution pursuant to the NutraMax Agreement.

"NutraMax Agreement" means the Stock Purchase Agreement dated as of September 18, 1996 among MEDIQ, MEDIQ Investment Services, Inc. and NutraMax.

"NutraMax Note" means the promissory note issued by NutraMax to MEDIQ and/or MEDIQ Investment Services, Inc. pursuant to the NutraMax Agreement.

"Obligation" means, with respect to any Person, any payment, performance or other obligation of such Person of any kind, including, without limitation, any liability of such Person on any claim, whether or not the right of any creditor to payment in respect of such claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, disputed, undisputed, legal, equitable, secured or unsecured, and whether or not such claim is discharged, stayed or otherwise affected by any proceeding referred to in Section 6.01(f). Without limiting the generality of the foregoing, the Obligations of the Loan Parties under the Loan Documents include (a) the obligation to pay principal, interest, Letter of Credit commissions, charges, expenses, fees, attorneys' fees and disbursements, indemnities and other amounts payable by any Loan Party under any Loan Document, (b) the obligation of any Loan Party to reimburse any amount in respect of any of the foregoing that any Lender Party, in its sole discretion, may elect to pay or advance on behalf of such Loan Party and (c) the obligation to pay the Administrative Agent pursuant to Section 2.08(c).

"OECD" means the Organization for Economic Cooperation and Development.

"Ongoing Subsidiary" means any Subsidiary other than a Discontinued Subsidiary.

"Open Year" has the meaning specified in Section 4.01(y).

"Other Taxes" has the meaning specified in Section 2.12(b).

"Parent Guarantors" has the meaning specified in the recital of parties to this Agreement.

"PBGC" means the Pension Benefit Guaranty Corporation.

"PCI Services" means PCI Services, Inc., in which a Subsidiary of MEDIQ has an equity investment.

"Permitted Asset Sales" means the sale by MEDIQ or any of its Subsidiaries of all of its interest in PCI Services, NutraMax, Health Examinetics and MEDIQ Mobile X-Ray, or the sale of any non-cash proceeds received therefrom in accordance

with the provisions of Section 5.02(e)(ii), or, in the case of NutraMax, the sale by MEDIQ or any of its Subsidiaries of all or part of its interest in NutraMax pursuant to the NutraMax Agreement.

"Permitted Encumbrances" has the meaning specified in the Mortgage.

"Permitted Liens" means such of the following as to which no enforcement, collection, execution, levy or foreclosure proceeding shall have been commenced: (a) Liens for taxes, assessments and governmental

charges or levies to the extent not required to be paid under Section 5.01(b) hereof; (b) Liens imposed by law, such as materialmen's, mechanics', carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business securing obligations that (i) are not overdue for a period of more than 30 days and (ii) either individually or when aggregated with all other Permitted Liens outstanding on any date of determination, do not materially affect the use or value of the property to which they relate; (c) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations; and (d) easements, rights of way and other encumbrances on title to real property that do not render title to the property encumbered thereby unmarketable or materially adversely affect the use of such property for its present purposes.

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

"Plan" means a Single Employer Plan or a Multiple Employer Plan.

"Pledged Debt" has the meaning specified in Section 1(a)(ii) of the Security Agreement.

"Pledged Shares" has the meaning specified in Section 1(a)(i) of the Security Agreement.

"Preferred Stock" means, with respect to any corporation, capital stock issued by such corporation that is entitled to a preference or priority over any other capital stock issued by such corporation upon any distribution of such corporation's assets, whether by dividend or upon liquidation.

"Pro Rata Share" of any amount means, with respect to any Working Capital Lender at any time, the product of such amount times a fraction the numerator of

which is the amount of such Lender's Working Capital Commitment at such time and the denominator of which is the Working Capital Facility at such time.

"Quarterly Rolling Period" means with respect to any fiscal quarter the consecutive four fiscal quarters ending on the last day of such quarter.

"Recapture Percentage" means, for purposes of Sections 2.06(b) and 5.04(f), with respect to any Fiscal Year of the Borrower and its Subsidiaries, 75% or, if the Leverage Ratio as at September 30 in any such Fiscal Year is less than 2.50 to 1.0, 50%.

"Receivables" means all Receivables referred to in Section 1(e) of the Security Agreement.

"Redeemable" means, with respect to any capital stock or other ownership or profit interest, Debt or other right or Obligation, any such right or Obligation that (a) the issuer has undertaken to redeem at a fixed or determinable date or dates, whether by operation of a sinking fund or otherwise, or upon the occurrence of a condition not solely within the control of the issuer or (b) is redeemable at the option of the holder.

"Reduction Amount" has the meaning specified in Section 2.06(b)(vi).

"Refinancing" has the meaning specified in the Preliminary Statements.

"Refinancing Debt" means the Debt identified as such on Schedule 2.14(a), in an aggregate amount not to exceed the amount of such Debt set forth thereon.

"Register" has the meaning specified in Section 9.07(d).

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Related Documents" means the Subordinated Note Documents, the Tax Sharing Agreements, the 12.125% Note Indenture and the NutraMax Escrow Agreement.

"Required Lenders" means at any time Lenders owed or holding at least 51% of the sum of (a) the aggregate principal amount of the Advances outstanding at such time, (b) the aggregate Available Amount of all Letters of Credit outstanding at such time, (c) the aggregate unused Commitments under the Term A, Term B and Acquisition Facilities at such time and (d) the aggregate Unused Working Capital

Commitments at such time; provided, however, that if any Lender shall be a Defaulting Lender at such time, there shall be excluded from the determination of Required Lenders at such time (A) the aggregate principal amount of the Advances owing to such Lender (in its capacity as a Lender) and outstanding at such time, (B) such Lender's Pro Rata Share of the aggregate Available Amount of all Letters of Credit issued by such Lender and outstanding at such time, (C) the aggregate unused Acquisition Commitments of such Lender at such time and (D) the Unused Working Capital Commitment of such Lender at such time; provided, further, that for purposes of (i) Section 6.01, solely with respect to any Event of Default resulting from any Loan Party's failure to comply with Section 5.02(a), 5.02(e) or 5.02(m), insofar as such failure relates to Margin Stock, and (ii) Section 9.01, solely with respect to any amendment, waiver or consent to any departure by any Loan Party from the provisions of Section 5.02(a), 5.02(e) or 5.02(m), insofar as such waiver, amendment or consent relates to Margin Stock, there shall be excluded from the determination of Required Lenders at such time (A) the aggregate principal amount of the Advances owing to all Alternative Lenders (in their capacity as Lenders) and outstanding at such time, (B) such Alternative Lenders' Pro Rata Shares of the aggregate Available Amount of all Letters of Credit issued by such Alternative Lenders and outstanding at such time, (C) the aggregate unused Acquisition Commitments of such Alternative Lenders at such time and (D) the Unused Working Capital Commitment of such Alternative Lenders at such time. For purposes of this definition, the aggregate principal amount of Letter of Credit Advances owing to the Issuing Bank and the Available Amount of each Letter of Credit shall be considered to be owed to the Working Capital Lenders ratably in accordance with their respective Working Capital Commitments.

"Responsible Officer" means the President, Chief Financial Officer, or any Senior Vice-President of MEDIQ or the Borrower.

"Rolling Period" means a Monthly Rolling Period or a Quarterly Rolling Period, as the case may be.

"Secured Obligations" has the meaning specified in the Security Agreement.

"Secured Parties" means the Agents, the Lender Parties (other than, with respect to Margin Stock Collateral, any Alternative Lender) and the Hedge Banks.

"Security Agreement" has the meaning specified in Section 3.01(g)(vii).

"Senior Debt" means for any Person all Funded Debt of such Person and its Subsidiaries other than the Subordinated Notes.

"Senior Leverage Ratio" means, with respect to any Person for any Rolling Period, the ratio of (a) Senior Debt (other than (i) contingent obligations of the type described in clause (f) or (h) in the definition of "Debt" and (ii) Debt permitted under Section 5.02(b)(i)(A)) of such Person as of the last day of such Rolling Period to (b) Consolidated

EBITDA of such Person and its Subsidiaries for such Rolling Period, provided, that if any Investment pursuant to Section 5.02(f)(i) or (vi) shall have occurred, such Consolidated EBITDA shall include the EBITDA of or attributable to such Investment for (x) with respect to any Monthly Rolling Period, the 12 months ended on the last day of such Monthly Rolling Period and (y) with respect to any Quarterly Rolling Period, the four fiscal quarters ended on the last day of such Quarterly Rolling Period.

"7.25% Notes" means the 7.25% convertible subordinated debentures due 2006 issued by MEDIQ in an original aggregate principal amount of $75,000,000.

"7.50% Notes" means the 7.50% exchangeable subordinated debentures due 2003 issued by MEDIQ outstanding in the original aggregate principal amount of $34,500,000.

"7.25% Note Indenture" means the Indenture dated as of June 1, 1986 between MEDIQ and Mellon Bank, N.A.

"7.50% Note Indenture" means the Indenture dated as of July 30, 1993 between MEDIQ and First Fidelity Bank, N.A.

"Single Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of any Loan Party or any ERISA Affiliate and no Person other than the Loan Parties and the ERISA Affiliates or (b) was so maintained and in respect of which any Loan Party or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Solvent" and "Solvency" mean, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital. The

amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Standby Letter of Credit" means any Letter of Credit issued under the Letter of Credit Facility, other than a Trade Letter of Credit.

"Subordinated Note Documents" means the 7.25% Note Indenture and the 7.50% Note Indenture, the 7.25% Notes and the 7.50% Notes and all other agreements, indentures and instruments delivered in connection with the issuance of such Notes.

"Subordinated Notes" means the 7.25% Notes and the 7.50% Notes.

"Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such partnership, joint venture or limited liability company or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Subsidiary Guarantors" means the Subsidiaries of MEDIQ listed on Schedule 3.01(g)(iii) hereto and each other Subsidiary of MEDIQ that shall be required to execute and deliver a guaranty pursuant to Section 5.01(o).

"Subsidiary Guaranty" has the meaning specified in Section 3.01(g)(ix).

"Supplemental Indenture" means the Supplemental Indenture dated as of the date hereof, between the Borrower and United Jersey Bank.

"Surviving Debt" has the meaning specified in Section 3.01(e).

"Taxes" has the meaning specified in Section 2.12(a).

"Tax Sharing Agreements" means the (i) Consolidated Group Tax Agreement dated May 28, 1992, as amended, by and between the Borrower and MEDIQ, (ii) Tax Indemnification Agreement dated August 31, 1993 by and between Mental Health Management, Inc. and MEDIQ, (iii) Tax Allocation/Sharing Agreement dated as of

September 20, 1991 by and between PCI Services, Inc. and MEDIQ and (iv) Consolidated Group Tax Agreement dated September 30, 1994 by and between Holdings and MEDIQ.

"Term A Advance" has the meaning specified in Section 2.01(a).

"Term A Borrowing" means a borrowing consisting of simultaneous Term A Advances of the same Type made by the Term A Lenders.

"Term A Commitment" means, with respect to any Term A Lender at any time, the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Term A Commitment" or, if such Lender has entered into one or more Assignments and Acceptances, the aggregate amount set forth for Term Lender in the Register maintained by the Administrative Agent pursuant to Section 9.07(d) as such Lender's "Term A Commitment".

"Term A Facility" means, at any time, the aggregate amount of the Term A Lenders' Term A Commitments at such time.

"Term A Lender" means any Lender that has a Term A Commitment.

"Term A Note" means a promissory note of the Borrower payable to the order of any Term A Lender, in substantially the form of Exhibit A-1 hereto, evidencing the indebtedness of the Borrower to such Lender resulting from the Term A Advance made by such Lender.

"Term Advance" means a Term A Advance or a Term B Advance.

"Term B Advance" has the meaning specified in Section 2.01(b).

"Term B Borrowing" means a borrowing consisting of simultaneous Term B Advances of the same Type made by the Term B Lenders.

"Term B Commitment" means, with respect to any Term B Lender, the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Term B Commitment" or, if such Lender has entered into one or more Assignments or Acceptances, the aggregate amount set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 9.07(d) as such Lender's "Term B Commitment".

"Term B Facility" means, at any time, the aggregate amount of the Term B Lenders' Term B Commitments at such time.

"Term B Lender" means any Lender that has a Term B Commitment.

"Term B Note" means a promissory note of the Borrower payable to the

order of any Term B Lender, in substantially the form of Exhibit A-2 hereto, evidencing the indebtedness of the Borrower to such Lender resulting from the Term B Advance made by such Lender.

"Term B Opt-Out Lender" has the meaning specified in Section 2.06(c).

"Term Borrowing" means a Term A Borrowing or a Term B Borrowing.

"Term Commitment" means a Term A Commitment or a Term B Commitment.

"Term Lender" means a Term A Lender or a Term B Lender.

"Termination Date" means the earlier of September 30, 2002 and the date of termination in whole of the Letter of Credit Commitments and the Working Capital Commitments pursuant to Section 2.05 or 6.01.

"Trade Letter of Credit" means any Letter of Credit that is issued under the Letter of Credit Facility for the benefit of a supplier of Inventory to the Borrower or any of its Subsidiaries to effect payment for such Inventory.

"12.125% Note Indenture" means the Indenture dated as of July 6, 1992, between the Borrower and United Jersey Bank as amended as of September 30, 1994 and as of the date hereof.

"12.125% Notes" means the 12.125% Senior Secured Notes due 1999 issued by the Borrower in an aggregate principal amount of $100,000,000.

"Type" refers to the distinction between Advances bearing interest at the Base Rate and Advances bearing interest at the Eurodollar Rate.

"Unused Acquisition Commitment" means, with respect to any Acquisition Lender at any time prior to the Conversion Date, such Lender's Acquisition Commitment at such time minus the aggregate principal amount of all Acquisition Advances made by such Lender and outstanding at such time.

"Unused Working Capital Commitment" means, with respect to any Working Capital Lender at any time, (a) such Lender's Working Capital Commitment at such time minus (b) the sum of (i) the aggregate principal amount of all Working Capital

Advances and Letter of Credit Advances made by such Lender (in its capacity as a Lender) and outstanding at such time, plus (ii) such Lender's Pro Rata Share of (A) the aggregate Available Amount of all Letters of Credit outstanding at such time and (B) the aggregate principal amount of all Letter of Credit Advances made by the Issuing Bank pursuant to Section 2.03(c) and outstanding at such time.

"Voting Stock" means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"Welfare Plan" means a welfare plan, as defined in Section 3(1) of ERISA, that is maintained for employees of any Loan Party or in respect of which any Loan Party could have a liability.

"Withdrawal Liability" has the meaning specified in Part I of Subtitle E of Title IV of ERISA.

"Working Capital Advance" has the meaning specified in Section 2.01(c).

"Working Capital Borrowing" means a borrowing consisting of simultaneous Working Capital Advances of the same Type made by the Working Capital Lenders.

"Working Capital Commitment" means, with respect to any Working Capital Lender at any time, the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Working Capital Commitment" or, if such Lender has entered into one or more Assignments and Acceptances, set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 9.07(d) as such Lender's "Working Capital Commitment", as such amount may be reduced at or prior to such time pursuant to Section 2.05.

"Working Capital Facility" means, at any time, the aggregate amount of the Working Capital Lenders' Working Capital Commitments at such time.

"Working Capital Lender" means any Lender that has a Working Capital Commitment.

"Working Capital Note" means a promissory note of the Borrower payable to the order of any Working Capital Lender, in substantially the form of Exhibit A-3 hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Working Capital Advances made by such Lender.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistent with those applied in the preparation of the financial statements referred to in Section 4.01(f) ("GAAP").

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES AND THE LETTERS OF CREDIT

SECTION 2.01. The Advances. (a) The Term A Advances. Each Term A Lender severally agrees, on the terms and conditions hereinafter set forth, to make a single advance (a "Term A Advance") to the Borrower on any Business Day during the period from the date hereof until October 1, 1996 in an amount not to exceed such Lender's Term A Commitment at such time. The Term A Borrowing shall consist of Term A Advances made simultaneously by the Term A Lenders ratably according to their Term A Commitments. Amounts borrowed under this Section 2.01(a) and repaid or prepaid may not be reborrowed.

(b) The Term B Advances. Each Term B Lender severally agrees, on the terms and conditions hereinafter set forth, to make a single advance (a "Term B Advance") to the Borrower on any Business Day that the Term A Advances shall be made in an amount not to exceed such Lender's Term B Commitment at such time. The Term B Borrowing shall consist of Term B Advances made simultaneously by the Term B Lenders ratably according to their Term B Commitments. Amounts borrowed under this Section 2.01(b) and repaid or prepaid may not be reborrowed.

(c) The Working Capital Advances. Each Working Capital Lender severally agrees, on the terms and conditions hereinafter set forth, to make advances (each, a "Working Capital Advance") to the Borrower from time to time on any Business Day during the period from the date hereof until the Termination Date in an amount for each such Advance not to exceed such Lender's Unused Working Capital Commitment at such time minus an amount equal to such Lender's Pro Rata Share of the Asset Sale Release Amount. Each Working Capital Borrowing shall be in an aggregate amount of $1,000,000 or an integral multiple of $500,000 in excess thereof (other than a Borrowing the proceeds of which shall be used solely to repay or prepay in full outstanding Letter of Credit Advances made by the Issuing Bank) and shall consist of Working Capital Advances made

simultaneously by the Working Capital Lenders ratably according to their Working Capital Commitments. Within the limits of each Working Capital Lender's Unused

Working Capital Commitment in effect from time to time, the Borrower may borrow under this Section 2.01(c), prepay pursuant to Section 2.06(a) and reborrow under this Section 2.01(c).

(d) Letters of Credit. The Issuing Bank agrees, on the terms and conditions hereinafter set forth, to issue letters of credit (the "Letters of Credit") for the account of the Borrower from time to time on any Business Day during the period from the date hereof until 60 days before the Termination Date (i) in an aggregate Available Amount for all Letters of Credit issued by such Issuing Bank not to exceed at any time the Issuing Bank's Letter of Credit Commitment at such time and (ii) in an Available Amount for each such Letter of Credit not to exceed the lesser of (x) the Letter of Credit Facility at such time and (y) the Unused Working Capital Commitments of the Working Capital Lenders at such time. No Letter of Credit shall have an expiration date (including all rights of the Borrower or the beneficiary to require renewal) later than the earlier of 60 days before the Termination Date and (A) in the case of a Standby Letter of Credit, one year after the date of issuance thereof and (B) in the case of a Trade Letter of Credit, 90 days after the date of issuance thereof. Within the limits of the Letter of Credit Facility, and subject to the limits referred to above, the Borrower may request the issuance of Letters of Credit under this Section 2.01(d), repay any Letter of Credit Advances resulting from drawings thereunder pursuant to Section 2.03(c) and request the issuance of additional Letters of Credit under this Section 2.01(d).

(e) Clean-Down. Notwithstanding the provisions of Sections 2.01(c) and 2.01(d), no Borrowings may be made under Section 2.01(c), and no Letters of Credit may be issued under Section 2.01(d), during any Clean-Down Period, unless the sum of the aggregate principal amount of Working Capital Advances and Letter of Credit Advances plus the aggregate Available Amount of Letters of Credit outstanding after giving effect to such Borrowing or the issuance of such Letter of Credit shall not exceed $10,000,000.

(f) The Acquisition Advances. Subject to Section 2.14(b), each Acquisition Lender severally agrees, on the terms and conditions hereinafter set forth, to make advances (each, an "Acquisition Advance") to the Borrower from time to time on any Business Day during the period from the date hereof until the Conversion Date in an amount for each such Advance not to exceed such Lender's Unused Acquisition Commitment at such time. Each Acquisition Borrowing shall be in an aggregate amount of $1,000,000 or an integral multiple of $500,000 in excess thereof and shall consist of Acquisition Advances made simultaneously by the Acquisition Lenders ratably according to their Acquisition Commitments. Prior to the Conversion Date, within the limits of each Acquisition Lender's Unused Acquisition Commitment in effect from time to time, the Borrower may borrow under this Section 2.01(f), prepay pursuant to Section 2.06(b)(vii) and reborrow under this Section 2.01(f).

SECTION 2.02. Making the Advances. (a) Except as otherwise provided in Section 2.03, each Borrowing shall be made on notice, given not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Borrowing in the case of a Borrowing consisting of Eurodollar Rate Advances, or the first Business Day prior to the date of the proposed Borrowing in the case of a Borrowing consisting of Base Rate Advances, by the Borrower to the Administrative Agent, which shall give to each Appropriate Lender prompt notice thereof by telex or telecopier. Each such notice of a Borrowing (a "Notice of Borrowing") shall be in writing, or telex or telecopier, in substantially the form of Exhibit B hereto, specifying therein the requested (i) date of such Borrowing, (ii) Facility under which such Borrowing is to be made, (iii) Type of Advances comprising such Borrowing, (iv) aggregate amount of such Borrowing and (v) in the case of a Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Advance. Each Appropriate Lender shall, before 11:00 A.M. (New York City time) on the date of such Borrowing, make available for the account of its Applicable Lending Office to the Administrative Agent at the Administrative Agent's Account, in same day funds, such Lender's ratable portion of such Borrowing in accordance with the respective Commitments under the applicable Facility of such Lender and the other Appropriate Lenders. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Administrative Agent will make such funds available to the Borrower by crediting the Borrower's Account; provided, however, that, in the case of any Working Capital Borrowing, the Administrative Agent shall first make a portion of such funds equal to the aggregate principal amount of any Letter of Credit Advances made by the Issuing Bank and by any other Working Capital Lender and

outstanding on the date of such Working Capital Borrowing, plus interest accrued and unpaid thereon to and as of such date, available to the Issuing Bank and such other Working Capital Lenders for repayment of such Letter of Credit Advances.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances for the initial Borrowing hereunder and for the period from the date of such initial Borrowing to the earlier of (x) three months from such date and (y) the completion of syndication of the Facilities (as shall be specified by the Agents in a written notice to the Borrower) or for any Borrowing if the aggregate amount of such Borrowing is less than $5,000,000 or if the obligation of the Appropriate Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.09 or Section 2.10 and (ii) with respect to Borrowings consisting of Eurodollar Rate Advances, the Term A Advances, the Term B Advances and the Working Capital Advances may not be outstanding as part of more than eight separate Borrowings in the aggregate.

(c) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Appropriate

Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such Borrowing when such Advance, as a result of such failure, is not made on such date.

(d) Unless the Administrative Agent shall have received notice from an Appropriate Lender prior to the date of any Borrowing under a Facility under which such Lender has a Commitment that such Lender will not make available to the Administrative Agent such Lender's ratable portion of such Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with subsection (a) or (b) of this Section 2.02 and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Administrative Agent, such Lender and the Borrower severally agree to repay or pay to the Administrative Agent forthwith on demand such corresponding amount and to pay interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid or paid to the Administrative Agent, at (i) in the case of the Borrower, the interest rate applicable at such time under Section 2.07 to Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall pay to the Administrative Agent such corresponding amount, such amount so paid in respect of principal shall constitute such Lender's Advance as part of such Borrowing for all purposes.

(e) The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

SECTION 2.03. Issuance of and Drawings and Reimbursement Under Letters of Credit. (a) Request for Issuance. Each Letter of Credit shall be issued upon notice, given not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed issuance of such Letter of Credit, by the Borrower to the Issuing Bank, which shall give to the Administrative Agent prompt notice thereof by telex or telecopier. Each such notice of issuance of a Letter of Credit (a "Notice of Issuance") shall be by telephone, confirmed immediately in writing, or telex or telecopier, specifying therein the requested (A) date of such issuance (which shall be a Business Day), (B) Available Amount of such Letter of Credit, (C) expiration date of such Letter of Credit, (D) name and address of the beneficiary of such Letter of Credit and (E) form of such Letter of Credit, and shall

be accompanied by such application and agreement for letter of credit as the Issuing Bank may specify to the Borrower for use in connection with such requested Letter of Credit (a "Letter of Credit Agreement"). If (x) the requested form of such Letter of Credit is acceptable to the Issuing Bank in its sole discretion and (y) it has not received notice of objection to such issuance from Lenders holding at least 66-2/3% of the Working Capital Commitments, the Issuing Bank will, upon fulfillment of the applicable conditions set forth in Article III, make such Letter of Credit available to the Borrower at its office referred to in Section 9.02 or as otherwise agreed with the Borrower in connection with such issuance. In the event and to the extent that the provisions of any Letter of Credit Agreement shall conflict with this Agreement, the provisions of this Agreement shall govern.

(b) Letter of Credit Reports. The Issuing Bank shall furnish (A) to the Administrative Agent on the first Business Day of each week a written report summarizing issuance and expiration dates of Letters of Credit issued during the previous week and drawings during such week under all Letters of Credit, (B) to each Working Capital Lender on the first Business Day of each calendar quarter a written report summarizing issuance and expiration dates of Letters of Credit issued during the preceding calendar quarter and drawings during such month under all Letters of Credit and (C) to the Administrative Agent and each Working Capital Lender on the first Business Day of each calendar quarter a written report setting forth the average daily aggregate Available Amount during the preceding calendar quarter of all Letters of Credit.

(c) Drawing and Reimbursement. The payment by the Issuing Bank of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement the making by the Issuing Bank of a Letter of Credit Advance, which shall be a Base Rate Advance, in the amount of such draft. In the event of any drawing under a Letter of Credit, the Issuing Bank shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Working Capital Lender and the Borrower and each Working Capital Lender shall purchase from the Issuing Bank, and the Issuing Bank shall sell and assign to each such Working Capital Lender, such Lender's Pro Rata Share of such outstanding Letter of Credit Advance as of the date of such purchase, by making available for the account of its Applicable Lending Office to the Administrative Agent for the account of the Issuing Bank, by deposit to the Administrative Agent's Account, in same day funds, an amount equal to the portion of the outstanding principal amount of such Letter of Credit Advance to be purchased by such Lender. Promptly after receipt thereof, the Administrative Agent shall transfer such funds to the Issuing Bank. The Borrower hereby agrees to each such sale and assignment. Each Working Capital Lender agrees to purchase its Pro Rata Share of an outstanding Letter of Credit Advance on (i) the Business Day on which notice of the drawing under the related Letter of Credit is given by the Issuing Bank, provided such notice is given not later than 1:00 P.M. (New York City time) on such Business Day or (ii) the first Business Day next succeeding such demand if such notice is given after such time. Upon any such assignment by the Issuing Bank to any other Working Capital Lender

of a portion of a Letter of Credit Advance, the Issuing Bank represents and warrants to such other Lender that the Issuing Bank is the legal and beneficial owner of such interest being assigned by it, free and clear of any liens, but makes no other representation or warranty and assumes no responsibility with respect to such Letter of Credit Advance, the Loan Documents or any Loan Party. If and to the extent that any Working Capital Lender shall not have so made the amount of such Letter of Credit Advance available to the Administrative Agent, such Working Capital Lender agrees to pay to the Administrative Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by the Issuing Bank until the date such amount is paid to the Administrative Agent, at the Federal Funds Rate for its account or the account of the Issuing Bank, as applicable. If such Lender shall pay to the Administrative Agent such amount for the account of the Issuing Bank on any Business Day, such amount so paid in respect of principal shall constitute a Letter of Credit Advance made by such Lender on such Business Day for purposes of this Agreement, and the outstanding principal amount of the Letter of Credit Advance made by the Issuing Bank shall be reduced by such amount on such Business Day.

(d) Failure to Make Letter of Credit Advances. The failure of any Lender to make the Letter of Credit Advance to be made by it on the date specified in Section 2.03(c) shall not relieve any other Lender of its obligation hereunder to make its Letter of Credit Advance on such date, but no Lender shall be responsible for the failure of any other Lender to make the Letter of Credit Advance to be made by such other Lender on such date.

SECTION 2.04. Repayment of Advances. (a) Term Advances. The Borrower shall repay to the Administrative Agent for the ratable account of the Term A Lenders and Term B Lenders the aggregate outstanding principal amount of the Term A Advances and Term B Advances, respectively, on the following dates in the amounts indicated (which amounts shall be reduced as a result of the application of prepayments in accordance with the order of priority set forth in Section 2.06):

Date	Amount	
	Term A Facility	Term B Facility
December 31, 1996	$1,200,000	$250,000
March 31, 1997	$1,200,000	$250,000
June 30, 1997	$1,200,000	$250,000
September 30, 1997	$1,200,000	$250,000
December 31, 1997	$1,200,000	$250,000
March 31, 1998	$1,200,000	$250,000
June 30, 1998	$1,200,000	$250,000
September 30, 1998	$1,200,000	$250,000
December 31, 1998	$1,200,000	$250,000
March 31, 1999	$1,200,000	$250,000
June 30, 1999	$1,200,000	$250,000
September 30, 1999	$1,200,000	$250,000
December 31, 1999	$1,200,000	$250,000
March 31, 2000	$1,200,000	$250,000
June 30, 2000	$1,200,000	$250,000
September 30, 2000	$1,200,000	$250,000
December 31, 2000	$1,200,000	$250,000
March 31, 2001	$1,200,000	$250,000
June 30, 2001	$1,200,000	$250,000
September 30, 2001	$1,200,000	$250,000
December 31, 2001	$2,750,000	$250,000
March 31, 2002	$2,750,000	$250,000
June 30, 2002	$2,750,000	$250,000
September 30, 2002	$2,750,000	$250,000
December 31, 2002	--	$8,500,000
March 31, 2003	--	$8,500,000
June 30, 2003	--	$8,500,000
September 30, 2003	--	$8,500,000
December 31, 2003	--	$15,000,000
March 31, 2004	--	$15,000,000
June 30, 2004	--	$15,000,000
September 30, 2004	--	$15,000,000

provided, however, that the final principal installment of the Term A Facility and the Term B Facility, respectively, shall in any event and in each case be in an amount equal to the aggregate principal amount of the Term A Advances and Term B Advances, respectively then outstanding.

(b) Working Capital Advances. The Borrower shall repay to the Administrative Agent for the ratable account of the Working Capital Lenders on the Termination Date the aggregate outstanding principal amount of the Working Capital Advances then outstanding.

(c) Letter of Credit Advances. (i) The Borrower shall repay to the Administrative Agent for the account of the Issuing Bank and each other Working Capital Lender that has made a Letter of Credit Advance on the earlier of the Termination Date and one Business Day after demand the outstanding principal amount of each Letter of Credit Advance made by each of them.

(ii) The Obligations of the Borrower under this Agreement, any Letter of Credit Agreement and any other agreement or instrument relating to any Letter of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, such Letter of Credit Agreement and such other agreement or instrument under all circumstances, including, without limitation, the following circumstances:

(A) any lack of validity or enforceability of any Loan Document, any Letter of Credit Agreement, any Letter of Credit or any other agreement or instrument relating thereto (all of the foregoing being, collectively, the "L/C Related Documents");

(B) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations of the Borrower in respect of any L/C Related Document or any other amendment or waiver of or any consent to departure from all or any of the L/C Related Documents;

(C) the existence of any claim, set-off, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), the Issuing Bank or any other Person, whether in connection with the transactions contemplated by the L/C Related Documents or any unrelated transaction;

(D) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(E) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit;

(F) any exchange, release or non-perfection of any Collateral or other collateral, or any release or amendment or waiver of or consent to departure from any guarantee, for all or any of the Obligations of the Borrower in respect of the L/C Related Documents; or

(G) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including, without limitation, any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or a guarantor.

(d) Acquisition Advances. The Borrower shall repay to the Administrative Agent for the ratable account of the Acquisition Lenders the aggregate outstanding principal amount of the Acquisition Advances on the following dates in the amounts indicated, determined as a percentage of the aggregate amount of Acquisition Advances outstanding on the Conversion Date (after giving effect to any prepayments required by Section 2.06(b)(ix) and which amount shall be reduced as a result of the application of further prepayments in accordance with the order of priority set forth in the applicable paragraph of Section 2.06):

Date	Amount
June 30, 1998	5.0%
September 30, 1998	5.0%
December 31, 1998	5.625%

March 31, 1999	5.625%
June 30, 1999	5.625%
September 30, 1999	5.625%
December 31, 1999	5.625%
March 31, 2000	5.625%
June 30, 2000	5.625%
September 30, 2000	5.625%
December 31, 2000	5.625%
March 31, 2001	5.625%
June, 30, 2001	5.625%
September 30, 2001	5.625%
December 31, 2001	5.625%
March 31, 2002	5.625%
June 30, 2002	5.625%
September 30, 2002	5.625%

provided, however, that the final principal installment of the Acquisition Facility shall in any event be in an amount equal to the aggregate principal amount of the Acquisition Advances then outstanding.

SECTION 2.05. Termination or Reduction of the Commitments. (a) Optional. The Borrower may, upon at least five Business Days' notice to the Administrative Agent, terminate in whole or reduce in part (x) the unused portions of the Letter of Credit Facility and the Unused Working Capital Commitments or (y) the Unused Acquisition Commitments; provided, however, that each partial reduction of a Facility (i) shall be in an aggregate amount of $1,000,000 or an integral multiple of $500,000 in excess thereof and (ii) shall be made ratably among the Appropriate Lenders in accordance with their Commitments with respect to such Facility.

(b) Mandatory. (i) On the date of the Term A Borrowing, after giving effect to such Term A Borrowing, and from time to time thereafter upon each repayment or prepayment of the Term A Advances, the aggregate Term A Commitments of the Term A Lenders shall be automatically and permanently reduced, on a pro rata basis, by an amount equal to the amount by which the aggregate Term A Commitments immediately prior to such reduction exceed the aggregate unpaid principal amount of the Term A Advances then outstanding.

(ii) On the date of the Term B Borrowing, after giving effect to such Term B Borrowing, and from time to time thereafter upon each repayment or prepayment of the Term B Advances, the aggregate Term B Commitments of the Term B Lenders shall be automatically and permanently reduced, on a pro rata basis, by an amount equal to the amount by which the aggregate Term B Commitments immediately prior to such reduction exceed the aggregate unpaid principal amount of the Term B Advances then outstanding.

(iii) The Working Capital Facility shall be automatically and permanently reduced on the date on which any prepayment is required to be made pursuant to Section 2.06(b)(i), (ii) or (ix) by an amount equal to the applicable Reduction Amount, provided that each such reduction of the Working Capital Facility shall be made ratably among the Working Capital Lenders in accordance with their Working Capital Commitments.

(iv) The Letter of Credit Facility shall be automatically and permanently reduced from time to time on the date of each reduction in the Working Capital Facility by the amount, if any, by which the amount of the Letter of Credit Facility exceeds the Working Capital Facility after giving effect to such reduction of the Working Capital Facility.

(v) Prior to the Conversion Date, the Acquisition Facility shall be automatically and permanently reduced on the date on which any prepayment is required to be made pursuant to Section 2.06(b)(i) or (ii) by an amount equal to the applicable Acquisition Reduction Amount, provided that each such reduction of the Acquisition Facility shall be made ratably among the Acquisition Lenders in accordance with their Acquisition Commitments. From and after the Conversion Date, the Acquisition Commitments of the Acquisition Lenders shall be automatically and permanently reduced, on a pro rata basis, by

an amount equal to the amount by which the aggregate Acquisition Facility Commitments immediately prior to such reduction exceed the aggregate unpaid principal amount of the Acquisition Advances then outstanding.

SECTION 2.06. Prepayments. (a) Optional. Except on or prior to the Conversion Date with respect to Acquisition Advances, the Borrower may, upon at least one Business Day's notice to the Administrative Agent for Base Rate Advances and three Business Days' notice to the Administrative Agent for Eurodollar Rate Advances (received not later than 11:00 A.M. (New York City time)) stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding aggregate principal amount of the Advances comprising part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the aggregate principal amount prepaid unless such prepayment is with respect to a Working Capital Advance which is a Base Rate Advance; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of $1,000,000 or an integral multiple of $500,000 in excess thereof and (y) if any prepayment of a Eurodollar Rate Advance shall be made other than on the last day of an Interest Period therefor, the Borrower shall also pay any amounts owing pursuant to Section 9.04(c). Each such prepayment of any Term Advances and, after the Conversion Date, Acquisition Advances shall be applied ratably to the Term A Facility, the Term B Facility and, after the Conversion Date, to the Acquisition Facility and, in each case, ratably to the principal installments thereof.

(b) Mandatory. (i) The Borrower shall, no later than the 30th day following the date on which it delivers the financial statements referred to in Section 5.03(d) (but in any event within 120 days after the end of each Fiscal Year), prepay an aggregate principal amount of the Advances comprising part of the same Borrowings equal to the Recapture Percentage of the amount of Excess Cash Flow for such Fiscal Year. Prior to the Conversion Date, each such prepayment of any Advances shall be applied as follows:

first, ratably to the Term A Facility and the Term B Facility and, in each case, ratably to the principal installments thereof, and

second, to the extent no Term Advances remain outstanding, permanently to reduce the Acquisition Facility as set forth in clause (viii) below, and

third, to the extent no Term Advances remain outstanding and the Acquisition Facility has been fully repaid and permanently reduced in full, permanently to reduce the Working Capital Facility as set forth in clause (vi) below.

From and after the Conversion Date, each such prepayment of any Advances shall be applied as follows:

first, ratably to the Term A Facility, the Term B Facility and the Acquisition Facility, in each case ratably to the principal installments thereof, and

second, to the extent no Term Advances or Acquisition Advances remain outstanding, permanently to reduce the Working Capital Facility as set forth in clause (vi) below.

(ii) The Borrower shall, on the date of receipt of the Net Cash Proceeds by any Loan Party or any of its Subsidiaries from (A) the sale, lease, transfer or other disposition of any assets of any Loan Party or any of its Subsidiaries (other than any Permitted Asset Sale on or prior to the Conversion Date or any sale, lease, transfer or other disposition of assets permitted by Section 5.02(e)(i)), (B) the incurrence or issuance by any Loan Party or any of its Subsidiaries of any Debt (other than Debt incurred or issued pursuant to Section 5.02(b)), (C) the sale or issuance by any Loan Party or any of its Subsidiaries of any capital stock or other ownership or profit interest (except (i) common stock issued by MEDIQ (1) pursuant to Section 5.02(f)(i) or (vi) for purposes of making Investments under such Sections or (2) in respect of the 7.25% Notes in satisfaction of the terms of the 7.25% Note Indenture, or (ii)

any such sale or issuance in connection with the Permitted Asset Sales), any securities convertible into or exchangeable for capital stock or other ownership or profit interest or any warrants, rights or options to acquire capital stock or other ownership or profit interest (except as permitted by Section 5.02(g)) or (D) any Extraordinary Receipt received by or paid to or for the account of any Loan Party or any of its Subsidiaries and not otherwise included in clause (A), (B) or (C) above, prepay an aggregate principal amount of the Advances comprising part of the same Borrowings equal to the amount of such Net Cash Proceeds; provided, however, that such prepayment shall not be required so long as the aggregate amount of such Net Cash Proceeds received by any Loan Party or any of its Subsidiaries in the period immediately following (x) with respect to the first such prepayment, the Initial Extension of Credit and (y) with respect to any prepayment after the first such prepayment, the most recent such prepayment, shall not exceed $250,000. Prior to the Conversion Date, each such prepayment shall be applied as follows:

first, ratably to the Term A Facility and the Term B Facility and, in each case, ratably to the principal installments thereof, and

second, to the extent no Term Advances remain outstanding, permanently to reduce the Acquisition Facility as set forth in clause (viii) below, and

third, to the extent no Term Advances remain outstanding and the Acquisition Facility has been fully repaid and permanently reduced in full, permanently to reduce the Working Capital Facility as set forth in clause (vi) below.

From and after the Conversion Date, each such prepayment of any Advances shall be applied as follows:

first, ratably to the Term A Facility, the Term B Facility, and the Acquisition Facility, in each case ratably to the principal installments thereof, and

second, to the extent no Term Advances or Acquisition Advances remain outstanding, permanently to reduce the Working Capital Facility as set forth in clause (vi) below.

(iii) The Borrower shall, on each Business Day, prepay an aggregate principal amount of the Working Capital Advances comprising part of the same Borrowings, and the Letter of Credit Advances equal to the amount by which (A) the sum of the aggregate principal amount of the Working Capital Advances, the Letter of Credit Advances then outstanding, the aggregate Available Amount of all Letters of Credit then outstanding and the Asset Sale Release Amount exceeds (B) the lesser of the Working Capital Facility and the Loan Value of Eligible Collateral on such Business Day (as determined based on the most recent Borrowing Base Certificate delivered to the Lender Parties hereunder).

(iv) The Borrower shall, on each Business Day, pay to the Administrative Agent for deposit in the L/C Cash Collateral Account an amount sufficient to cause the aggregate amount on deposit in such Account to equal the amount by which the aggregate Available Amount of all Letters of Credit then outstanding exceeds the Letter of Credit Facility on such Business Day.

(v) The Borrower shall pay to the Administrative Agent, on the first day of each Clean-Down Period, an amount equal to the amount by which the aggregate principal amount of the Working Capital Advances and the Letter of Credit Advances plus the aggregate Available Amount of Letters of Credit then outstanding exceeds $10,000,000, to be applied in the same manner as prepayments are required to be applied pursuant to Section 2.06(b)(vi).

(vi) Prepayments of the Working Capital Facility shall be first applied to prepay Letter of Credit Advances then outstanding until such Letter of Credit Advances are paid in full, second applied to prepay Working Capital Advances then outstanding comprising part of the same Borrowings until such Working Capital Advances are paid in full and third deposited in the L/C Cash Collateral Account to cash collateralize 100% of the Available Amount of the Letters of Credit then outstanding; and, in the case of prepayments of the Working Capital Facility required pursuant to clause (i) or (ii) above, the amount remaining (if any) after the prepayment in full of the Working Capital Advances then outstanding and the 100% cash collateralization of the aggregate

Available Amount of Letters of Credit then outstanding (the sum of such prepayment amounts, cash collateralization amounts and

remaining amount being referred to herein as the "Reduction Amount") may be retained by the Borrower and the Working Capital Facility shall be permanently reduced as set forth in Section 2.05(b)(iii). Upon the drawing of any Letter of Credit for which funds are on deposit in the L/C Cash Collateral Account, such funds shall be applied to reimburse the Issuing Bank or Working Capital Lenders, as applicable.

(vii) Prior to the Conversion Date, the Borrower shall, on the date of receipt of the Net Cash Proceeds by any Loan Party or any of its Subsidiaries from any Permitted Asset Sale, prepay an aggregate principal amount of the Acquisition Advances comprising part of the same Acquisition Borrowings equal to the amount of such Net Cash Proceeds. Each such prepayment shall be applied in accordance with Section 2.06(b)(viii), but amounts so prepaid may be reborrowed prior to the Conversion Date in accordance with Section 2.01(f).

(viii) Prior to the Conversion Date, prepayments of the Acquisition Facility pursuant to Section 2.06(b)(i), (ii) or (vii) shall be applied to prepay Acquisition Advances then outstanding comprising part of the same Borrowings until such Acquisition Advances are paid in full and the amount remaining (if any) after the prepayment in full of the Acquisition Advances then outstanding (such prepayment amounts (except for any amounts prepaid with Net Cash Proceeds from Permitted Asset Sales in accordance with Section 2.06(b)(vii)) and the remaining amount being referred to herein as the "Acquisition Reduction Amount") may be retained by the Borrower and, except for prepayments required by Section 2.06(b)(vii), the Acquisition Facility shall be permanently reduced as set forth in Section 2.05(b)(v).

(ix) On the Conversion Date, the Borrower shall prepay an aggregate principal amount of the Advances comprising part of the same Borrowings equal to the amount on deposit in the Asset Sale Blocked Account plus the Asset Sale Release Amount. Each such prepayment shall be applied as follows:

first, to the Acquisition Facility,

second, to the extent no Acquisition Advances remain outstanding, ratably to the Term A Facility and the Term B Facility, in each case ratably to the principal installments thereof, and

third, to the extent no Term Advances or Acquisition Advances remain outstanding, permanently to reduce the Working Capital Facility as set forth in clause (vi) above.

(x) All prepayments under this subsection (b) shall be made together with accrued interest to the date of such prepayment on the principal amount prepaid, together with any amounts owing pursuant to Section 9.04(c).

(xi) The Borrower shall, on each Business Day, prepay an aggregate principal amount of the Advances comprising part of the same Borrowings equal to the amount by which the amount on deposit in the Asset Sale Blocked Account exceeds the aggregate amount of Subordinated Notes outstanding. Each such prepayment shall be applied as follows:

first, to the Acquisition Facility,

second, to the extent no Acquisition Advances remain outstanding, ratably to the Term A Facility and the Term B Facility, in each case ratably to the principal installments thereof, and

third, to the extent no Term Advances or Acquisition Advances remain outstanding, permanently to reduce the Working Capital Facility as set forth in clause (vi) above.

(c) Term B Opt-Out. With respect to any prepayment of the Term B Advances, the Administrative Agent shall ratably pay the Term B Lenders as

required under Section 2.06(a) or (b), unless, with respect to any prepayment from time to time of the Term B Advances, the Administrative Agent shall have received written notice from any Term B Lender not later than three Business Days prior to such prepayment, that such Term B Lender elects not to receive any prepayments under this Section 2.06 (a "Term B Opt-Out Lender"), which election shall remain in effect with respect to any subsequent prepayment until the Administrative Agent shall receive a subsequent written notice from such Term B Opt-Out Lender cancelling such earlier notice. Any such prepayments which would have been remitted to a Term B Opt-Out Lender but for its election to not receive such prepayments, shall be paid ratably to the remaining Lenders as provided in Sections 2.06(a) and (b); provided, however, that Term B Lenders, on any date on which the Term A Facility is repaid in full and no Acquisition Advances are outstanding, shall not be entitled to elect not to receive any further prepayments.

SECTION 2.07. Interest. (a) Scheduled Interest. The Borrower shall pay interest on the unpaid principal amount of each Advance owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (A) the Base Rate in effect from time to time plus (B) the Applicable Margin in effect from time to time, payable in arrears quarterly on the last Business Day of each March, June, September and December during such periods, on the date of any prepayment thereof to the

extent required under Section 2.06(b) and on the Final Maturity Date, commencing December 31, 1996.

(ii) Eurodollar Rate Advances. During such periods as such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Advance to the sum of (A) the Eurodollar Rate for such Interest Period for such Advance plus (B) the Applicable Margin in effect on the first day of such Interest Period, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(b) Default Interest. Upon the occurrence and during the continuance of any Event of Default, the Administrative Agent may, and upon the request of the Required Lenders shall, require that the Borrower pay interest on (i) the unpaid principal amount of each Advance owing to each Lender, payable in arrears on the dates referred to in clause (a)(i) or (a)(ii) above and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a)(i) or (a)(ii) above and (ii) to the fullest extent permitted by law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid, in the case of interest, on the Type of Advance on which such interest has accrued pursuant to clause (a)(i) or (a)(ii) above, and, in all other cases, on Base Rate Advances pursuant to clause (a)(i) above.

SECTION 2.08. Fees. (a) Commitment Fee. The Borrower shall pay to the Administrative Agent for the account of the Lenders a commitment fee on the average daily portion of each Appropriate Lender's Unused Acquisition Commitment (prior to the Conversion Date) and on the average daily Unused Working Capital Commitment of each Appropriate Lender, from the date hereof in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date, payable in arrears quarterly on the last Business Day of each March, June, September and December, commencing December 31, 1996, and, with respect to Unused Acquisition Commitments, on the Conversion Date or, with respect to Unused Working Capital Commitments, on the Termination Date, at the rate of half of 1% per annum on the average daily portion of each Appropriate Lender's Unused Acquisition Commitment and on the average daily Unused Working Capital Commitment of each Appropriate Lender; provided, however, that any commitment fee accrued with respect to any of the Commitments of a

Defaulting Lender during the period prior to the time such Lender became a Defaulting Lender and unpaid at

such time shall not be payable by the Borrower so long as such Lender shall be a Defaulting Lender except to the extent that such commitment fee shall otherwise have been due and payable by the Borrower prior to such time; and provided further that no commitment fee shall accrue on any of the Commitments of a Defaulting Lender so long as such Lender shall be a Defaulting Lender.

(b) Letter of Credit Fees, Etc. (i) The Borrower shall pay to the Administrative Agent for the account of each Working Capital Lender a commission, payable in arrears quarterly on the last Business Day of each March, June, September and December, commencing December 31, 1996, and on the Termination Date, on such Lender's Pro Rata Share of the average daily aggregate Available Amount during such quarter of (A) all Standby Letters of Credit outstanding from time to time and (B) all Trade Letters of Credit then outstanding, in each case at the rate per annum equal to the Applicable Margin for Working Capital Advances which are Eurodollar Rate Advances in effect from time to time.

(ii) The Borrower shall pay to the Issuing Bank, for its own account, such commissions, issuance fees, fronting fees, transfer fees and other fees and charges in connection with the issuance or administration of each Letter of Credit as the Borrower and the Issuing Bank shall agree.

(c) Agents' Fees. The Borrower shall pay to each of the Agents for its own account such fees as may from time to time be agreed between the Borrower and such Agent.

SECTION 2.09. Conversion of Advances. (a) Optional. The Borrower may on any Business Day, upon notice given to the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.07 and 2.10, Convert all or any portion of the Advances of one Type comprising the same Borrowing into Advances of the other Type; provided, however, that (w) if any Conversion of Eurodollar Rate Advances into Base Rate Advances is made other than on the last day of an Interest Period for such Eurodollar Rate Advances, the Borrower shall also pay any amounts owing pursuant to Section 9.04(c), (x) any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b), (y) no Conversion of any Advances shall result in more separate Borrowings than permitted under Section 2.02(b), and (z) each Conversion of Advances comprising part of the same Borrowing under any Facility shall be made ratably among the Appropriate Lenders in accordance with their Commitments under such Facility. Each such notice of Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Advances to be Converted and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for such Advances. Each notice of Conversion shall be irrevocable and binding on the Borrower.

(b) Mandatory. (i) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise, to less than $1,000,000, such Advances shall automatically Convert into Base Rate Advances.

(ii) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Administrative Agent will forthwith so notify the Borrower and the Appropriate Lenders, whereupon each such Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance.

(iii) Upon the occurrence and during the continuance of any Event of Default, (x) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance and (y) the obligation of the Lenders to make, or to Convert Advances into,

Eurodollar Rate Advances shall be suspended.

SECTION 2.10. Increased Costs, Etc. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to any Lender Party of agreeing to make or of making, funding or maintaining Eurodollar Rate Advances or of agreeing to issue or of issuing or maintaining Letters of Credit or of agreeing to make or of making or maintaining Letter of Credit Advances, then the Borrower shall from time to time, upon demand by such Lender Party (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender Party additional amounts sufficient to compensate such Lender Party for such increased cost. A certificate as to the amount of such increased cost, submitted to the Borrower by such Lender Party, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender Party determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender Party or any corporation controlling such Lender Party and that the amount of such capital is increased by or based upon the existence of such Lender Party's commitment to lend or to issue Letters of Credit hereunder and other commitments of such type or the issuance or maintenance of the Letters of Credit (or similar contingent obligations), then, upon demand by such Lender Party (with a copy of such demand to the Administrative Agent), the Borrower shall pay to the Administrative Agent for the account of such Lender Party, from time to time as specified by such Lender Party, additional amounts sufficient to compensate such Lender Party in the light of such

circumstances, to the extent that such Lender Party reasonably determines such increase in capital to be allocable to the existence of such Lender Party's commitment to lend or to issue Letters of Credit hereunder or to the issuance or maintenance of any Letters of Credit. A certificate as to such amounts submitted to the Borrower by such Lender Party shall be conclusive and binding for all purposes, absent manifest error. Each Lender will determine the amount of any additional compensation requested under this Section 2.10(b) on a basis consistent with that on which it requests additional compensation from other similar borrowers with whom it has an agreement similar to the agreement contained in this Section 2.10(b).

(c) If, with respect to any Eurodollar Rate Advances under any Facility, Lenders owed more than 50% of the then aggregate unpaid principal amount thereof notify the Administrative Agent that the Eurodollar Rate for any Interest Period for such Advances will not adequately reflect the cost to such Lenders of making, funding or maintaining their Eurodollar Rate Advances for such Interest Period, the Administrative Agent shall forthwith so notify the Borrower and the Appropriate Lenders, whereupon (i) each such Eurodollar Rate Advance under any Facility will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance and (ii) the obligation of the Appropriate Lenders to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify the Borrower that such Lenders have determined that the circumstances causing such suspension no longer exist.

(d) Notwithstanding any other provision of this Agreement, if the introduction of or any change in or in the interpretation of any law or regulation shall make it unlawful, or any central bank or other governmental authority shall assert that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to continue to fund or maintain Eurodollar Rate Advances hereunder, then, on notice thereof and demand therefor by such Lender to the Borrower through the Administrative Agent, (i) each Eurodollar Rate Advance under each Facility under which such Lender has a Commitment will automatically, upon such demand, Convert into a Base Rate Advance and (ii) the obligation of the Appropriate Lenders to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify the Borrower that such Lender has determined that the circumstances causing such suspension no longer exist.

SECTION 2.11. Payments and Computations. (a) The Borrower shall make

each payment hereunder and under the Notes, irrespective of any right of counterclaim or set-off (except as otherwise provided in Section 2.15), not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars to the Administrative Agent at the Administrative Agent's Account in same day funds. The Administrative Agent will promptly thereafter cause like funds to be distributed (i) if such payment by the Borrower is in respect of principal, interest, commitment fees or any other Obligation then payable hereunder and

under the Notes to more than one Lender Party, to such Lender Parties for the account of their respective Applicable Lending Offices ratably in accordance with the amounts of such respective Obligations then payable to such Lender Parties and (ii) if such payment by the Borrower is in respect of any Obligation then payable hereunder to one Lender Party, to such Lender Party for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 9.07(d), from and after the effective date of such Assignment and Acceptance, the Administrative Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender Party assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) If the Administrative Agent receives funds for application to the Obligations under the Loan Documents under circumstances for which the Loan Documents do not specify the Advances or the Facility to which, or the manner in which, such funds are to be applied, the Administrative Agent shall elect to distribute such funds to each Lender Party ratably in accordance with such Lender Party's proportionate share of the principal amount of all outstanding Advances and the Available Amount of all Letters of Credit then outstanding, in repayment or prepayment of such of the outstanding Advances or other Obligations owed to such Lender Party, and for application to such principal installments, as the Administrative Agent shall direct.

(c) After an Event of Default, the Borrower hereby authorizes each Lender Party, if and to the extent payment owed to such Lender Party is not made when due hereunder or, in the case of a Lender, under the Note held by such Lender, to charge from time to time against any or all of the Borrower's accounts with such Lender Party any amount so due.

(d) All computations of interest, fees and Letter of Credit commissions shall be made by the Administrative Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest, fees or commissions are payable. Each determination by the Administrative Agent of an interest rate, fee or commission hereunder shall be conclusive and binding for all purposes, absent manifest error.

(e) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or commitment fee, as the case may be; provided, however, that, if such extension would cause such payment to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(f) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to any Lender Party hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each such Lender Party on such due date an amount equal to the amount then due such Lender Party. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each such Lender Party shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender Party together with interest thereon, for each day from the date such amount is

distributed to such Lender Party until the date such Lender Party repays such amount to the Administrative Agent, at the Federal Funds Rate.

SECTION 2.12. Taxes. (a) Any and all payments by the Borrower hereunder or under the Notes shall be made, in accordance with Section 2.11, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender Party and each Agent, taxes imposed on its overall net income by the United States and franchise taxes and net income taxes that are imposed on such Lender Party or such Agent in lieu of net income taxes by the state or foreign jurisdiction under the laws of which such Lender Party or such Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender Party, taxes imposed on its overall net income and franchise taxes imposed on such Lender Party in lieu of net income taxes by the state or foreign jurisdiction of such Lender Party's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Lender Party or any Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.12) such Lender Party or such Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any present or future stamp, documentary, excise, property or similar taxes, charges or levies that arise from any payment made hereunder or under the Notes or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or the Notes (hereinafter referred to as "Other Taxes").

(c) The Borrower shall indemnify each Lender Party and each Agent for and hold it harmless against the full amount of Taxes and Other Taxes, and for the full amount of taxes of any kind imposed by any jurisdiction on amounts payable under this Section 2.12, paid by such Lender Party or such Agent (as the case may be) and any liability (including penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date such Lender Party or such Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Borrower shall furnish to the Administrative Agent, at its address referred to in Section 9.02, the original or a certified copy of a receipt evidencing such payment. In the case of any payment hereunder or under the Notes by or on behalf of the Borrower through an account or branch outside the United States or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determines that no Taxes are payable in respect thereof, the Borrower shall furnish, or shall cause such payor to furnish, to the Administrative Agent, at such address, an opinion of counsel acceptable to the Administrative Agent stating that such payment is exempt from Taxes. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender Party organized under the laws of a jurisdiction outside the United States shall, on or prior to the date of its execution and delivery of this Agreement in the case of each Initial Lender or Initial Issuing Bank, as the case may be, and on the date of the Assignment and Acceptance pursuant to which it becomes a Lender Party in the case of each other Lender Party, and from time to time thereafter if requested in writing by the Borrower or the Administrative Agent (but only so long thereafter as such Lender Party remains lawfully able to do so), provide the Administrative Agent and the Borrower with Internal Revenue Service form 1001 or 4224, or in the case of a Lender Party that is claiming exemption from United States withholding tax under Section 871(h) or 881(c) of the Internal Revenue Code with respect to payments of "portfolio interest" two accurate and complete signed original Forms W-8 and, if such Lender Party delivers forms W-8, two signed certificates certifying that such Lender Party is not (i) a "bank" for purposes of Section 881(c) of the Internal Revenue Code, (ii) is not a 10% shareholder (within the meaning of

Section 871(h)(3)(B) of the Internal Revenue Code) of the Borrower and (iii) is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Internal Revenue Code), as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender Party is exempt from or is entitled to a reduced rate of United States withholding tax on payments under this Agreement or the Notes. If the form provided by a Lender Party at the time such Lender Party first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes unless and until such Lender Party provides the appropriate form certifying that a lesser rate applies,

whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such form; provided, however, that, if at the date of the Assignment and Acceptance pursuant to which a Lender Party becomes a party to this Agreement, the Lender Party assignor was entitled to payments under subsection (a) in respect of United States withholding tax with respect to interest paid at such date, then, to such extent, the term Taxes shall include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes) United States withholding tax, if any, applicable with respect to the Lender Party assignee on such date. If any form or document referred to above in this subsection (e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service form 1001 or 4224, that the Lender Party reasonably considers to be confidential, the Lender Party shall give notice thereof to the Borrower and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which a Lender Party has failed to provide the Borrower with the appropriate form described in subsection (e) above (other than if such failure is due to a change in law occurring after the date on which a form originally was required to be provided or if such form otherwise is not required under subsection (e) above), such Lender Party shall not be entitled to indemnification under subsection (a) or (c) with respect to Taxes imposed by the United States; provided, however, that should a Lender Party become subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as such Lender Party shall reasonably request to assist such Lender Party to recover such Taxes.

SECTION 2.13. Sharing of Payments, Etc. If any Lender Party shall obtain at any time any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) (a) on account of Obligations due and payable to such Lender Party hereunder and under the Notes at such time in excess of its ratable share (according to the proportion of (i) the amount of such Obligations due and payable to such Lender Party at such time to (ii) the aggregate amount of the Obligations due and payable to all Lender Parties hereunder and under the Notes at such time) of payments on account of the Obligations due and payable to all Lender Parties hereunder and under the Notes at such time obtained by all the Lender Parties at such time or (b) on account of Obligations owing (but not due and payable) to such Lender Party hereunder and under the Notes at such time in excess of its ratable share (according to the proportion of (i) the amount of such Obligations owing to such Lender Party at such time to (ii) the aggregate amount of the Obligations owing (but not due and payable) to all Lender Parties hereunder and under the Notes at such time) of payments on account of the Obligations owing (but not due and payable) to all Lender Parties hereunder and under the Notes at such time obtained by all of the Lender Parties at such time, such Lender Party shall forthwith purchase from the other Lender Parties such participations in the Obligations due and payable or owing to them, as the case may be, as shall be necessary to cause such purchasing Lender Party to share the excess

payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender Party, such purchase from each other Lender Party shall be rescinded and such other Lender Party shall repay to the purchasing Lender Party the purchase price to the extent of such Lender Party's ratable share (according to the proportion of (i) the purchase price paid to such Lender Party to (ii) the aggregate

purchase price paid to all Lender Parties) of such recovery together with an amount equal to such Lender Party's ratable share (according to the proportion of (i) the amount of such other Lender Party's required repayment to (ii) the total amount so recovered from the purchasing Lender Party) of any interest or other amount paid or payable by the purchasing Lender Party in respect of the total amount so recovered. The Borrower agrees that any Lender Party so purchasing a participation from another Lender Party pursuant to this Section 2.13 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender Party were the direct creditor of the Borrower in the amount of such participation.

SECTION 2.14. Use of Proceeds. The proceeds of the Advances and issuances of Letters of Credit shall be available (and the Borrower agrees that it shall use such proceeds and Letters of Credit) solely as follows:

(a) from Term Advances, to refinance, in part, the Refinancing Debt and to pay transaction fees and expenses in connection therewith and with the financing contemplated by the Loan Documents;

(b) from Acquisition Advances:

(i) to refinance, in part, the Refinancing Debt, and to pay transaction fees and expenses in connection therewith;

(ii) on terms permitted by Section 5.02(k)(i)(y)(B); and

(iii) from and after the Asset Sale Threshold Date and subject to the Acquisition Facility Sublimit (x) to pay dividends and repurchase shares of the common stock of MEDIQ to the extent permitted by Section 5.02(g)(i) and (y), if no repurchase of shares pursuant to Section 5.02(g)(i) has occurred, to make Investments permitted by Section 5.02(f)(i); and

(c) from Working Capital Advances, to finance working capital requirements of the Borrower, to be deposited in the Asset Sale Blocked Account, to make payments required under Section 5.01(p) and for other general corporate purposes permitted by this Agreement; provided, however, that Working Capital Advances may not be used for the purposes for which Acquisition Advances may be

used in accordance with Section 2.14(b) except, if any Investment pursuant to Section 5.02(f)(vi)(x) shall have been made, to the extent of the amount of such Investment.

SECTION 2.15. Defaulting Lenders. (a) In the event that, at any one time, (i) any Lender Party shall be a Defaulting Lender, (ii) such Defaulting Lender shall owe a Defaulted Advance to the Borrower and (iii) the Borrower shall be required to make any payment hereunder or under any other Loan Document to or for the account of such Defaulting Lender, then the Borrower may, so long as no Default shall occur or be continuing at such time and to the fullest extent permitted by applicable law, set off and otherwise apply the Obligation of the Borrower to make such payment to or for the account of such Defaulting Lender against the obligation of such Defaulting Lender to make such Defaulted Advance. In the event that, on any date, the Borrower shall so set off and otherwise apply its obligation to make any such payment against the obligation of such Defaulting Lender to make any such Defaulted Advance on or prior to such date, the amount so set off and otherwise applied by the Borrower shall constitute for all purposes of this Agreement and the other Loan Documents an Advance by such Defaulting Lender made on the date under the Facility pursuant to which such Defaulted Advance was originally required to have been made pursuant to Section 2.01. Such Advance shall be a Base Rate Advance and shall be considered, for all purposes of this Agreement, to comprise part of the Borrowing in connection with which such Defaulted Advance was originally required to have been made pursuant to Section 2.01, even if the other Advances comprising such Borrowing shall be Eurodollar Rate Advances on the date such Advance is deemed to be made pursuant to this subsection (a). The Borrower shall notify the Administrative Agent at any time the Borrower exercises its right of set-off pursuant to this subsection (a) and shall set forth in such notice (A) the name of the Defaulting Lender and the Defaulted Advance required to be made by such Defaulting Lender and (B) the amount set off and otherwise applied in respect of such Defaulted Advance pursuant to this subsection (a). Any portion

of such payment otherwise required to be made by the Borrower to or for the account of such Defaulting Lender which is paid by the Borrower, after giving effect to the amount set off and otherwise applied by the Borrower pursuant to this subsection (a), shall be applied by the Administrative Agent as specified in subsection (b) or (c) of this Section 2.15.

(b) In the event that, at any one time, (i) any Lender Party shall be a Defaulting Lender, (ii) such Defaulting Lender shall owe a Defaulted Amount to the Administrative Agent or any of the other Lender Parties and (iii) the Borrower shall make any payment hereunder or under any other Loan Document to the Administrative Agent for the account of such Defaulting Lender, then the Administrative Agent may, on its behalf or on behalf of such other Lender Parties and to the fullest extent permitted by applicable law, apply at such time the amount so paid by the Borrower to or for the account of such Defaulting Lender to the payment of each such Defaulted Amount to the extent required to pay such Defaulted Amount. In the event that the Administrative Agent shall so apply any such amount to the payment of any such Defaulted Amount on any date, the amount so

applied by the Administrative Agent shall constitute for all purposes of this Agreement and the other Loan Documents payment, to such extent, of such Defaulted Amount on such date. Any such amount so applied by the Administrative Agent shall be retained by the Administrative Agent or distributed by the Administrative Agent to such other Lender Parties, ratably in accordance with the respective portions of such Defaulted Amounts payable at such time to the Administrative Agent and such other Lender Parties and, if the amount of such payment made by the Borrower shall at such time be insufficient to pay all Defaulted Amounts owing at such time to the Administrative Agent and the other Lender Parties, in the following order of priority:

(i) first, to the Administrative Agent for any Defaulted Amount then owing to the Administrative Agent; and

(ii) second, to any other Lender Parties for any Defaulted Amounts then owing to such other Lender Parties, ratably in accordance with such respective Defaulted Amounts then owing to such other Lender Parties.

Any portion of such amount paid by the Borrower for the account of such Defaulting Lender remaining, after giving effect to the amount applied by the Administrative Agent pursuant to this subsection (b), shall be applied by the Administrative Agent as specified in subsection (c) of this Section 2.15.

(c) In the event that, at any one time, (i) any Lender Party shall be a Defaulting Lender, (ii) such Defaulting Lender shall not owe a Defaulted Advance or a Defaulted Amount and (iii) the Borrower, the Administrative Agent or any other Lender Party shall be required to pay or distribute any amount hereunder or under any other Loan Document to or for the account of such Defaulting Lender, then the Borrower or such other Lender Party shall pay such amount to the Administrative Agent to be held by the Administrative Agent, to the fullest extent permitted by applicable law, in escrow or the Administrative Agent shall, to the fullest extent permitted by applicable law, hold in escrow such amount otherwise held by it. Any funds held by the Administrative Agent in escrow under this subsection (c) shall be deposited by the Administrative Agent in an account with BNP, in the name and under the control of the Administrative Agent, but subject to the provisions of this subsection (c). The terms applicable to such account, including the rate of interest payable with respect to the credit balance of such account from time to time, shall be BNP's standard terms applicable to escrow accounts maintained with it. Any interest credited to such account from time to time shall be held by the Administrative Agent in escrow under, and applied by the Administrative Agent from time to time in accordance with the provisions of, this subsection (c). The Administrative Agent shall, to the fullest extent permitted by applicable law, apply all funds so held in escrow from time to time to the extent necessary to make any Advances required to be made by such Defaulting Lender and to pay any amount payable by such Defaulting Lender hereunder and under the other Loan

Documents to the Administrative Agent or any other Lender Party, as and when such Advances or amounts are required to be made or paid and, if the amount so held in escrow shall at any time be insufficient to make and pay all such

Advances and amounts required to be made or paid at such time, in the following order of priority:

(i) first, to the Administrative Agent for any amount then due and payable by such Defaulting Lender to the Administrative Agent hereunder;

(ii) second, to any other Lender Parties for any amount then due and payable by such Defaulting Lender to such other Lender Parties hereunder, ratably in accordance with such respective amounts then due and payable to such other Lender Parties; and

(iii) third, to the Borrower for any Advance then required to be made by such Defaulting Lender pursuant to a Commitment of such Defaulting Lender.

In the event that any Lender Party that is a Defaulting Lender shall, at any time, cease to be a Defaulting Lender, any funds held by the Administrative Agent in escrow at such time with respect to such Lender Party shall be distributed by the Administrative Agent to such Lender Party and applied by such Lender Party to the Obligations owing to such Lender Party at such time under this Agreement and the other Loan Documents ratably in accordance with the respective amounts of such Obligations outstanding at such time.

(d) The rights and remedies against a Defaulting Lender under this Section 2.15 are in addition to other rights and remedies that the Borrower may have against such Defaulting Lender with respect to any Defaulted Advance and that the Administrative Agent or any Lender Party may have against such Defaulting Lender with respect to any Defaulted Amount.

SECTION 2.16. Release of Funds from the Asset Sale Blocked Account. So long as no Default shall have occurred and be continuing, the Administrative Agent will, upon presentation of a Notice of Drawing by the Borrower to the Administrative Agent substantially in the form of Exhibit F hereto, pay and release to the Borrower or at its order and at the request of the Borrower, the amount, if any, or any portion thereof, on deposit in the Asset Sale Blocked Account, so long as the Borrower applies such amount (A) in the same manner and on the same basis as is permitted for Acquisition Advances pursuant to Section 2.14(b), (B) to prepay the Working Capital Facility pursuant to Section 2.06(a) or (C) or as required pursuant to Section 2.06(b)(ix).

ARTICLE III

CONDITIONS OF LENDING

SECTION 3.01. Conditions Precedent to Initial Extension of Credit. The obligation of each Lender to make an Advance on the occasion of the Initial Extension of Credit hereunder is subject to the satisfaction of the following conditions precedent before or concurrently with the Initial Extension of Credit:

(a) The Lender Parties shall be satisfied with the corporate and legal structure and capitalization of the Loan Parties, including the terms and conditions of the charter, bylaws and each class of capital stock of the Loan Parties and of each agreement or instrument relating to such structure or capitalization.

(b) Before giving effect to the transactions contemplated by this Agreement, there shall have occurred no Material Adverse Change since September 30, 1995.

(c) There shall exist no action, suit, investigation, litigation or proceeding affecting any Loan Party or any of their Subsidiaries pending or threatened before any court, governmental agency or arbitrator that (i) could have a Material Adverse Effect or (ii) purports to affect the legality, validity or enforceability of this Agreement, any Note, any other Loan Document, any Related Document or the consummation of the transactions contemplated hereby.

(d) The Lender Parties shall have completed a due diligence investigation of the Loan Parties (including, without limitation, a field examination of the quality of the Borrower's current assets and of the Borrower's management information systems, a fair market value appraisal of the Borrower's rental equipment from Murray, Devine & Co., a review of

the projected tax assumptions of MEDIQ and its Subsidiaries on a Consolidated basis from Deloitte & Touche LLP and a due diligence report on customers prepared by Marketing Corporation of America), each in scope, and with results, satisfactory to the Lender Parties, and nothing shall have come to the attention of the Lender Parties during the course of such due diligence investigation to lead them to believe (i) that any written information, exhibit or report (including, without limitation, any financial information) furnished by or on behalf of any Loan Party to the Administrative Agent or any Lender Party was or has become misleading, incorrect or incomplete in any material respect, (ii) that the Loan Parties would not have good and marketable title to all of their material assets and (iii) that the transactions contemplated hereby have or will have a Material Adverse Effect; without limiting the generality of the foregoing, the Lender Parties shall have been

given such access to the management, records, books of account, contracts and properties of each Loan Party and its Subsidiaries as they shall have requested.

(e) The Existing Debt, other than the Debt identified on Schedule 3.01(e) (the "Surviving Debt"), shall have been prepaid, redeemed or defeased in full or otherwise satisfied and extinguished and all such Surviving Debt shall be on terms and conditions satisfactory to the Lender Parties.

(f) All accrued fees and expenses of the Agents and the Lender Parties (including the accrued fees and expenses of counsel to the Agents and of Saiber, Schlesinger, Satz & Goldstein, local counsel to the Lender Parties) shall have been paid.

(g) The Administrative Agent shall have received on or before the day of the Initial Extension of Credit the following, each dated such day (unless otherwise specified), in form and substance satisfactory to the Administrative Agent (unless otherwise specified) and (except for the Notes) in sufficient copies for each Lender Party:

(i) The Notes payable to the order of the Lenders.

(ii) Certified copies of the resolutions of the Board of Directors of each Loan Party approving this Agreement, the Notes, each other Loan Document and each Related Document to which it is or is to be a party and of the transactions contemplated hereby, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement, the Notes, each other Loan Document and each Related Document and of the transactions contemplated hereby.

(iii) A copy of a certificate of the Secretary of State of the jurisdiction of its incorporation, dated reasonably near the date of the Initial Extension of Credit, in each case listing the charter of the Borrower, each Parent Guarantor and each Subsidiary Guarantor and each amendment thereto on file in his office and certifying that (A) such charter is a true and correct copy thereof, (B) such amendments are the only amendments to such charter on file in his office, (C) such Person has paid all franchise taxes to the date of such certificate and (D) such Person is duly incorporated and in good standing under the laws of the State of the jurisdiction of its incorporation.

(iv) A copy of a certificate of the Secretary of State of the States listed on Schedule 3.01(g)(iv), dated reasonably near the date of the Initial Extension of Credit, stating that the Borrower and each Parent Guarantor is

duly qualified and in good standing as a foreign corporation in such States and has filed all annual reports required to be filed to the date of such certificate.

(v) A certificate of each of the Borrower, the Guarantors and

each other Loan Party, signed on behalf of such Person by its President or Senior Vice-President, Finance, and its Secretary or Assistant Secretary, dated the date of the Initial Extension of Credit (the statements made in which certificate shall be true on and as of the date of the Initial Extension of Credit), certifying as to (A) the absence of any amendments to the charter of such Person since the date of the Secretary of State's certificate referred to in Section 3.01(g)(iii), (B) a true and correct copy of the bylaws of such Person as in effect on the date of the Initial Extension of Credit, (C) the due incorporation and good standing of such Person as a corporation organized under the laws of the jurisdiction of its incorporation and the absence of any proceeding for the dissolution or liquidation of such Person, (D) the completeness and accuracy of the representations and warranties contained in the Loan Documents as though made on and as of the date of the Initial Extension of Credit and (E) the absence of any event occurring and continuing, or resulting from the Initial Extension of Credit, that constitutes a Default.

(vi) A certificate of the Secretary or Assistant Secretary of each of the Borrower, the Guarantors and each other Loan Party certifying the names and true signatures of the officers of such Persons authorized to sign this Agreement, the Notes, each other Loan Document and each Related Document to which they are or are to be parties and the other documents to be delivered hereunder and thereunder.

(vii) A security agreement in substantially the form of Exhibit D (together with each other security agreement delivered pursuant to Section 5.01(m), or 5.01(o), in each case as amended, supplemented or otherwise modified from time to time in accordance with its terms, the "Security Agreement"), duly executed by the Borrower, each Parent Guarantor and each Ongoing Subsidiary, together with:

(A) certificates representing the Pledged Shares referred to therein accompanied by undated stock powers executed in blank and instruments evidencing the Pledged Debt referred to therein endorsed in blank,

(B) executed copies of proper financing statements, to be duly filed on or before the day of the Initial Extension of Credit under

the Uniform Commercial Code of the States listed on Schedule 3.01(g)(vii)(B) and all other jurisdictions that the Administrative Agent may reasonably deem necessary or desirable in order to perfect and protect the Liens created under the Collateral Documents, covering the Collateral described in the Security Agreement,

(C) completed requests for information, dated on or before the date of the Initial Extension of Credit, listing the financing statements referred to in clause (B) above and all other effective financing statements filed in the jurisdictions referred to in clause (B) above that name the Borrower as debtor, together with copies of such other financing statements,

(D) evidence of the completion of all other recordings and filings of or with respect to the Security Agreement that the Administrative Agent may deem necessary or desirable in order to perfect and protect the Liens created thereby,

(E) evidence of the insurance required by the terms of the Security Agreement,

(F) executed termination statements (Form UCC-3 or a comparable form), in proper form to be duly filed on the date of the Initial Extension of Credit under the Uniform Commercial Code of all jurisdictions that the Administrative Agent may deem desirable in order to terminate or amend existing Liens on the Collateral described in the Security

Agreement, except as contemplated under the Security Agreement,

(G) the Blocked Account Letters referred to in the Security Agreement, duly executed by each Blocked Account Bank referred to in the Security Agreement, and

(H) evidence that all other action that the Administrative Agent may deem necessary or desirable in order to perfect and protect the liens and security interests created under the Security Agreement has been taken, including delivery of Blocked Account Letters in form and substance satisfactory to the Administrative Agent.

(viii) A mortgage in substantially the form of Exhibit E and covering the property listed on Schedule 4.01(ff) (together with each other mortgage delivered pursuant to Section 5.01(m), in each case as amended, supplemented

or otherwise modified from time to time in accordance with their terms, the "Mortgage"), duly executed by the Borrower or MEDIQ, together with evidence that the Mortgage has been duly recorded in all filing or recording offices that the Administrative Agent may deem desirable and all other action that the Administrative Agent may deem necessary or desirable including a title search in order to create valid first and subsisting Liens on the property described in the Mortgages in favor of the Secured Parties and that all filing and recording expenses and fees have been paid.

(ix) A guaranty in substantially the form of Exhibit G (together with each other guaranty delivered pursuant to Section 5.01(o), in each case as amended, supplemented or otherwise modified from time to time in accordance with its terms, the "Subsidiary Guaranty"), duly executed by each Subsidiary Guarantor.

(x) Certified copies of each of the Related Documents, duly executed by the parties thereto and in form and substance satisfactory to the Lender Parties, together with all agreements, instruments and other documents delivered in connection therewith.

(xi) Such financial, business and other information regarding each Loan Party and its Subsidiaries as the Lender Parties shall have requested, including, without limitation, information as to possible contingent liabilities, tax matters, environmental matters, obligations under Plans, Multiemployer Plans and Welfare Plans, collective bargaining agreements and other arrangements with employees, audited Consolidated and unaudited consolidating annual financial statements (such unaudited consolidating financial statements certified by the chief financial officer of MEDIQ) of MEDIQ and its Subsidiaries dated September 30, 1993, September 30, 1994 and September 30, 1995, interim Consolidated and consolidating financial statements dated June 30, 1996 (such financial statements certified by the chief financial officer of MEDIQ), and forecasts prepared by management, in form and substance satisfactory to the Lender Parties, of balance sheets, income statements and cash flow statements on a monthly basis for the first two years following the day of the Initial Extension of Credit and on an annual basis for each year thereafter until the Final Maturity Date.

(xii) An opinion, in substantially the form of Exhibit J, attesting to the Solvency of the Borrower and MEDIQ after giving effect to the Refinancing and the other transactions contemplated hereby, from Murray, Devine & Co.

(xiii) Certificates, in substantially the form of Exhibits K-1 and K-2, attesting to the Solvency of the Borrower on a Consolidated basis and MEDIQ on a Consolidated basis both before and after giving effect to the Refinancing and the other transactions contemplated hereby, signed on behalf of each of the Borrower and MEDIQ by their

respective chief financial officer, attesting to the solvency of the Borrower on a Consolidated basis and MEDIQ on a Consolidated basis, respectively.

(xiv) Environmental assessment reports, in form and substance satisfactory to the Lender Parties, from Sadat Associates, Inc. as to any hazards, costs or liabilities under Environmental Laws to which any Loan Party or any of its Subsidiaries may be subject solely with respect to the real estate located at One MEDIQ Plaza, Pennsauken, New Jersey, the amount and nature of which and the Borrower's plans with respect to which shall be acceptable to the Lender Parties. To the extent either the report or any other information that may become available to the Lender Parties shall disclose any hazards, costs or liabilities under Environmental Laws or otherwise that the Lender Parties deem material, the Lender Parties shall be satisfied that such hazards, costs or liabilities were adequately reflected in MEDIQ's financial reserves shown on the financial statements delivered pursuant to Section 3.01(g)(xi) or that, to the extent not so reflected, the Borrower has made adequate provision for such hazards, costs or liabilities.

(xv) A letter, in form and substance satisfactory to the Administrative Agent, from the Borrower to Deloitte & Touche LLP, its independent certified public accountants, advising such accountants that the Administrative Agent and the Lender Parties have been authorized to exercise all rights of the Borrower to require such accountants to disclose any and all financial statements and any other information of any kind that they may have with respect to the Borrower and its Subsidiaries and directing such accountants to comply with any reasonable request of the Administrative Agent or any Lender Party through the Administrative Agent for such information.

(xvi) Evidence of insurance naming the Administrative Agent as additional insured and loss payee with such responsible and reputable insurance companies or associations, and in such amounts and covering such risks, as is satisfactory to the Lender Parties, including, without limitation, business interruption insurance, product liability insurance, and directors and officers insurance.

(xvii) A Borrowing Base Certificate dated as of August 31, 1996.

(xviii) Landlord consents from the Persons listed in Schedule 3.01(g)(xviii) in form and substance satisfactory to the Administrative Agent.

(xix) A termination letter from each of the Persons listed on Schedule 3.01(g)(xix)(1) to the Administrative Agent relating to the satisfaction and termination of the Existing Debt listed on Schedule 3.01(g)(xix)(2) and the release of all collateral and security interests relating thereto.

(xx) A favorable opinion of Drinker, Biddle & Reath, counsel to the Loan Parties, in substantially the form of Exhibit I hereto.

(xxi) A favorable opinion from each of the counsel to the Loan Parties listed on Schedule 3.01(g)(xxi).

(xxii) A favorable opinion of Shearman & Sterling, counsel for the Agents, in form and substance satisfactory to the Administrative Agent.

(xxiii) A favorable opinion of Saiber, Schlesinger, Satz & Goldstein, New Jersey counsel to the Lender Parties.

(xxiv) Federal Reserve Forms U-1 provided for in Regulation U, as applicable, the statements made in which shall be such as to permit the transactions contemplated hereby in accordance with Regulation U; and Federal Reserve Forms G-3 provided for in Regulation G, as applicable, the statements made in which shall be such as to permit the transactions contemplated hereby in accordance with Regulation G.

(h) The Supplemental Indenture shall have become effective.

SECTION 3.02. Conditions Precedent to Each Borrowing and Issuance. The obligation of each Appropriate Lender to make an Advance (other than a Letter of Credit Advance made by an Issuing Bank or a Working Capital Lender pursuant to Section 2.03(c)) on the occasion of each Borrowing (including the Initial Extension of Credit), and the obligation of each Issuing Bank to issue a Letter of Credit (including the initial issuance), shall be subject to the further conditions precedent that on the date of such Borrowing or issuance (a) the following statements shall be true (and each of the giving of the applicable Notice of Borrowing, Notice of Issuance and the acceptance by the Borrower of the proceeds of such Borrowing or of such Letter of Credit shall constitute a representation and warranty by the Borrower that both on the date of such notice and on the date of such Borrowing or issuance such statements are true):

(i) the representations and warranties contained in each Loan Document are correct on and as of such date, before and after giving effect to such Borrowing or issuance and to the application of the proceeds therefrom, as though made on and as of such date other than any such representations or warranties that, by their terms, refer to a specific date other than the date of such Borrowing or issuance, in which case as of such specific date;

(ii) no event has occurred and is continuing, or would result from such Borrowing or issuance or from the application of the proceeds therefrom, that constitutes a Default;

(iii) for each Acquisition Advance: (i) at the time of making such Acquisition Advance the amount on deposit in the Asset Sale Blocked Account is zero or all amounts on deposit therein are being applied simultaneously with such Acquisition Advance, (ii) immediately prior to such Acquisition Advance, the Asset Sale Release Amount is equal to zero and (iii) if such Acquisition Advance is used for the purposes set forth in:

(a) Section 2.14(b)(ii), such Advance shall be under the terms set forth in Section 5.02(k)(i)(y)(B);

(b) Section 2.14(b)(iii)(x), such Advance shall be under the terms set forth in Section 5.02(g)(i); and

(c) Section 2.14(b)(iii)(y), such Advance shall be under the terms set forth in Section 5.02(f)(i); and

(iv) for each Working Capital Advance or issuance of any Letter of Credit, the lesser of the Working Capital Facility or the sum of the Loan Values of the Eligible Collateral (as determined based on the most recent Borrowing Base Certificate delivered to the Lender Parties hereunder) exceeds the aggregate principal amount of the Working Capital Advances plus Letter of Credit Advances to be outstanding plus the aggregate Available Amount of all Letters of Credit plus the Asset Sale Release Amount net of the amount of such Working Capital Advance to be deposited in the Asset Sale Blocked Account then outstanding after giving effect to such Advance or issuance, respectively;

and (b) the Administrative Agent shall have received such other approvals, opinions or documents as the Administrative Agent or the Required Lenders through the Administrative Agent may reasonably request.

SECTION 3.03. Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, each Lender Party shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lender Parties unless an officer of the Administrative Agent responsible for the transactions contemplated by the Loan Documents shall have received notice from such Lender Party prior to the Initial Extension of Credit specifying its objection thereto and if the Initial Extension of Credit consists of a Borrowing, such Lender

Party shall not have made available to the Administrative Agent such Lender Party's ratable portion of such Borrowing.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Borrower. Each Loan Party represents and warrants as follows:

(a) Each Loan Party (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) is duly qualified and in good standing as a foreign corporation in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed except where the failure to so qualify or be licensed is not reasonably likely to have a Material Adverse Effect and (iii) has all requisite corporate power and authority (including, without limitation, all governmental licenses, permits and other approvals) to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted except where the failure to have such corporate power and authority is not reasonably likely to have a Material Adverse Effect. All of the outstanding capital stock of the Borrower has been validly issued, is fully paid and non-assessable and Holdings is owned by MEDIQ in the amount specified in Schedule 4.01(a) free and clear of all Liens, except those created under the Loan Documents.

(b) Set forth on Schedule 4.01(b) hereto is a complete and accurate list of all Subsidiaries of each Loan Party as of the date hereof (other than Subsidiaries listed on Schedule IV), showing as of the date hereof (as to each such Subsidiary) the jurisdiction of its incorporation, the number of shares of each class of capital stock authorized, and the number outstanding, on the date hereof and the percentage of the outstanding shares of each such class owned (directly or indirectly) by such Loan Party and the number of shares covered by all outstanding options, warrants, rights of conversion or purchase and similar rights at the date hereof. All of the outstanding

capital stock of all of such Subsidiaries, has been validly issued, is fully paid and non-assessable and is owned by such Loan Party or one or more of its Subsidiaries free and clear of all Liens, except those created under the Loan Documents. Each such Subsidiary (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) is duly qualified and in good standing as a foreign corporation in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed except where the failure to so qualify or be licensed is not reasonably likely to have a Material Adverse Effect and (iii) has all requisite corporate power and authority (including, without limitation, all governmental licenses, permits and other approvals) to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted, except where the failure to have such corporate power and authority is not reasonably likely to have a Material Adverse Effect.

(c) The execution, delivery and performance by each Loan Party of this Agreement, the Notes, each other Loan Document and each Related Document to which it is or is to be a party, and the consummation of the Refinancing and the other transactions contemplated hereby and thereby, are within such Loan Party's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene such Loan Party's charter or bylaws, (ii) violate any law (including, without limitation, the Securities Exchange Act of 1934 and the Racketeer Influenced and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970), rule, regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award, (iii) conflict with or result in the breach of, or constitute a default under, any contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument binding on or affecting any Loan Party, any of its Subsidiaries or any of their properties or (iv) except for the Liens created under the Loan Documents, result in or require the creation or imposition of any Lien upon or with respect to any of the properties of

any Loan Party or any of its Subsidiaries. No Loan Party or any of its Subsidiaries is in violation of any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or in breach of any such contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument, the violation or breach of which is reasonably likely to have a Material Adverse Effect.

(d) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for (i) the due execution, delivery, recordation, filing or performance by any Loan Party of this Agreement, the Notes, any other Loan Document or any Related Document to which it is or is to be a party, or for the consummation of the

Refinancing or the other transactions contemplated hereby or thereby, (ii) the grant by any Loan Party of the Liens granted by it pursuant to the Collateral Documents, (iii) the perfection or maintenance of the Liens created by the Collateral Documents (including the priority thereof) or (iv) the exercise by the Administrative Agent or any Lender Party of its rights under the Loan Documents or the remedies in respect of the Collateral pursuant to the Collateral Documents, except for the authorizations, approvals, actions, notices and filings listed on Schedule 4.01(d), all of which have been duly obtained, taken, given or made and are in full force and effect.

(e) This Agreement has been, and each of the Notes, each other Loan Document and each Related Document when delivered hereunder will have been, duly executed and delivered by each Loan Party thereto. This Agreement is, and each of the Notes, each other Loan Document and each Related Document when delivered hereunder will be, the legal, valid and binding obligation of each Loan Party thereto, enforceable against such Loan Party in accordance with its terms.

(f) The Consolidated and consolidating balance sheets of MEDIQ and its Subsidiaries as at September 30, 1993, September 30, 1994 and September 30, 1995, and the related Consolidated and consolidating statements of income and Consolidated statements of cash flows of each of MEDIQ and its Subsidiaries and Holdings and its Subsidiaries for the fiscal years then ended, accompanied by an opinion of Deloitte & Touche LLP, independent public accountants, or, as to the consolidating statements, duly certified by the chief financial officer of MEDIQ, and the Consolidated and consolidating balance sheets of MEDIQ and its Subsidiaries as at June 30, 1996, and the related Consolidated and consolidating statements of income and Consolidated statements of cash flows of each of MEDIQ and its Subsidiaries and Holdings and its Subsidiaries for the nine months then ended, duly certified by the chief financial officers of MEDIQ and Holdings, respectively, in each case copies of which have been furnished to each Lender Party, fairly present, subject, in the case of said Consolidated and consolidating balance sheets as at June 30, 1996, and said Consolidated and consolidating statements of income and Consolidated statements of cash flows of each of MEDIQ and its Subsidiaries and Holdings and its Subsidiaries for the nine months then ended, to year-end audit adjustments, the Consolidated and consolidating financial condition of MEDIQ and its Subsidiaries as at such dates and the Consolidated and consolidating results of the operations of MEDIQ and its Subsidiaries for the periods ended on such dates, all in accordance with generally accepted accounting principles applied on a consistent basis, and since September 30, 1995 there has been no Material Adverse Change.

(g) The Consolidated forecasted balance sheets, income statements and cash flows statements of MEDIQ and its Subsidiaries delivered to the Administrative Agent pursuant to Section 3.01(g)(xi) or 5.03 were prepared in good faith on the basis of the

assumptions stated therein, which assumptions were fair in the light of conditions existing at the time of delivery of such forecasts and at the time of the Initial Extension of Credit, and represented, at both such times of delivery, MEDIQ's and the Borrower's best estimate of their future financial performance.

(h) There is no action, suit, investigation, litigation or proceeding affecting any Loan Party or any of its Subsidiaries, including any Environmental Action, pending or threatened before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect or (ii) purports to affect the legality, validity or enforceability of the Refinancing, this Agreement, any Note, any other Loan Document or any Related Document or the consummation of the transactions contemplated hereby.

(i) No proceeds of any Advance or drawings under any Letter of Credit will be used to acquire any equity security of a class that is registered pursuant to Section 12 of the Securities Exchange Act of 1934, except in connection with an Investment permitted by Section 5.02(f)(i) provided that after giving effect to such Investment the Borrower directly acquires all of the shares of such class of equity security.

(j) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock, and no proceeds of any Advance (other than Acquisition Advances) or drawings under any Letter of Credit will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

(k) Set forth on Schedule 4.01(k) hereto is a complete and accurate list of all Plans, Multiemployer Plans and Welfare Plans in effect as of the date of this Agreement.

(l) No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan.

(m) As of the last annual actuarial valuation date, the Loan Parties and the ERISA Affiliates are in compliance with the funding requirements of the Internal Revenue Code and ERISA with respect to each Plan.

(n) Schedule B (Actuarial Information) to the most recent annual report (Form 5500 Series) for each Plan, copies of which have been filed with the Internal Revenue Service and furnished to the Administrative Agent, is complete and accurate and fairly presents the funding status of such Plan, and since the date of such Schedule B there has been no material adverse change in such funding status.

(o) Neither any Loan Party nor any ERISA Affiliate has incurred or is reasonably expected to incur any Withdrawal Liability to any Multiemployer Plan.

(p) Neither any Loan Party nor any ERISA Affiliate has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, and no such Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA.

(q) Except as set forth in the financial statements referred to in this Section 4.01 and in Section 5.03, the Loan Parties and their respective Subsidiaries have no material liability with respect to "expected post retirement benefit obligations" within the meaning of Statement of Financial Accounting Standards No. 106.

(r) Neither the business nor the properties of any Loan Party or any of its Subsidiaries are affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance) that is reasonably likely to have a Material Adverse Effect.

(s) The operations and properties of each Loan Party and each of its Subsidiaries comply in all material respects with all applicable Environmental Laws and Environmental Permits, all past claims of non-compliance with such Environmental Laws and Environmental Permits have been resolved without ongoing obligations or costs, and no circumstances exist that could (i) form the basis of an Environmental Action against any Loan Party or any of its Subsidiaries or any of its properties is

reasonably likely to have a Material Adverse Effect or (ii) cause any such property to be subject to any material restrictions on ownership, occupancy, use or transferability under any Environmental Law that is reasonably likely to have a Material Adverse Effect.

(t) Except as is disclosed on Schedule 4.01(t), and with respect to properties not owned by any Loan Party to the extent of the actual knowledge of any Responsible Officer: none of the properties currently or formerly owned or operated by any Loan Party or any of its Subsidiaries is listed or proposed for listing on the NPL or on the CERCLIS or any analogous foreign, state or local list or is adjacent to any such property; there are no and never have been any underground or aboveground storage tanks or any surface impoundments, septic tanks, pits, sumps or lagoons in which Hazardous Materials are being or have been treated, stored or disposed on any property currently owned or operated by any Loan Party or any of its Subsidiaries or, to the best of its knowledge, on any property formerly owned or operated by any

Loan Party or any of its Subsidiaries; there is no asbestos or asbestos-containing material on any property currently owned or operated by any Loan Party or any of its Subsidiaries; and Hazardous Materials have not been released, discharged or disposed of on any property currently or formerly owned or operated by any Loan Party or any of its Subsidiaries; except, in each case, where the non-compliance with the foregoing is not reasonably likely to have a Material Adverse Effect.

(u) Neither any Loan Party nor any of its Subsidiaries is undertaking, and has not completed, either individually or together with other potentially responsible parties, any investigation or assessment or remedial or response action relating to any actual or threatened release, discharge or disposal of Hazardous Materials at any site, location or operation, either voluntarily or pursuant to the order of any governmental or regulatory authority or the requirements of any Environmental Law; and all Hazardous Materials generated, used, treated, handled or stored at, or transported to or from, any property currently or formerly owned or operated by any Loan Party or any of its Subsidiaries have been disposed of in a manner not reasonably expected to result in material liability to any Loan Party or any of its Subsidiaries.

(v) As of the date hereof, Schedule IV is a true and correct list of all Discontinued Subsidiaries.

(w) Except as permitted by Section 5.02(a)(iii),(iv),(v) and (vii), the Collateral Documents create a valid and perfected first priority security interest in the Collateral securing the payment of the Secured Obligations, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken. The Loan Parties are the legal and beneficial owners of the Collateral free and clear of any Lien, except for the liens and security interests created or permitted under the Loan Documents.

(x) Each Loan Party and each of its Subsidiaries has filed, has caused to be filed or has been included in all tax returns (Federal, state, local and foreign) required to be filed and has paid all taxes shown thereon to be due, together with applicable interest and penalties.

(y) Set forth on Schedule 4.01(y) hereto is a complete and accurate list, as of the date hereof, of each taxable year of each Loan Party and each of its Subsidiaries for which Federal income tax returns have been filed and for which the expiration of the applicable statute of limitations for assessment or collection has not occurred by reason of extension or otherwise (an "Open Year").

(z) There is no unpaid amount, as of the date hereof, of adjustments to the Federal income tax liability of each Loan Party and each of its Subsidiaries proposed

by the Internal Revenue Service with respect to Open Years. No issues have been raised by the Internal Revenue Service in respect of Open Years that,

in the aggregate, are reasonably likely to have a Material Adverse Effect.

(aa) There is no unpaid amount, as of the date hereof, of adjustments to the state, local and foreign tax liability of each Loan Party and its Subsidiaries proposed by all state, local and foreign taxing authorities (other than amounts arising from adjustments to Federal income tax returns, if any) other than those being contested in good faith and listed on Schedule 4.01(aa). No issues have been raised by such taxing authorities that, in the aggregate, are reasonably likely to have a Material Adverse Effect.

(bb) MEDIQ and its Subsidiaries had, as of September 30, 1995 net operating loss carryforwards for U.S. Federal income tax purposes in the amount of $47,972,700 and capital loss carryforwards for U.S. Federal income tax purposes in the amount of $22,062,300.

(cc) Neither any Loan Party nor any of its Subsidiaries is an "investment company," or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended. Neither the making of any Advances, nor the issuance of any Letters of Credit, nor the application of the proceeds or repayment thereof by the Borrower, nor the consummation of the other transactions contemplated hereby, will violate any provision of such Act or any rule, regulation or order of the Securities and Exchange Commission thereunder.

(dd) Each Loan Party is, individually and together with its Subsidiaries, Solvent.

(ee) All Existing Debt is listed on Schedule 2.14(a) and Schedule 3.01(e), and set forth on each such Schedule, as of the date hereof, is the principal amount outstanding thereunder, the maturity date thereof and the amortization schedule therefor.

(ff) Set forth on Schedule 4.01(ff) hereto is a complete and accurate list of all real property owned by any Loan Party or any of its Subsidiaries, showing as of the date hereof the street address, county or other relevant jurisdiction, state and record owner. Each Loan Party or such Subsidiary has good, marketable and insurable fee simple title to such real property, free and clear of all Liens, other than Liens created or permitted by the Loan Documents.

(gg) Set forth on Schedule 4.01(gg) hereto is a complete and accurate list of all Investments held by any Loan Party as of the date hereof (other than Discontinued Subsidiaries), showing as of the date hereof the amount, obligor or issuer and maturity, if any, thereof.

(hh) Set forth on Schedule 4.01(hh) hereto is a complete and accurate list of all patents, trademarks, trade names, service marks and copyrights, and all applications therefor and licenses thereof, of each Loan Party as of the date hereof (other than Discontinued Subsidiaries), showing as of the date hereof the jurisdiction in which registered, the registration number, the date of registration and the expiration date.

(ii) The merger of the Borrower and MEDIQ/PRN Life Support Services-I, Inc. has taken place, and the Borrower is the surviving corporation.

ARTICLE V

COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall be outstanding or any Lender Party shall have any Commitment hereunder, each Loan Party will:

(a) Compliance with Laws, Etc. Comply, and cause each of its Subsidiaries to comply, in all material respects, with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA and the Racketeer Influenced and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its

Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property and (ii) all lawful claims that, if unpaid, might by law become a Lien upon its property; provided, however, that no Loan Party or any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim (x) that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained, or (y) in respect of which the Lien resulting therefrom, if any, attaches to its property and becomes enforceable against its other creditors, to the extent that the aggregate amount of all such taxes, assessments, charges or claims does not exceed $250,000.

(c) Compliance with Environmental Laws. Comply, and cause each of its Subsidiaries and all lessees and other Persons operating or occupying its properties to comply, in all material respects, with all applicable Environmental Laws and Environmental Permits; obtain and renew and cause each of its Subsidiaries to obtain and renew all Environmental Permits necessary for its operations and properties, except if the failure to obtain or renew such Environmental Permit is not reasonably likely to have a Material Adverse Effect; and conduct, and cause each of its Subsidiaries to conduct, any investigation, study, sampling and testing, and undertake any cleanup, removal, remedial or other action necessary to remove and clean up all Hazardous Materials from any of its properties, in accordance with the requirements of all Environmental Laws, except if the failure to remove or clean up such Hazardous Materials is not reasonably likely to have a Material Adverse Effect; provided, however, that no Loan Party or any of its Subsidiaries shall be required to undertake any such cleanup, removal, remedial or other action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances.

(d) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which such Loan Party or such Subsidiary operates.

(e) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Subsidiaries (excluding any Discontinued Subsidiary in respect of which the failure to comply with this Section 5.01(e) is not reasonably likely to have a Material Adverse Effect) to preserve and maintain, its corporate existence, rights (charter and statutory), permits, licenses, approvals, privileges and franchises, except if the failure to preserve and maintain such permits, approvals or licenses is not reasonably likely to have a Material Adverse Effect; provided, however, that such Loan Party may consummate any merger or consolidation permitted under Section 5.02(d).

(f) Visitation Rights. At any reasonable time and from time to time, upon reasonable prior notice, permit the Administrative Agent or any of the Lender Parties or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, such Loan Party and any of its Subsidiaries, and to discuss the affairs, finances and accounts of such Loan Party and any of its Subsidiaries with any of their officers or directors and with their independent certified public accountants.

(g) Preparation of Environmental Reports. At the request of the Administrative Agent at the following times: (i) upon the occurrence and continuance of an Event of Default, (ii) upon the acquisition of real property by any Loan Party or any of its Subsidiaries and (iii) and no more than two other times (determined in the discretion of the Required Lenders) during the term of this Agreement, provide to the Lender Parties within 90 days after such request, at the expense of the Borrower, a Phase I environmental site assessment report for any of its or its Subsidiaries' owned properties described in such request, prepared by an environmental

consulting firm acceptable to the Administrative Agent (and, if based upon the recommendation of such environmental consulting firm, a Phase II environmental site assessment report) indicating the presence or absence of Hazardous Materials and the estimated cost of any compliance, removal or remedial action in connection with any Hazardous Materials on such properties; without limiting the generality of the foregoing, if the Administrative Agent determines at any time that a material risk exists that any such report will not be provided within the time referred to above, the Administrative Agent may retain an environmental consulting firm to prepare such report at the expense of the Borrower, and such Loan Party hereby grants and agrees to cause any Subsidiary that owns any property described in such request to grant at the time of such request, to the Administrative Agent or to any Lender Party who makes such request through the Administrative Agent, such firm and any agents or representatives thereof an irrevocable non-exclusive license, subject to the rights of tenants, to enter onto their respective properties to undertake such an assessment.

(h) Keeping of Books. Keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of such Loan Party and each such Subsidiary in accordance with generally accepted accounting principles.

(i) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, all of its properties that are reasonably required in the conduct of its business in good working order and condition, ordinary wear and tear excepted, and except for properties that have become obsolete or no longer fit for their intended purposes.

(j) Compliance with Terms of Leaseholds. Make all payments and otherwise perform all obligations in respect of all leases of real property to which such Loan Party or any of its Subsidiaries is a party, keep such leases in full force and effect and not allow such leases to lapse or be terminated or any rights to renew such leases to be forfeited or cancelled, except if the failure to make such payment, perform such obligations or keep such leases in full force and effect is not reasonably likely to have a Material Adverse Effect.

(k) Performance of Related Documents. Perform and observe all of the terms and provisions of each Related Document to be performed or observed by it, maintain each such Related Document in full force and effect, enforce such Related Document in accordance with its terms, take all such action to such end as may be from time to time requested by the Administrative Agent and, upon request of the Administrative Agent, make to each other party to each such Related Document such demands and requests for information and reports or for action as such Loan Party is entitled to make under such Related Document.

(l) Transactions with Affiliates. Conduct, and cause each of its Subsidiaries to conduct, all transactions otherwise permitted under the Loan Documents with any of their Affiliates on terms that are fair and reasonable and no less favorable to such Loan Party or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate.

(m) Covenant to Give Security. In addition to the requirements of Section 5.01(o), upon the request of the Administrative Agent and at the expense of the Borrower, (i) within 10 days after such request, furnish to the Administrative Agent a description of the real and personal properties of such Loan Party and its Subsidiaries in detail satisfactory to the Administrative Agent, (ii) within 15 days after such request, duly execute and deliver to the Administrative Agent mortgages, pledges, assignments and other security agreements, as specified by and in form and substance satisfactory to the Administrative Agent, securing payment of all the Obligations of such Loan Party under the Loan Documents and constituting Liens on all such properties, (iii) within 30 days after such request, take whatever action (including, without limitation, the recording of mortgages, the filing of Uniform Commercial Code financing statements, the giving of notices and the endorsement of notices on title documents) may be necessary or advisable in the opinion of the Administrative Agent to vest in the Administrative Agent (or in any representative of the

Administrative Agent designated by it) valid and subsisting Liens on the properties purported to be subject to the security agreements delivered pursuant to this Section 5.01(m), enforceable against all third parties in accordance with their terms, (iv) within 60 days after such request, deliver to the Administrative Agent a signed copy of a favorable opinion, addressed to the Administrative Agent, of counsel for such Loan Party acceptable to the Administrative Agent as to the matters contained in clauses (i), (ii) and (iii) above, as to such security agreements being legal, valid and binding obligations of such Loan Party and its Subsidiaries enforceable in accordance with their terms and as to such other matters as the Administrative Agent may reasonably request, (v) at any time and from time to time promptly execute and deliver any and all further instruments and documents and take all such other action as the Administrative Agent may deem desirable in obtaining the full benefits of, or in preserving the Liens of, such security agreements.

(n) Interest Rate Hedging. Enter into prior to November 15, 1996, and maintain at all times thereafter, interest rate Hedge Agreements with Persons acceptable to the Administrative Agent, covering a notional amount of not less than 75% of the Term A and Term B Facilities and providing for such Persons to make payments thereunder for an initial period of no less than three years to the extent of increases in interest rates greater than 2.0% above the Eurodollar Rate in effect on the date hereof for an Interest Period of three months.

(o) Additional Loan Parties. Cause any newly organized or acquired Subsidiary of the Borrower, any Parent Guarantor, or any of their Ongoing Subsidiaries (other than any Subsidiary organized or located outside of the United States) to execute and deliver to the Administrative Agent as promptly as practicable and in any event within 30 days after the organization or acquisition of such Subsidiary (i) a security agreement supplement in the form of Exhibit A to the Security Agreement, (ii) a guaranty in form and substance satisfactory to the Administrative Agent and the Lender Parties and (iii) such other documents, agreements, certificates or instruments as the Administrative Agent may reasonably request, in each case in form and substance reasonably satisfactory to the Administrative Agent, and to take all such other actions that may be necessary or that the Administrative Agent may deem reasonably desirable in order to perfect and protect any pledge, assignment or security interest granted by such security agreement (granting a security interest in the receivables, inventory, deposit accounts, equipment, intellectual property and other assets of such Subsidiary) of such Subsidiary to the Administrative Agent for the benefit of the Lender Parties or to enable the Administrative Agent to exercise and enforce its rights and remedies thereunder.

(p) Working Capital Advances. If, on the Conversion Date, the amount on deposit in the Asset Sale Blocked Account is less than the amount required to be prepaid pursuant to 2.06(b)(ix), the Borrower will either (i) make a Working Capital Borrowing or (ii) authorize the Administrative Agent on behalf of the Borrower to obtain a Working Capital Borrowing, in an amount sufficient to make payment of the amount required to be prepaid pursuant to Section 2.06(b)(ix), and make such prepayment unless funds are otherwise available to the Borrower to make such prepayment, and such prepayment is made with such funds.

SECTION 5.02. Negative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall be outstanding or any Lender Party shall have any Commitment hereunder, no Loan Party will (provided, however, that for purposes of this Section 5.02, Loan Party shall not include any Discontinued Subsidiary, except with respect to Sections 5.02(e), (f) and (j)), at any time:

(a) Liens, Etc. Create, incur, assume or suffer to exist, or permit any of its Ongoing Subsidiaries to create, incur, assume or suffer to exist, any Lien on or with respect to any of its properties of any character (including, without limitation, accounts) whether now owned or hereafter acquired, or sign or file or suffer to exist, or permit any of its Ongoing Subsidiaries to sign or file or suffer to exist, under the Uniform Commercial Code of any jurisdiction, a financing statement that

names such Loan Party or any of its Ongoing Subsidiaries as debtor, or sign or suffer to exist, or permit any of its Ongoing Subsidiaries to sign or suffer to exist, any security agreement authorizing any secured party thereunder to file such financing statement, or assign, or permit any of its Ongoing Subsidiaries to assign, any accounts or other right to receive income, excluding, however, from the operation of the foregoing restrictions the following:

(i) Liens created under the Loan Documents;

(ii) Permitted Liens;

(iii) Liens existing on the date hereof and described on Schedule 5.02(a)(iii) hereto, each in an amount and for a duration not to exceed the amount and duration of such Lien listed on such Schedule.

(iv) Liens arising in connection with Capitalized Leases permitted under Section 5.02(b)(ii)(C), provided that no such Lien shall extend to or cover any Collateral or assets other than the assets subject to such Capitalized Leases;

(v) purchase money Liens upon or in real property or equipment acquired or any other property the purchase of which constitutes a Capital Expenditure or held by the Borrower or any of its Subsidiaries in the ordinary course of business to secure the purchase price of such property or equipment or to secure Debt incurred solely for the purpose of financing the acquisition of any such property or equipment to be subject to such Liens, or Liens existing on any such property or equipment at the time of acquisition (other than any such Liens created in contemplation of such acquisition that do not secure the purchase price), or such Liens placed on such property or equipment within six months of the time of such acquisition (so long as such transactions are consistent with past business practices), or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount; provided, however, that no such Lien shall extend to or cover any property other than the property or equipment being acquired, and no such extension, renewal or replacement shall extend to or cover any property not theretofore subject to the Lien being extended, renewed or replaced; so long as

the aggregate principal amount of such Liens outstanding at any time plus the aggregate principal amount of Capitalized Leases permitted pursuant to Section 5.02(b)(ii)(C) outstanding at any time shall not exceed $20,000,000;

(vi) the filing of financing statements solely as a precautionary measure in connection with operating leases permitted under Section 5.02(c);

(vii) the replacement, extension or renewal of any Lien permitted by clause (iii) above upon or in the same property theretofore subject thereto or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the Debt secured thereby;

(b) Debt. Create, incur, assume or suffer to exist, or permit any of its Ongoing Subsidiaries to create, incur, assume or suffer to exist, any Debt other than:

(i) in the case of the Parent Guarantors, (A) Debt listed on Schedule 5.02(b)(i)(A) in an amount for each item of Debt on such Schedule not to exceed the amount listed for such Debt on such Schedule and (B) Debt listed on Schedule 5.02(b)(i)(B) in an amount for each item of Debt on such Schedule not to exceed the amount listed for such debt on such Schedule, and

(ii) in the case of the Borrower and any of its Ongoing Subsidiaries,

(A) Debt under the Loan Documents,

(B) Debt in respect of Hedge Agreements designed to hedge against fluctuations in interest rates or foreign exchange rates incurred in the ordinary course of business and consistent with prudent business practice in an aggregate notional amount not to exceed $100,000,000 for interest rate Hedge Agreements at any time outstanding,

(C) Capitalized Leases, so long as the aggregate principal amount of such Capitalized Leases outstanding at any time plus the aggregate principal amount of Liens permitted pursuant to Section 5.02(a)(v) outstanding at any time shall not exceed $20,000,000,

(D) Debt assumed or incurred in connection with Capital Expenditures secured by Liens permitted by Section 5.02(a)(v),

(E) Unsecured Debt in an aggregate amount not to exceed $3,000,000,

(F) Debt set forth on Schedule 5.02 (b)(ii)(F),

(G) The 12.125% Notes, until such time as such 12.125% Notes shall be fully redeemed or repurchased pursuant to the 12.125% Note Indenture, so long as such 12.125% Notes remain defeased pursuant to such Indenture, and

(iii) in the case of MEDIQ and any of its Ongoing Subsidiaries,

(A) indorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business,

(B) any Guaranty of Obligations under the Loan Documents,

(C) unsecured Debt (other than for the Borrower and its Ongoing Subsidiaries) in an aggregate amount not to exceed $250,000, and

(D) any indemnities (other than given by the Borrower and its Ongoing Subsidiaries) in connection with Permitted Asset Sales so long as such indemnities are generally customary for such transactions, and

(E) any indemnities in connection with amounts owed by Borrower to Congress Financial Corporation pursuant to the Congress Agreement;

(iv) in the case of Holdings, any indemnities in connection with amounts owed by Borrower to Congress Financial Corporation pursuant to the Congress Agreement.

(c) Lease Obligations. Create, incur, assume or suffer to exist, or permit any of its Ongoing Subsidiaries to create, incur, assume or suffer to exist, any obligations as lessee (i) for the rental of medical equipment of any kind in connection with any sale and leaseback transaction, or (ii) for the rental of other medical equipment of any kind under leases or agreements to lease, excluding Capitalized Leases, that would cause such rental expense of MEDIQ and its Subsidiaries, on a Consolidated basis, to exceed $2,250,000 of expense for any Fiscal Year plus an amount equal to (1) the rental expense per Fiscal Year of any Person acquired pursuant to an Investment permitted by Section 5.02(f)(i) or (vi) at the time of such Investment less (2) the rental expense per Fiscal Year of such Person in respect of such rentals existing at the time of such Investment but ceasing to exist thereafter.

(d) Mergers, Etc. Merge into or consolidate with any Person or permit any Person to merge into it, or permit any of its Ongoing

Subsidiaries to do so, except that any wholly owned Subsidiary of MEDIQ or Holdings other than the Borrower may merge into or consolidate with MEDIQ or any other such Subsidiary other than the Borrower, so long as the surviving Person is an Ongoing Subsidiary or MEDIQ; provided, however, that, (A) the Borrower may merge into Holdings, so long as (i) the Holdings Notes shall no longer be outstanding, and (ii) in the case of any such merger or consolidation, the Person surviving such merger or consolidation shall be the Borrower, (B) any wholly-owned Subsidiary of the Borrower may merge or consolidate with any Person to effect the acquisition of such Person or its property in a transaction permitted under Section 5.02(f)(i) or (vi), so long as the Person surviving such merger or formed by such consolidation is or becomes a wholly-owned Subsidiary of the Borrower and complies with Section 5.01(o), and (C) the Borrower may merge into (1) any wholly owned Subsidiary of the Borrower acquired pursuant to Section 5.02(f)(i) or (vi), or (2) any wholly owned Subsidiary previously merged or consolidated with any other wholly owned Subsidiary acquired pursuant to Section 5.02(f)(i) or (vi), so long as the Person surviving such merger is the Borrower.

(e) Sales, Etc. of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets other than in the ordinary course of business, or grant any option or other right to purchase, lease or otherwise acquire any assets other than Inventory or rental equipment to be sold or leased in the ordinary course of its business, except:

(i) in a transaction authorized by subsection (d) of this Section,

(ii) Permitted Asset Sales; provided that any Net Cash Proceeds of such Permitted Asset Sales not used to prepay Acquisition Advances or Working Capital Advances in accordance with Section 2.06 shall be deposited in the Asset Sale Blocked Account, and

(iii) sales of all or any part of Discontinued Subsidiaries, provided, however, that any Permitted Asset Sales shall in any event be made in accordance with the terms of Section 5.02(e)(ii).

(f) Investments in Other Persons. Make or hold, or permit any of its Subsidiaries to make or hold, any Investment in any Person, except, so long as no Default shall have occurred and be continuing at the time of any action described below or would result therefrom:

(i) On or prior to the Conversion Date, using proceeds from Acquisition Advances and/or from the Asset Sale Blocked Account,

Investments by the Borrower in its wholly owned Ongoing Subsidiaries organized under the laws of the United States or in the assets comprising a substantial part or all of the business of any Person or of an operating division of such Person, provided that:

(1) such Investments shall be in the same lines of business in which the Borrower is involved on the date hereof,

(2) for the Rolling Period ended as at the end of the most recent period for which financial statements were required to be furnished to the Administrative Agent pursuant to Sections 5.03(b), (c) or (d) and calculated immediately before and after giving effect to such Investment, the Leverage Ratio shall be not more than 3.50 to 1.0,

(3) the amount of the Acquisition Advances plus the amount of cash from the Asset Sale Blocked Account used for such an Investment shall not exceed an amount equal to 5.5 multiplied by the 12 month trailing EBITDA of such Person,

(4) the aggregate amount of the Acquisition Advances plus the aggregate amount of cash from the Asset Sale Blocked Account used for all such Investments plus an amount equal to the aggregate value of the common stock of MEDIQ used for all such Investments shall not exceed $100,000,000.

(ii) Investments by MEDIQ, the Borrower and each of their Ongoing Subsidiaries existing on the date hereof and described on Schedule 4.01(gg) hereto;

(iii) loans and advances by MEDIQ, the Borrower and each of their Ongoing Subsidiaries to employees in the ordinary course of the business of the Borrower as presently conducted in an aggregate principal amount not to exceed $500,000 at any time outstanding;

(iv) Investments by MEDIQ, the Borrower or their Subsidiaries in (A) demand deposit accounts maintained in the ordinary course of business with any Person of the type referred to in clause (i), (ii), (iii), (iv) or (v) of the definition of "Eligible Assignee", (B) Cash Equivalents, (C) the Asset Sale Blocked Account and other accounts maintained pursuant to the Security Agreement and (D) the Citibank Account;

(v) Investments by the Borrower in Hedge Agreements permitted under Section 5.02(b)(ii)(B);

(vi) Investments by the Borrower in its wholly owned Ongoing Subsidiaries, or in the assets comprising a substantial part or all of the business of any Person or of an operating division of such Person, such Subsidiaries or Person organized under the laws of the United States from and after the Conversion Date, (x) from the amount of the Excess Cash Flow Basket and (y) in addition, from MEDIQ common stock, in an aggregate amount not to exceed $10,000,000;

(vii) Investments by Discontinued Subsidiaries in an aggregate amount not to exceed $1,000,000;

(viii) Investments by MEDIQ Management Services, Inc. in an aggregate amount not to exceed $1,000,000; and

(ix) Investments evidenced by promissory notes issued to the Borrower, in the ordinary course of business, with respect to amounts due to the Borrower.

(g) Dividends, Etc. Declare or pay any dividends, purchase, redeem, retire, defease or otherwise acquire for value any of its capital stock or any warrants, rights or options to acquire such capital stock, now or hereafter outstanding, return any capital to its stockholders as such, make any distribution of assets, capital stock, warrants, rights, options, obligations or securities to its stockholders as such or issue or sell any capital stock or any warrants, rights or options to acquire such capital stock, or, in the case of MEDIQ or Holdings, permit the Borrower to do any of the foregoing or permit any of its Subsidiaries to purchase, redeem, retire, defease or otherwise acquire for value any capital stock of such Loan Party or any warrants, rights or options to acquire such capital stock or to issue or sell any capital stock or any warrants, rights or options to acquire such capital stock, except that so long as no Default shall have occurred and be continuing at the time of any action described below or would result therefrom, any Subsidiary of the Borrower may declare and pay cash dividends to the Borrower, except:

(i) After the period ending on the date twelve months after the date of the Initial Extension of Credit, the Borrower may pay cash dividends or advance funds directly or indirectly to MEDIQ to permit MEDIQ to repurchase the common stock of MEDIQ and to pay cash dividends, following the Asset Sale Threshold Date, in an aggregate amount not to exceed $20,000,000 so long as the Leverage Ratio for the Rolling Period ended as at the end of the most recent period for which financial statements were required to be furnished to the Administrative Agent pursuant to Sections 5.03(b), (c) or (d) on a pro forma basis, giving effect to such repurchase, shall be no

greater than 3.0 to 1.0, provided that no Investments permitted under Section 5.02(f)(i) have occurred;

(ii) the Borrower may pay cash dividends or advance funds directly or indirectly to MEDIQ to permit MEDIQ to repurchase the common stock of MEDIQ and to pay cash dividends with respect to any Fiscal Year equal to the lesser of (x) 50% of cumulative net income for each Fiscal Year in the period beginning October 1, 1996 less an amount equal to the aggregate amount of cash dividends previously paid pursuant to this clause (x) during such period or (y) the amount of the Excess Cash Flow Basket;

(iii) the Borrower may pay or advance up to $1,500,000 in the aggregate per annum to the Parent Guarantors for operating expenses in the ordinary course of business;

(iv) any Loan Party may make payments under the Tax Sharing Agreement;

(v) the Borrower may pay cash dividends or advance funds directly or indirectly to MEDIQ to permit MEDIQ to prepay its Subordinated Notes, so long as such prepayment is permitted under Sections 5.02(k)(i)(y)(B);

(vi) MEDIQ may issue common stock; and

(vii) the Borrower may pay or advance funds directly or indirectly to MEDIQ to permit MEDIQ to make interest payments on the Subordinated Notes.

(h) Change in Nature of Business. Make, or permit any of its Ongoing Subsidiaries to make, any material change in the nature of its business as carried on at the date hereof.

(i) Charter Amendments. Amend, or permit any of its Ongoing Subsidiaries to amend, its certificate of incorporation or bylaws, unless such change would not have a Material Adverse Effect or does not adversely affect the rights and remedies of the Administrative Agent or any Lender Party under any Loan Document or any Related Document.

(j) Accounting Changes. Make or permit, or permit any of its Subsidiaries to make or permit, any change in (i) accounting policies or reporting practices, except as required by generally accepted accounting principles or (ii) Fiscal Year.

(k) Prepayments, Etc. of Debt. (i) Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment in violation of any subordination terms of, any Debt, other than:

(x) the prepayment of the Advances in accordance with the terms of this Agreement, and

(y) if before and after giving effect to any such redemption, purchase, defeasance or other satisfaction no Default has occurred or would result therefrom,

(A) regularly scheduled or required repayments or redemptions of Surviving Debt, other than the Subordinated Notes, and

(B) prior to the Conversion Date, with Acquisition Advances used in accordance with Section 2.14(b) or amounts on deposit in the Asset Sale Blocked Account, regularly scheduled or required prepayments or redemptions, or the redemption, repurchase, defeasance or other satisfaction of the Subordinated Notes so long as the Senior Leverage Ratio for the Rolling Period ended as at the end of the most recent period for which financial statements were required to be furnished to the Administrative Agent pursuant to Sections 5.03(b), (c) or (d), on a pro forma basis after giving effect to such Advance, shall be no greater than 3.75 to 1.0, or

(C) from and after the Conversion Date, the redemption, repurchase, defeasance or other satisfaction of the

Subordinated Notes with the amount of the Excess Cash Flow Basket or

(ii) amend, modify or change in any manner any term or condition of the Subordinated Notes, or permit any of its Subsidiaries to do any of the foregoing other than to prepay any Debt payable to the Borrower.

(l) Amendment, Etc. of Related Documents. Cancel or terminate any Related Document or consent to or accept any cancellation or termination thereof, amend, modify or change in any manner any term or condition of any Related Document or give any consent, waiver or approval thereunder, waive any default under or any breach of any term or condition of any Related Document, agree in any manner to any other amendment, modification or change of any term or condition of any Related Document or take any other action in connection with any Related Document that would impair the value of the interest or rights of the Borrower

thereunder or that would impair the rights or interests of the Administrative Agent or any Lender Party, or permit any of its Subsidiaries to do any of the foregoing.

(m) Negative Pledge. Enter into or suffer to exist, or permit any of its Ongoing Subsidiaries to enter into or suffer to exist, any agreement prohibiting or conditioning the creation or assumption of any Lien upon any of its property or assets other than (i) in favor of the Secured Parties or (ii) in connection with (A) any Surviving Debt, (B) any Debt secured by purchase money Liens and Capitalized Leases, in each case, to the extent permitted under Sections 5.02(a)(v) and 5.02(b)(ii)(C), respectively or (C) Liens on the common stock of InnoServ, Inc. under the Agreement of Merger and Plan of Reorganization dated as of May 18, 1994, as amended through the date hereof, among MMI Medical, Inc., MMI Acquisition Subsidiary, Inc., MEDIQ and MEDIQ Equipment and Maintenance Services, Inc. or (D) the negative pledge in favor of Summit Bank in respect of the Borrower's membership interest in MEDIQ PRN/HNE, L.L.C.

(n) Partnerships. Become a general partner in any general or limited partnership or joint venture, or permit any of its Subsidiaries to do so other than as permitted by Section 5.02(f)(ii).

(o) Other Transactions. Engage, or permit any of its Subsidiaries to engage, in any transaction involving commodity options or futures contracts or any similar speculative transactions (including, without limitation, take-or-pay contracts) except for Hedge Agreements permitted under Section 5.02(b)(ii)(B).

SECTION 5.03. Reporting Requirements. So long as any Advance shall remain unpaid, any Letter of Credit shall be outstanding or any Lender Party shall have any Commitment hereunder, MEDIQ or the Borrower will furnish to the Lender Parties (except for the notice required under Section 5.03(a), which shall be given to the Administrative Agent):

(a) Default Notice. As soon as possible and in any event within two Business Days after the occurrence of each Default or any event, development or occurrence reasonably likely to have a Material Adverse Effect continuing on the date of such statement, a statement of a Responsible Officer setting forth details of such Default and the action that the Borrower has taken and proposes to take with respect thereto.

(b) Monthly Financials. As soon as available and in any event within 30 days after the end of each month (other than for each month on which a fiscal quarter is also ending, in which event such financials shall be delivered within 45 days), commencing September 30, 1996, Consolidated and consolidating balance

sheets of MEDIQ and its Subsidiaries as of the end of such month and Consolidated and consolidating statements of income of MEDIQ and its Subsidiaries and Consolidated statements of cash flow of each of MEDIQ and its Subsidiaries and Holdings and its Subsidiaries for the period commencing at the end of the previous month and ending with the end of

such month and Consolidated and consolidating statements of income of MEDIQ and its Subsidiaries and Consolidated statements of cash flow of each of MEDIQ and its Subsidiaries and Holdings and its Subsidiaries for the period commencing at the end of the previous Fiscal Year and ending with the end of such month, setting forth in each case in comparative form the corresponding figures for the corresponding month of the preceding Fiscal Year and the corresponding figures for the corresponding month of the current annual forecast, all in reasonable detail and duly certified (subject to year-end audit adjustments) by the chief financial officers of MEDIQ and Holdings, respectively, together with (i) a certificate of the chief financial officer of MEDIQ stating that no Default has occurred and is continuing or, if a Default has occurred and is continuing, a statement as to the nature thereof and the action that MEDIQ has taken and proposes to take with respect thereto, and (ii) in the event of any change from GAAP in the generally accepted accounting principles used in the preparation of such financial statements, a statement of reconciliation conforming such financial statements to GAAP.

(c) Quarterly Financials. As soon as available and in any event within 45 days after the end of each of the quarters of each Fiscal Year, Consolidated and consolidating balance sheets of MEDIQ and its Subsidiaries as of the end of such quarter and Consolidated and consolidating statements of income of MEDIQ and its Subsidiaries and a Consolidated statement of cash flow of each of MEDIQ and its Subsidiaries and Holdings and its Subsidiaries for the period commencing at the end of the previous fiscal quarter and ending with the end of such fiscal quarter and Consolidated and consolidating statements of income of MEDIQ and its Subsidiaries and Consolidated statements of cash flow of each of MEDIQ and its Subsidiaries and Holdings and its Subsidiaries for the period commencing at the end of the previous Fiscal Year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures for the corresponding period of the preceding Fiscal Year, all in reasonable detail and duly certified (subject to year-end audit adjustments) by the chief financial officers of MEDIQ and Holdings, respectively, as having been prepared in accordance with generally accepted accounting principles consistent with those applied in the most recent annual audit, together with (i) a certificate of the chief financial officer of MEDIQ stating that no Default has occurred and is continuing or, if a Default has occurred and is continuing, a statement as to the nature thereof and the action that MEDIQ has taken and proposes to take with respect thereto, (ii) a schedule in form satisfactory to the Administrative Agent of the computations used by MEDIQ in determining compliance with the covenants contained in Sections 5.04(a) through (e) and (iii) in the event of

any change from GAAP in the generally accepted accounting principles used in the preparation of such financial statements, a statement of reconciliation conforming such financial statements to GAAP.

(d) Annual Financials. As soon as available and in any event within 90 days after the end of each Fiscal Year, a copy of the annual audit report for such year for MEDIQ and its Subsidiaries, including therein a Consolidated balance sheet of MEDIQ and its Subsidiaries as of the end of such Fiscal Year and Consolidated statements of income and cash flow of MEDIQ and its Subsidiaries for such Fiscal Year, all Consolidated balance sheets and statements of income and cash flow accompanied by an opinion reasonably acceptable to the Required Lenders of Deloitte & Touche LLP or other independent public accountants of recognized standing reasonably acceptable to the Required Lenders and a consolidating balance sheet of MEDIQ and its Subsidiaries as of the end of such Fiscal Year and a consolidating statement of income of MEDIQ and its Subsidiaries and a Consolidated statement of cash flow of Holdings and its Subsidiaries for such Fiscal Year certified by the chief financial officers of MEDIQ and Holdings, respectively, together with (i) a schedule prepared by such officer in form satisfactory to the Administrative Agent of the computations used by MEDIQ and its Ongoing Subsidiaries in determining, as of the end of such Fiscal Year, compliance with the covenants contained in Sections 5.04(a) through (f), (ii) a certificate of the chief financial officer of MEDIQ stating that no Default has occurred and is continuing or, if a default has occurred and is continuing, a statement as to the nature thereof and the action that MEDIQ has taken and proposes to take with respect thereto and (iii) in the event of any change from GAAP in the generally accepted accounting principles used in the preparation of such

financial statements, a statement of reconciliation conforming such financial statements to GAAP.

(e) Annual Forecasts. As soon as available and in any event no later than the end of each Fiscal Year, forecasts prepared by management of MEDIQ, in form satisfactory to the Administrative Agent, of Consolidated and consolidating balance sheets and income statements and a Consolidated cash flow statement on a monthly basis for the Fiscal Year following such Fiscal Year then ended and on an annual basis for each Fiscal Year thereafter until the Final Maturity Date.

(f) ERISA Events and ERISA Reports. (i) Promptly and in any event within 10 days after any Loan Party or any ERISA Affiliate knows or has reason to know that any ERISA Event has occurred, a statement of the chief financial officer of the Borrower describing such ERISA Event and the action, if any, that such Loan Party or such ERISA Affiliate has taken and proposes to take with respect thereto and (ii) on the date any records, documents or other information must be furnished to the

PBGC with respect to any Plan pursuant to Section 4010 of ERISA, a copy of such records, documents and information.

(g) Plan Terminations. Promptly and in any event within two Business Days after receipt thereof by any Loan Party or any ERISA Affiliate, copies of each notice from the PBGC stating its intention to terminate any Plan or to have a trustee appointed to administer any Plan.

(h) Actuarial Reports. Promptly upon receipt thereof by any Loan Party or any ERISA Affiliate, a copy of the annual actuarial valuation report of each Plan.

(i) Plan Annual Reports. Promptly and in any event within 30 days after the filing thereof with the Internal Revenue Service, copies of each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) with respect to each Plan.

(j) Multiemployer Plan Notices. Promptly and in any event within five Business Days after receipt thereof by any Loan Party or any ERISA Affiliate from the sponsor of a Multiemployer Plan, copies of each notice concerning (i) the imposition of Withdrawal Liability by any such Multiemployer Plan, (ii) the reorganization or termination, within the meaning of Title IV of ERISA, of any such Multiemployer Plan or (iii) the amount of liability incurred, or that may be incurred, by such Loan Party or any ERISA Affiliate in connection with any event described in clause (i) or (ii).

(k) Litigation. Promptly after the commencement thereof, notice of all actions, suits, investigations, litigation and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting any Loan Party or any of its Subsidiaries of the type described in Section 4.01(h) or such action, suit, investigation, litigation or proceeding alleges monetary damages in excess of $1,000,000.

(l) Securities Reports. Promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports that any Loan Party or any of its Subsidiaries sends to its stockholders, and copies of all regular, periodic and special reports, and all registration statements, that any Loan Party or any of its Subsidiaries files with the Securities and Exchange Commission or any governmental authority that may be substituted therefor, or with any national securities exchange.

(m) Creditor Reports. Promptly after the furnishing thereof, copies of any statement or report furnished to any other holder of the securities of any Loan Party or of any of its Subsidiaries (including, without limitation, the holders of the

Subordinated Notes) pursuant to the terms of the 7.25% Note Indenture, the

7.50% Note Indenture, the 12.125% Note Indenture or the NutraMax Escrow Agreement, loan or credit or similar agreement and not otherwise required to be furnished to the Lender Parties pursuant to any other clause of this Section 5.03.

(n) Agreement Notices. Promptly upon receipt thereof, copies of all notices, requests and other documents received by any Loan Party or any of its Subsidiaries under or pursuant to any Related Document or indenture, loan or credit or similar agreement regarding or related to any breach or default by any party thereto or any other event that could materially impair the value of the interests or the rights of any Loan Party or any of its Subsidiaries or otherwise have a Material Adverse Effect and copies of any amendment, modification or waiver of any provision of the NutraMax Note, the NutraMax Letter of Credit, any Related Agreement or indenture, loan or credit or similar agreement and, from time to time upon request by the Administrative Agent, such information and reports regarding the Related Documents as the Administrative Agent may reasonably request.

(o) Revenue Agent Reports. Within 10 days after receipt, copies of all Revenue Agent Reports (Internal Revenue Service Form 886), or other written proposals of the Internal Revenue Service, that propose, determine or otherwise set forth positive adjustments to the Federal income tax liability of the affiliated group (within the meaning of Section 1504(a)(1) of the Internal Revenue Code) of which the Borrower is a member aggregating $250,000 or more.

(p) Environmental Conditions. Promptly after the assertion or occurrence thereof, notice of any Environmental Action against or of any condition or occurrence on any property of any Loan Party or any of its Subsidiaries that results in a material noncompliance by any Loan Party or any of its Subsidiaries with any Environmental Law or Environmental Permit that (i) could be reasonably expected to have a Material Adverse Effect or (ii) cause any property described in the Mortgage to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law.

(q) Real Property. As soon as available and in any event within 30 days after the end of each Fiscal Year, a report supplementing Schedule 4.01(ff) hereto, including an identification of all owned real property disposed of by the Loan Parties or any of its Subsidiaries during such Fiscal Year, a list and description (including the street address, county or other relevant jurisdiction, state, record owner, book value thereof) of all real property acquired during such Fiscal Year and a description of such other changes in the information included in such Schedule as may be necessary for such Schedule to be accurate and complete.

(r) Insurance. As soon as available and in any event within 30 days after the end of each Fiscal Year, a report summarizing the insurance coverage (specifying type, amount and carrier) in effect for the Loan Parties (excluding any Discontinued Subsidiary) and their Ongoing Subsidiaries and containing such additional information as any Lender Party (through the Administrative Agent) may reasonably specify.

(s) Borrowing Base Certificate. As soon as available and in any event within 20 days after the end of each month, a Borrowing Base Certificate, as at the end of such month, certified by the chief financial officer of the Borrower.

(t) Other Information. Such other information respecting the business, condition (financial or otherwise), operations, performance, properties or prospects of any Loan Party or any of its Subsidiaries as the Administrative Agent or any Lender Party (through the Administrative Agent) may from time to time reasonably request.

(u) Clean-Down Notice. Within 5 Business Days prior to the commencement of a Clean-Down Period of the Borrower, a notice from the chief financial officer of the Borrower setting forth the precise day on which the Clean-Down Period will begin.

SECTION 5.04. Financial Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall be outstanding or any Lender Party shall have any Commitment hereunder, MEDIQ and its Ongoing Subsidiaries will:

(a) Net Worth. Maintain at all times an excess of Consolidated total assets over Consolidated total liabilities, in each case, of MEDIQ and its Ongoing Subsidiaries of not less than the amount set forth below for the period set forth below:

Quarter Ending	Amount
December 31, 1996	$ 6,000,000
March 31, 1997	$ 7,500,000
June 30, 1997	$ 8,500,000
September 30, 1997	$ 9,500,000
December 31, 1997	$10,500,000
March 31, 1998	$13,000,000
June 30, 1998	$15,000,000
September 30, 1998	$16,500,000
December 31, 1998	$18,500,000
March 31, 1999	$22,500,000
June 30, 1999	$25,500,000
September 30, 1999	$27,500,000

December 31, 1999	$ 31,500,000
March 31, 2000	$ 36,500,000
June 30, 2000	$ 40,500,000
September 30, 2000	$ 44,500,000
December 31, 2000	$ 49,500,000
March 31, 2001	$ 55,500,000
June 30, 2001	$ 58,500,000
September 30, 2001	$ 64,500,000
December 31, 2001	$ 69,500,000
March 31, 2002	$ 76,500,000
June 30, 2002	$ 81,500,000
September 30, 2002	$ 87,500,000
December 31, 2002	$ 91,500,000
March 31, 2003	$ 96,500,000
June 30, 2003 and thereafter	$100,000,000

provided that each amount set forth above, and each amount thereafter, shall be (x) increased by an amount equal to the income from any Permitted Asset Sale or (y) decreased by the sum of (i) any loss resulting from any Permitted Asset Sale, net of any tax or other expense on such sale and (ii) any dividends or stock repurchases otherwise permitted under this Agreement, commencing on the date immediately following the date of such sale or such dividend or stock repurchase.

(b) Leverage Ratio. Maintain on a Consolidated basis for itself and its Ongoing Subsidiaries a Leverage Ratio for each Quarterly Rolling Period ended as at the end of the quarter (of the Fiscal Year) ending on the date set forth below of not more than the amount set forth below for such Quarterly Rolling Period:

Quarterly Rolling Period Ending On	Ratio
December 31, 1996	4.75
March 31, 1997	4.75
June 30, 1997	4.50
September 30, 1997	4.50
December 31, 1997	4.50
March 31, 1998	4.50
June 30, 1998	4.00
September 30, 1998	4.00
December 31, 1998	3.75

March 31, 1999	3.50
June 30, 1999	3.50

September 30, 1999	3.25
December 31, 1999	3.25
March 31, 2000	3.00
June 30, 2000	3.00
September 30, 2000	2.75
December 31, 2000	2.75
March 31, 2001	2.50
June 30, 2001	2.50
September 30, 2001	2.25
December 31, 2001	2.25
March 31, 2002	2.25
June 30, 2002, and thereafter	2.00

(c) Senior Leverage Ratio. Maintain on a Consolidated basis for itself and its Ongoing Subsidiaries a Senior Leverage Ratio for each Quarterly Rolling Period ended as at the end of the quarter (of the Fiscal Year) ending on the date set forth below of not more than the amount set forth below for such Quarterly Rolling Period:

Quarterly Rolling Period Ending On	Ratio
December 31, 1996	4.25
March 31, 1997	4.25
June 30, 1997	4.00
September 30, 1997	4.00
December 31, 1997	4.00
March 31, 1998	4.00
June 30, 1998	3.50
September 30, 1998	3.50
December 31, 1998	3.25
March 31, 1999	3.00
June 30, 1999	3.00
September 30, 1999	2.75
December 31, 1999	2.75

March 31, 2000	2.50
June 30, 2000	2.50
September 30, 2000	2.25
December 31, 2000	2.25
March 31, 2001	2.00
June 30, 2001	2.00
September 30, 2001	1.75
December 31, 2001	1.75
March 31, 2002	1.75
June 30, 2002, and thereafter	1.50

(d) Fixed Charge Coverage Ratio. Maintain on a Consolidated basis for itself and its Ongoing Subsidiaries a Fixed Charge Coverage Ratio for each Quarterly Rolling Period ended as at the end of each quarter of each Fiscal Year (i) ending on or prior to September 30, 2000 of not less than 1.05 or (ii) ending at any time thereafter of not less than 1.10.

(e) Interest Coverage Ratio. Maintain on a Consolidated basis for itself and its Ongoing Subsidiaries an Interest Coverage Ratio for each Quarterly Rolling Period ended as at the end of the quarter (of the Fiscal Year) ending on the date set forth below of not less than the amount set forth below for such Quarterly Rolling Period:

Quarterly Rolling Period Ending On	Ratio

December 31, 1996	2.00
March 31, 1997	2.25
June 30, 1997	2.25
September 30, 1997	2.25
December 31, 1997	2.25
March 31, 1998	2.50
June 30, 1998	2.50
September 30, 1998	2.50
December 31, 1998	2.75
March 31, 1999	2.75
June 30, 1999	2.75
September 30, 1999	3.00
December 31, 1999	3.00

March 31, 2000	3.25
June 30, 2000	3.25
September 30, 2000	3.50
December 31, 2000	3.75
March 31, 2001	3.75
June 30, 2001 and thereafter	4.00

(f) Capital Expenditures. Not make, or permit any of its Ongoing Subsidiaries to make, any Capital Expenditures that would cause the aggregate of all such Capital Expenditures made by MEDIQ and its Ongoing Subsidiaries in any Fiscal Year to exceed $14,000,000; provided, however, that if any Investment pursuant to Section 5.02(f)(i) or (vi) shall have occurred, for each increment of $3,000,000 of EBITDA, as determined at any time during such Fiscal Year on a historical basis for the twelve month period ending on the date of such determination, attributable to all such Investments, the amount specified above shall be increased by an increment of $1,000,000, so long as such total amount shall not exceed $20,000,000; provided, further, that if, at the end of any Fiscal Year (the "Prior Fiscal Year"), the amount specified above for such Fiscal Year exceeds the amount of Capital Expenditures made by the Borrower during such Fiscal Year (the amount of such excess being the "Excess Amount"), MEDIQ and its Ongoing Subsidiaries shall be entitled to make additional Capital Expenditures in the succeeding Fiscal Year in an amount (such amount being referred to herein as the "Carryover Amount") equal to the lesser of (i) the Excess Amount and (ii) 1/3 of the amount specified above for the Prior Fiscal Year and, provided still further that the amount of Capital Expenditures during any Fiscal Year may be increased by an amount equal to 100% minus the applicable Recapture Percentage multiplied by the amount of Excess Cash Flow for the prior Fiscal Year ratably reduced by the sum of (A) the amount of any payment of dividends pursuant to Section 5.02(g)(ii), (B) the amount of any repurchase of stock pursuant to Section 5.02(g)(ii), (C) the amount of any Investments made pursuant to Section 5.02(f)(vi) and (D) the amount of any refinancing of Subordinated Notes pursuant to 5.02(k)(i)(y)(B).

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) the Borrower shall fail to pay any principal of any Advance as the same becomes due and payable, or the Borrower or any other Loan Party shall fail to pay any interest on any Advance or make any other payment under any Loan Document within two Business Days after the same becomes due and payable; or

(b) any representation or warranty made by any Loan Party (or any of its officers) under or in connection with any Loan Document shall prove to have been incorrect in any material respect when made; or

(c) the Borrower shall fail to perform or observe any term, covenant or agreement contained in Sections 2.14, 2.16, 5.01(e), (f), (g), (l), (m) or (n), 5.02, 5.03 or 5.04; or

(d) any Loan Party shall fail to perform any other term, covenant or agreement contained in any Loan Document on its part to be performed or observed if such failure shall remain unremedied for 15 days after the earlier of the date on which (A) a Responsible Officer of the Borrower becomes aware of such failure or (B) written notice thereof shall have been given to the Borrower by the Administrative Agent or any Lender Party; or

(e) any Loan Party or any of its Subsidiaries shall fail to pay any principal of, premium or interest on or any other amount payable in respect of any Debt that is outstanding in a principal or notional amount of at least $1,000,000 either individually or in the aggregate (but excluding Debt outstanding hereunder) of such Loan Party or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt or otherwise to cause, or to permit the holder thereof to cause, such Debt to mature; or any such Debt shall be declared to be due and payable or required to be prepaid or redeemed (other than by a regularly scheduled or required prepayment or redemption), purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof; or

(f) any Loan Party or any of its Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any Loan Party or any of its Subsidiaries

seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it) that is being diligently contested by it in good faith, either such proceeding shall remain undismissed or unstayed for a period of 45 days or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or any substantial part of its property) shall occur; or any Loan Party or any of its Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (f); or

(g) any judgment or order for the payment of money in excess of $1,000,000 (to the extent not fully paid or discharged) shall be rendered against any Loan Party or any of its Subsidiaries and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(h) any non-monetary judgment or order shall be rendered against any Loan Party or any of its Subsidiaries that could have a Material Adverse Effect, and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(i) any provision of any Loan Document after delivery thereof pursuant to Section 3.01 or 5.01(m) shall for any reason cease to be valid and binding on or enforceable against any Loan Party to it, or any such Loan Party shall so state in writing; or

(j) any Collateral Document after delivery thereof pursuant to Section 3.01 or 5.01(m) shall for any reason (other than pursuant to the terms thereof) cease to create a valid and perfected first priority lien on and security interest in the Collateral purported to be covered thereby except as permitted hereunder; or

(k) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of MEDIQ (together with any new directors whose election to such Board or whose nomination for election by the shareholders of MEDIQ was approved by a vote of at least 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 such Board of Directors then in office; or if at any time any Person or two or more Persons acting in concert shall acquire Beneficial Ownership of Voting Stock of MEDIQ representing a percentage of the combined voting power of all Voting Stock of MEDIQ that exceeds (i) the percentage of the combined voting power of all Voting Stock of MEDIQ Beneficially Owned by the Investor Group or any one or more of the members thereof or (ii) 30% of the outstanding Voting Stock of the Borrower; or

(l) any ERISA Event shall have occurred with respect to a Plan and the sum (determined as of the date of occurrence of such ERISA Event) of the Insufficiency of such Plan and the Insufficiency of any and all other Plans with respect to which an ERISA Event shall have occurred and then exist (or the liability of the Loan Parties and the ERISA Affiliates related to such ERISA Event) exceeds $1,000,000; or

(m) any Loan Party or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan in an amount that, when aggregated with all other amounts required to be paid to Multiemployer Plans by the Loan Parties and the ERISA Affiliates as Withdrawal Liability (determined as of the date of such notification), exceeds $250,000 or requires payments exceeding $50,000 per annum; or

(n) any Loan Party or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, and as a result of such reorganization or termination the aggregate annual contributions of the Loan Parties and the ERISA Affiliates to all Multiemployer Plans that are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the plan years of such Multiemployer Plans immediately preceding the plan year in which such reorganization or termination occurs by an amount exceeding $50,000; or

(o) there shall occur any Material Adverse Change;

then, and in any such event, the Administrative Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the obligation of each Appropriate Lender to make Advances (other than Letter of Credit Advances by the Issuing Bank or a Working Capital Lender pursuant to Section 2.03(c)) and of the Issuing Bank to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by

notice to the Borrower, declare the Notes, all interest thereon and all other amounts payable under this Agreement and the other Loan Documents to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly

waived by the Borrower; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to any Loan Party or any of its Subsidiaries under the Federal Bankruptcy Code, (x) the obligation of each Lender to make Advances (other than Letter of Credit Advances by the Issuing Bank or a Working Capital Lender pursuant to Section 2.03(c)) and of the Issuing Bank to issue Letters of Credit shall automatically be terminated and (y) the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

SECTION 6.02. Actions in Respect of the Letters of Credit upon Default. If any Event of Default shall have occurred and be continuing, the Administrative Agent may, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, make demand upon the Borrower to, and forthwith upon such demand the Borrower will, pay to the Administrative Agent on behalf of the Lender Parties in same day funds at the Administrative Agent's office designated in such demand, for deposit in the L/C Cash Collateral Account, an amount equal to the aggregate Available Amount of all Letters of Credit then outstanding. If at any time the Administrative Agent determines that any funds held in the L/C Cash Collateral Account are subject to any right or claim of any Person other than the Administrative Agent and the Lender Parties or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrower will, forthwith upon demand by the Administrative Agent, pay to the Administrative Agent, as additional funds to be deposited and held in the L/C Cash Collateral Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the L/C Cash Collateral Account that the Administrative Agent determines to be free and clear of any such right and claim.

ARTICLE VII

PARENT GUARANTIES

SECTION 7.01. Guaranty. Each Parent Guarantor hereby unconditionally and irrevocably guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all Obligations of each Loan Party now or hereafter existing under the Loan Documents, whether for principal, interest, fees, expenses or otherwise (such Obligations being the "Guaranteed Obligations"), and agrees to pay any and all expenses (including reasonable counsel fees and expenses) incurred by the Agents or the Lender Parties in enforcing any rights under this Guaranty. Without limiting the generality of the

foregoing, each Parent Guarantor's liability shall extend to all amounts that constitute part of the Guaranteed Obligations and would be owed by any Loan Party to the Administrative Agent, the Agents or any Lender Party under the Loan Documents but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower.

SECTION 7.02. Guaranty Absolute. Each Parent Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Loan Documents, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Administrative Agent or any other Secured Party with respect thereto. The Obligations of each Parent Guarantor under this Guaranty are independent of the Guaranteed Obligations or any other Obligations of any Loan Party under the Loan Documents, and a separate action or actions may be brought and prosecuted against any Parent Guarantor to enforce this Guaranty, irrespective of whether any action is brought against any Loan Party or whether any Loan Party is joined in any such action or actions. The liability of each Parent Guarantor under this Guaranty shall be irrevocable, absolute and unconditional irrespective of, and each Parent Guarantor hereby irrevocably waives any defenses it may now or hereinafter have in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of any Loan Document or any agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations or any other Obligations of any other Loan Party under the Loan Documents, or any other amendment or waiver of or any consent to departure from any Loan Document,

including, without limitation, any increase in the Guaranteed Obligations resulting from the extension of additional credit to the Borrower or any of its Subsidiaries or otherwise;

(c) any taking, exchange, release or non-perfection of any Collateral, or any taking, release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Guaranteed Obligations;

(d) any manner of application of Collateral, or proceeds thereof, to all or any of the Guaranteed Obligations, or any manner of sale or other disposition of any Collateral for all or any of the Guaranteed Obligations or any other Obligations of any other Loan Party under the Loan Documents or any other assets of any Loan Party or any of its Subsidiaries;

(e) any change, restructuring or termination of the corporate structure or existence of any Loan Party or any of its Subsidiaries; or

(f) any other circumstance (including, without limitation, any statute of limitations) or any existence of or reliance on any representation by the Administrative Agent or any other Secured Party that might otherwise constitute a defense available to, or a discharge of, any Loan Party, any Parent Guarantor or any other guarantor or surety.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by the Administrative Agent or any other Secured Party upon the insolvency, bankruptcy or reorganization of any Loan Party or otherwise, all as though such payment had not been made.

SECTION 7.03. Waiver. Each Parent Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this Guaranty and any requirement that the Administrative Agent or any other Secured Party protect, secure, perfect or insure any Lien or any property subject thereto or exhaust any right or take any action against any Loan Party or any other Person or any collateral. Each Parent Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Loan Documents and that the waiver set forth in this Section 7.03 is knowingly made in contemplation of such benefits.

SECTION 7.04. Payments Free and Clear of Taxes, Etc. (a) Any and all payments made by each Parent Guarantor hereunder or under the Notes shall be made, in accordance with Section 2.11, free and clear of and without deduction for any and all present or future Taxes. If any Parent Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Administrative Agent or any other Secured Party, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent or such other Secured Party (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Parent Guarantor shall make such deductions and (iii) such Parent Guarantor shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Parent Guarantor agrees to pay any present or future Other Taxes.

(c) Each Parent Guarantor will indemnify the Administrative Agent and each other Secured Party for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section) paid by the Administrative Agent or such other Secured Party (as the case may be) and any liability (including penalties, additions to tax, interest and expenses) arising

therefrom or with respect thereto. This indemnification shall be made within 30 days from the date the Administrative Agent or such other Secured Party (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Parent Guarantor will furnish to the Administrative Agent, at its address referred to in Section 9.02, appropriate evidence of payment thereof. If no Taxes are payable in respect of any payment hereunder by any Parent Guarantor through an account or branch outside the United States or on behalf of such Parent Guarantor by a payor that is not a United States person, such Parent Guarantor will furnish, or will cause such payor to furnish, to the Administrative Agent a certificate from each appropriate taxing authority or authorities, or an opinion of counsel acceptable to the Administrative Agent, in either case stating that such payment is exempt from or not subject to Taxes. For purposes of this subsection (d), the terms "United States" and "United States person" shall have the meaning specified in Section 7701 of the Internal Revenue Code.

(e) Without prejudice to the survival of any other agreement of any Parent Guarantor hereunder, the agreements and obligations of such Parent Guarantor contained in this Section 7.04 shall survive the payment in full of the Guaranteed Obligations and all other amounts payable under this Guaranty.

SECTION 7.05. Continuing Guaranty; Assignments. This Guaranty is a continuing guaranty and shall (a) remain in full force and effect until the later of the cash payment in full of the Guaranteed Obligations and all other amounts payable under this Guaranty and the Termination Date, (b) be binding upon each Parent Guarantor, its successors and assigns and (c) inure to the benefit of and be enforceable by the Administrative Agent and the other Secured Parties and their successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), any Lender Party may assign or otherwise transfer all or any portion of its rights and obligations hereunder (including, without limitation, all or any portion of its Commitment, the Advances owing to it and the Note or Notes held by it) to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise, in each case as provided in Section 9.07.

SECTION 7.06. Subrogation. The Parent Guarantors will not exercise any rights that it may now or hereafter acquire against the Borrower or any other insider guarantor that arise from the existence, payment, performance or enforcement of the Parent Guarantor's Obligations under this Agreement or any other Loan Document, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Administrative Agent or any other Secured Party against the Borrower or any other insider guarantor or any collateral, whether or not such claim, remedy or right arises in equity or under contract,

statute or common law, including, without limitation, the right to take or receive from the Borrower or any other insider guarantor, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right, unless and until all of the Obligations and all other amounts payable under this Guaranty shall have been paid in full in cash and the Commitments shall have expired or terminated. If any amount shall be paid to the Parent Guarantor in violation of the preceding sentence at any time prior to the later of the payment in full in cash of the Guaranteed Obligations and all other amounts payable under this Guaranty and the Termination Date, such amount shall be held in trust for the benefit of the Administrative Agent and the Secured Parties and shall forthwith be paid to the Administrative Agent to be credited and applied to the Guaranteed Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of the Loan Documents, or to be held as collateral for any Guaranteed Obligations or other amounts payable under this Guaranty thereafter arising. If (i) the Parent Guarantor shall make payment to the Administrative Agent or any other Secured Party of all or any part of the Guaranteed Obligations, (ii) all of the Guaranteed Obligations and all other amounts payable under this Guaranty shall be paid in full in cash and (iii) the Termination Date shall have occurred, the Administrative Agent, and the other Secured Parties will, at the Parent Guarantor's request and expense, execute and deliver to the Parent Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to the Parent Guarantor of an interest in the Guaranteed Obligations resulting from such payment by the Parent Guarantor.

ARTICLE VIII

THE AGENTS

SECTION 8.01. Authorization and Action. Each Lender Party (in its capacities as a Lender, the Issuing Bank (if applicable) and a potential Hedge Bank) hereby appoints and authorizes each Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement and the other Loan Documents as are delegated to such Agent by the terms hereof and thereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by the Loan Documents (including, without limitation, enforcement or collection of the Notes), each Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders (or all the Lenders to the extent required by 9.01) and such instructions shall be binding upon all Lender Parties and all holders of Notes; provided, however, that no Agent shall be required to take any action that exposes such Agent to personal liability or that is contrary to this Agreement or

applicable law. Each Agent agrees to give to each Lender Party prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

SECTION 8.02. Agents' Reliance, Etc. None of the Agents nor any of their directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with the Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, each Agent: (a) may treat the payee of any Note as the holder thereof until the Administrative Agent receives and accepts an Assignment and Acceptance entered into by the Lender that is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in Section 9.07; (b) may consult with legal counsel (including counsel for any Loan Party), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender Party and shall not be responsible to any Lender Party for any statements, warranties or representations (whether written or oral) made in or in connection with the Loan Documents; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Loan Document on the part of any Loan Party or to inspect the property (including the books and records) of any Loan Party; (e) shall not be responsible to any Lender Party for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, any Loan Document or any other instrument or document furnished pursuant thereto; and (f) shall incur no liability under or in respect of any Loan Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, telecopy or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 8.03. BNP, NationsBank and Affiliates. With respect to its Commitments, the Advances made by it and the Notes issued to it, each of BNP and NationsBank shall have the same rights and powers under the Loan Documents as any other Lender Party and may exercise the same as though they were not Agents; and the term "Lender Party" or "Lenders Parties" shall, unless otherwise expressly indicated, include BNP in its individual capacity. Each of BNP and NationsBank and their affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, any Loan Party, any of its Subsidiaries and any Person who may do business with or own securities of any Loan Party or any such Subsidiary, all as if BNP and NationsBank were not Agents and without any duty to account therefor to the Lender Parties.

SECTION 8.04. Lender Party Credit Decision. Each Lender Party acknowledges that it has, independently and without reliance upon any Agent or any other

Lender Party and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender Party

also acknowledges that it will, independently and without reliance upon any Agent or any other Lender Party and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 8.05. Indemnification. (a) Each Lender Party severally agrees to indemnify each Agent (to the extent not promptly reimbursed by the Borrower) from and against such Lender Party's ratable share (determined as provided below) of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against such Agent in any way relating to or arising out of the Loan Documents or any action taken or omitted by such Agent under the Loan Documents; provided, however, that no Lender Party shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from any Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender Party agrees to reimburse each Agent promptly upon demand for its ratable share of any costs and expenses (including, without limitation, fees and expenses of counsel) payable by the Borrower under Section 9.04, to the extent that such Agent is not promptly reimbursed for such costs and expenses by the Borrower. For purposes of this Section 8.05, the Lender Parties' respective ratable shares of any amount shall be determined, at any time, according to the sum of (a) the aggregate principal amount of the Advances outstanding at such time and owing to the respective Lender Parties, (b) their respective Pro Rata Shares of the aggregate Available Amount of all Letters of Credit outstanding at such time, (c) the aggregate unused portions of their respective Term Commitments at such time and (d) their respective Unused Working Capital Commitments and Unused Acquisition Commitments at such time. In the event that any Defaulted Advance shall be owing by any Defaulting Lender at any time, such Lender Party's Commitment with respect to the Facility under which such Defaulted Advance was required to have been made shall be considered to be unused for purposes of this Section 8.05(a) to the extent of the amount of such Defaulted Advance. The failure of any Lender Party to reimburse any Agent promptly upon demand for its ratable share of any amount required to be paid by the Lender Party to such Agent as provided herein shall not relieve any other Lender Party of its obligation hereunder to reimburse each Agent for its ratable share of such amount, but no Lender Party shall be responsible for the failure of any other Lender Party to reimburse any Agent for such other Lender Party's ratable share of such amount. Without prejudice to the survival of any other agreement of any Lender Party hereunder, the agreement and obligations of each Lender Party contained in this Section 8.05(a) shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

(b) Each Lender Party severally agrees to indemnify the Issuing Bank (to the extent not promptly reimbursed by the Borrower) from and against such Lender Party's ratable share (determined as provided below) of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Issuing Bank in any way relating to or arising out of the Loan Documents or any action taken or omitted by the Issuing Bank under the Loan Documents; provided, however, that no Lender Party shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Issuing Bank's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender Party agrees to reimburse the Issuing Bank promptly upon demand for its ratable share of any costs and expenses (including, without limitation, fees and expenses of counsel) payable by the Borrower under Section 9.04, to the extent that the Issuing Bank is not promptly reimbursed for such costs and expenses by the Borrower. For purposes of this Section 8.05(b), the Lender Parties' respective ratable shares of any amount shall be determined, at any time, according to the sum of (a) the aggregate principal amount of the Advances outstanding at such time and owing to the respective Lender Parties, (b) their respective Pro Rata Shares of the aggregate Available Amount of all Letters of Credit outstanding at such time, (c) the aggregate unused portions of their respective Term Commitments at such time plus (d) their respective Unused Working Capital Commitments and Unused Acquisition Commitments at such time. In the event that any Defaulted Advance shall be owing by any Defaulting Lender at any time, such Lender Party's Commitment with respect to the Facility under which such Defaulted Advance was required to have been made shall be considered to be unused for purposes of this Section 8.05(b) to the extent of the amount of such Defaulted Advance. The failure of any Lender Party to reimburse the Issuing Bank promptly upon demand

for its ratable share of any amount required to be paid by the Lender Parties to the Issuing Bank as provided herein shall not relieve any other Lender Party of its obligation hereunder to reimburse the Issuing Bank for its ratable share of such amount, but no Lender Party shall be responsible for the failure of any other Lender Party to reimburse the Issuing Bank for such other Lender Party's ratable share of such amount. Without prejudice to the survival of any other agreement of any Lender Party hereunder, the agreement and obligations of each Lender Party contained in this Section 8.05(b) shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

SECTION 8.06. Successor Agents. Any Agent may resign at any time by giving written notice thereof to the Lender Parties. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Agent, subject to the approval of the Borrower which shall not be unreasonably withheld or delayed. If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation, the retiring Agent may, on behalf of the Lender Parties, appoint a successor

Agent, subject to the approval of the Borrower which shall not be unreasonably withheld or delayed, which shall be a commercial bank organized under the laws of the United States or of any State thereof and having a combined capital and surplus of at least $500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent and upon the execution and filing or recording of such financing statements, or amendments thereto, and such amendments or supplements to the Mortgages, and such other instruments or notices, as may be necessary or desirable, or as the Required Lenders may request, in order to continue the perfection of the Liens granted or purported to be granted by the Collateral Documents, such successor Agent shall succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under the Loan Documents. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Notes or any other Loan Document, nor consent to any departure by any Loan Party therefrom, shall in any event be effective unless the same shall be in writing and signed (or, in the case of the Collateral Documents, consented to) by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that (a) no amendment, waiver or consent shall, unless in writing and signed by all of the Lenders (other than any Lender Party that is, at such time, a Defaulting Lender), do any of the following at any time: (i) waive any of the conditions specified in Section 3.01 or, in the case of the Initial Extension of Credit, Section 3.02 or 3.03, (ii) change the number of Lenders or the percentage of (x) the Commitments, (y) the aggregate unpaid principal amount of the Advances or (z) the aggregate Available Amount of outstanding Letters of Credit, that, in each case, shall be required for the Lenders or any of them to take any action hereunder, (iii) release all or substantially all of the Collateral in any transaction or series of related transactions or permit the creation, incurrence, assumption or existence of any Lien on all or substantially all of the Collateral in any transaction or series of related transactions to secure any Obligations other than Obligations owing to the Secured Parties under the Loan Documents or (iv) amend this Section 9.01 and (b) no amendment, waiver or consent shall, unless in writing and signed by the Required Lenders and each Lender that has a Commitment under the Term A Facility, Term B Facility, the Acquisition Facility or Working Capital Facility if affected by such amendment, waiver or consent, (i) increase the Commitments of such Lender or subject such Lender to any additional obligations,

(ii) reduce the principal of, or interest on, the Notes held by such Lender or

any fees or other amounts payable hereunder to such Lender, (iii) postpone any date fixed for any payment of principal of, or interest on, the Notes held by such Lender or any fees or other amounts payable hereunder to such Lender or (iv) change the order of application of any prepayment set forth in Section 2.06 in any manner that materially affects such Lender; provided further that no amendment, waiver or consent shall, unless in writing and signed by the Issuing Bank, in addition to the Lenders required above to take such action, affect the rights or obligations of the Issuing Bank under this Agreement; and provided further that no amendment, waiver or consent shall, unless in writing and signed by any Agent in addition to the Lenders required above to take such action, affect the rights or duties of such Agent under this Agreement.

SECTION 9.02. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telegraphic, telecopy or telex communication) and mailed, telegraphed, telecopied, telexed or delivered by an overnight courier of nationally recognized standing, if to the Borrower, at its address at One MEDIQ Plaza, Pennsauken, New Jersey 08110, Attention: Chief Financial Officer and General Counsel, telecopier number (609) 661-0958; if to any Initial Lender or any Initial Issuing Bank, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender Party, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender Party; if to BNP, at its address at 499 Park Avenue, New York, New York 10022, Attention: Structured Finance Group, telecopier number (212) 418-8269; and if to NationsBank, at its address at 1 NationsBank Plaza, 5th Floor, Nashville, TN 37239-1697, Attention: Health Care Finance Group, telecopier number (615) 749-4640 with a copy to NationsBank, N.A., 100 North Tryon Street, NationsBank Corporate Center, Charlotte, NC 28255, Attention: Health Care Finance Group, telecopier number (704) 388-6002; or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and communications shall, when mailed, telegraphed, telecopied, telexed or sent by courier, be effective when deposited in the mails, delivered to the telegraph company, transmitted by telecopier, confirmed by telex answerback or delivered to the overnight courier, respectively, except that notices and communications to the Administrative Agent pursuant to Article II, III or VIII shall not be effective until received by the Administrative Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

SECTION 9.03. No Waiver; Remedies. No failure on the part of any Lender Party or any Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 9.04. Costs and Expenses. (a) The Borrower agrees to pay on demand (i) all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution, delivery, administration, modification and amendment of the Loan Documents (including, without limitation, (A) all due diligence, collateral review, syndication, transportation, computer, duplication, appraisal, audit, insurance, consultant, search, filing and recording fees and expenses and (B) the reasonable fees and expenses of counsel for the Administrative Agent with respect thereto, with respect to advising the Administrative Agent as to its rights and responsibilities, or the perfection, protection or preservation of rights or interests, under the Loan Documents, with respect to negotiations with any Loan Party or with other creditors of any Loan Party or any of its Subsidiaries arising out of any Default or any events or circumstances that may give rise to a Default and with respect to presenting claims in or otherwise participating in or monitoring any bankruptcy, insolvency or other similar proceeding involving creditors' rights generally and any proceeding ancillary thereto) and (ii) all reasonable out-of-pocket costs and expenses of the Administrative Agents and the Lender Parties in connection with the enforcement of the Loan Documents, whether in any action, suit or litigation, any bankruptcy, insolvency or other similar proceeding affecting creditors' rights generally (including, without limitation, the reasonable fees and expenses of counsel for the Administrative Agent and each Lender Party with respect thereto).

(b) The Borrower agrees to indemnify and hold harmless each Agent, each Lender Party and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against

any and all claims, damages, losses, liabilities and reasonable out-of-pocket expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of, or in connection with the preparation for a defense of, any investigation, litigation or proceeding arising out of, related to or in connection with (i) the Facilities, the actual or proposed use of the proceeds of the Advances or the Letters of Credit, the Loan Documents or any of the transactions contemplated thereby (including, without limitation, the Refinancing and any of the other transactions contemplated hereby) or (ii) the actual or alleged presence of Hazardous Materials on any property of any Loan Party or any of its Subsidiaries or any Environmental Action relating in any way to any Loan Party or any of its Subsidiaries, in each case whether or not such investigation, litigation or proceeding is brought by any Loan Party, its directors, shareholders or creditors or an Indemnified Party or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct. The Borrower also agrees not to assert any claim against any Agent, any Lender Party or any of their Affiliates, or any of their respective officers, directors, employees, attorneys and agents, on any theory of liability, for special, indirect,

consequential or punitive damages arising out of or otherwise relating to the Facilities, the actual or proposed use of the proceeds of the Advances or the Letters of Credit, the Loan Documents or any of the transactions contemplated thereby.

(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance is made by the Borrower to or for the account of a Lender Party other than on the last day of the Interest Period for such Advance, as a result of a payment pursuant to Section 2.05, a payment or Conversion pursuant to Section 2.09(b)(i) or 2.10(d), acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason, or by an Eligible Assignee to a Lender Party other than on the last day of the Interest Period for such Advance upon an assignment of rights and obligations under this Agreement pursuant to Section 9.07 as a result of a demand by the Borrower pursuant to Section 9.07(a), the Borrower shall, upon demand by the Administrative Agent on behalf of a Lender Party, pay to the Administrative Agent for the account of such Lender Party any amounts required to compensate such Lender Party for any additional losses, costs or expenses that it may reasonably incur as a result of such payment, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender Party to fund or maintain such Advance. The calculations of any amounts required to be paid by the Borrower pursuant to this Section 9.04(c) shall be provided by the Administrative Agent to the Borrower.

(d) If any Loan Party fails to pay when due any costs, expenses or other amounts payable by it under any Loan Document, including, without limitation, fees and expenses of counsel and indemnities, such amount may be paid on behalf of such Loan Party by any Agent or any Lender Party, in its sole discretion.

(e) Without prejudice to the survival of any other agreement of any Loan Party hereunder or under any other Loan Document, the agreements and obligations of the Borrower contained in Sections 2.10 and 2.12 and this Section 9.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under any of the other Loan Documents.

SECTION 9.05. Right of Set-off. Upon (a) the occurrence and during the continuance of any Event of Default and (b) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Administrative Agent to declare the Notes due and payable pursuant to the provisions of Section 6.01, each Lender Party and each of its respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and otherwise apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender Party or such Affiliate to or for the credit or the account of the Borrower against any and all of the Obligations of the Borrower now or hereafter existing

under this Agreement and the Note or Notes (if any) held by such Lender Party, irrespective of whether such Lender Party shall have made any demand under this Agreement or such Note or Notes and although such obligations may be unmatured. Each Lender Party agrees promptly to notify the Borrower after any such set-off and application; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender Party and its respective Affiliates under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender Party and its respective Affiliates may have.

SECTION 9.06. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and each Agent and when each Agent shall have been notified by each Initial Lender and the Initial Issuing Bank that such Initial Lender and the Initial Issuing Bank has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, each Agent and each Lender Party and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of all of the Lender Parties.

SECTION 9.07. Assignments and Participations. (a) Each Lender may and, if demanded by the Borrower (following a demand by such Lender pursuant to Section 2.10 or 2.12) upon at least 10 Business Days' notice to such Lender and the Administrative Agent, will assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment or Commitments, the Advances owing to it and the Note or Notes held by it); provided, however, that (i) each such assignment shall be of a uniform, and not a varying, percentage of all rights and obligations under and in respect of one or more Facilities, (ii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than $5,000,000 and shall be in an integral multiple of $500,000, or, if the aggregate amount of the Commitment of such assigning Lender is less than $5,000,000, all of such Lender's Commitment, (iii) each such assignment shall be to an Eligible Assignee, (iv) each such assignment made as a result of a demand by the Borrower pursuant to this Section 9.07(a) shall be arranged by the Borrower after consultation with the Administrative Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this Agreement, (v) no Lender shall be obligated to make any such assignment as a result of the demand by the Borrower pursuant to this Section 9.07(a) unless and until such Lender shall have received one or more payments from either

the Borrower or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement, (vi) no such assignments shall be permitted without the consent of the Administrative Agent until the Administrative Agent shall have notified the Lender Parties that syndication of the Commitments hereunder has been completed as determined by the Agents, and (vii) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Note or Notes subject to such assignment and a processing and recordation fee of $3,000.

(b) Upon such execution, delivery, acceptance and recording, from and after the effective date specified in such Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender or Issuing Bank, as the case may be, hereunder and (y) the Lender or Issuing Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights

and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's or Issuing Bank's rights and obligations under this Agreement, such Lender or Issuing Bank shall cease to be a party hereto).

(c) By executing and delivering an Assignment and Acceptance, the Lender Party assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender Party makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any other Loan Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, this Agreement or any other Loan Document or any other instrument or document furnished pursuant hereto or thereto; (ii) such assigning Lender Party makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any other Loan Party or the performance or observance by any Loan Party of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Administrative Agent, such assigning Lender Party or any other Lender Party and based on such documents and information as it shall

deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Loan Documents as are delegated to the Administrative Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender or Issuing Bank, as the case may be.

(d) The Administrative Agent, acting for this purpose (but only for this purpose) solely as the agent of the Borrower, shall maintain at its address referred to in Section 9.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lender Parties and the Commitment under each Facility of, and principal amount of the Advances owing under each Facility to, each Lender Party from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, each Agent and the Lender Parties may treat each Person whose name is recorded in the Register as a Lender Party hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender Party at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender Party and an assignee, together with any Note or Notes subject to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. In the case of any assignment by a Lender, within five Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent in exchange for the surrendered Note or Notes a new Note to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it under a Facility pursuant to such Assignment and Acceptance and, if the assigning Lender has retained a Commitment hereunder under such Facility, a new Note to the order of the assigning Lender in an amount equal to the Commitment retained by it hereunder. Such new Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note or Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit A-1, A-2, A-3 or A-4 hereto, as the case may be.

(f) Each Lender Party may sell participations in or to all or a

portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments, the Advances owing to it and the Note or Notes (if any) held by it) to any

Person other than any Loan Party or any of its Subsidiaries or Affiliates; provided, however, that (i) such Lender Party's obligations under this Agreement (including, without limitation, its Commitments) shall remain unchanged, (ii) such Lender Party shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender Party shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrower, each Agent and the other Lender Parties shall continue to deal solely and directly with such Lender Party in connection with such Lender Party's rights and obligations under this Agreement and (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of any Loan Document, or any consent to any departure by any Loan Party therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or release all or substantially all of the Collateral.

(g) Any Lender Party may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower furnished to such Lender Party by or on behalf of the Borrower; provided, however, that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any Confidential Information received by it from such Lender Party.

(h) Notwithstanding any other provision set forth in this Agreement, any Lender Party may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and the Note or Notes held by it) including, without limitation, in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 9.08. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different 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. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.09. No Liability of the Issuing Bank. The Borrower assumes all risks of the acts or omissions of any beneficiary or transferee of any Letter of Credit with respect to its use of such Letter of Credit. Neither the Issuing Bank nor any of its officers or directors shall be liable or responsible for: (a) the use that may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee in connection therewith;

(b) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by the Issuing Bank against presentation of documents that do not comply with the terms of a Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit, except that the Borrower shall have a claim against the Issuing Bank, and the Issuing Bank shall be liable to the Borrower, to the extent of any direct, but not consequential, damages suffered by the Borrower that the Borrower proves were caused by (i) the Issuing Bank's willful misconduct or gross negligence in determining whether documents presented under any Letter of Credit comply with the terms of the Letter of Credit or (ii) the Issuing Bank's willful failure to make lawful payment under a Letter of Credit after the presentation to it of a draft and certificates strictly complying with the terms and conditions of the Letter of

Credit. In furtherance and not in limitation of the foregoing, the Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

SECTION 9.10. Jurisdiction, Etc. (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any of the other Loan Documents to which it is a party, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or any of the other Loan Documents in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any of the other Loan Documents to which it is a party in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 9.11. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 9.12. Waiver of Jury Trial. Each of the Borrower, each Agent and the Lender Parties irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to any of the Loan Documents, the Advances or the actions of any Agent or any Lender Party in the negotiation, administration, performance or enforcement thereof.

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

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC., as Borrower

By /s/ Jay M. Kaplan

Title: Senior Vice President

MEDIQ INCORPORATED, as Parent
Guarantor

By /s/ Michael F. Sandler

Title: Senior Vice President

PRN HOLDINGS, INC., as Parent
Guarantor

By /s/ Jay M. Kaplan

Title: Senior Vice President

BANQUE NATIONALE DE PARIS, as
Administrative Agent

By /s/ Alan Mustacchi

Title: Vice President

By /s/ Stephen Kovacs

Title: AT

NATIONSBANK, N.A., as
Documentation Agent

By /s/ Ashley M. Crabltee

Title: Vice President

Initial Lenders

BANQUE NATIONALE DE PARIS

By /s/ Alan Mustacchi

Title: Vice President

By /s/ Stephen Kovacs

Title: AT

NATIONSBANK, N.A.

By Ashley M. Crabltee

Title: Vice President

THE FIRST NATIONAL BANK OF
BOSTON

By /s/ Kimberly F. Harris

Title: Vice President

CAISSE NATIONALE DE CREDIT
AGRICOLE

By /s/ S. Well

Title: First Vice President

CREDITANSTALT CORPORATE
FINANCE, INC.

By /s/ Clifford L. Wells

Title: Vice President

By /s/ Stacy Harmon

Title: Senior Associate

FIRST SOURCE FINANCIAL, LLP
By: First Source Financial, Inc.
as Agent/Manager

By /s/ John Wabling

Title: Vice President

ING CAPITAL ADVISORS, INC., as
Agent for Bank Syndication Account

By /s/ Kathleen A. Lenarcic

Title: Vice President and
Portfolio Manager

LASALLE NATIONAL BANK

By /s/

Title: First Vice President

MASSACHUSETTS MUTUAL LIFE
INSURANCE COMPANY

By /s/ John B. Joyce

Title: Managing Director

MELLON BANK, N.A.

By /s/ Jonathan H. Sprogell

Title: Vice President

MERRILL LYNCH SENIOR FLOATING
RATE FUND, INC.

By /s/ Anthony R. Clemente

Title: Authorized Signatory

PILGRIM AMERICA PRIME RATE
TRUST

By /s/ Thomas C. Hunt

Title: Portfolio Analyst

SUMMIT BANK

By /s/ Gail L. Powers

Title: Vice President

USTRUST

By /s/ Thomas Z. Macicet

Title: Vice President

VAN KAMPEN AMERICAN CAPITAL
PRIME RATE INCOME TRUST

By /s/ Jeffrey W. Maillet

Title: Senior Vice President -
Portfolio Manager

Initial Issuing Bank

BANQUE NATIONALE DE PARIS

By /s/ Alan Mustacchi

Title: Vice President

By /s/ Stephen Kovacs

Title: AT

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Banque Nationale de Paris

Working Capital Facility Commitment:	$ 3,906,250.00
Term A Facility Commitment:	$ 5,468,750.00
Term B Facility Commitment:	$ 40,000,000.00
Acquisition Facility Commitment:	$ 15,625,000.00

Letter of Credit Commitment: $ 7,500,000.00

Domestic Lending Office:

Banque Nationale de Paris
499 Park Avenue
New York, NY 10022

Credit	Operations
Attn: Alan Mustacchi	Attn: Kimberly Williams
Tel: (212) 418-8231	Tel: (212) 415-9432
Fax: (212) 418-8269 or 838-7590	Fax: (212) 415-9805

Eurodollar Lending Office:

Banque Nationale de Paris
499 Park Avenue
New York, NY 10022

Credit	Operations
Attn: Alan Mustacchi	Attn: Kimberly Williams
Tel: (212) 418-8231	Tel: (212) 415-9432
Fax: (212) 418-8269 or 838-7590	Fax: (212) 415-9805

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Caisse Nationale de Credit Agricole

Working Capital Facility Commitment:	$ 1,562,500.00
Term A Facility Commitment:	$ 2,187,500.00
Term B Facility Commitment:	$ 0.00
Acquisition Facility Commitment:	$ 6,250,000.00

Domestic Lending Office:

Credit	Operations
Caisse Nationale de Credit Agricole	Caisse Nationale de Credit Agricole
520 Madison Avenue	55 E. Monroe Street, Suite 4700
New York, NY 10022	Chicago, IL 60603
Attn: Michael Fought	Attn: Stacey Mannion
Tel: (212) 418-2254	Tel: (312) 917-7560
Fax: (212) 418-2228	Fax: (312) 372-4421

Attn: Caroline Baurez

Eurodollar Lending Office:

Credit	Operations
Caisse Nationale de Credit Agricole	Caisse Nationale de Credit Agricole
520 Madison Avenue	55 E. Monroe Street, Suite 4700
New York, NY 10022	Chicago, IL 60603
Attn: Michael Fought	Attn: Stacey Mannion
Tel: (212) 418-2254	Tel: (312) 917-7560
Fax: (212) 418-2228	Fax: (312) 372-4421

Attn: Caroline Baurez

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Creditanstalt Corporate Finance, Inc.

Working Capital Facility Commitment:	$ 2,343,750.00
Term A Facility Commitment:	$ 3,281,250.00
Term B Facility Commitment:	$ 0.00
Acquisition Facility Commitment:	$ 9,375,000.00

Domestic Lending Office:

Creditanstalt Corporate Finance, Inc.
Two Greenwich Plaza
Greenwich, CT 06830

Credit	Operations
Attn: Cliff Wells	Attn: Richard Meneses
Tel: (203) 861-6417	Tel: (203) 861-6421
Fax: (203) 861-6594	Fax: (203) 861-6594

Attn: Stacy Harmon
Tel: (203) 861-6581
Fax: (203) 861-6594

Attn: Jennifer Poccia
Tel: (203) 861-6423
Fax: (203) 861-6594

Eurodollar Lending Office:

Creditanstalt Corporate Finance, Inc.
Two Greenwich Plaza
Greenwich, CT 06830

Credit
Attn: Cliff Wells
Tel: (203) 861-6417
Fax: (203) 861-6594

Operations
Attn: Richard Meneses
Tel: (203) 861-6421
Fax: (203) 861-6594

Attn: Stacy Harmon
Tel: (203) 861-6581
Fax: (203) 861-6594

Attn: Jennifer Poccia
Tel: (203) 861-6423
Fax: (203) 861-6594

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: First Source Financial, LLP

Working Capital Facility Commitment:	$ 3,125,000.00
Term A Facility Commitment:	$ 4,375,000.00
Term B Facility Commitment:	$ 0.00
Acquisition Facility Commitment:	$ 12,500,000.00

Domestic Lending Office:

First Source Financial Inc.
2850 W. Golf Rd.
Rolling Meadows, IL 60008

Credit
Attn: Rich Christensen
Tel: (847) 734-2042
Fax: (847) 734-7911

Operations
Attn: Janet Haack
Tel: (847) 734-2053
Fax: (847) 734-7910

Eurodollar Lending Office:

First Source Financial Inc.
2850 W. Golf Rd.
Rolling Meadows, IL 60008

Credit
Attn: Rich Christensen
Tel: (847) 734-2042
Fax: (847) 734-7911

Operations
Attn: Janet Haack
Tel: (847) 734-2053
Fax: (847) 734-7910

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: ING Capital Advisors, Inc., as Agent for Bank Syndication Account

Working Capital Facility Commitment:	$ 0.00
Term A Facility Commitment:	$ 0.00
Term B Facility Commitment:	$ 10,000,000.00
Acquisition Facility Commitment:	$ 0.00

Domestic Lending Office:

ING Capital Advisors, Inc., as Agent
for Bank Syndication Account

333 S. Grand Avenue, Suite 400
Los Angeles, CA 90071

Credit	Operations
Attn: Kathleen Lenarcic, Vice Pres. & Portfolio Mgr.	Attn: Lenore Crummey, Asst. Vice President
Tel: (213) 621-9063	Tel: (213) 621-9059
Fax: (213) 626-6552	Fax: (213) 626-6552

Eurodollar Lending Office:

ING Capital Advisors, Inc., as Agent
for Bank Syndication Account
333 S. Grand Avenue, Suite 400
Los Angeles, CA 90071

Credit	Operations
Attn: Kathleen Lenarcic, Vice Pres. & Portfolio Mgr.	Attn: Lenore Crummey, Asst. Vice President
Tel: (213) 621-9063	Tel: (213) 621-9059
Fax: (213) 626-6552	Fax: (213) 626-6552

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: LaSalle National Bank

Working Capital Facility Commitment:	$ 2,343,750.00
Term A Facility Commitment:	$ 3,281,250.00
Term B Facility Commitment:	$ 0.00
Acquisition Facility Commitment:	$ 9,375,000.00

Domestic Lending Office:

LaSalle National Bank
120 S. LaSalle Street, Suite 211
Chicago, IL 60603

Credit	Operations
Attn: Olga Georgiev	Attn: Nancy Lopez
Tel: (312) 904-2698	Tel: (312) 904-6533
Fax: (312) 904-6189	Fax: (312) 904-6189

Eurodollar Lending Office:

La Salle National Bank
120 S. LaSalle Street, Suite 211
Chicago, IL 60603

Credit	Operations
Attn: Olga Georgiev	Attn: Nancy Lopez
Tel: (312) 904-2698	Tel: (312) 904-6533
Fax: (312) 904-6189	Fax: (312) 904-6189

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Massachusetts Mutual Life Insurance Co.

Working Capital Facility Commitment:	$ 0.00
Term A Facility Commitment:	$ 0.00
Term B Facility Commitment:	$ 20,000,000.00
Acquisition Facility Commitment:	$ 0.00

Domestic Lending Office:

Mass Mutual
1295 State Street
Springfield, MA 01111

Credit	Operations
Attn: John Wheeler	Attn: Laura A. Hamel
Tel: (413) 744-6228	Tel: (413) 744-3878
Fax: (413) 744-6127	Fax: (413) 744-7922

Eurodollar Lending Office:

Mass Mutual
1295 State Street
Springfield, MA 01111

Credit	Operations
Attn: John Wheeler	Attn: Laura A. Hamel
Tel: (413) 744-6228	Tel: (413) 744-3878
Fax: (413) 744-6127	Fax: (413) 744-7922

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Mellon Bank, N.A.

Working Capital Facility Commitment:	$ 1,562,500.00
Term A Facility Commitment:	$ 2,187,500.00
Term B Facility Commitment:	$ 0.00
Acquisition Facility Commitment:	$ 6,250,000.00

Domestic Lending Office:

Credit	Operations
Mellon Bank, N.A.	Mellon Bank, N.A.
610 W. Germantown Pike	Loan Administration
Suite 200	5B South
Plymouth Meeting, PA 19462	701 Market Street
Attn: Mark Avallone	Philadelphia, PA 19106
Tel: (610) 941-8401	Attn: Jeff Gillard
Fax: (610) 941-4136	Tel: (215) 553-4582
	Fax: (215) 553-4789

Eurodollar Lending Office:

Credit	Operations
Mellon Bank, N.A.	Mellon Bank, N.A.
610 W. Germantown Pike	Loan Administration
Suite 200	5B South
Plymouth Meeting, PA 19462	701 Market Street
Attn: Mark Avallone	Philadelphia, PA 19106
Tel: (610) 941-8401	Attn: Jeff Gillard
Fax: (610) 941-4136	Tel: (215) 553-4582
	Fax: (215) 553-4789

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Merrill Lynch Senior Floating Rate Fund, Inc.

Working Capital Facility Commitment:	$ 0.00
Term A Facility Commitment:	$ 0.00
Term B Facility Commitment:	$ 10,000,000.00
Acquisition Facility Commitment:	$ 0.00

Domestic Lending Office:

Credit	Operations
Merrill Lynch Senior Floating Rate Fund, Inc.	MLAM Accounting
800 Scudders Mill Road - Area 2C	500 College Road - 4E
Plainsboro, NJ 08536	Plainsboro, NJ 08536
Attn: Jill Montanye	Attn: John Dugan
Tel: (609) 282-3102	Tel: (609) 282-7705
Fax: (609) 282-2550	Fax: (609) 282-7616

Eurodollar Lending Office:

Credit	Operations
Merrill Lynch Senior Floating Rate Fund, Inc.	MLAM Accounting
800 Scudders Mill Road - Area 2C	500 College Road - 4E
Plainsboro, NJ 08536	Plainsboro, NJ 08536
Attn: Jill Montanye	Attn: John Dugan
Tel: (609) 282-3102	Tel: (609) 282-7705
Fax: (609) 282-2550	Fax: (609) 282-7616

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: NationsBank, N.A.

Working Capital Facility Commitment:	$ 3,125,000.00
Term A Facility Commitment:	$ 4,375,000.00
Term B Facility Commitment:	$ 0.00
Acquisition Facility Commitment:	$ 12,500,000.00

Domestic Lending Office:

Credit	Operations
NationsBank, N.A.	Nationsbank, N.A.
NationsBank Plaza TN	101 N. Tryon Street
1 NationsBank Plaza	NC1-001-15-05
TN1-100-05-11	Charlotte, NC 28255
Nashville, TN 37239-1697	Attn: Jacquetta Banks
Attn: Ashley Crabtree	Tel: (704) 388-1111
Tel: (615) 749-3524	Fax: (704) 386-9923
Fax: (615) 749-4640	

Eurodollar Lending Office:

Credit	Operations
Nationsbank, N.A.	Nationsbank, N.A.
NationsBank Plaza TN	101 N. Tryon Street
1 NationsBank Plaza	NC1-001-15-05
TN1-100-05-11	Charlotte, N.C. 28255
Nashville, TN 37239-1697	Attn: Jacquetta Banks
Attn: Ashley Crabtree	Tel: (704) 388-1111
Tel: (615) 749-3524	Fax: (704) 386-9923
Fax: (615) 749-4640	

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Pilgrim America Prime Rate Trust

Working Capital Facility Commitment:	$ 0.00

Term A Facility Commitment: $ 0.00
Term B Facility Commitment: $ 10,000,000.00
Acquisition Facility Commitment: $ 0.00

Domestic Lending Office:

Pilgrim America Prime Rate Trust
Two Renaissance Square
40 North Central Avenue
Suite 1200
Phoenix, AZ 85004-3444

Credit
Attn: Michael Bacevich, Vice President
Tel: (602) 417-8258
Fax: (602) 417-8327

Operations
Attn: Robert Clouse,
Manager -
Administration
Tel: (602) 417-8268
Fax: (602) 417-8321

Eurodollar Lending Office:

Pilgrim America Prime Rate Trust
Two Renaissance Square
40 North Central Avenue
Suite 1200
Phoenix, AZ 85004-3444

Credit
Attn: Michael Bacevich, Vice President
Tel: (602) 417-8258
Fax: (602) 417-8327

Operations
Attn: Robert Clouse,
Manager -
Administration
Tel: (602) 417-8268
Fax: (602) 417-8321

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Summit Bank

Working Capital Facility Commitment: $ 3,125,000.00
Term A Facility Commitment: $ 4,375,000.00
Term B Facility Commitment: $ 0.00
Acquisition Facility Commitment: $ 12,500,000.00

Domestic Lending Office:

Credit
Summit Bank
1800 Chapel Hill
Cherry Hill, NJ 08002
Attn: Gail Powers
Tel: (609) 486-3655
Fax: (609) 486-3716

Operations
Summit Bank
55 Challenger Road, 6th Fl.
Ridgefield Park, NJ 07660
Attn: Ionetta Walker
Tel: (201) 296-3747
Fax: (201) 296-3751 or -3891

Eurodollar Lending Office:

Credit
Summit Bank
1800 Chapel Hill
Cherry Hill, NJ 08002
Attn: Gail Powers
Tel: (609) 486-3655
Fax: (609) 486-3716

Operations
Summit Bank
55 Challenger Road, 6th Fl.
Ridgefield Park, NJ 07660
Attn: Ionetta Walker
Tel: (201) 296-3747
Fax: (201) 296-3751or -3891

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: The First National Bank of Boston

Working Capital Facility Commitment: $ 1,562,500.00
Term A Facility Commitment: $ 2,187,500.00
Term B Facility Commitment: $ 0.00
Acquisition Facility Commitment: $ 6,250,000.00

Domestic Lending Office:

The First National Bank of Boston
100 Federal Street
Boston, MA 02110

Credit
Attn: Kimberly F. Harris, Vice President
Tel: (617) 434-2111
Fax: (617) 434-4929

Attn: Diane Exter, Director
Tel: (617) 434-1442
Fax: (617) 434-4929

Operations
Attn: Kristine R. Millet,
Administrative Officer
Tel: (617) 434-8993
Fax: (617) 434-4929

Eurodollar Lending Office:

The First National Bank of Boston
100 Federal Street
Boston, MA 02110

Credit
Attn: Kimberly F. Harris, Vice President
Tel: (617) 434-2111
Fax: (617) 434-4929

Attn: Diane Exter, Director
Tel: (617) 434-1442
Fax: (617) 434-4929

Operations
Attn: Kristine R. Millet,
Administrative Officer
Tel: (617) 434-8993
Fax: (617) 434-4929

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: USTrust

Working Capital Facility Commitment: $ 2,343,750.00
Term A Facility Commitment: $ 3,281,250.00
Term B Facility Commitment: $ 0.00
Acquisition Facility Commitment: $ 9,375,000.00

Domestic Lending Office:

Credit
USTrust
30 Court Street
Boston, MA 02108
Attn: Thomas F. Macina, VP
Tel: (617) 695-4029
Fax: (617) 695-4185

Operations
USTrust
55 Court Street
Boston, MA 02108
Attn: Agnes C. Savini, AVP
Tel: (617) 726-7147
Fax: (617) 726-7309

Eurodollar Lending Office:

Credit
USTrust
30 Court Street
Boston, MA 02108
Attn: Thomas F. Macina, VP
Tel: (617) 695-4029
Fax: (617) 695-4185

Operations
USTrust
55 Court Street
Boston, MA 02108
Attn: Agnes C. Savini, AVP
Tel: (617) 726-7147
Fax: (617) 726-7309

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Lender: Van Kampen American Capital Prime Rate Income Trust

Working Capital Facility Commitment:	$ 0.00
Term A Facility Commitment:	$ 0.00
Term B Facility Commitment:	$ 10,000,000.00
Acquisition Facility Commitment:	$ 0.00

Domestic Lending Office:

Credit	Operations
Van Kampen American Capital	State Street Bank and Trust
One Parkview Plaza	Corporate Trust Department
Oakbrook Terrace, IL 60181	P.O. Box 778
Attn: Jeffrey Maillet	Boston, MA 02102
Tel: (630) 684-6438	Attn: Laura Magazu
Fax: (630) 684-6740 or 6741	Tel: (617) 664-5481
	Fax: (617) 664-5366 or 5367

Eurodollar Lending Office:

Credit	Operations
Van Kampen American Capital	State Street Bank and Trust
One Parkview Plaza	Corporate Trust Department
Oakbrook Terrace, IL 60181	P.O. Box 778
Attn: Jeffrey Maillet	Boston, MA 02102
Tel: (630) 684-6438	Attn: Laura Magazu
Fax: (630) 684-6740 or 6741	Tel: (617) 664-5481
	Fax: (617) 664-5366 or 5367

SCHEDULE I

COMMITMENTS AND APPLICABLE LENDING OFFICES

TOTAL COMMITMENTS

Total Term B Facility Commitments:	$ 100,000,000.00
Total Working Capital Facility Commitments:	$ 25,000,000.00
Total Term A Facility Commitments:	$ 35,000,000.00
Total Acquisition Facility Commitments:	$ 100,000,000.00
TOTAL COMMITMENTS	$ 260,000,000.00
TOTAL LETTER OF CREDIT COMMITMENTS	$ 7,500,000.00

SCHEDULE II - EBITDA SCHEDULE

MEDIQ INCORPORATED AND SUBSIDIARIES
SCHEDULE OF EBITDA

MONTH	MONTHLY AMOUNT
SEPTEMBER 1995	$4,705,000
OCTOBER 1995	3,961,000
NOVEMBER 1995	4,042,000
DECEMBER 1995	4,977,000
JANUARY 1996	5,458,000
FEBRUARY 1996	6,939,000
MARCH 1996	5,657,000
APRIL 1996	5,025,000
MAY 1996	4,894,000

JUNE 1996 4,738,000

Schedule III

I. Discontinued Operations

MEDIQ Mobile X-Ray Services, Inc.
Health Examinetics, Inc.
Thera-Kinetics Acquisition Corporation
MDTC Haddon, Inc.
MEDIQ Diagnostic Centers Inc.
MEDIQ Diagnostic Centers - I Inc.
MEDIQ Imaging Services, Inc.
American Cardiovascular Imaging Labs, Inc.
Alpha Health Consultants, Inc.
P. I. Corporation
MEDIQ Services, Inc.
MEDIQ Home Therapy Services of Arizona, Inc.

II. Joint Ventures

Borrower's membership interest in MEDIQ PRN/HNE, L.L.C.
(d/b/a SpectraCair)

The interest of MEDIQ Surgical Equipment Services, Inc. in
MEDIQ PRN/SLT, a joint venture

III. Equity Investments

The ownership interests of either MEDIQ Incorporated or MEDIQ Investment Services, Inc. in the following publicly-traded corporations: PCI Services, Inc., NutraMax Products, Inc. and InnoServ Technologies, Inc.

Schedule IV

Discontinued Subsidiaries

MEDIQ Mobile X-Ray Services, Inc.
Health Examinetics, Inc.
Thera-Kinetics Acquisition Corporation
MDTC Haddon, Inc.
MEDIQ Diagnostic Centers Inc.
MEDIQ Diagnostic Centers - I Inc.
MEDIQ Imaging Services, Inc.
American Cardiovascular Imaging Labs, Inc.
Alpha Health Consultants, Inc.
P. I. Corporation
MEDIQ Services, Inc.
MEDIQ Home Therapy Services of Arizona, Inc.

SCHEDULE 2.14(a) - REFINANCING DEBT

MEDIQ INCORPORATED AND SUBSIDIARIES
SCHEDULE OF DEBT TO BE REFINANCED

<TABLE>
<CAPTION>

	PRINCIPAL	INTEREST	PREPAYMENT PENALTY	TOTAL
<S>	<C>	<C>	<C>	<C>
1. MEDIQ Incorporated				
A. Revolving Credit Facility with Summit Bank, plus accrued interest	$ 13,020,000.00	$ 89,158.85	$ 0.00	$ 13,109,158.85
B. Revolving Credit Facility with First Executive, plus accrued interest	1,000,000.00	5,500.04	0.00	1,005,500.04

2. PRN Holdings, Inc.				
A. Subordinated debt Note Agreement (Mass Mutual, et al), plus accrued interest and prepayment penalty	10,000,000.00	512,500.00	2,000,000.00	12,512,500.00
B. Subordinated debt Promissory Notes (KCI Therapeutic Services, Inc.), plus accrued interest	8,750,000.00	504,110.00	0.00	9,254,110.00
C. Mass Mutual warrant to purchase 10% of Holdings	0.00	0.00	12,500,000.00	12,500,000.00
3. MEDIQ/PRN Life Support Services - I, Inc.				
A. Loan and Security Agreement (Congress Financial), plus accrued interest and prepayment penalty	27,448,031.44	344,523.29	430,000.00	28,222,554.73
4. MEDIQ/PRN Life Support Services, Inc.				
A. Accounts Financing Agreement (Congress Financial), plus accrued interest and prepayment penalty	12,010,292.12	8,436.75	150,000.00	12,168,728.87
B. Senior Secured Notes, plus accrued interest and redemption premium	98,260,000.00	3,011,600.76	7,736,992.40	109,008,593.16
C. Defeasance Amount for all Senior Secured Notes not redeemed	1,677,939.00	193,288.00	58,728.00	1,929,955.00
TOTAL DEBT TO BE REFINANCED	$172,166,262.56	$4,669,117.69	$22,875,720.40	$199,711,100.65

</TABLE>

SCHEDULE 3.01(e) - SURVIVING DEBT

MEDIQ INCORPORATED AND SUBSIDIARIES
SCHEDULE OF SURVIVING DEBT

MEDIQ/PRN LIFE SUPPORT SERVICES, INC.:	PRINCIPAL AMOUNT
A. Capital Leases:	
GE Capital (Charter-ITT)	540,000
GE Capital (Charter-ITT)	482,000
CIT Group (Copelco)	584,000
Heller (Amplicon)	486,000
NYNEX	124,000
NYNEX	82,000
NYNEX	1,436,000
NYNEX	267,000
NYNEX	588,000
Medical Equip Fin (Execulease)	294,000
Medical Equip Fin (Execulease)	328,000
Medical Equip Fin (Execulease)	306,000
Sanwa	670,000
Alco Resources	2,000
Bimeco	14,000
Total	6,203,000
TOTAL SURVIVING DEBT	$69,932,000

SCHEDULE 3.01(e) - SURVIVING DEBT

MEDIQ INCORPORATED AND SUBSIDIARIES
SCHEDULE OF SURVIVING DEBT

PRINCIPAL

		AMOUNT
MEDIQ INCORPORATED:		
A.	Guarantee of certain liabilities of ATS Medical Services, Inc., a wholly-owned subsidiary of MEDIQ Mobile X-Ray Services, Inc. to the United States Government an original amount of $2,100,000 and a remaining balance of $1,350,000.	0.00
B.	Guarantee of the term loan and the line of credit, and accrued interest thereon, of MEDIQ PRN/HNE, LLC (dba SpectraCair). Amounts available are $6,000,000 and $1,500,000 for the term loan and the line of credit, respectively. As of September 30, 1996, the outstanding balances on the term loan and the line of credit are $6,000,000 and $285,000, respectively.	0.00
C.	Guarantee of the capital lease obligations of MEDIQ PRN/SLT, a joint venture, in the principal amount of $996,225 as of September 30, 1996.	0.00
D.	Guarantee of certain capital lease obligations of Health Examinetics, Inc. in the principal amount of $461,000 as of September 30, 1996.	0.00
E.	7.50% Exchangeable Subordinated Debentures due 2003	34,500,000
F.	7.25% Convertible Subordinated Debentures due 2006	29,229,000

Schedule 3.01(g)(iii)

Subsidiary Guarantors

MEDIQ Investment Services, Inc.
MEDIQ Management Services, Inc.
MEDIQ Surgical Equipment Services, Inc.
Value-Med Products, Inc.
MEDIQ Mobile X-Ray Services, Inc.
Health Examinetics, Inc.
Thera-Kinetics Acquisition Corporation
MDTC Haddon, Inc.
MEDIQ Diagnostic Centers Inc.
MEDIQ Diagnostic Centers - I Inc.
MEDIQ Imaging Services, Inc.
American Cardiovascular Imaging Labs, Inc.
Alpha Health Consultants, Inc.
P. I. Corporation
MEDIQ Services, Inc.
MEDIQ Home Therapy Services of Arizona, Inc.

Schedule 3.01(g)(iv)

Good Standing Certificates

Borrower -- all fifty states and the District of Columbia

PRN Holdings, Inc. -- New Jersey

MEDIQ Incorporated -- New Jersey, Pennsylvania, California

SCHEDULE 3.01(g)(vii)(B)

UCC FILING JURISDICTIONS

DEBTOR	STATE	JURISDICTION
MEDIQ/PRN Life Support Services, Inc. One MEDIQ Plaza Pennsauken, NJ 08110 Fed Tax ID No. 95-3692387	AL	SOS
	AK	DEPT OF NATL RESOURCE
	AZ	SOS
	AR	SOS
	CA	SOS
	CO	SOS
	CT	SOS
	DE	SOS
	DC	RECORDER OF DEEDS
	FL	SOS
	GA	COBB COUNTY
	GA	BIBB COUNTY
	HI	BUREAU OF CONVEYANCE
	IA	SOS
	ID	SOS
	IL	SOS
	IN	SOS
	KS	SOS
	KY	JEFFERSON COUNTY
	LA	UCC DATABASE
	LA	CADDO PARISH
	ME	SOS
	MA	SOC
	MA	AUBURNDALE CITY
	MA	NEWTON CITY
	MA	WALTHAM CITY
	MA	WEST SPRINGFIELD TOWN
	MD	DEPT. OF A & T
	MI	SOS
	MN	SOS
	MO	SOS
	MO	ST. LOUIS COUNTY
	MS	SOS
	MS	RANKIN COUNTY
	MT	SOS
	NC	SOS
	NC	WAKE COUNTY
	ND	SOS
	NE	SOS
	NJ	SOS
	NJ	BURLINGTON COUNTY
	NJ	CAMDEN COUNTY
	NJ	UNION COUNTY
	NM	SOS
	NV	SOS
	NH	SOS
	NY	SOS
	NY	KINGS COUNTY
	NY	NASSAU COUNTY
	NY	WESTCHESTER COUNTY
	OH	SOS
	OH	CUYAHOGA COUNTY
	OH	DELAWARE COUNTY
	OH	FAIRFIELD COUNTY
	OH	FRANKLIN COUNTY
	OH	HAMILTON COUNTY
	OK	SOS
	OK	OKLAHOMA COUNTY
	OK	TULSA COUNTY
	OR	SOS
	PA	SOC
	PA	ALLEGHENY PROTHO
	PA	LANCASTER PROTHO
	RI	SOS
	SC	SOS
	SD	SOS

	TN	SOS
	TX	SOS
	UT	SOS
	VT	SOS
	VA	SCC
	VA	HENRICO COUNTY
	VA	NEWPORT NEWS CITY
	VA	RICHMOND CITY
	WA	DOL
	WV	SOS
	WI	SOS
	WY	SOS

Mediq Investment Services, Inc.
1403 Faulk Road
Suite 102

Wilmington, DE 19803	DE	SOS
	NJ	SOS
Fed Tax ID No. 51-0261761	NJ	CAMDEN COUNTY

PRN Holdings, Inc.
1403 Faulk Road
Suite 102

Wilmington, DE 19803	DE	SOS
	NJ	SOS
Fed Tax ID No. 51-0356222	NJ	CAMDEN COUNTY

Mediq Surgical Equipment Services, Inc.
One MEDIQ Plaza

Pennsauken, NJ 08110	NJ	SOS
	NJ	CAMDEN COUNTY
Fed Tax ID No. 22-3259731		

Value-Med Products, Inc.
One MEDIQ Plaza

Pennsauken, NJ 08110	NJ	SOS
	NJ	CAMDEN COUNTY
Fed Tax ID No. 22-338717		

Mediq Management Services, Inc.
One MEDIQ Plaza

Pennsauken, NJ 08110	NJ	SOS
	NJ	CAMDEN COUNTY
Fed Tax ID No. 22-2744388		

MEDIQ Incorporated

One MEDIQ Plaza	NJ	SOS
Pennsauken, NJ 08110	NJ	CAMDEN COUNTY

Fed Tax ID No. 51-0219413

Schedule 3.01(g)(xviii)

Landlord Consents

Easton Distribution Center -- Premises located at 634 North Challenger Road, Salt Lake City, Utah 84116

Schedule 3.01(g)(xix)(1)

Termination Letters

Summit Bank

Summit Bank, as Trustee with respect to the 12.125% Notes

KCI Therapeutic Services, Inc.

First Republic Bank

Congress Financial Corporation

Massachusetts Mutual Life Insurance Company, MassMutual Corporate Investors, MassMutual Participation Investors and MassMutual Corporate Value Partners, Ltd.

SCHEDULE 3.01(g)(xix)(2) - EXISTING DEBT

MEDIQ INCORPORATED AND SUBSIDIARIES
SCHEDULE OF EXISTING DEBT

	PRINCIPAL AMOUNT
1. MEDIQ Incorporated	
A. Revolving Credit Facility with Summit Bank	$ 13,020,000
B. Revolving Credit Facility with First Executive	1,000,000
C. Guarantee of certain liabilities of ATS Medical Services, Inc., a wholly-owned subsidiary of MEDIQ Mobile X-Ray Services, Inc. to the United States Government an original amount of $2,100,00 and a remaining balance of $1,350,000.	0
D. Guarantee of the term loan and the line of credit, and accrued interest thereon, of MEDIQ PRN/HNE, LLC (dba SpectraCair). Amounts available are $6,000,000 and $1,500,000 for the term loan and the line of credit, respectively. As of September 30, 1996, the outstanding balances on the term loan and the line of credit are $6,000,000 and $285,000, respectively.	0
E. Guarantee of the capital lease obligations of MEDIQ PRN/SLT, a joint venture, in the principal amount of $996,000 as of September 30, 1996.	0
F. Guarantee of certain capital lease obligations of Health Examinetics, Inc. in the principal amount of $461,000 as of September 30, 1996.	0
G. 7.50% Exchangeable Subordinated Debentures due 2003	34,500,000
H. 7.25% Convertible Subordinated Debentures due 2006	29,229,000
2. PRN Holdings, Inc.	
A. Subordinated debt Note Agreement (Mass Mutual, et al)	10,000,000
B. Subordinated debt Promissory Notes (KCI Therapeutic Services, Inc.) par value $10,000,000	8,750,000
3. MEDIQ/PRN Life Support Services - I, Inc.	
A. Loan and Security Agreement (Congress Financial)	27,448,000
4. MEDIQ/PRN Life Support Services, Inc.	
A. Accounts Financing Agreement (Congress Financial)	12,010,000
B. Senior Secured Notes	100,000,000
C. Capital Leases: GE Capital (Charter-ITT)	540,000

GE Capital (Charter-ITT)	482,000
CIT Group (Copelco)	584,000
Heller (Amplicon)	486,000
NYNEX	124,000
NYNEX	82,000
NYNEX	1,436,000
NYNEX	267,000
NYNEX	588,000
Medical Equip Fin (Execulease)	294,000
Medical Equip Fin (Execulease)	328,000
Medical Equip Fin (Execulease)	306,000
Sanwa	670,000
Alco Resources	2,000
Bimeco	14,000
	6,203,000
TOTAL	$242,160,000

SCHEDULE 3.01(g)(xxi)

LOCAL COUNSEL

Texas

Karen Nelson, Esq.
HAYNES AND BOONE
901 Main Street, Suite 3100
Dallas, TX 75202-3789

Florida

Charles Hedrick, Esq.
FOLEY & LARDNER
The Greenleaf Building
200 Laura Street, P.O. Box 240
Jacksonville, FL 32201-0240

California

Barry L. Burten, Esq.
JEFFER, MANGELS, BUTLER & MARMARO, L.L.P.
2121 Avenue of the Stars, 10th Floor
Los Angeles, CA 90067

Schedule 4.01(a)

Parent Guarantors

MEDIQ Incorporated owns 1000 shares of the common stock of PRN Holdings, Inc., being all of the outstanding shares of capital stock of PRN Holdings, Inc.

Schedule 4.01(b)

Subsidiaries

Subsidiary	Jurisdiction	Shares Authorized	Shares Outstanding	% Owned
PRN Holdings, Inc.	Delaware	2,000	1,000	100
MEDIQ/PRN Life Support Services, Inc.	Delaware	20,000 2,000*	10,000 0	100 0
MEDIQ Investment Services, Inc.	Delaware	100	100	100
MEDIQ Management				

Services, Inc.	Delaware	100	100	100
MEDIQ Surgical Equipment Services, Inc.	Delaware	100	100	100
Value-Med Products, Inc.	Delaware	100	100	100

* Class A Common

Schedule 4.01(d)

Authorizations, etc.

None other than filing and/or recordation of the Mortgage and UCC-1 financing statements in the appropriate governmental offices.

SCHEDULE 4.01(k) - PLANS, MULTIEMPLOYER PLANS AND WELFARE PLANS

MEDIQ INCORPORATED AND SUBSIDIARIES
SCHEDULE OF PLANS, MULTIEMPLOYER PLANS AND WELFARE PLANS

MEDIQ Incorporated Pension Plan dated July 1, 1979

The MEDIQ Incorporated Employee's Savings Plan dated October 1, 1983
The MEDIQ Life Insurance Plan MEDIQ Incorporated Accident, Sickness and Disability Plan
The MEDIQ/PRN Employee Health Plan
The MEDIQ/PRN Employee Dental Plan
The MEDIQ/PRN Long-Term Disability Plan
The MEDIQ/PRN Life Insurance Plan
MEDIQ/PRN Section 125 Cafeteria Plan
MEDIQ/PRN Educational Assistance Program

Schedule 4.01(t)

Environmental Investigations

See information disclosed in the Phase I Environmental Site Assessment Report, regarding the property located at One MEDIQ Plaza and 1700 Suckle Highway, Pennsauken, New Jersey, dated July 22, 1996 issued by Sadat Associates, Inc. as well as materials contained in the subsequent report regarding asbestos investigation conducted on the same property by Sadat Associates, Inc. during August 1996. The Borrower does not believe that these disclosed investigations will have a Material Adverse Effect.

Schedule 4.01(y)

Open Years

A waiver of the statute of limitations is in effect until December 31, 1997 for the consolidated tax returns of MEDIQ and its Subsidiaries for the fiscal years ended September 30, 1989 through September 30, 1993. The expiration of the statute of limitations for fiscal years ended September 30, 1994 and September 30, 1995 is June 15, 1998 and June 15, 1999, respectively.

A waiver of the statute of limitations is in effect until December 31, 1997 for the consolidated tax returns of the Borrower for the fiscal years ended July 31, 1989 through May 31, 1992.

Schedule 4.01(aa)

Tax Disputes

MEDIQ and its Subsidiaries have been assessed $429,068 of additional tax by the

State of California as a result of a California unitary income tax audit for the fiscal years ended September 30, 1989, 1990, and 1991. MEDIQ has protested $140,954 of the assessment for various reasons. To date, the state has agreed to $63,793 of the protested amount. The remaining issues have yet to be addressed by the state.

Schedule 4.01(ff)

Owned Real Property

One MEDIQ Plaza (also known as 1700 Suckle Highway)
Pennsauken, New Jersey. Located in Camden County, New Jersey.
As of Closing title will be in MEDIQ/PRN Life Support Services, Inc.

SCHEDULE 4.01(gg) - INVESTMENTS

MEDIQ INCORPORATED AND SUBSIDIARIES
INVESTMENTS

Following is a list of all Investments of MEDIQ Incorporated and its Ongoing Subsidiaries, except for Investments in wholly-owned subsidiaries of the Loan Parties:

A. MEDIQ Incorporated:
   1. The Mental Health Management Promissory Note in the original amount of $11,500,000.
   2. The Non-negotiable Subordinated Note from Medifac, Inc. dated June 27, 1995 in the original amount of $1,500,000.
   3. Note A from Granary Partners, L.P. dated June 27, 1996 in the original amount of $2,500,000.
   4. The amounts on deposit with Meridian Bank in the approximate amount of $340,000.
   5. The certificate of deposit with Summit Bank in the principal amount of $1,000,000.
   6. The investment in the common stock of InnoServ Technologies, Inc. of 2,026,438 shares representing approximately 40% of the common shares outstanding as of August 31, 1996.
   7. The cash surrender value of certain life insurance policies on former officers of MEDIQ subject to the borrowings against such value in a net value of approximately $9,000 as of August 31, 1996.

B. MEDIQ Investment Services, Inc.:
   1. The investment in the common stock of PCI Services, Inc. of 2,875,000 shares representing approximately 46% of the common shares outstanding as of August 31, 1996.
   2. The investment in the common stock of NutraMax Products, Inc. of 4,037,258 shares representing approximately 47% of the common shares outstanding as of August 31, 1996.

C. MEDIQ/PRN Life Support Services, Inc.:
   1. Advances to employees of approximately $138,000 as of August 31, 1996.
   2. Outstanding deposits for leases (operating and capital) and utilities of approximately $413,000 as of August 31, 1996.
   3. The amounts on deposit in the Citibank account of approximately $64,000 as of August 31, 1996.
   4. The investment in MEDIQ PRN/HNE, LLC (dba SpectraCair) of approximately $1,430,000 as of August 31, 1996.
   5. The amounts on deposit in the Congress Account pursuant to the Congress Agreement.

D. MEDIQ/PRN Life Support Services - I, Inc.
   1. The amounts on deposit in the Severance Escrow account at Frost Bank of approximately $118,000 as of August 31, 1996.

Schedule 4.01(hh)

Intellectual Property

See attached.

SCHEDULE 4.01(hh)

INTELLECTUAL PROPERTY

U.S. TRADEMARK/SERVICE MARK REGISTRATIONS/PENDING APPLICATIONS OWNED BY MEDIQ/PRN LIFE SUPPORT SERVICES, INC.

MARK	SERIAL/REGISTRATION NUMBER	GOODS/SERVICES
CAMP	74-619,939 1,944,054	Customized Inventory Control Services, Namely Equipment Location Tracking, Providing Reminders for Equipment and Preventive Maintenance Programs and Assistant in Equipment Manufacturer Recalls
TELSTAR	74-534,977	Inventory Services in the Nature of Equipment Management and Order Entry System for Hospitals and Other Medical Institutions
TRACKSTAR	74-512,604 1,934,805	Inventory Control Services, Namely Equipment Tracking for Others Via Computer and Bar Code Technology
MEDIQ/PRN	74-455,341 1,952,207	Rental of Medical Equipment, Namely Adult Ventilators; Infant Ventilators; Portable Volume Ventilators; Patient Monitors; Pulse Oximeters and Other Products
MEDIQ/PRN	73-818,806 1,642,364	Renting of Critical Care Equipment

U.S. SERVICE MARK REGISTRATION OWNED BY MEDIQ INCORPORATED

MARK	SERIAL/REGISTRATION NUMBER	GOODS/SERVICES
MEDIQ	74-061,359 1,691,946	Maintenance and Repair Services for Medical Ventilator and Computerized Tomography Units (Int. Cl. 42) Retail and Wholesale Outlet Services for Parts for the Repair or Replacement of Durable Medical Equipment and Related Supplies for Hospitals, Nursing Homes and Individuals
MEDIQ	73-540,734 1,391,164	Providing Mobile Diagnostic Medical Services to Hospitals, Nursing Homes and Physician Offices, Namely, Computed Tomography

		Services, Magnetic Resonance Imaging Services, X-Ray Services, Ultrasound and Breast Imaging Diagnostic Services
MEDIQ	73-540,732 1,391,834	Managing Hospitals and Healthcare Facilities for Others; Cost Containment and Reimbursement Analysis Services, ada Data Processing Services for Hospitals, and Healthcare Providers (Int. Cl. 38) Telecommunications Consulting Services for Hospitals and Healthcare Providers
MEDIQ	73-540,553 1,391,874	Remanufacturing and Repair of Medical Life Support Equipment and Respiratory Therapy Equipment for Hospitals and Healthcare Providers (Int. Cl. 42) Rental of and Retail Outlet Services for Medical Life Support Ventilators, Incubators and Pediatric Tents, Air Compressors, Apnea Fetal Heart and Oxygen Monitors, Pulmonary Resuscitation Equipment and the Like
MEDIQ	73-307,846 1,255,505	Management Consulting Services for the Health Care and Health Care Services Industries
MEDIQ CARE UNITS	73-616,249 1,480,121	Special Medical Care Services Rendered in Acute Care Facilities

The following tradenames, used by the Loan Parties, have not been registered with the United States Patent and Trademark Office, nor has a filing been made there in connection with these tradenames:

Value-Med: Tradename used by Value-Med Products, Inc.

Criticare Hospital Services: Tradename of the Borrower registered in the states of Washington and Oregon

MEDIQ Consulting Group: Tradename of MEDIQ Management Services, Inc. registered in the states of New Jersey and Pennsylvania

MEDIQ Healthcare Resources: Tradename of MEDIQ Management Services, Inc. registered in the states of New Jersey and Pennsylvania

Schedule 5.02(a)(iii)

Existing Liens

(1) Liens during the 124-day defeasance period in connection with the 12.125% Note Indenture.

(2) Lien on the common stock of Innoserv, owned by MEDIQ or one of its Subsidiaries, pursuant to the Agreement of Merger and Plan of Reorganization among MMI Medical, Inc., MMI Acquisition Subsidiary, Inc., MEDIQ and MEDIQ Equipment and Maintenance Services, Inc., dated May 18, 1994, as amended.

(3) Lien on 2,254,902 shares of the common stock of NutraMax, owned by MEDIQ Investment Services, Inc., pursuant to the NutraMax Escrow Agreement.

(4) Lien on the cash deposited in the Citibank Account.

(5) Lien on Certificate of Deposit Number 1000063553030, issued by Summit Bank to MEDIQ, in the original principal amount of $1,000,000 which has been collaterally assigned to Summit Bank by MEDIQ in connection with MEDIQ's guarantee of the obligations of MEDIQ PRN/HNE, L.L.C. under a loan agreement between MEDIQ PRN/HNE, L.L.C. and Summit Bank.

(6) Lien on cash in the approximate amount of $340,000, in account at Meridian Bank, in connection with open liability and workers compensation claims during the years May 29, 1988 through May 29, 1990.

(7) Lien on Escrow Account at Frost Bank, in approximate amount of $120,000, in connection with severance payments owed by KCI Therapeutic Services, Inc. as a result of acquisition consummated on September 30, 1994.

(8) Lien on cash surrender value of certain life insurance policies with respect to former officers of MEDIQ to the extent of the corresponding debt.

(9) Subordination Agreement by and among MEDIQ, Medifac, Inc. and Meridian Bank, dated June 27, 1995 and Subordination Agreement by and among MEDIQ, Granary Partners, L.P. and Meridian Bank, dated June 27, 1995 in connection with certain obligations owed by said Medifac, Inc. and Granary Partners, L.P. to MEDIQ.

(10) Lien on the cash deposited in the Congress Account in favor of Congress Financial Corporation pursuant to the Congress Agreement.

SCHEDULE 5.02(b)(i)(A) - PARENT GUARANTOR DEBT - A

MEDIQ INCORPORATED AND SUBSIDIARIES
SCHEDULE OF PARENT GUARANTOR DEBT - A

	AMOUNT
Guarantee of the term loan and the line of credit, and accrued interest thereon, of MEDIQ PRN/HNE, LLC (dba SpectraCair). Total amounts available are $6,000,000 and $1,500,000 for the term loan and the line of credit, respectively.	$7,500,000

SCHEDULE 5.02(b)(i)(B) - PARENT GUARANTOR DEBT - B

MEDIQ INCORPORATED AND SUBSIDIARIES
SCHEDULE OF PARENT GUARANTOR DEBT - B

	AMOUNT
Guarantee of certain liabilities of ATS Medical Services, Inc., a wholly-owned subsidiary of MEDIQ Mobile X-Ray Services, Inc. to the United States Government.	$1,350,000
Guarantee of the capital lease obligations of MEDIQ PRN/SLT, a joint venture.	996,000
Guarantee of certain capital lease obligations of Health Examinatics, Inc.	461,000
TOTAL	$2,807,000

SCHEDULE 5.02(b)(ii)(F) - EXISTING BORROWER DEBT

MEDIQ/PRN LIFE SUPPORT SERVICES, INC.
SCHEDULE OF EXISTING BORROWER DEBT

	PRINCIPAL AMOUNT
Capital Leases:	
GE Capital (Charter-ITT)	$ 540,000
GE Capital (Charter-ITT)	482,000
CIT Group (Copelco)	584,000
Heller (Amplicon)	486,000
NYNEX	124,000
NYNEX	82,000
NYNEX	1,436,000
NYNEX	267,000
NYNEX	588,000
Medical Equip Fin (Execulease)	294,000
Medical Equip Fin (Execulease)	328,000
Medical Equip Fin (Execulease)	306,000
Sanwa	670,000
Alco Resources	2,000
Bimeco	14,000
TOTAL	$6,203,000

Schedule 6.01(k)
"Investor Group"

Bessie G. Rotko, the issue of Bessie G. Rotko and Bernard B. Rotko, and their spouses, and trusts, corporations, partnerships and other entities controlled by any of the foregoing or of which such persons are the beneficiaries. Such persons and entities, as of September 1, 1996, beneficially owned, to the knowledge of MEDIQ, the following shares of MEDIQ's capital stock:

Shareholder	Common	Preferred
Rotko Trust	3,570,969	3,570,969
Michael J. Rotko	448,655	448,655
Bessie Rotko	240,489	269,089
Judith Shipon	460,657	460,407
Jacob A. Shipon	1,150	1,650

EXHIBIT A-1 TO THE
CREDIT AGREEMENT

FORM OF TERM A NOTE

$_____ Dated: _____ __, 199_

FOR VALUE RECEIVED, the undersigned, MEDIQ/PRN LIFE SUPPORT SERVICES, INC., a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") for the account of its Applicable Lending Office (as defined in the Credit Agreement referred to below) the principal amount of the Term A Advance (as defined below) owing to the Lender by the Borrower pursuant to the Credit Agreement dated as of October 1, 1996 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms defined therein being used herein as therein defined) among the Borrower, MEDIQ Incorporated, a Delaware corporation and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the Lender and certain other lender parties party thereto, Banque Nationale de Paris, as Administrative Agent and Initial Issuing Bank, and NationsBank, N.A., as Documentation Agent, on the dates and in the amounts specified in the Credit Agreement.

The Borrower promises to pay interest on the unpaid principal amount of the Term A Advance from the date of such Term A Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to Banque Nationale de Paris, as Administrative Agent, at the Administrative Agent's Account, in same day funds. The Term A Advance owing to the Lender by the Borrower and the maturity thereof, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of a single advance (the "Term A Advance") by the Lender to the Borrower in an amount not to exceed the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from such Term A Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the

maturity hereof upon the terms and conditions therein specified. The Obligations of the Borrower under this Promissory Note, and the Obligations of the other Loan Parties under the Loan Documents, are secured by the Collateral as provided in the Loan Documents.

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC.

By _____
Name:
Title:

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Term A Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

EXHIBIT A-2 TO THE
CREDIT AGREEMENT

FORM OF TERM B NOTE

$_____ Dated: _____ __, 199_

FOR VALUE RECEIVED, the undersigned, MEDIQ/PRN LIFE SUPPORT SERVICES, INC., a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY [to the order of] _____(the "Lender") [or its registered assigns] for the account of its Applicable Lending Office (as defined in the Credit Agreement referred to below) the principal amount of the Term B Advance (as defined below) owing to the Lender by the Borrower pursuant to the Credit Agreement dated as of October 1, 1996 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms defined therein being used herein as therein defined) among the Borrower, MEDIQ Incorporated, a Delaware corporation and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the Lender and certain other lender parties party thereto, Banque Nationale de Paris, as Administrative Agent and Initial Issuing Bank, and NationsBank, N.A., as Documentation Agent, on the dates and in the amounts specified in the Credit Agreement.

The Borrower promises to pay interest on the unpaid principal amount of the Term B Advance from the date of such Term B Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to Banque Nationale de Paris, as Administrative Agent, at the Administrative Agent's Account, in same day funds. The Term B Advance owing to the Lender by the Borrower and the maturity thereof, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of a single advance (the "Term B Advance") by the Lender to the Borrower in an amount not to exceed the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from such Term B Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the

maturity hereof upon the terms and conditions therein specified. The Obligations of the Borrower under this Promissory Note, and the Obligations of the other Loan Parties under the Loan Documents, are secured by the Collateral as provided in the Loan Documents.

Notwithstanding anything to the contrary contained herein or in the Credit Agreement, this Note may not be transferred except pursuant to and in accordance with the registration and other provisions of subsection 9.07(b,d) of the Credit

Agreement.

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC.

By _____
Name:
Title:

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Term B Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

EXHIBIT A-3 TO THE
CREDIT AGREEMENT

FORM OF WORKING CAPITAL NOTE

$_____ Dated: _____, 199_

FOR VALUE RECEIVED, the undersigned, MEDIQ/PRN LIFE SUPPORT SERVICES, INC.,

a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") for the account of its Applicable Lending Office (as defined in the Credit Agreement referred to below) the aggregate principal amount of the Working Capital Advances (as defined below) owing to the Lender by the Borrower pursuant to the Credit Agreement dated as of October 1, 1996 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms defined therein being used herein as therein defined) among the Borrower, MEDIQ Incorporated, a Delaware corporation and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the Lender and certain other lender parties party thereto, Banque Nationale de Paris, as Administrative Agent and Initial Issuing Bank, and NationsBank, N.A., as Documentation Agent, on the Termination Date.

The Borrower promises to pay interest on the unpaid principal amount of each Working Capital Advance from the date of such Working Capital Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to Banque Nationale de Paris, as Administrative Agent, at the [Administrative Agent's Account], in same day funds. Each Working Capital Advance owing to the Lender by the Borrower and the maturity thereof, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of advances (the "Working Capital Advances") by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Working Capital Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the

terms and conditions therein specified. The Obligations of the Borrower under this Promissory Note, and the Obligations of the other Loan Parties under the Loan Documents, are secured by the Collateral as provided in the Loan Documents.

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC.

By _____
Name:
Title:

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Working Capital Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

EXHIBIT A-4 TO THE
CREDIT AGREEMENT

FORM OF ACQUISITION NOTE

$_____ Dated: _____ __, 199_

FOR VALUE RECEIVED, the undersigned, MEDIQ/PRN LIFE SUPPORT SERVICES, INC., a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") for the account of its Applicable Lending Office (as defined in the Credit Agreement referred to below) the aggregate principal amount of the Acquisition Advances (as defined below) owing to the Lender by the Borrower pursuant to the Credit Agreement dated as of October 1, 1996 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms defined therein being used herein as therein defined) among the Borrower, MEDIQ Incorporated, a Delaware corporation, and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the Lender and certain other lender parties party thereto, Banque Nationale de Paris, as Administrative Agent and Initial Issuing Bank, and NationsBank, N.A., as Documentation Agent, on the dates and in the amounts specified in the Credit Agreement.

The Borrower promises to pay interest on the unpaid principal amount of each Acquisition Advance from the date of such Acquisition Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to Banque Nationale de Paris, as Administrative Agent, at the Administrative Agent's Account, in same day funds. Each Acquisition Advance owing to the Lender by the Borrower and the maturity thereof, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of acquisition advances (the "Acquisition Advances") by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Acquisition Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration

of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the

terms and conditions therein specified. The Obligations of the Borrower under this Promissory Note, and the Obligations of the other Loan Parties under the Loan Documents, are secured by the Collateral as provided in the Loan Documents.

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC.

By _____
Name:
Title:

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Acquisition Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

FORM OF NOTICE OF BORROWING

Banque Nationale de Paris,
as Administrative Agent under the
Credit Agreement referred to below
499 Park Avenue
New York, NY 10022 [Date]

Attention: Ms. Kimberly Williams

Ladies and Gentlemen:

The undersigned, MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Borrower"), refers to the Credit Agreement dated as of October 1, 1996 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the Borrower, MEDIQ Incorporated, a Delaware corporation, and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the lender parties party thereto (the "Lender Parties"), Banque Nationale de Paris, as Administrative Agent and Initial Issuing Bank, and NationsBank, N.A., as Documentation Agent, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement, that the Borrower hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the "Proposed Borrowing") as required by Section 2.02(a) of the Credit Agreement:

(i) The Business Day of the Proposed Borrowing is _____ __, ____.

(ii) The Facility under which the Proposed Borrowing is requested is the _____ Facility.

(iii) The Type of Advances comprising the Proposed Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].

(iv) The aggregate amount of the Proposed Borrowing is $_____.

[(v) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Borrowing is _____ month[s].]

The Borrower hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

(A) the representations and warranties contained in each Loan Document are correct on and as of such date, before and after giving effect to such Borrowing and to the application of the proceeds therefrom, as though made on and as of such date other than any such representations or warranties that, by their terms, refer to a specific date other than the date of such Borrowing, in which case as of such specific date;

(B) no event has occurred and is continuing, or would result from such Borrowing or from the application of the proceeds therefrom, that constitutes a Default;

(C) for each Acquisition Advance: (i) at the time of making such Acquisition Advance the amount on deposit in the Asset Sale Blocked Account is zero or all amounts on deposit therein are being applied simultaneously with such Acquisition Advance, (ii) immediately prior to such Acquisition Advance the Asset Sale Release Amount is equal to zero and (iii) if such Acquisition Advance is used for the purposes set forth in:

(1) Section 2.14(b)(ii) of the Credit Agreement, subject to the terms set forth in Section 5.02(k)(i)(y)(B) of the Credit Agreement, including but not limited to the provision that immediately after giving effect to each Borrowing consisting of Acquisition Advances the Senior Leverage Ratio is less than or equal to 3.75 to 1, as calculated on the attached Schedule I;

(2) Section 2.14(b)(iii)(x) of the Credit Agreement, from and after the Asset Sale Threshold Date, subject to the terms set forth in Section 5.02(f)(i) of the Credit Agreement, including but not limited to the provisions that (x) immediately after giving effect to each Borrowing consisting of Acquisition Advances the Leverage Ratio is less than or equal to 3.5 to 1, (y) the requested Acquisition Advances plus proceeds used from the Asset Sale Blocked Account used for acquisitions of a Person or assets pursuant to Section 5.02(f)(i) are less than or equal to 5.5 times the EBITDA for the prior 12 months of the Person or assets acquired pursuant to Section 5.02(f)(i), and (z) the aggregate amount Acquisition Advances plus the aggregate amount of proceeds used from the Asset Sale Blocked Account plus an amount equal to the aggregate value of the common stock of MEDIQ used for all such Investments made pursuant to Section 5.02(f)(i) is less than or equal to $100,000,000, each as calculated on the attached Schedule II;

(3) Section 2.14(b)(iii)(y) of the Credit Agreement, from and after the Asset Sale Threshold Date, not less than twelve months after the initial extension of credit, and subject to the terms set forth in Section 5.02(g)(i) of

the Credit Agreement, including but not limited to the provisions that immediately after giving effect to each Borrowing consisting of Acquisition Advances (x) the Leverage Ratio is less than or equal to 3.0 to 1 and (y) the aggregate amount of acquisition advances and funds released from the Asset Sale Blocked Account used for dividends paid or funds advanced directly or indirectly by the Borrower to MEDIQ to permit MEDIQ to repurchase the common stock of MEDIQ and to pay dividends does not exceed $20,000,000, each as calculated on the attached Schedule III; and

(D) for each Working Capital Advance, the sum of the Loan Values of the Eligible Receivables and Eligible Inventory (as determined based on the most recent Borrowing Base Certificate delivered to the Lender Parties pursuant to the Credit Agreement) exceeds the aggregate principal amount of the Working Capital Advances plus Letter of Credit Advances to be outstanding plus the aggregate Available Amount of all Letters of Credit then outstanding, after giving effect to such Advance or issuance, respectively, plus the Asset Sale Release Amount net of the amount of such Working Capital Advance to be deposited in the Asset Sale Blocked Account as follows:

(1)	Total Working Capital Commitments	_____
(2)	Total Borrowing Base Availability from the most recent Borrowing Base Certificate	_____
(3)	Lesser of (1) and (2)	_____
(4)	Working Capital Advances Outstanding	_____
(5)	Letter of Credit Advances Outstanding	_____
(6)	Available Amount of all Letters of Credit then Outstanding	_____
(7)	Total Working Capital Availability [(3) less (4) less (5) less (6)]	_____
(8)	Asset Sale Release Amount net of the amount of such Working Capital Advance to be deposited in the Asset Sale Blocked Account	_____
(9)	Working Capital Advance permitted under Section 2.01(a) [(7) minus (8)]	_____

Very truly yours,

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC.

By _____
Title:

SCHEDULE I

SECTION 5.02(k)(i)(y)(B)
SENIOR LEVERAGE RATIO CALCULATION
FOR REPAYMENT OF SUBORDINATED NOTES

(1)	outstanding Term Loan A Advances	_____
(2)	outstanding Term Loan B Advances	_____
(3)	outstanding Acquisition Advances	_____
(4)	outstanding Working Capital Advances	_____
(5)	outstanding Letter of Credit Advances	_____
(6)	outstanding amount of other Senior Debt(1)	_____
(7)	amount of requested Advance	_____
(8)	TOTAL SENIOR DEBT [sum of (1) through (7)]	_____
(9)	Consolidated EBITDA for the Rolling Period ended as of the most recent period for which financial statements were required to be furnished pursuant to Sections 5.03(b), (c) or (d)	_____
(10)	SENIOR LEVERAGE RATIO [(8) divided by (9)]	_____

---

(1) excluding (i) contingent obligations of the type described in clause (f) or (h) in the definition of "Debt" and (ii) Debt permitted under Section 5.02(b)(i)(A) (Parent Guarantor Debt-A), as specified in the definition of "Senior Leverage Ratio".

SCHEDULE II

SECTION 5.02(f)(i)
CALCULATIONS
FOR INVESTMENTS BY THE BORROWER

A. CALCULATION OF LEVERAGE RATIO

(1)	outstanding Term Loan A Advances	_____
(2)	outstanding Term Loan B Advances	_____
(3)	outstanding Acquisition Advances	_____
(4)	outstanding Working Capital Advances	_____
(5)	outstanding amount of Letter of Credit Advances	_____
(6)	outstanding amount of other Funded Debt(1)	_____
(7)	amount of requested Advance*	_____
(8)	Total Funded Debt [sum of (1) through (7)]	_____

(9) principal amount of the NutraMax Note to the extent secured by the NutraMax Letter of Credit _____

(10) NUMERATOR TOTAL [(8) minus (9)] _____

(11) Consolidated EBITDA for the Monthly Rolling Period ended as of the most recent month for which financial statements were required to be furnished pursuant to Sections 5.02(b), (c) or (d) _____

(12) LEVERAGE RATIO [(10) divided by (11)] _____

---

(1) excluding (i) contingent obligations of the type described in clause (f) or (h) in the definition of "Debt" and (ii) Debt permitted under Section 5.02(b)(i)(A) (Parent Guarantor Debt-A), as specified in the definition of "Leverage Ratio".

* For Investments permitted under Section 5.02(f)(i), the amount of the requested Advance is capped at the Acquisition Facility Sublimit, calculated as follows:

(a) Acquisition Facility Commitment _____

(b) Acquisition Advances outstanding _____

(c) common stock used in Investments pursuant to Section 5.02(f)(i) _____

(d) Subordinated Notes outstanding _____

(e) ACQUISITION FACILITY SUBLIMIT [(a) minus (b) minus (c) minus (d)] _____

B. RATIO OF REQUESTED ACQUISITION ADVANCE PLUS PROCEEDS USED FROM THE ASSET SALE BLOCKED ACCOUNT TO EBITDA FOR PRIOR 12 MONTHS OF THE PERSON OR ASSETS ACQUIRED PURSUANT TO SECTION 5.02(f)(i) WITH SUCH ADVANCE OR PROCEEDS

(1) amount of requested Acquisition Advance used for the acquisition of the Person or assets acquired pursuant to Section 5.02(f)(i) _____

(2) amount of proceeds from the Asset Sale Blocked Account to be drawn simultaneously with the requested Acquisition Advance for the acquisition of the Person or assets pursuant to Section 5.02(f)(i) _____

(3) NUMERATOR TOTAL [sum of (1) and (2)] _____

(4) EBITDA for the prior 12 months of the Person or assets acquired pursuant to Section 5.02(f)(i) _____

(5) RATIO [(3) divided by (4)] _____

C. CAP ON AGGREGATE AMOUNT OF INVESTMENTS PURSUANT TO 5.02(f)(i)

(1) aggregate amount of Acquisition Advances used for all acquisitions of Persons or assets pursuant to Section 5.02(f)(i) (including the requested Acquisition Advance) _____

(2) aggregate amount of proceeds from the Asset Sale Blocked Account (including proceeds drawn simultaneously with the requested Acquisition Advance) used for all acquisitions of Persons or assets pursuant to Section 5.02(f)(i) _____

(3) aggregate amount of common stock used for all

acquisitions of Persons or assets pursuant to Section 5.02(f)(i) _____

(4) TOTAL [sum of (1) through (3)] _____

SCHEDULE III

SECTION 5.02(g)(i)
CALCULATIONS
FOR PAYMENT OF DIVIDENDS OR ADVANCING OF FUNDS BY THE BORROWER

A. CALCULATION OF LEVERAGE RATIO _____

(1) outstanding Term Loan A Advances _____

(2) outstanding Term Loan B Advances _____

(3) outstanding Acquisition Advances _____

(4) outstanding Working Capital Advances _____

(5) outstanding Letter of Credit Advances _____

(6) amount of outstanding other Funded Debt(1) _____

(7) amount of requested Advance* _____

(8) TOTAL FUNDED DEBT [sum of (1) through (7)] _____

(9) principal amount of the NutraMax Note to the extent secured by the NutraMax Letter of Credit _____

(10) NUMERATOR TOTAL [(8) minus (9)] _____

(11) Consolidated EBITDA for the Rolling Period ended as of the most recent period for which financial statements were required to be furnished pursuant to Sections 5.03(b), (c) or (d) _____

(12) LEVERAGE RATIO [(10) divided by (11)] _____

---

(1) excluding (i) contingent obligations of the type described in clause (f) or (h) in the definition of "Debt" and (ii) Debt permitted under Section 5.02(b)(i)(A) (Parent Guarantor Debt-A), as specified in the definition of "Leverage Ratio".

* For Investments permitted under Section 5.02(g)(i), the amount of the requested Advance is capped at the Acquisition Facility Sublimit, calculated as follows:

(a) Acquisition Facility Commitment _____

(b) Acquisition Advances outstanding _____

(c) Subordinated Notes outstanding _____

(d) ACQUISITION FACILITY SUBLIMIT [(a) minus (b) minus (c)] _____

B. THE AGGREGATE AMOUNT OF ACQUISITION ADVANCES AND ADVANCES FROM THE ASSET SALE BLOCKED ACCOUNT USED BY THE BORROWER TO PAY DIVIDENDS OR ADVANCE FUNDS DIRECTLY OR INDIRECTLY TO MEDIQ TO PERMIT MEDIQ TO REPURCHASE THE COMMON STOCK OF MEDIQ AND TO PAY CASH DIVIDENDS _____

EXHIBIT C TO THE
CREDIT AGREEMENT

FORM OF ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of October 1, 1996 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among MEDIQ/PRN LIFE SUPPORT SERVICES, INC., a Delaware corporation (the "Borrower"),MEDIQ Incorporated, a Delaware corporation and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the Lender Parties (as defined in the Credit Agreement), Banque Nationale de Paris, as Administrative Agent and Initial Issuing Bank, and NationsBank N.A., as Documentation Agent. Terms defined in the Credit Agreement are used herein with the same meaning.

The "Assignor" and the "Assignee" referred to on Schedule 1 hereto agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement as of the date hereof equal to the uniform percentage interest specified on Schedule 1 hereto of all outstanding rights and obligations under the Credit Agreement Facility or Facilities specified on Schedule 1 hereto. After giving effect to such sale and assignment, the Assignee's Commitments and the amount of the Advances owing to the Assignee will be as set forth on Schedule 1 hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, the Loan Documents or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Loan Party or the performance or observance by any Loan Party of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; and (iv) attaches the Note or Notes held by the Assignor and requests that the Administrative Agent exchange such Note or Notes for a new Note or Notes payable to the order of the Assignee in an amount equal to the Commitments assumed by the Assignee pursuant hereto or new Notes payable to the order of the Assignee in an amount equal to the Commitments assumed by the Assignee pursuant hereto and the Assignor in an amount equal to the Commitments retained by the Assignor under the Credit Agreement, respectively, as specified on Schedule 1 hereto.

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Administrative Agent, the Assignor or any other Lender Party and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Lender Party; and (vi) attaches any U.S. Internal Revenue Service forms required under Section 2.12 of the Credit Agreement.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Administrative Agent for acceptance and recording by the Administrative Agent. The effective date for this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by the Administrative Agent, unless otherwise specified on Schedule 1 hereto, but in no event before recording.

5. Upon such acceptance and recording by the Administrative Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender Party thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement (and, if the Assignment and Acceptance covers all or the remaining portion of the Assignor's rights and obligations under the Credit Agreement, such Assignor shall cease to be a party thereto).

6. Upon such acceptance and recording by the Administrative Agent, from and after the Effective Date, the Administrative Agent shall make all payments under the Credit Agreement and the Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and commitment fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and the Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different 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. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

SCHEDULE 1
to
ASSIGNMENT AND ACCEPTANCE

As to each _____ Facility in respect of which an interest is being assigned:

Percentage interest assigned: _____%

Assignee's Commitment: $_____

Aggregate outstanding principal amount of Advances assigned: $_____

Principal amount of Note payable to Assignee: $_____

Principal amount of Note payable to Assignor: $_____

Effective Date (if other than date of acceptance by Agent):
_____ __, ____ (1)

[NAME OF ASSIGNOR], as Assignor

By _____
Title:

Dated: _____ __, ____

[NAME OF ASSIGNEE], as Assignee

By _____
Title:

Dated: _____ __, ____

Domestic Lending Office:

Eurodollar Lending Office:

---

(1) This date should be no earlier than five Business Days after the delivery of this Assignment and Acceptance to the Administrative Agent.

Schedule I-2

ACCEPTED (2)[AND APPROVED] this
_____ day of _____, _____

BANQUE NATIONALE DE PARIS,
as Administrative Agent

By _____
Title:

By _____
Title:

(2)[APPROVED this ___ day of _____, _____

MEDIQ/PRN LIFE SUPPORT SERVICES, INC.

By _____
Title:]

---

(2) Required if the Assignee is an Eligible Assignee solely by reason of clause (vii) of the definition of Eligible Assignee.

EXHIBIT D TO THE
CREDIT AGREEMENT

FORM OF SECURITY AGREEMENT

Dated October 1, 1996

from

THE PERSONS LISTED ON THE SIGNATURE PAGES HEREOF

as Grantors

to

BANQUE NATIONALE DE PARIS

as Administrative Agent

TABLE OF CONTENTS

Section Page

Schedule V - Blocked Accounts and Other Bank Accounts

Exhibit A - Form of Blocked Account Letter

Exhibit B - Form of Consent and Agreement

Exhibit C - Form of Security Agreement Supplement

SECURITY AGREEMENT

SECURITY AGREEMENT dated October 1, 1996 made by the Persons listed on the signature pages hereof and the Additional Grantors (as defined in Section 23(b)) (such Persons so listed and the Additional Grantors being, collectively, the "Grantors") to BANQUE NATIONALE DE PARIS ("BNP"), as administrative agent (the "Administrative Agent") for the Secured Parties (as defined in the Credit Agreement referred to below).

PRELIMINARY STATEMENTS.

(1) MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Borrower"), has entered into a Credit Agreement dated as of October 1, 1996 (said Agreement, as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "Credit Agreement"), with BNP, as Administrative Agent, NationsBank as Documentation Agent and the Lender Parties party thereto. Capitalized terms used herein and not otherwise defined are used herein as defined in the Credit Agreement.

(2) It is a condition precedent to the making of Advances and the issuance of Letters of Credit by the Lender Parties under the Credit Agreement that each Grantor shall have granted the assignment and security interest and made the pledge and assignment contemplated by this Agreement.

(3) Each Grantor is the owner of the shares of stock set forth opposite such Grantor's name in Part I of Schedule I hereto and issued by the corporations indicated therein and of the indebtedness set forth opposite such Grantor's name in Part II of Schedule I hereto and issued by the obligors indicated therein.

(4) The Borrower has opened a non-interest bearing cash collateral account (the "Asset Sale Blocked Account") with BNP at its office at 499 Park Avenue, New York, New York 10022, Account No. 202506-001-48, in the name of the Borrower but under the sole control and dominion of the Administrative Agent and subject to the terms of this Agreement.

(5) The Borrower has opened a non-interest bearing cash collateral account (the "L/C Cash Collateral Account") with BNP at its office at 499 Park Avenue, New York, New York 10022, Account No. 200875-001-77, in the name of the Borrower but under the sole control and dominion of the Administrative Agent and subject to the terms of this Agreement.

(6) Each Grantor will derive substantial direct and indirect benefit from the transactions contemplated by the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Lender Parties to make Advances and to issue Letters of Credit under the Credit Agreement and to induce the Hedge Banks to enter into Bank Hedge Agreements with the Borrower from time to time, each Grantor hereby agrees with the Administrative Agent for the ratable benefit of the Secured Parties as follows:

SECTION 1. Grant of Security. Each Grantor hereby assigns and pledges to the Administrative Agent for the ratable benefit of the Secured Parties, and hereby grants to the Administrative Agent for the ratable benefit of the Secured Parties a security interest in, the following, in each case, as to each type of property described below, whether now owned or hereafter acquired by such Grantor, wherever located and whether now or hereafter existing (the "Collateral"):

(a) All of the following (the "Security Collateral"):

(i) the shares of stock set forth opposite such Grantor's name in Part I of Schedule I hereto and issued by the corporations indicated therein (collectively referred to herein as the "Initial Pledged Shares", and together with the shares referred to in clause (iii) below, the "Pledged Shares"), together with the certificates representing such Initial Pledged Shares and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Initial Pledged Shares;

(ii) the indebtedness (whether or not evidenced by instruments) set forth opposite such Grantor's name in Part II of Schedule I hereto and issued by the obligors indicated therein (collectively referred to herein as the "Initial Pledged Debt", and together with the indebtedness referred to in clause (iv) below, the "Pledged Debt") and the instruments (if any) evidencing such Initial Pledged Debt, all security therefor and all interest, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such Initial Pledged Debt;

(iii) all additional shares of stock of any issuer of any Initial Pledged Shares or of any other Loan Party or any Subsidiary of any Loan Party or of any other Person from time to time acquired by such Grantor in any manner, and all additional shares of stock of each other Subsidiary of such Grantor to the extent required pursuant to Section 5.01(m) of the Credit Agreement, together with the certificates representing such additional shares and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares;

(iv) all additional indebtedness from time to time owed to such Grantor by any obligor of the Initial Pledged Debt (whether or not evidenced by instruments) and the instruments evidencing such indebtedness (if any), and all additional indebtedness owed to such Grantor by any other obligor to the extent required pursuant to Section 5.01(m) of the Credit Agreement, all security therefor and all interest, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such indebtedness; and

(v) within five days after acquiring or organizing any foreign Subsidiary or joint venture or any domestic joint venture, (A) in the case of any foreign Subsidiary or joint venture, 66% of the total outstanding shares or other ownership interests of such Person held by such Grantor and (B) in the case of any domestic joint venture, 100% of the shares or other ownership interests of such Person held by such Grantor;

(b) All of the following (collectively, the "Account Collateral"):

(i) the L/C Cash Collateral Account, all funds held therein and all certificates and instruments, if any, from time to time representing or evidencing the L/C Cash Collateral Account;

(ii) the Asset Sale Blocked Account, all funds held therein and all certificates and instruments, if any, from time to time representing or evidencing the Asset Sale Blocked Account;

(iii) all Blocked Accounts (as hereinafter defined), all funds held therein and all certificates and instruments, if any, from time to time representing or evidencing the Blocked Accounts;

(iv) all other deposit accounts of such Grantor, all funds held therein and all certificates and instruments, if any, from time to time representing or evidencing such deposit accounts;

(v) all Collateral Investments (as hereinafter defined) from time to time and all certificates and instruments, if any, from time to time representing or evidencing the Collateral Investments;

(vi) all notes, certificates of deposit, deposit accounts, checks and other instruments from time to time hereafter delivered to or otherwise possessed by the Administrative Agent for or on behalf of such Grantor,

including, without limitation, those delivered to or possessed in substitution for or in addition to any or all of the then existing Account Collateral; and

(vii) all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the then existing Account Collateral;

(c) All of such Grantor's right, title and interest, in and to all equipment in all of its forms (including, without limitation, (i) all adult and infant ventilators, portable volume ventilators, adult, infant, neonatal and fetal monitors, infant apnea monitors, phototherapy units, pediatric aerosol tents, compressors, infusion and suction pumps and poles, incubators, infant warmers, pulse oximeters, sequential compression devices and all other medical equipment of every kind and nature, and (ii) all machinery, equipment, office machinery, furniture, computers, computer hardware, automotive equipment, trucks and motor vehicles), wherever located, all fixtures and all parts thereof and all accessions and additions thereto, parts and appurtenances thereof, substitutions therefor and replacements thereof (any and all such equipment, fixtures, accessions, additions, parts, appurtenances, substitutions and replacements being the "Equipment");

(d) All of such Grantor's right, title and interest, in and to all inventory in all of its forms, wherever located (including, but not limited to, (i) all medical equipment and raw materials and work in process therefor, finished goods thereof and materials used or consumed in the manufacture, production or preparation thereof, (ii) goods in which such Grantor has an interest in mass or a joint or other interest or right of any kind (including, without limitation, goods in which such Grantor has an interest or right as consignee) and (iii) goods that are returned to or repossessed by such Grantor), and all accessions thereto and products thereof and documents therefor (any and all such inventory, accessions, products and documents being the "Inventory");

(e) All of such Grantor's right, title and interest, in and to all accounts, contract rights, chattel paper, instruments, deposit accounts and general intangibles and all other obligations of any kind, now or hereafter existing, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services and whether or not earned by performance (including, without limitation, any rights with respect to workers' compensation or other deposits made by such Grantor and any rights to receive tax refunds or other refunds, reimbursements and payments from any federal, state or local government or any political subdivision, agency or instrumentality thereof), and all rights now or hereafter existing in and to all security agreements, leases and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, deposit accounts, general

intangibles or obligations (any and all such accounts, contract rights, chattel paper, instruments, deposit accounts, general intangibles and obligations, to the extent not referred to in clause (a), (b), (f) or (g) of this Section 1, being the "Receivables", and any and all such leases, security agreements and other contracts being the "Related Contracts");

(f) All of such Grantor's right, title and interest in and to each of the agreements listed on Schedule II hereto, and each Hedge Agreement to which such Grantor is now or may hereafter become a party, in each case as such agreements may be amended, supplemented or otherwise modified from time to time (collectively, the "Assigned Agreements"), including, without limitation, (i) all rights of such Grantor to receive moneys due and to

become due under or pursuant to the Assigned Agreements, (ii) all rights of such Grantor to receive proceeds of any insurance, indemnity, warranty or guaranty with respect to the Assigned Agreements, (iii) claims of such Grantor for damages arising out of or for breach of or default under the Assigned Agreements and (iv) the right of such Grantor to terminate the Assigned Agreements, to perform thereunder and to compel performance and otherwise exercise all remedies thereunder (all such Collateral being the "Agreement Collateral");

(g) All general intangibles of such Grantor (other than general intangibles for moneys due or to become due which are covered by Section 1(e) above, including, without limitation, (i) all partnership, corporate and other interests in and to any Person (other than any Security Collateral), (ii) all governmental permits, licenses (and any subsequent renewals thereof), franchises, registrations, authorizations and approvals and (iii) all trademarks, trade names, trade styles, trade secrets, service marks, logos, copyrights, patents, patent applications and all licenses, license applications, registrations and good will relating to or associated with any of the foregoing (including, without limitation, all such items listed on Schedule 4.01(ii));

(h) To the extent not otherwise covered above, all of the Borrower's right, title and interest in and to any funds or other property under or pursuant to the 12.125% Indenture, including, without limitation, the Borrower's right to receive monies or U.S. Government Obligations (as defined in the 12.125% Indenture) from the Trustee or the Paying Agent (each such term as defined in the 12.125% Indenture) under or pursuant to the 12.125% Indenture;

(i) All proceeds of any and all of the foregoing Collateral (including, without limitation, proceeds that constitute property of the types described in clauses (a) through (i) of this Section 1) and, to the extent not otherwise included, all (i) payments under insurance (whether or not the Administrative Agent is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or

damage to or otherwise with respect to any of the foregoing Collateral, and (ii) cash; and

(j) With respect to any Alternative Lender, the Collateral shall be limited to all of the foregoing Collateral except for Margin Stock Collateral.

SECTION 2. Security for Obligations. This Agreement secures, in the case of each Grantor, the payment of all Obligations of such Grantor now or hereafter existing under the Loan Documents, whether direct or indirect, absolute or contingent, including any extensions, modifications, substitutions, amendments and renewals thereof, whether for principal (including reimbursement for amounts drawn under Letters of Credit), interest, premiums, penalties, fees, indemnifications, contract causes of action, costs, expenses or otherwise (all such Obligations secured hereby being the "Secured Obligations"). Without limiting the generality of the foregoing, this Agreement secures, as to each Grantor, the payment of all amounts that constitute part of the Secured Obligations of such Grantor and that would be owed by such Grantor to the Secured Parties under the Loan Documents but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving such Grantor.

SECTION 3. Grantors Remain Liable. Anything contained herein to the contrary notwithstanding, (a) each Grantor shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Administrative Agent of any of its rights hereunder shall not release any Grantor from any of its duties or obligations under the contracts and agreements included in the Collateral, and (c) no Secured Party shall have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement or any other Loan Document, nor shall any Secured Party be obligated to perform any of the obligations or duties of any Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 4. Delivery of Security Collateral, Account Collateral, Agreement Collateral and Receivables. All certificates or instruments representing or evidencing any Security Collateral, Account Collateral, Agreement Collateral or Receivables (and, to the extent requested by the Administrative Agent, representing or evidencing any other Collateral) shall be delivered to and held by or on behalf of the Administrative Agent pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Administrative Agent; provided, however, that this Section 4 shall not apply to any certificate of title representing automotive equipment, trucks and motor vehicles referred to in Section 1(c). Upon and after an Event of Default, the Administrative Agent shall have the right, at any time in its discretion and without notice to any Grantor, to

transfer to or to register in the name of the Administrative Agent or any of its nominees any or all of the Security Collateral and Account Collateral, subject only to the revocable rights specified in Section 14(a). In addition, upon and after an Event of Default, the Administrative Agent shall have the right at any time to exchange certificates or instruments representing or evidencing the Security Collateral or Account Collateral for certificates or instruments of smaller or larger denominations.

SECTION 5. Maintaining the L/C Cash Collateral Account and the Asset Sale Blocked Account. (a) So long as any Advance shall remain unpaid, any Letter of Credit or Bank Hedge Agreement shall be outstanding or any Lender Party shall have any Commitment under the Credit Agreement:

(i) The Borrower will maintain the L/C Cash Collateral Account with BNP.

(ii) It shall be a term and condition of the L/C Cash Collateral Account, notwithstanding any term or condition to the contrary in any other agreement relating to the L/C Cash Collateral Account, and except as otherwise provided by the provisions of Section 20, that no amount (including interest on Collateral Investments) shall be paid or released to or for the account of, or withdrawn by or for the account of, the Borrower or any other Person from the L/C Cash Collateral Account.

(b) All Excess Cash from Permitted Asset Sales shall be promptly deposited in the Asset Sale Blocked Account. It shall be a term and condition of the Asset Sale Blocked Account, and except as otherwise provided by the provisions of Section 8 and Section 20, that no amount (including interest on Collateral Investments) shall be paid or released to or for the account of, or withdrawn by or for the account of, the Borrower or any other Person from the Asset Sale Blocked Account, provided, however, that so long as no Default has occurred and is continuing, upon the request of the Borrower, such interest shall be released to the Borrower on the last day of each fiscal quarter.

The L/C Cash Collateral Account and the Asset Sale Blocked Account shall be subject to such applicable laws, and such applicable regulations of the Board of Governors of the Federal Reserve System and of any other appropriate banking or governmental authority, as may now or hereafter be in effect.

SECTION 6. Maintaining the Blocked Accounts. So long as any Advance shall remain unpaid, any Letter of Credit or Bank Hedge Agreement shall be outstanding or any Lender Party shall have any Commitment under the Credit Agreement:

(a) Each Grantor shall, to the extent such Grantor shall have at any time an aggregate amount on deposit in excess of $250,000, maintain blocked deposit accounts

("Blocked Accounts") only with banks ("Blocked Account Banks") that have entered into letter agreements in substantially the form of Exhibit A (or such other form as the Administrative Agent and such Grantor shall agree) with such Grantor and the Administrative Agent ("Blocked Account Letters").

(b) At the end of each Business Day, the Grantors required to maintain Blocked Accounts pursuant to the foregoing paragraph shall deposit all cash in Blocked Accounts; provided, however, that the provisions of this Section 6(b) shall not apply to (i) the Citibank Account and payments required to be made thereto and (ii) any deposit account held in the name of the Borrower at PNC Bank for miscellaneous cash receipts and payments thereto so long as the aggregate amount on deposit in such accounts shall not exceed $25,000.

(c) Upon any termination of any Blocked Account Letter or other agreement with respect to the maintenance of a Blocked Account by any Grantor required to maintain any Blocked Account pursuant to Section 6(a) or any Blocked Account Bank, such Grantor shall immediately notify all Obligors that were making payments to such Blocked Account to make all future payments to another Blocked Account. Following the occurrence and during the continuance of an Event of Default, such Grantor agrees to terminate any or all Blocked Accounts and Blocked Account Letters upon request by the Administrative Agent.

SECTION 7. Investing of Amounts in the L/C Cash Collateral Account and the Asset Sale Blocked Account. If requested by the Borrower, the Administrative Agent will, subject to the provisions of Sections 8 and 20, from time to time (a) invest amounts on deposit in the L/C Cash Collateral Account and the Asset Sale Blocked Account in such Cash Equivalents in the name of the Administrative Agent or as to which all action required by Section 10 shall have been taken as the Borrower may select and the Administrative Agent may approve and (b) invest interest paid on the Cash Equivalents referred to in clause (a) above, and reinvest other proceeds of any such Cash Equivalents that may mature or be sold, in each case in such Cash Equivalents in the name of the Administrative Agent or as to which all actions required by Section 10 shall have been taken as the Borrower may select and the Administrative Agent may approve (the Cash Equivalents referred to in clauses (a) and (b) above being collectively "Collateral Investments"). Interest and proceeds that are not invested or reinvested in Collateral Investments as provided above shall be deposited and held in the L/C Cash Collateral Account or the Asset Sale Blocked Account, as the case may be; provided, however, that so long as no Default has occurred and is continuing, upon the request of the Borrower, such interest deposited and held in the Asset Sale Blocked Account shall be released to the Borrower on the last day of each fiscal quarter.

SECTION 8. Release of Amounts. Any amount on deposit in the Asset Sale Blocked Account shall be released by the Administrative Agent in accordance with the terms and conditions set forth in Section 2.16 of the Credit Agreement.

SECTION 9. Representations and Warranties. Each Grantor represents and warrants as follows:

(a) Such Grantor is the legal and beneficial owner of the Collateral of such Grantor free and clear of any Lien, claim, option or right of others, except for the liens and security interests created under this Agreement or permitted by the Credit Agreement. No effective financing statement or other instrument similar in effect covering all or any part of such Collateral (including, without limitation, accounts and general intangibles relating to the Collateral) or listing such Grantor or any of its Subsidiaries or any trade name of such Grantor or any of its Subsidiaries as debtor with respect to Collateral is on file in any recording office, except such as may have been filed in favor of the Administrative Agent relating to the Loan Documents or as permitted by Section 5.02(a) of the Credit Agreement.

(b) The Pledged Shares owned by such Grantor have been duly authorized and validly issued and are fully paid and non-assessable. The Pledged Debt held by such Grantor has been duly authorized, authenticated or issued and delivered, is the legal, valid and binding obligation of the issuers thereof and is not in default.

(c) The Initial Pledged Shares owned by such Grantor constitute the percentage of the issued and outstanding shares of stock of the issuers thereof indicated on Schedule I hereto. The Initial Pledged Debt constitutes all of the outstanding indebtedness owed to such Grantor for money borrowed or for the deferred purchase price of property of the

issuers thereof.

(d) On the date hereof and thereafter on the most recent date on which a revised Schedule III is required to be furnished to the Administrative Agent pursuant to Section 11(d), all of the Equipment and Inventory of such Grantor, other than such Equipment and Inventory as has been rented or leased to such Grantor's customers, is located at the places specified in Schedule III hereto. The chief place of business and chief executive office of such Grantor and the office where such Grantor keeps its records concerning the Receivables, and the original copies of each Assigned Agreement and all originals of all Related Contracts and all chattel paper, if any, that evidence Receivables (other than (i) those delivered to the Administrative Agent and (ii) rental contracts located in the ordinary course of business at the Borrower's branch offices), are located at the address set forth on the signature pages hereto beneath such Grantor's name. Such Grantor has delivered to the Administrative Agent the originals of all agreements, certificates or instruments representing or

evidencing any Collateral and all security therefor and guaranties thereof, in each case to the extent that the delivery thereof to the Administrative Agent is required under Section 4 above. None of the Receivables or Agreement Collateral is evidenced by a promissory note or other instrument that is required to be delivered to the Administrative Agent hereunder and has not been so delivered (other than promissory notes issued to the Borrower with respect to amounts due to the Borrower, in the ordinary course of business on a basis consistent with current practice).

(e) The Assigned Agreements to which such Grantor is a party, true and complete copies of which have been furnished to each Lender Party, have been duly authorized, executed and delivered by all parties thereto, have not been amended or otherwise modified, are in full force and effect and are binding upon and enforceable against all parties thereto in accordance with their terms. There exists no default under any Assigned Agreement to which such Grantor is a party by any party thereto. Each party to any Assigned Agreement to which such Grantor is a party (other than such Grantor) has executed and delivered to such Grantor a consent, in substantially the form of Exhibit B hereto or otherwise in form and substance satisfactory to the Administrative Agent, to the assignment of the Agreement Collateral to the Administrative Agent for the benefit of the Secured Parties pursuant to this Agreement.

(f) Such Grantor has no Blocked Accounts or other deposit accounts other than the Blocked Accounts listed on Part I of Schedule V hereto and the other deposit accounts listed on Part II of Schedule V hereto. Each Grantor has instructed all existing Obligors to make all payments to a Blocked Account to the extent required by the terms hereof.

(g) This Agreement, the pledge of the Security Collateral pursuant hereto and the pledge and assignment of the Account Collateral pursuant hereto create in favor of the Administrative Agent for the benefit of the Secured Parties a valid and perfected security interest in the Collateral of such Grantor, securing the payment of the Secured Obligations of such Grantor, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken. Such security interest is subject in priority only to (i) the lien imposed on the Collateral pursuant to the 12.125% Indenture as in effect on the date of the Initial Extension of Credit, (ii) the existing lien of Meridian Bank on the promissory note issued by Medifac, Inc. to MEDIQ, (iii) the existing lien of Meridian Bank on the promissory note issued by Granary Partners, L.P. to MEDIQ, and (iv) the prior liens permitted under Section 5.02(a) of the Credit Agreement. Upon the release of the liens referred to in the foregoing clauses (i), (ii), (iii) and (iv), such security interest shall be a first priority security interest.

(h) Such Grantor has no trade names except as set forth on Schedule IV hereto; such trade names were adopted in good faith; and, to the best of such Grantor's knowledge, there exist no adverse claims against such trade names as of the Closing Date.

(i) No consent of any other Person and no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required (i) for the grant by such Grantor of the assignment and security interest granted hereby, for the pledge by such Grantor of any Security Collateral hereunder or for the execution, delivery or performance of this Agreement by such Grantor, (ii) for the perfection or maintenance of the pledge, assignment and security interest created hereunder (including the first priority nature of such pledge, assignment and security interest, except as otherwise permitted), except for the filing of financing and continuation statements under the Uniform Commercial Code, which financing statements have been duly filed, or (iii) for the exercise by the Administrative Agent of its voting or other rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with the disposition of any portion of the Security Collateral by laws affecting the offering and sale of securities generally.

(j) There are no conditions precedent to the effectiveness of this Agreement that have not been satisfied or waived.

(k) Such Grantor has, independently and without reliance upon any Secured Party and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement, and such Grantor has established adequate means of obtaining from any other Loan Parties on a continuing basis information pertaining to, and is now and on a continuing basis will be completely familiar with, the financial condition, operations, properties and prospects of such other Loan Parties.

SECTION 10. Further Assurances. (a) Each Grantor agrees that from time to time, at the expense of such Grantor, such Grantor will promptly execute and deliver all further instruments and documents, and take all further action, that such Grantor believes may be necessary or desirable, or that the Administrative Agent may reasonably request, in order to perfect and protect any pledge, assignment or security interest granted or purported to be granted hereby or to enable the Administrative Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, each Grantor will: (i) mark conspicuously (A) each invoice issued in connection with the rental or lease of any Equipment or Inventory, from 60 days after the Initial Extension of Credit, with the following legend: "THIS EQUIPMENT MAY BE SUBJECT TO A SECURITY INTEREST GRANTED TO BANQUE NATIONALE DE PARIS AS

ADMINISTRATIVE AGENT" and (B) each Assigned Agreement of such Grantor included in the Collateral, and each of its records pertaining to the Collateral, with a legend, in form and substance satisfactory to the Administrative Agent, indicating that such Collateral is subject to the security interest granted hereby, (ii) if any Collateral shall be evidenced by a promissory note or other instrument (other than promissory notes permitted pursuant to Section 5.02(f)(ix) of the Credit Agreement), deliver and pledge to the Administrative Agent for the benefit of the Secured Parties hereunder such note or instrument duly indorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Administrative Agent, (iii) deliver and pledge to the Administrative Agent for the benefit of the Secured Parties hereunder certificates representing the Pledged Shares accompanied by undated stock powers executed in blank and evidence that all other action that the Administrative Agent may deem necessary or desirable in order to perfect and protect the liens and security interests created under this Agreement has been taken and (iv) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Administrative Agent may request, in order to perfect and preserve the pledge, assignment and security interests granted or purported to be granted hereunder.

(b) Each Grantor hereby authorizes the Administrative Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of such Grantor where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(c) Each Grantor will furnish to the Administrative Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Administrative Agent may reasonably request, all in reasonable detail.

(d) The Borrower will furnish to the Administrative Agent, at any time within six months prior to the fifth anniversary of the date hereof, an opinion of counsel acceptable to the Required Lenders to the effect that all financing or continuation statements have been filed, and all other action has been taken, to perfect and validate continuously from the date hereof the pledge, assignment and security interests granted hereunder (excluding, in the case of perfection, any Collateral in which a security interest may not be perfected by the filing of a financing statement under the Uniform Commercial Code of any jurisdiction).

SECTION 11. As to Equipment and Inventory. Each Grantor shall:

(a) On the date hereof and thereafter on the most recent date on which a revised Schedule III is required to be furnished to the Administrative Agent pursuant to Section 11(d), all of the Equipment and Inventory of such Grantor, other than such Equipment and Inventory as has been rented or leased to such Grantor's customers, shall be located at the places specified in Schedule III hereto or at such other places in jurisdictions where all action required by Section 10 shall have been taken with respect to such Equipment and Inventory.

(b) Cause all of its Equipment and Inventory to be maintained and preserved, as is reasonably required in the conduct of its business, in good working order and condition, excluding (i) ordinary wear and tear and (ii) properties that have become obsolete or no longer fit for their intended purposes, and shall forthwith, or in the case of any loss or damage to any of such Equipment or Inventory as soon as practicable after the occurrence thereof, make or cause to be made all repairs, replacements and other improvements in connection therewith which are necessary or desirable to such end.

(c) Pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims (including claims for labor, materials and supplies) against, the Equipment and Inventory; provided, however, that such Grantor shall not be required to pay or discharge any such tax, assessment, charge, levy or claim (x) that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained, or (y) in respect of which the Lien resulting therefrom, if any, attaches to its property and becomes enforceable against its other creditors, to the extent that the aggregate amount of all such taxes, assessments, charges or claims does not exceed $250,000.

(d) Furnish to the Administrative Agent, at the same time as the quarterly financial statements are required to be furnished to the Administrative Agent pursuant to Section 5.03(c) of the Credit Agreement, unless no revisions are required, a revised Schedule III specifying each place where the Equipment and Inventory of such Grantor is located excluding such Equipment or Inventory rented or leased to such Grantor's customers. Such revised Schedule III shall be deemed to replace the then existing Schedule III and shall be of full force and effect as of the date of delivery of such Schedule to the Administrative Agent.

(e) In the event that Equipment and/or Inventory of the Grantors with a book value equal to or greater than 10% of the aggregate book value of all Equipment and Inventory of the Grantors' is relocated, in one move or in a series of moves, from one county to another, furnish within five Business Days after such relocation

notice of such relocation to the Administrative Agent (such notice to include the percentage book value of the relocated Equipment and Inventory and the old and new locations of such Equipment and Inventory).

(f) For each leased location at which at any time Equipment and

Inventory of the Grantors with a book value equal to or greater than 10% of the aggregate book value of the Equipment and Inventory is located, use its good faith efforts to furnish at such time to the Administrative Agent a landlord access letter or consent on terms and conditions reasonably acceptable to the Administrative Agent.

SECTION 12. Insurance. (a) Each Grantor shall, at its own expense, maintain insurance with respect to the Equipment and Inventory in such amounts, against such risks, in such form and with such insurers, as shall be reasonably satisfactory to the Administrative Agent from time to time. Each policy for liability insurance shall provide for all losses to be paid on behalf of the Administrative Agent and such Grantor as their interests may appear, and each policy for property damage insurance shall provide for all losses (except for losses of less than $1,000,000 per occurrence) to be paid directly to the Administrative Agent, except to the extent permitted to be paid to a Grantor pursuant to Section 12(b). Each such policy shall in addition (i) name such Grantor and the Administrative Agent as insured parties thereunder (without any representation or warranty by or obligation upon the Administrative Agent) as their interests may appear, (ii) contain the agreement by the insurer that any loss thereunder shall be payable to the Administrative Agent notwithstanding any action, inaction or breach of representation or warranty by such Grantor, (iii) provide that there shall be no recourse against the Administrative Agent for payment of premiums or other amounts with respect thereto and (iv) provide that at least 10 days' prior written notice of cancellation or of lapse shall be given to the Administrative Agent by the insurer. Each Grantor shall, if so requested by the Administrative Agent, deliver to the Administrative Agent certificates evidencing such insurance, make the original policies of such insurance reasonably available for inspection by the Administrative Agent and, as often as the Administrative Agent may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further, each Grantor shall, at the request of the Administrative Agent, duly exercise and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 10 and cause the insurers to acknowledge notice of such assignment.

(b) Reimbursement under any insurance maintained by any Grantor pursuant to this Section 12 may be paid directly to the Person who shall have incurred liability covered by such insurance. In case of any loss involving damage to Equipment or Inventory when subsection (c) of this Section 12 is not applicable, such Grantor shall make or cause to be made the necessary repairs to or replacements of such Equipment or Inventory, and any proceeds of insurance properly received by or released to such Grantor

shall be used by such Grantor, except as otherwise required or permitted hereunder or by the Credit Agreement to pay or as reimbursement for the cost of such repairs or replacements.

(c) Upon the occurrence and during the continuance of any Event of Default, all insurance payments in respect of such Equipment or Inventory shall be paid to and applied by the Administrative Agent as specified in Section 20(b).

SECTION 13. Place of Perfection; Records; Collection of Receivables. (a) Each Grantor shall keep its chief place of business and chief executive office and the office where it keeps its records concerning the Collateral; and the original copies of the Assigned Agreements of such Grantor, and all originals of all chattel paper which evidences or constitutes Receivables (other than rental contracts located in the ordinary course of business at the Borrower's branch offices), at the location therefor specified in Section 9(d) or, upon 30 days' prior written notice to the Administrative Agent, at such other locations in a jurisdiction where all actions required by Section 10 shall have been taken with respect to the Collateral. Each Grantor will hold and preserve such records, Assigned Agreements and chattel paper and will permit representatives of the Administrative Agent at any time during normal business hours to inspect and make abstracts from such records and chattel paper.

(b) Except as otherwise provided in this subsection (b), such Grantor shall continue to collect, at its own expense, all amounts due or to become due such Grantor under the Receivables and Related Contracts. In connection with such collections, upon and after an Event of Default, such Grantor may take (and, at the Administrative Agent's direction, shall take) such action as such Grantor or the Administrative Agent may deem necessary or advisable to enforce

collection of the Receivables and Related Contracts; provided, however, that the Administrative Agent shall have the right upon the occurrence and during the continuance of an Event of Default and upon written notice to the Borrower of its intention to do so, to notify the Obligors under any Receivables or Related Contracts of the assignment of such Receivables or Related Contracts to the Administrative Agent and to direct such Obligors to make payment of all amounts due or to become due to such Grantor thereunder directly to the Administrative Agent and, upon such notification and at the expense of such Grantor, to enforce collection of any such Receivables or Related Contracts, and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as such Grantor might have done. After receipt by such Grantor of the notice from the Administrative Agent referred to in the proviso to the preceding sentence, (i) all amounts and proceeds (including instruments) received by such Grantor in respect of the Receivables or the Related Contracts shall be received in trust for the benefit of the Administrative Agent hereunder, shall be segregated from other funds of such Grantor and shall be forthwith paid over to the Administrative Agent in the same form as so received (with any necessary indorsement) to be applied as provided by the terms of the Credit Agreement and (ii) such Grantor shall not adjust, settle or compromise the amount or payment of any Receivable, release wholly or partly any obligor thereof, or allow any credit or discount thereon.

SECTION 14. Voting Rights; Dividends; Etc. (a) So long as no Default under Section 6.01(a) or (f) of the Credit Agreement or Event of Default shall have occurred and be continuing:

(i) Each Grantor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Security Collateral of such Grantor or any part thereof for any purpose not inconsistent with the terms of this Agreement or the other Loan Documents; provided, however, that no Grantor shall exercise or refrain from exercising any such right if, in the Administrative Agent's judgment, such action would have a material adverse effect on the value of the Security Collateral or any part thereof.

(ii) Each Grantor shall be entitled to receive and retain any and all dividends and interest paid in respect of the Security Collateral of such Grantor if and to the extent that the payment thereof is not otherwise prohibited by the terms of the Loan Documents; provided, however, that any and all

(A) dividends and interest paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Security Collateral,

(B) dividends and other distributions paid or payable in cash in respect of any Security Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus, and

(C) cash paid, payable or otherwise distributed in respect of principal of, or in redemption of, or in exchange for, any Security Collateral,

shall be, and shall be forthwith delivered to the Administrative Agent to hold as, Security Collateral except as otherwise required under the Credit Agreement and shall, if received by any Grantor, be received in trust for the benefit of the Administrative Agent, be segregated from the other property or funds of such Grantor and be forthwith delivered to the Administrative Agent as Security Collateral in the same form as so received (with any necessary indorsement).

(iii) The Administrative Agent shall execute and deliver (or cause to be executed and delivered) to each Grantor all such proxies and other instruments as such Grantor may reasonably request for the purpose of enabling such Grantor to exercise the voting and other rights that it is entitled to exercise pursuant to paragraph (i) above and to receive the dividends or interest payments that it is authorized to receive and retain pursuant to paragraph (ii) above.

(b) Upon the occurrence and during the continuance of any Default under Section 6.01(a) or (f) of the Credit Agreement or Event of Default:

(i) All rights of each Grantor (A) to exercise or refrain from exercising the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 14(a)(i) shall, upon notice to such Grantor by the Administrative Agent, cease, and (B) to receive the dividends and interest payments that it would otherwise be authorized to receive and retain pursuant to Section 14(a)(ii) shall automatically cease, and all such rights shall thereupon become vested in the Administrative Agent, which shall thereupon have the sole right to exercise or refrain from exercising such voting and other consensual rights and to receive and hold as Security Collateral such dividends and interest payments.

(ii) All dividends and interest payments that are received by any Grantor contrary to the provisions of paragraph (i) of this Section 14(b) shall be received in trust for the benefit of the Administrative Agent, shall be segregated from other funds of such Grantor and shall be forthwith paid over to the Administrative Agent as Security Collateral in the same form as so received (with any necessary indorsement).

SECTION 15. As to the Assigned Agreements. (a) Each Grantor shall at its expense:

(i) perform and observe all the terms and provisions of the Assigned Agreements to be performed or observed by it, maintain the Assigned Agreements to which it is a party in full force and effect, enforce the Assigned Agreements in accordance with the terms thereof and take all such action to such end as may be requested from time to time by the Administrative Agent; and

(ii) furnish to the Administrative Agent promptly upon receipt thereof copies of all notices, requests and other documents received by such Grantor under or pursuant to the Assigned Agreements to which it is a party, and from time to time (A) furnish to the Administrative Agent such information and reports regarding the Assigned Agreements and such other Collateral of such Grantor as the Administrative Agent may reasonably request, and (B) upon request of the Administrative Agent make to each other party to any Assigned Agreement to which it is a party such demands and requests for information and reports or for action as such Grantor is entitled to make thereunder.

(b) Each Grantor agrees that it shall perform and observe all of the terms and provisions of each Assigned Agreement to be performed or observed by it, maintain each such Assigned Agreement in full force and effect, enforce such Assigned Agreement in

accordance with its terms, take all such action to such end as may be from time to time requested by the Administrative Agent.

(c) Each Grantor hereby consents on its behalf and on behalf of its Subsidiaries to the assignment and pledge to the Administrative Agent for the ratable benefit of the Secured Parties of each Assigned Agreement to which it is a party by any other Grantor hereunder.

SECTION 16. Transfers and Other Liens; Additional Shares. (a) Each Grantor agrees that it shall not (i) sell, assign (by operation of law or otherwise), lease or otherwise dispose of, or grant any option with respect to, any of the Collateral of such Grantor (other than sales, assignments, options, leases and other dispositions permitted under the terms of the Credit Agreement including, without limitation, Section 5.02(e) of the Credit Agreement) or (ii) create or suffer to exist any Lien upon or with respect to any of the Collateral of such Grantor, except for the Liens created under the Collateral Documents or permitted under the Credit Agreement.

(b) Each Grantor agrees that it shall (i) cause each issuer of the Pledged Shares owned by such Grantor not to issue any stock or other securities in addition to or in substitution for the Pledged Shares issued by such issuer,

except to such Grantor, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional shares of stock or other securities of each issuer of any Pledged Shares.

SECTION 17. Administrative Agent Appointed Attorney-in-Fact. Each Grantor hereby irrevocably appoints for the term that this Agreement is in effect the Administrative Agent such Grantor's attorney-in-fact, with full authority in the place and stead of such Grantor and in the name of such Grantor or otherwise, from time to time in the Administrative Agent's discretion, to take any action and to execute any instrument that the Administrative Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(a) to obtain and adjust insurance required to be paid to the Administrative Agent pursuant to Section 12,

(b) to ask for, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral,

(c) to receive, indorse and collect any drafts or other instruments, documents and chattel paper in connection with clause (a) or (b) above, and

(d) to file any claims or take any action or institute any proceedings that the Administrative Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce compliance with the terms and conditions of any Assigned Agreement or the rights of the Administrative Agent with respect to any of the Collateral.

SECTION 18. Administrative Agent May Perform. If any Grantor fails to perform any agreement contained herein, the Administrative Agent may, but without any obligation to do so and without further notice, itself perform, or cause performance of, such agreement, and the expenses of the Administrative Agent incurred in connection therewith shall be payable by such Grantor under Section 21.

SECTION 19. The Administrative Agent's Duties. The powers conferred on the Administrative Agent hereunder are solely to protect its and the other Secured Parties' interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Administrative Agent shall have no duty as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Security Collateral, whether or not the Administrative Agent or any other Secured Party has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral. The Administrative Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which it accords its own property.

SECTION 20. Remedies. If any Event of Default shall have occurred and be continuing:

(a) The Administrative Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party upon default under the New York Uniform Commercial Code as in effect at such time (the "Code"), whether or not the Code applies to the affected Collateral, and also may (i) require any Grantor to, and each Grantor hereby agrees that it will at its expense and upon request of the Administrative Agent forthwith, assemble all or part of the Collateral as directed by the Administrative Agent and make it available to the Administrative Agent at a place and time to be designated by the Administrative Agent which is reasonably convenient to both parties; (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Administrative Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Administrative Agent may deem

commercially reasonable; (iii) occupy any premises owned or leased by any Grantor where the Collateral or any part thereof is assembled or located for a reasonable period in order to effectuate its rights and remedies hereunder or under law, without obligation to such Grantor in respect of such occupation; and (iv) exercise any and all rights and remedies of any Grantor under or in connection with the Assigned Agreements, the Receivables and the Related Contracts or otherwise in respect of the Collateral, including, without limitation, any and all rights of such Grantor to demand or otherwise require payment of any amount under, or performance of any provision of, the Assigned Agreements, the Receivables and the Related Contracts. Each Grantor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to such Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Administrative Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Administrative Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) Any cash held by the Administrative Agent as Collateral and all cash proceeds received by the Administrative Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Administrative Agent, be held by the Administrative Agent as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Administrative Agent pursuant to Section 21) in whole or in part by the Administrative Agent for the ratable benefit of the Secured Parties against all or any part of the Secured Obligations as permitted or required by the Credit Agreement. Any surplus of such cash or cash proceeds held by the Administrative Agent and remaining after payment in full of all the Secured Obligations shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive such surplus.

(c) All payments received by any Grantor under or in connection with any Assigned Agreement or otherwise in respect of the Collateral shall be received in trust for the benefit of the Administrative Agent and the other Secured Parties, shall be segregated from other funds of such Grantor and shall be forthwith paid over to the Administrative Agent in the same form as so received (with any necessary indorsement).

(d) The Administrative Agent may, without notice to the Borrower except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the Secured Obligations against the L/C Cash Collateral Account and the Asset Sale Blocked Account or any part thereof.

SECTION 21. Indemnity and Expenses. (a) Each Grantor agrees to defend, protect, indemnify and hold harmless each Secured Party from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from such Secured Party's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction.

(b) Each Grantor will upon demand pay to the Administrative Agent the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, that the Administrative Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from or other realization upon, any of the Collateral of such Grantor, (iii) the exercise or enforcement of any of the rights of the Administrative Agent or any other Secured Party against such Grantor, or (iv) the failure by such Grantor to perform or observe any of the provisions hereof.

(c) Without prejudice to the survival of any other agreement of any Loan Party hereunder or under any other Loan Document, the agreements and obligations of the Grantors contained in this Section 21 shall survive the

payment in full of principal, interest and all other amounts payable hereunder and under any of the other Loan Documents.

SECTION 22. Security Interest Absolute. The obligations of each Grantor under this Agreement are independent of the Secured Obligations, and a separate action or actions may be brought and prosecuted against such Grantor to enforce this Agreement, irrespective of whether any action is brought against the other Grantors or whether the other Grantors are joined in any such action or actions. All rights of the Administrative Agent and the pledge, assignment and security interest hereunder, and all obligations of each Grantor hereunder, shall be absolute and unconditional, irrespective of:

(i) any lack of validity or enforceability of any Loan Document, any Hedge Agreement or any other agreement or instrument relating thereto;

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Secured Obligations, or any other amendment or waiver of or any consent to any departure from any Loan Document or any Hedge Agreement, including, without limitation, any increase in the Secured Obligations resulting from the extension of additional credit to any Grantor or any of its Subsidiaries or otherwise;

(iii) any taking, exchange, release or nonperfection of any other collateral, or any taking, release or amendment or waiver of or consent to departure from any guaranty, for all or any of the Secured Obligations;

(iv) any manner of application of collateral, or proceeds thereof, to all or any of the Secured Obligations, or any manner of sale or other disposition of any collateral for all or any of the Secured Obligations or any other assets of the Borrower or any of its Subsidiaries;

(v) any change, restructuring or termination of the corporate structure or existence of any Grantor or any of its Subsidiaries; or

(vi) any other circumstance that might otherwise constitute a defense available to, or a discharge of, such Grantor or a third-party grantor of a security interest.

This Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Secured Obligations is rescinded or must otherwise be returned by any Secured Party or by any other Person upon the insolvency, bankruptcy or reorganization of any Loan Party or otherwise, all as though such payment had not been made.

SECTION 23. Amendments; Waivers; Etc. (a) No amendment or waiver of any provision of this Agreement, and no consent to any departure by any Grantor herefrom, shall in any event be effective unless the same shall be in writing and signed by the Administrative Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of the Administrative Agent to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right.

(b) Upon the execution and delivery by any Person of a security agreement supplement in substantially the form of Exhibit C hereto (each a "Security Agreement Supplement"), (i) such Person shall be referred to as an "Additional Grantor" and shall be and become a Grantor and each reference in this Agreement to "Grantor" shall also mean and be a reference to such Additional Grantor, and (ii) the annexes attached to each Security Agreement Supplement shall be incorporated into and become a part of and supplement Schedules I, II, III, IV and V hereto, and the Administrative Agent may attach such annexes as supplements to such Schedules; and each reference to such Schedules shall mean and be a reference to such Schedules as supplemented pursuant hereto.

SECTION 24. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic or telex communication) and, mailed, telecopied, telegraphed, telexed or delivered to the Borrower or to the Agent, as the case may be, in each case addressed to it at its address specified in the Credit Agreement or,

as to either party at such other address as shall be designated by such

party in a written notice to each other party complying as to delivery with the terms of this Section 24. All such notices and other communications shall, when mailed, telecopied, telegraphed, telexed or cabled, respectively, be effective when deposited in the mails, telecopied, delivered to the telegraph company, confirmed by telex answerback or delivered to the cable company, respectively, addressed as aforesaid.

SECTION 25. Continuing Security Interest; Assignments. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the latest of the cash payment in full of the Secured Obligations, the Termination Date and the termination or expiration of all Bank Hedge Agreements, (b) be binding upon each Grantor, its successors and assigns and (c) inure, together with the rights and remedies of the Administrative Agent hereunder, to the benefit of the Secured Parties and their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), any Lender Party may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement (including, without limitation, all or any portion of its Commitments, the Advances owing to it and the Note or Notes held by it) to any other Person and such other Person shall thereupon become vested with all the benefits in respect thereof granted to such Lender Party herein or otherwise, in each case as provided in Section 8.07 of the Credit Agreement. No Grantor shall have the right to assign its rights hereunder or any interest herein without the prior written consent of the Secured Parties.

SECTION 26. Release and Termination. (a) Upon any sale, lease, transfer or other disposition of any item of Collateral (including, without limitation, as a result of the sale, in accordance with the terms of the Loan Documents, of the Person that owns such Collateral) in accordance with the terms of the Loan Documents (other than sales or rentals of Equipment and Inventory in the ordinary course of business), the Administrative Agent will, at any Grantor's expense, execute and deliver to such Grantor such documents as such Grantor shall reasonably request to evidence the release of such item of Collateral from the assignment and security interest granted hereby; provided, however, that (i) at the time of such request and such release no Event of Default shall have occurred and be continuing, (ii) the Borrower shall have delivered to the Administrative Agent, at least five Business Days prior to the date of the proposed release, a written request for release describing the item of Collateral and the terms of the sale, lease, transfer or other disposition in reasonable detail, including the price thereof and any expenses in connection therewith, together with a form of release for execution by the Administrative Agent and a certification by the Borrower to the effect that the transaction is in compliance with the Loan Documents and as to such other matters as the Administrative Agent may request and (iii) the proceeds of any such sale, lease, transfer or other disposition required to be applied in accordance with Section 2.06(b)(ii) of the Credit Agreement shall be paid to, or in accordance with the instructions of, the Administrative Agent at the closing.

(b) With respect to the sale or other disposition of Equipment or Inventory in the ordinary course of business permitted by the Loan Documents, so long as at the time of such sale no Event of Default shall have occurred and be continuing, such sale or other disposition may be made free from the lien of this Agreement and the other Loan Documents without the necessity of any release from or consent by the Administrative Agent and no purchaser of any such property shall be bound to inquire into any question affecting the right of any Grantor to sell or otherwise dispose of such Equipment or Inventory free from the lien of this Agreement and the Loan Documents.

(c) In connection with any sale, lease, transfer or other disposition of all or part of the stock of any Discontinued Subsidiary by any Grantor in accordance with the terms of the Loan Documents, so long as no Event of Default shall have occurred and be continuing and the Borrower shall have delivered to the Administrative Agent, at least five Business Days prior to the date of the such sale, lease, transfer or other disposition, written notice requesting that the certificates held by the Administrative Agent evidencing such stock be

delivered to such Grantor, the pledge and assignment of, and security interest in, such stock granted hereby shall be released and such certificates shall be released to such Grantor.

(d) Upon the latest of the cash payment in full of the Secured Obligations, the Termination Date and the termination or expiration of all Bank Hedge Agreements, the pledge, assignment and security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Grantors. Upon any such termination, the Administrative Agent will, at the Borrower's expense, execute and deliver to the Borrower such documents as the Borrower shall reasonably request to evidence such termination.

SECTION 27. The Mortgages. In the event that any of the Collateral hereunder is also subject to a valid and enforceable Lien under the terms of any Mortgage and the terms of such Mortgage are inconsistent with the terms of this Agreement, then with respect to such Collateral, the terms of such Mortgage shall be controlling in the case of fixtures and leases, letting and licenses of, and contracts and agreements relating to the lease of real property, and the terms of this Agreement shall be controlling in the case of all other Collateral.

SECTION 28. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 29. Governing Law; Terms. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in

respect of any particular Collateral are governed by the laws of a jurisdiction other than the State of New York. Unless otherwise defined herein or in the Credit Agreement, terms used in Article 8 or Article 9 of the Code are used herein as therein defined.

IN WITNESS WHEREOF, each Grantor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

MEDIQ/PRN LIFE SUPPORT SERVICES, INC.

By _____
Name:
Title:

Address of Chief Executive Office and for Notices:
One MEDIQ Plaza
Pennsauken, NJ 08110
Attention: Chief Financial Officer

MEDIQ INCORPORATED

By _____
Name:
Title:

Address of Chief Executive Office and for Notices:
One MEDIQ Plaza
Pennsauken, NJ 08110
Attention: Chief Financial Officer

PRN HOLDINGS, INC.

By _____
Name:
Title:

Address of Chief Executive Office and for Notices:
1403 Faulk Road
Suite 102
Wilmington, DE 19803
Attention: Chief Financial Officer

MEDIQ INVESTMENT SERVICES, INC.

By _____
Name:
Title:

Address of Chief Executive Office and for Notices:
1403 Faulk Road, Suite 102
Wilmington, DE 19803
Attention: Chief Financial Officer

MEDIQ MANAGEMENT SERVICES, INC.

By _____
Name:
Title:

Address of Chief Executive Office and for Notices:
One MEDIQ Plaza
Pennsauken, NJ 08110
Attention: Chief Financial Officer

MEDIQ SURGICAL EQUIPMENT
SERVICES, INC.

By _____
Name:
Title:

Address of Chief Executive Office and for Notices:
One MEDIQ Plaza
Pennsauken, NJ 08110
Attention: Chief Financial Officer

VALUE-MED PRODUCTS, INC.

By _____
Name:
Title:

Address of Chief Executive Office and for Notices:
One MEDIQ Plaza
Pennsauken, NJ 08110
Attention: Chief Financial Officer

SCHEDULE 1

Initial Pledged Shares and Initial Pledged Debt

Initial Pledged Shares

Part I

Initial Pledged Debt

Part II

SCHEDULE 2

Assigned Agreements

SCHEDULE 3

Locations of Equipment and Inventory

SCHEDULE 4

Trade Names

SCHEDULE 5

Blocked Accounts and Other Bank Accounts

EXHIBIT A TO THE SECURITY AGREEMENT
FORM OF BLOCKED ACCOUNT LETTER

October 1, 1996

[Blocked Account Bank Address]

Attn: [ ]

[Grantor]

Ladies and Gentlemen:

Reference is made to the deposit accounts listed on the attached Schedule I into which certain monies, instruments and other properties are deposited from time to time (the "Accounts") maintained with you by [Grantor], a _____ corporation (the "Company"). Pursuant to a Security Agreement dated as of October 1, 1996 (the "Security Agreement"), the Company has granted to Banque Nationale de Paris, as administrative agent (the "Administrative Agent") for the Secured Parties referred to in the Credit Agreement dated as of October 1, 1996 (the "Credit Agreement") with the Company, a security interest in certain property of the Company, including, among other things, the following (the "Account Collateral"): the Accounts, all funds held therein and all certificates and instruments, if any, from time to time representing or evidencing the Accounts, all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the then existing Account Collateral and all proceeds of any and all of the foregoing Account Collateral and, to the extent not otherwise included, all (i) payments under insurance (whether or not the Administrative Agent is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Account Collateral and (ii) cash. It is a condition to the continued maintenance of the Accounts with you that you agree to this letter agreement.

By signing this letter agreement, you acknowledge notice of the Security Agreement and confirm to the Administrative Agent that you have received no notice of any other pledge or assignment of the Accounts. Further,

you hereby agree with the Administrative Agent that:

(a) Notwithstanding anything to the contrary in any other agreement relating to the Accounts, the Accounts are and will be subject to the terms and conditions of the Security Agreement, will be maintained solely for the benefit of the Administrative Agent, will be entitled "Banque Nationale de Paris, as Administrative

Agent, Re: [Grantor]" and will be subject to written instructions only from an officer of the Administrative Agent.

(b) Upon the written request of the Administrative Agent to you, which request shall specify that an "Event of Default" under the Credit Agreement has occurred and is continuing (which writing may be by telex or telecopy and upon which you may conclusively rely, absent manifest error), you shall immediately transfer (at the cost and expense of the Company) subject to your usual deposit terms, all funds then or thereafter deposited in the Accounts by wire transfer into the Administrative Agent's Account at the Federal Reserve Bank of New York, 33 Liberty Street, New York, NY, 10048, ABA No. 026007689, for further credit to Account No. 750420-701-03.

(c) From and after the date that the Administrative Agent shall have sent to you a written notice (which writing may be by telex or telecopy and upon which you may conclusively rely, absent manifest error) that an "Event of Default" under the Credit Agreement has occurred and until the date, if any, that the Administrative Agent shall have advised you in writing (which writing may be by telex or telecopy and upon which you may conclusively rely, absent manifest error) that no Event of Default is continuing, you shall not honor any withdrawal or transfer from, or any check, draft or other item of payment on, the Accounts, other than any withdrawal, transfer, check, draft or other item made in writing by the Administrative Agent or bearing the written consent of the Administrative Agent, and, to the extent of collected funds in the Accounts, you shall honor each such withdrawal, transfer, check, draft or other item made in writing by the Administrative Agent or bearing the written consent of the Administrative Agent.

(d) You will follow your usual operating procedures for the handling of the Accounts, including any remittance received in the Accounts that contains restrictive endorsements, irregularities (such as a variance between the written and numerical amounts), undated or postdated items, missing signatures, incorrect payees, etc.

(e) You shall furnish to the Administrative Agent, promptly upon the reasonable written request of the Administrative Agent in each instance, all information regarding the Accounts, to the extent the same is provided to the Company, for the period of time specified in such written notice, and the Company hereby authorizes you to furnish same.

(f) You agree that you will not make, and you hereby waive all of your rights to make, any charge, debit or offset to the Accounts for any reason whatsoever, and waive any and all liens, whether contractual or provided under law, which you may have or hereafter acquire on the Accounts or funds therein, in each case, other than any charge, offset, debit or lien in respect of your customary service charges relating to the Accounts.

(g) All service charges and fees with respect to the Accounts shall be payable by the Company.

(h) After the giving of notice referred to in paragraphs (b) and (c) above, the Administrative Agent shall be entitled to exercise any and all rights of the Company in respect of the Accounts, and the undersigned shall comply in all respects with such exercise.

This letter agreement shall be binding upon you and your successors and assigns and shall inure to the benefit of the Administrative Agent, the other Secured Parties and their successors, transferees and assigns. You may

terminate this letter agreement only upon thirty days' prior written notice to the Company and the Administrative Agent. Upon such termination you shall close the Accounts and transfer all funds in the Accounts to the Administrative Agent's Account specified in paragraph (b) above.

This letter agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

[GRANTOR]

By_____
Name:
Title:

BANQUE NATIONALE DE
PARIS, as Administrative Agent

By_____
Title:

By_____
Title:

Acknowledged and agreed to as of
the date first above written:

[BLOCKED ACCOUNT BANK NAME]

By_____
Title:

SCHEDULE I TO EXHIBIT A TO THE
SECURITY AGREEMENT

Accounts

EXHIBIT B TO THE SECURITY AGREEMENT
FORM OF CONSENT AND AGREEMENT

The undersigned hereby acknowledges notice of, and consents to the terms and provisions of, the Security Agreement dated October 1, 1996 (the "Security Agreement", the terms defined therein being used herein as therein defined) from MEDIQ/PRN Life Support Services, Inc. (the "Borrower") and certain other parties thereto (together with the Borrower, the "Grantors") to Banque Nationale de Paris as agent (the "Administrative Agent") for the Secured Parties referred to therein, and hereby agrees with the Administrative Agent that:

(a) Upon written notice from the Administrative Agent, the undersigned will make all payments to be made by it under or in connection with the _____ Agreement dated _____, 19__ (the "Assigned Agreement") between the undersigned and the Borrower in accordance with the instructions of the Administrative Agent.

(b) All payments referred to in paragraph (a) above shall be made by the undersigned irrespective of, and without deduction for, any counterclaim, defense, recoupment or set-off and shall be final, and the undersigned will not seek to recover from the Administrative Agent or any Lender for any reason any such payment once made.

(c) The Administrative Agent shall be entitled to exercise any and all rights and remedies of the Borrower under the Assigned Agreement in accordance with the terms of the Security Agreement, and the undersigned shall comply in all respects with such exercise.

(d) The undersigned will not, without the prior written consent of the Administrative Agent, (i) cancel or terminate the Assigned Agreement or consent to or accept any cancellation or termination thereof, [or] (ii) amend or otherwise modify the Assigned Agreement [, or (iii) make any prepayment of amounts to become due under or in connection with the Assigned Agreement, except as expressly provided therein].

This Consent and Agreement shall be binding upon the undersigned and its successors and assigns, and shall inure, together with the rights and remedies of the Administrative Agent hereunder, to the benefit of the Administrative Agent, the other Secured Parties and their successors, transferees and assigns. This Consent and Agreement shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the undersigned has duly executed this Consent and Agreement as of the date set opposite its name below.

Dated: _____, ____ [NAME OF OBLIGOR]

By_____
Name:
Title:

EXHIBIT C TO THE SECURITY AGREEMENT
FORM OF SECURITY AGREEMENT SUPPLEMENT

Banque Nationale de Paris, as Administrative Agent
under the Credit Agreement
referred to below
[Address]

[Date]

Attention:

Security Agreement dated as of October 1, 1996
made by MEDIQ/PRN Life Support Services, Inc. and
the other Grantors to Banque Nationale de Paris, as Administrative Agent

Ladies and Gentlemen:

Reference is made to the above-captioned Security Agreement (such Security Agreement, as in effect on the date hereof and as it may hereafter be amended, modified or otherwise supplemented from time to time, being the "Security Agreement"). The terms defined in the Security Agreement (or in the Credit Agreement referred to therein) and not otherwise defined herein are used herein as therein defined.

The undersigned hereby agrees, as of the date first above written, to become a Grantor under the Security Agreement as if it were an original party thereto and agrees that each reference in the Security Agreement to "Grantor" shall also mean and be a reference to the undersigned.

The undersigned hereby assigns and pledges to the Administrative Agent for the ratable benefit of the Secured Parties, and hereby grants to the Administrative Agent for the ratable benefit of the Secured Parties as security for the Secured Obligations a lien on and security interest in, all of the right, title and interest of the undersigned, whether now owned or hereafter acquired, in and to the Collateral owned by the undersigned, including, but not limited to, the property listed on Annex I hereto. Schedules I, II, III, IV and V to the Security Agreement are hereby supplemented by Annexes I, II, III, IV and V hereto, respectively. The undersigned hereby certifies that such Annexes have been prepared by the undersigned in substantially the form of Schedules I, II, III, IV and V to the Security Agreement and are accurate and complete as of

the date hereof.

The undersigned hereby makes each representation and warranty set forth in Section 9 of the Security Agreement (as supplemented by the attached Annexes) to the same extent as

each other Grantor and hereby agrees to be bound as a Grantor by all of the terms and provisions of the Security Agreement to the same extent as each other Grantor.

This Security Agreement Supplement shall be governed by, and construed in accordance with, the laws of the State of New York.

Very truly yours,

[NAME OF ADDITIONAL
GRANTOR]

By_____
Name:
Title:

Address of Chief Executive
Office and for Notices:
[Address]
Attention: Chief Financial Officer

EXHIBIT E TO THE
CREDIT AGREEMENT

FORM OF MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT
OF RENTS AND FIXTURE FILING

Dated as of October 1, 1996

MEDIQ/PRN LIFE SUPPORT SERVICES, INC.
Mortgagor

to

BANQUE NATIONALE DE PARIS,
as Administrative Agent for the Lender Parties,
as hereinafter defined, Mortgagee

MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT
OF RENTS AND FIXTURE FILING

THIS MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT OF RENTS AND FIXTURE FILING ("Mortgage"), made as of the 30th day of September, 1996, by MEDIQ/PRN LIFE SUPPORT SERVICES, INC., a Delaware corporation, having its principal office at One Mediq Plaza, Pennsauken, NJ 08110 ("Mortgagor") to BANQUE NATIONALE DE PARIS, having an office at 499 Park Avenue, New York, New York 10022 ("Mortgagee").

W I T N E S S E T H:

WHEREAS, Mortagor, MEDIQ Incorporated, and PRN Holdings, Inc. have entered into that certain Credit Agreement, dated as of October 1, 1996 with the banks, financial institutions and other institutional lenders listed on the signature pages thereof as the Initial Lenders, Mortgagee, as administrative agent for the Lender Parties, as defined in the Credit Agreement, and as the initial issuing bank and Nationsbank, N.A., as documentation agent for the Lender Parties (said Agreement, as it may hereafter be amended or otherwise modified from time to time, being the "Credit Agreement", the terms defined

therein and not otherwise defined herein being used herein as therein defined); and

WHEREAS, pursuant to the Credit Agreement and subject to the terms and conditions therein set forth, the Lender Parties have agreed to make Advances to Mortgagor; and

WHEREAS, the aggregate principal amount of Advances outstanding from time to time under the Credit Agreement may not exceed $260,000,000, excluding advances made to protect the lien and security of this Mortgage; and

WHEREAS, to evidence such indebtedness Mortgagor has executed and delivered the Credit Agreement and certain of the Loan Documents; and

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Mortgagor hereby agrees that to secure the full and final payment of any and all indebtedness and obligations due and owing or which may hereafter become due and owing from Mortgagor to Mortgagee (and to the Lender Parties), whether now existing or hereafter arising, of every nature, type and description, together with any and all renewals, extensions, substitutions thereto and modifications thereof and whether absolute or contingent, direct or indirect, joint or several, matured or unmatured, including without limitation, all indebtedness and obligations arising at any time and from time to time under the Credit Agreement and other Loan Documents to be paid with interest thereon pursuant thereto, Mortgagor hereby gives, grants, bargains, warrants, aliens, premises, releases, conveys,

assigns, transfers, mortgages, hypothecates, deposits, pledges, sets over and confirms to Mortgagee, ALL that certain real property, including without limitation all plots, pieces or parcels of land, situate, lying and being in the Township of Pennsauken, County of Camden, the State of New Jersey (hereinafter called the "Land"), more particularly bounded and described in SCHEDULE A hereto annexed and made a part hereof;

TOGETHER, ALSO, with all fixtures, equipment, machinery, chattels, apparatus and articles of personal property now or hereafter attached to or located in or upon the Premises (defined below), and used or usable in connection with any present or future operation or letting of the Premises or the activities at any time conducted therein and all substitutions and replacements therefor (hereinafter called "Building Equipment"), including, but not limited to, furnaces, boilers, oil burners, radiators and piping, coal stokers, plumbing and bathroom fixtures, refrigeration, air conditioning and sprinkler systems, wash-tubs, sinks, gas and electric fixtures, stoves, ranges, awnings, screens, window shades, elevators, motors, dynamos, refrigerators, kitchen cabinets, incinerators, plants and shrubbery and all other machinery, vending machines, appliances, fittings, furniture, furnishings and fixtures of every kind used in the operation of the buildings standing or hereafter erected on the Premises, together with any and all replacements thereof and additions thereto, and all right, title and interest of Mortgagor in and to any Building Equipment which may be subject to any security agreements, as defined in subdivision (1) (h) of Section 9-105 of the Uniform Commercial Code of the State of New Jersey (hereinafter called "Security Agreements"), superior in lien to the lien of this Mortgage; it being understood and agreed that all Building Equipment is part and parcel of the Premises and appropriated to the use thereof and, whether affixed or annexed to the Premises or not, shall for the purposes of this Mortgage, be deemed conclusively to be real estate and mortgaged hereby;

TOGETHER, ALSO, with any and all awards, damages, payments and other compensation and any and all claims therefor and rights thereto which may result from taking or injury, including interest thereon, heretofore and hereafter made to Mortgagor by virtue of the exercise of the power of eminent domain of or any damage, injury or destruction in any manner caused to the whole or any part of the Premises or any easement therein, including but not limited to insurance proceeds, condemnation awards and settlements, any awards for changes of grade of streets, all of which are hereby assigned to Mortgagee, who is hereby authorized to collect and receive the proceeds of such items and to give proper receipts and acquittances therefor, and to apply the same toward the payment of the mortgage debt, notwithstanding the fact that the amount owing thereon may not then be due and payable;

TOGETHER, ALSO, with all the estate, right, title, claim or demand

whatsoever of Mortgagor in and to all rents, income, profits and other benefits to which Mortgagor may now or hereafter be entitled from the property described above (such granting constituting an absolute and present assignment of such property, subject to conditional permission of Mortgagor to collect such rents as provided herein below);

TOGETHER, ALSO with the appurtenances, all estate and rights of Mortgagor in and to the Premises and all right, title and interest, if any, of Mortgagor, in and to the land lying in the streets, roads or avenues, open or proposed, in front of or adjoining the Premises and of, in and to any strips or gores of land adjoining the Premises;

TOGETHER, ALSO with all right, title and interest of Mortgagor in and to all agreements, contracts, plans and specifications relative to the construction of the improvements built or to be built on the Land; the sale including the proceeds thereof, of the Premises; leasing, brokerage, management, sale and/or operation of the Premises;

TOGETHER, ALSO, with all and singular the tenements, hereditaments and appurtenances belonging to the Land or any part thereof, and the buildings, structures, and improvements thereon, or in any way appertaining thereto (including, but not limited to, all income, rents, issues and profits arising therefrom), all streets, alleys, passages, ways, watercourses, easements, all other rights, liberties and privileges of whatsoever kind or character, the provisions and remainders, and all the estate, right, title, interest, property, possession, claim and demand whatsoever, as well at law as in equity, of Mortgagor in and to all the foregoing or any or every part thereof (all Land, buildings, structures, improvements, fixtures, equipment, machinery, chattels, goods, apparatus, personal property, Building Equipment, tenements, awards, damages, payments, compensation, claims, rights, rents, income, profits and other property interests described and enumerated herein are hereinafter collectively referred to as the "Premises") .

TO HAVE AND TO HOLD the Premises and other property, privileges, rights, interests and franchises hereby granted or mortgaged, or intended so to be, unto Mortgagee, its successors and assigns forever;

PROVIDED, HOWEVER, and these presents are upon the condition, that if Mortgagor shall fully and finally pay or cause to be paid all of the Obligations on the abovementioned Loan Documents, at the times and in the manner therein and herein provided, and shall keep, perform and observe all and singular the covenants, agreements and provisions in the abovementioned Loan Documents and in this Mortgage expressed to be kept, performed and observed by or on the part of Mortgagor, then this Mortgage and the estate and rights hereby granted shall cease, determine and be void but otherwise shall be and remain in full force and effect.

All capitalized terms used herein not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

MORTGAGOR'S LIABILITY UNDER THE CREDIT AGREEMENT FOR THE OBLIGATIONS SHALL NOT EXCEED THE PRINCIPAL AMOUNT OF $260,000,000 THEREOF, PLUS, FROM AND AFTER THE DEMAND FOR PAYMENT

THEREUNDER, INTEREST THEREON AT THE HIGHEST RATE THEN APPLICABLE TO THE INDEBTEDNESS OF BORROWER TO MORTGAGEE SET FORTH IN THE CREDIT AGREEMENT, PLUS ANY AND ALL COSTS, EXPENSES AND CHARGES OF COLLECTION THEREUNDER (INCLUDING, BUT NOT LIMITED TO, ATTORNEYS' FEES AND LEGAL EXPENSES).

AND Mortgagor covenants and agrees with Mortgagee as follows:

1. Payment of Indebtedness. That Mortgagor will pay all indebtedness as hereinbefore provided and if default shall be made in the payment of the said indebtedness or in the interest which shall accrue thereon, or of any part of either, Mortgagee shall have power to sell the Premises, including without limitation the Building Equipment and other property covered hereby according to law.

2. Insurance. (a) That Mortgagor will keep the buildings on the Premises and the Building Equipment insured for the benefit of Mortgagee (i) against loss by fire, (ii) by means of an extended coverage endorsement, against loss or damage by windstorm, hail, explosion, riot, riot attending a strike, civil commotion, aircraft, vehicle and smoke, (iii) against loss of rentals due to any of the foregoing causes, (iv) against loss by flood if the Premises are located in an area identified by the Secretary of Housing and Urban Development as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968, as amended, and (v) when and to the extent required by Mortgagee, against any other risk insured against by persons operating like properties in the locality of the Premises; that Mortgagor will assign and deliver to Mortgagee the policies of such insurance and the proceeds thereof; that Mortgagor will reimburse Mortgagee for any premiums paid for insurance made by Mortgagee on Mortgagor's default in taking out such insurance, or in so delivering such policies, together with interest thereon at the rate per annum specified in Article 4 hereof, and the same shall be added to the indebtedness secured hereby and be secured by this Mortgage;

(b) that such insurance shall be provided by policies written in terms and amounts, and by companies, reasonably satisfactory to Mortgagee, and losses thereunder shall be payable to Mortgagee pursuant to a standard non-contributory mortgagee endorsement required by Mortgagee, which endorsement may only be cancelled or modified upon not less than thirty (30) days prior written notice to Mortgagee. Mortgagee shall not by the fact of approving, disapproving, accepting, preventing, obtaining or failing to obtain any insurance incur any liability for or with respect to the amount of insurance carried, the form or legal sufficiency of insurance contracts, solvency of insurance companies, or payment or defense of lawsuits, and Mortgagor hereby expressly assume full responsibility therefor and all liability, if any, with respect thereto.

(c) that regardless of the types or amounts of insurance required and approved by Mortgagee Mortgagor will deliver to Mortgagee certificates evidencing all policies of insurance acquired by Mortgagor to insure against any loss or damage to the Premises, as additional security for the indebtedness secured hereby;

(d) that Mortgagee shall be entitled to retain and apply the proceeds of any insurance, whether against fire or other hazard, to the payment of the indebtedness secured hereby, or, if Mortgagee, in its sole discretion, shall so elect, Mortgagee may hold any or all of such proceeds for application to payment of the cost of restoration;

(e) that not less than fifteen (15) days prior to the expiration date of each policy furnished by Mortgagor pursuant to this Article, Mortgagor will deliver to Mortgagee a certificate evidencing a renewal policy or policies marked "premium paid" or accompanied by other evidence of payment satisfactory to Mortgagee; and

(f) that in the event of a foreclosure of this Mortgage the purchaser of the Premises shall succeed to all the rights of Mortgagor, including any rights to the proceeds of insurance and to unearned premiums, in and to all policies of insurance certificates for which have been delivered to Mortgagee pursuant to this Article.

3. Premises and Improvements. That no building or other property now or hereafter covered by the lien of this Mortgage shall be removed, demolished or materially altered without the prior written consent of Mortgagee, except that Mortgagor shall have the right, without such consent, to remove and dispose of, free from the lien of this Mortgage, such Building Equipment as from time to time may become worn out or obsolete, provided that simultaneously with or prior to such removal, any such equipment shall be replaced with other equipment of a value at least equal to that of the replaced equipment and free from any security agreement, and by such removal and replacement Mortgagor shall be deemed to have subjected such Building Equipment to lien of this Mortgage.

4. Mortgagee's Optional Performance. That in the event of any default in the performance of any of Mortgagor's covenants or agreements herein, Mortgagee may, at the option of Mortgagee, perform the same and the cost thereof, with interest at a rate per annum equal to the highest rate then

applicable to the indebtedness of Borrower to Mortgagee set forth in the Credit Agreement (but not in excess of the maximum rate allowed by law to be charged to Mortgagor), shall immediately be due from Mortgagor to Mortgagee and secured by this Mortgage.

5. Taxes, Assessments and Escrows. (a) That Mortgagor will pay all taxes, assessments, water rates, sewer rents fines, impositions and other claims and/or charges now or hereafter levied and all charges for utilities with respect to or against the Premises or any part thereof, and also any and all license fees or similar charges which may

be imposed by the municipality in which the Premises are situated for the use of walks, chutes, areas and other space beyond the lot line on or abutting the public sidewalks in front of or adjoining the Premises, together with any penalties or interest on any of the foregoing (collectively "Impositions"), and in default thereof Mortgagee may pay the same and Mortgagor will repay the same with interest thereon at the rate per annum specified in Article 4 hereof and the same shall be added to the indebtedness secured hereby and be additionally secured by this Mortgage; that upon request of Mortgagee, Mortgagor will exhibit to Mortgagee receipts for the payment of all items specified in this Article within ten (10) days of the date when the same shall become delinquent. If any law, rule, regulation or ordinance adopted hereafter by any federal, state or local government, or any department, agency or bureau thereof, imposes a tax on Mortgagee with respect to the Premises, the value of Mortgagor's equity therein, the amount of the indebtedness secured hereby, or this Mortgage, Mortgagee shall have the right at its election from time to time to give Mortgagor sixty (60) days' written notice to pay such indebtedness secured hereby, whereupon such indebtedness shall become due, payable and collectible at the expiration of such period of sixty (60) days, unless prior thereto, lawfully and without violation of usury or other laws, Mortgagor shall have paid any such tax in full as the same became due and payable, in which event such notice shall be deemed to have been rescinded with respect to any right of Mortgagee hereunder arising by reason of the tax so paid. No prepayment charge or premium shall apply to the payment of the indebtedness secured hereby pursuant to any such notice, if the payment is made before the expiration of such period of sixty (60) days.

(b) That Mortgagee will not permit Mortgagor to claim and Mortgagor will not claim or demand any credit on or make any deduction from any secured indebtedness hereunder including without limitation any interest or principal of, on, or with respect to the Notes, by reason of the payment of any taxes levied or to be levied upon the Premises or any part thereof during the continuance of the lien of this Mortgage.

(c) That, after an event of default hereunder, Mortgagee may, at its option to be exercised by twenty (20) days' written notice to Mortgagor, require that Mortgagor deposit with Mortgagee, on the first day of each and every month, a sum equal to one-twelfth (1/12) of the annual real estate taxes, assessments, water rates, sewer rents and other charges specified in this Article 5 (hereinafter collectively referred to as "taxes") plus one-twelfth (1/12) of the premiums required to keep in force for one year the insurance specified in Article 2 hereof. If such deposits shall be so required, Mortgagor shall also deposit with Mortgagee, at least thirty (30) days prior to the due date of each installment of such taxes and each insurance premium, such additional amount as may be determined by Mortgagee in order to provide Mortgagee with funds sufficient to pay such installment or premium. It is the intention of the parties that, if such deposits shall be so required, Mortgagor shall deposit with Mortgagee the necessary funds so that Mortgagee, at all times until the full payment and satisfaction of this Mortgage, shall have on hand sufficient deposits covering the accrued amounts of such taxes and insurance premiums. The amount of such taxes and premiums,

when unknown, shall be reasonably estimated by Mortgagee; any insufficiency to pay such charges when due shall be paid by Mortgagor to Mortgagee on demand. If permitted by law, the said funds shall bear no interest and shall not be deemed to be trust funds but may be commingled with other funds of Mortgagee and no

interest shall be payable upon any such funds. (The foregoing sentence shall not apply to any assignee of this Mortgage.) Mortgagee shall have no obligation to use said funds to pay an installment of taxes prior to the last day on which payment thereof may be made without penalty or interest or to pay an insurance premium prior to the due date thereof. If the whole of said principal sum and interest shall be declared due and payable by Mortgagee pursuant to Article 20 hereof, all such deposits may, at the option of Mortgagee, be applied in reduction of said principal sum and/or interest, as Mortgagee shall elect. Upon an assignment of this Mortgage, Mortgagee shall have the right to pay over the balance of such deposits in its possession to the assignee and Mortgagee shall thereupon be completely released from all liability with respect to such deposits and Mortgagor or owner of the Premises shall look solely to the assignee or transferee in reference thereto. This provision shall apply to every transfer of such deposited to a new assignee. Upon full payment and satisfaction of this Mortgage or at any prior time, at the election of Mortgagee, the balance of the deposits in its possession shall be paid over to the record owner of the Premises and no other party shall have any right or claim thereto in any event. Mortgagor agrees, at Mortgagee's request, to make the aforesaid deposits with such service or financial institution as Mortgagee shall from time to time designate.

6. Appointment of Receiver and Other Powers. That Mortgagee shall have the right in case of failure of Mortgagor to perform any of the acts, covenants, or conditions in this Mortgage or in the Credit Agreement, upon a complaint filed or any proper action being commenced for the foreclosure of this Mortgage, to apply for, and Mortgagee shall be entitled as a matter of right without consideration of the value of the Premises as security for the amounts due Mortgagee, or of the solvency of any person or persons obligated for the payment of such amounts, to the appointment by any competent court or tribunal, without notice to any party, of a receiver of the rents, issues, and profits of the Premises, with power to lease the Premises, or such part thereof as may not then be under lease, and with such other powers as may be deemed necessary, who, after deducting all proper charges and expenses attending the execution of the trust as receiver, shall apply the residue of the rents and profits to the payment and satisfaction of the amount remaining secured hereby, or to any deficiency which may exist after applying the proceeds of any judicially decreed sale of the Premises to the payment of the amount due, including interest and the costs of the foreclosure and sale.

7. Estoppel Certificate. That Mortgagor, within five (5) days upon request in person or within ten (10) days upon request by mail, will furnish a written statement duly acknowledged of the amount due on this Mortgage and whether any offsets or defenses exist against the secured mortgage debt.

8. Notice. That notice and demand or request shall be made in accordance with the Credit Agreement.

9. Title and Further Assurances. (a) That Mortgagor warrants that Mortgagor has good title to the Premises, including without limitation the Building Equipment and other property covered hereby free and clear of all liens and encumbrances, except for current real property taxes not yet delinquent and this Mortgage ("Permitted Encumbrances"), and has full power and lawful authority to mortgage the same; that Mortgagor shall and will make, execute, acknowledge and deliver, in due form required by applicable law, all such further assurances as may at any time hereafter be reasonably required to effectuate the mortgaging of the Premises and other property covered hereby or intended so to be, unto Mortgagee, its successors or assigns, for the purpose aforesaid, and unto all and every person or persons deriving any estate, right, title or interest therein under this Mortgage; and that Mortgagor will warrant and defend title to the Premises, including without limitation the Building Equipment and said other property against all persons whomsoever claiming the same or any part thereof, including without limitation all persons claiming by, through or under Mortgagor.

(b) That Mortgagor and shall execute and deliver, from time to time, such further instruments (including further security agreements and Uniform Commercial Code financing statements) as may be requested by Mortgagee to confirm the lien of this Mortgage on any Building Equipment.

(c) That Mortgagor upon request, shall make, execute and deliver any and all instruments sufficient for the purpose of confirming the assignment to

Mortgagee of awards for the taking by eminent domain of the whole or any part of the Premises or any easement therein, including any awards for changes of grade of streets, free, clear and discharged of any encumbrances of any kind or nature whatsoever.

(d) That Mortgagor shall not further encumber the Premises for debt and hereby (1) represents as a special inducement to Mortgagee to make the loans secured hereby that, as of the date hereof, this is a first mortgage and there are no encumbrances to secure debt junior to this Mortgage and (2) covenants that there are to be none as of the date when this Mortgage becomes of record and thereafter will be none, except, in either case, encumbrances having the prior written consent of Mortgagee.

(e) Mortgagor will promptly perform and observe, or cause to be performed or observed, all of the terms, covenants and conditions of all instruments of record affecting the Premises, non-compliance with which may affect the security of this Mortgage or which may impose any duty or obligation upon Mortgagor or any other occupant of the Premises or any part thereof, and Mortgagor shall do or cause to be done all

things necessary to preserve intact and unimpaired any and all easements, appurtenances and other interest and rights in favor of or constituting any portion of the Premises.

10. Sale by Parcel. That in case of any foreclosure sale, the Premises, or so much thereof as may be affected by this Mortgage, may be sold in one or more parcels.

11. Additional Lien. That if any action or proceeding be commenced (including an action to foreclose this Mortgage or to collect the indebtedness secured hereby), in which Mortgagee becomes a party or participates, by reason of being the holder of this Mortgage or the debt secured hereby, all sums paid by Mortgagee for the expense of so becoming a party or participating (including reasonable counsel fees and disbursements) shall on notice and demand be paid by Mortgagor, together with interest thereon at the rate per annum specified in Article 4 hereof, and shall also be a lien on the Premises, prior to any right or title to, interest in, or claim upon, the Premises subordinate to the lien of this Mortgage, and shall be deemed to be additionally secured by this Mortgage and that in any action or proceeding to foreclose this Mortgage, or to recover or collect the debt secured hereby, the provisions of law respecting the recovery of costs, disbursements and allowances shall apply in addition to the foregoing.

12. Care and Maintenance of Premises. That the Premises and any buildings on the Premises have not been damaged to any material extent and Mortgagor will maintain the Premises and the Building Equipment in good condition and repair, will not commit or suffer any waste thereof or the conduct of any nuisance or unlawful occupation or business on, or use of, the Premises, and will comply with, or cause to be complied with, all statutes, ordinances and requirements of any governmental authority relating to the Premises; that Mortgagor will promptly repair, restore, replace or rebuild any part of the Premises or the Building Equipment now or hereafter subject to the lien of this Mortgage which may be damaged or destroyed by any casualty whatsoever or which may be affected by any proceeding of the character referred to in Article 13; and that Mortgagor shall not initiate, join in, or consent to any change in any private restrictive covenant, zoning ordinance, or other public or private restrictions, limiting or defining the uses which may be made of the Premises or any part thereof.

13. Eminent Domain and Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of or damage or injury to the Premises, or any part thereof, or for conveyance in lieu of condemnation, are hereby assigned to and shall be paid to Mortgagee. In addition, all causes of action, whether accrued before or after the date of this Mortgage, of all types for damages or injury or affecting the Premises or any part thereof, including, without limitation, causes of action arising in tort or contract and causes of action for fraud or concealment of a material fact, are hereby assigned to Mortgagee as additional security and the proceeds shall be paid to Mortgagee. Mortgagee may, at its option, appear in and

prosecute in its own name, any action or proceedings relating to condemnation or other taking of or damage or injury to the Premises or any portion thereof. If Mortgagor at any time suspects or has knowledge of any casualty damages to the Premises or damage in any other manner, Mortgagor will immediately notify Mortgagee in writing. Mortgagor may participate in any such proceedings and may join Mortgagee in adjusting any loss covered by insurance.

That notwithstanding any taking by eminent domain or other governmental action (of which there are no such pending proceedings) causing injury to, or decrease in value of, the Premises and creating a right to compensation therefor, including, without limitation, the change of the grade of any street, Mortgagor shall continue to be fully liable for all indebtedness or liability secured hereby.

All compensation, awards, proceeds, damages, claims, insurance recoveries, rights of action and payments which Mortgagor may receive, or to which Mortgagor may become entitled with respect to the Premises or any part thereof, shall be paid over to Mortgagee and shall be applied first toward reimbursement of all costs and expenses of Mortgagee in connection with recovery of the same. Thereafter the same need not be applied by Mortgagee in reduction of principal but may be applied in such proportions and priority as Mortgagee, in Mortgagee's sole discretion, may elect, to the payment of principal, interest or other sums secured by this Mortgage and/or to payment to Mortgagor, on such terms as Mortgagee may specify, for the sole purpose of altering, restoring or rebuilding any part of the Premises which may have been altered, damaged or destroyed as a result of any such taking or other action; that if, prior to the receipt by Mortgagee of such award or compensation, the Premises shall have been sold on foreclosure of this Mortgage, Mortgagee shall have the right to receive said award or compensation to the extent of any deficiency found to be due upon such sale, with legal interest thereon, whether or not a deficiency judgment on this Mortgage shall have been sought or recovered, together with reasonable counsel fees and the costs and disbursements incurred by Mortgagee in connection with the collection of such award or compensation. In the event Mortgagee elects to permit Mortgagor to repair or restore the Premises following any damage or injury to the Premises, or any part thereof, then the balance of such compensation, awards, proceeds, damages, claims, insurance recoveries, rights of action or payments shall be applied to the reimbursement of Mortgagor for expenses incurred by it in such repair or restoration of the Premises, subject, however, to the following conditions:

(i) any such work of repair or restoration shall be of such a character as not to reduce, or otherwise adversely affect, the value of the buildings, improvements and fixtures on the Premises immediately before such damage or injury, nor to diminish the general utility of such buildings, improvements or fixtures for the purposes the same were used immediately prior to such damage;

(ii) such work of repair or restoration shall be commenced as soon as reasonably possible after such damage or injury occurs and shall be completed by Mortgagor forthwith and with due diligence;

(iii) such work of repair or restoration shall be done in accordance with plans, specifications and drawings submitted to and approved by Mortgagee;

(iv) any such monies made available for such repair or restoration shall be disbursed in accordance with standard construction lending practices approved by Mortgagee or in any other manner approved by Mortgagee; and

(v) in the event such compensation, awards, proceeds, damages, claims, insurance recoveries, rights of action or payments are insufficient to complete such repairs or restoration, Mortgagor shall provide the balance of the cost of such repairs or restoration. Any balance of monies held by Mortgagee and remaining after completion of such repair or restoration shall be applied to the payment or prepayment (without premium) of the indebtedness or liability secured hereby in such order as Mortgagee may determine.

In the event Mortgagor does not elect to repair or restore the Premises following any such damage or injury referred to herein, or if Mortgagor elects to repair or restore the Premises but fails to comply with any of the conditions hereinabove set forth, then all such compensation, awards, proceeds, damages, claims, insurance recoveries, rights of action and payments, which remain after the reimbursement of all costs and expenses of Mortgagee in connection with recovery of the same, shall be applied, in the sole and absolute discretion of Mortgagee and without regard to the adequacy of its security hereunder, to the payment or prepayment (without premium) of the indebtedness or liability secured hereby. Any application of such amounts or any portion thereof to any indebtedness secured hereby shall not be construed to or waive any default or notice of default hereunder or invalidate any act done pursuant to any such default or notice.

14. Right to Inspect. That Mortgagee and any persons authorized by Mortgagee shall have the right to enter and inspect the Premises at all reasonable times and, prior to an event of default hereunder, upon reasonable notice; and that if, at any time after default by Mortgagor in the performance of any of the terms, covenants or provisions of this Mortgage, the management or maintenance of the Premises shall be determined by Mortgagee to be unsatisfactory, Mortgagor shall employ, for the duration of such default, as managing agent of the Premises, such person or firm as from time to time shall be approved by Mortgagee. That Mortgagee and its designated agents shall have the right to inspect Mortgagor's books and records with respect to the Premises at all reasonable times.

15. Financial Information. That Mortgagor, in addition to the financial information required in the Credit Agreement, shall furnish to Mortgagee as promptly as reasonably possible, such interim financial or other information with respect to the operation of the Premises and with respect to Mortgagor as Mortgagee may reasonably request. If Mortgagor shall have leased all or substantially all of the Premises to another, such statements shall cover the earnings and expenses in the latest fiscal year of the lessee under such lease. In the case of such lease, if the lessee shall be an affiliate of Mortgagor, Mortgagor will also furnish to Mortgagee the lessee's balance sheet as of the end of the lessee's fiscal year and the lessee's statement of income and surplus for such fiscal year, all in reasonable detail and stating in comparative form the figures as of the end of and for the previous fiscal year, and prepared, audited and reported upon by an independent certified public accountant or, if permitted by Mortgagee, verified by an authorized financial officer of the lessee.

16. Assignment of Rents. That Mortgagor hereby assigns to Mortgagee the rents, issues and profits of the Premises, together with all leases, licenses and other documents evidencing such rents, issues and profits now or hereafter in effect and any and all deposits held as security under said leases, and shall, upon demand, deliver to Mortgagee an executed counterpart of each such lease or other document. Nothing contained in the foregoing sentence shall be construed to bind Mortgagee to the performance of any of the covenants, conditions or provisions contained in any such lease or other document or otherwise to impose any Paragraph 16 obligation on Mortgagee (including, without limitation, any liability under the covenant of quiet enjoyment contained in any lease in the event that any tenant shall have been joined as a party defendant in any action to foreclose this Mortgage and shall have been barred and foreclosed thereby of all right, title and interest and equity of redemption in the Premises), except that Mortgagee shall be accountable for money actually received pursuant to such assignment. Mortgagor hereby further grant to Mortgagee the right (i) to enter upon and take possession of the Premises for the purpose of collecting the said rents, issues and profits, (ii) to dispossess by the usual summary proceedings any tenant defaulting in the payment thereof to Mortgagee, (iii) to let the Premises, or any part thereof, and (iv) to apply said rents, issues and profits, after payment of all necessary charges and expenses, on account of said indebtedness. Such assignment and grant shall continue in effect until all indebtedness secured by this Mortgage is fully and finally paid, the execution of this Mortgage constituting and evidencing the irrevocable consent of Mortgagor to the entry upon and taking possession of the Premises by Mortgagee pursuant to such grant, whether foreclosure has been instituted or not and without applying for a receiver. After an event of default hereunder, Mortgagor shall be entitled to collect and receive the same until the occurrence of a default by Mortgagor under any of the covenants, conditions or agreements contained in this Mortgage. Mortgagor agrees to use said rents,

issues and profits in payment of principal and interest becoming due on this Mortgage and in payment of taxes, assessments, water rates, sewer rents and carrying charges becoming due against the Premises. Such rights of Mortgagor to collect and receive said rents, issues and profits

may be revoked by Mortgagee upon any such default by Mortgagor, by giving written notice of such revocation.

17. Rents and Profits. That, in the event of any default under this Mortgage, Mortgagor will pay monthly in advance to Mortgagee, on its entry into possession pursuant to Article 16 hereof, or to any receiver appointed to collect said rents, issues and profits, the fair and reasonable rental value for the use and occupation of the Premises or of such part thereof as may be in the possession of Mortgagor, and upon default in any such payment, will vacate and surrender possession of the Premises or such part thereof, as the case may be, to Mortgagee or to such receiver and, in default thereof, may be evicted by summary proceedings or otherwise.

18. Leases. (a) That Mortgagor has no right or power, as against Mortgagee without its consent, to cancel, abridge or otherwise modify in any material respect any of the leases or subleases now or hereafter affecting the whole or any part of the Premises or any of the terms, provisions or covenants thereof, or to accept prepayments of installments of rent to become due thereunder and Mortgagor shall not do so without such consent.

(b) That Mortgagor shall not enter into a lease of all or substantially all of the Premises, unless (i) such lease shall expressly provide that the leasehold estate created thereby shall be subject and subordinate to all mortgages on the Premises and to the leasehold estates of subtenants created by existing subleases, notwithstanding any clause in any such sublease purporting to subordinate such sublease and the rights of the subtenant thereunder to ground or underlying leases, (ii) such lease shall require that each sublease thereafter made and each renewal of any existing sublease shall provide that, (A) in the event of the termination of the underlying lease, the sublease shall not terminate or be terminable by the subtenant, (B) in the event of any action for the foreclosure of this Mortgage, the sublease shall not terminate or be terminable by the subtenant by reason of the termination of the underlying lease unless the subtenant is specifically named and joined in any such action and unless a judgment is obtained therein against the subtenant and (C) in the event that the underlying lease is terminated as aforesaid, the subtenant shall attorn to the lessor under the underlying lease or to the purchaser at the sale of the Premises on such foreclosure, as the case may be, and (iii) the lessee in such lease shall agree, and be authorized by Mortgagor, to direct and require the subtenants and other occupants of space in the Premises to pay to Mortgagee on its entry into possession pursuant to Article 16 hereof, or to a receiver appointed to collect the rents, issues and profits of the Premises, the rents payable by them under the terms of their subleases or occupancy agreements upon being notified by Mortgagee of any default under this Mortgage and of Mortgagee's entry into possession of the Premises, or of the appointment of any such receiver, with the same force and with like effect as if said lease had not been entered into and Mortgagor were entitled to receive the said space rents directly.

19. Lease Assurances. That upon notice and demand, Mortgagor shall, from time to time, execute, acknowledge and deliver or cause to be executed, acknowledged and delivered to Mortgagee, in form satisfactory to Mortgagee, one or more separate assignments (confirmatory of the general assignment provided in Article 16 hereof) of the lessor's interest in any lease or sublease now or hereafter affecting the whole or any part of the Premises and which shall also restrict Mortgagor's right or power, as against Mortgagee, without its consent, to cancel, abridge or otherwise modify, or accept prepayments of installments of rent to become due under, any such lease or sublease; that Mortgagor shall pay to Mortgagee the expenses incurred by Mortgagee in connection with the preparation and recording of any such instrument; that Mortgagor will (i) fulfill or perform each and every condition and covenant of each such lease or sublease to be fulfilled or performed by the lessor thereunder, (ii) give prompt notice to Mortgagee of any notice of default by the lessor thereunder received

by Mortgagor together with a complete copy of any such notice, and (iii) enforce, short of termination thereof, the performance or observance of each and every covenant and condition thereof by the lessee thereunder to be performed or observed.

20. Default. The following shall constitute events of default hereunder:

(a) failure in the due and punctual payment of any indebtedness or performance of any obligations secured hereunder, including any principal or interest or any other amounts required to be paid or due or to become due under this Mortgage, the Credit Agreement, or under any other agreement(s) or instrument(s) now or hereafter securing the indebtedness which is also secured hereunder; or

(b) non-payment of any tax, water rate, sewer rent, assessment or for twenty (20) days after the same first becomes due and payable; or if Mortgagor fails to furnish Mortgagee with receipted tax bills or other proof of payment of the aforesaid items by no later than thirty (30) days after the dates on which such items must be paid so as not to constitute a default hereunder; or

(c) breach, after notice and demand, either in Mortgagor's responsibility for assigning and delivering the policies of insurance herein described or referred to, or in reimbursing Mortgagee for premiums paid on such insurance, as hereinbefore provided; or

(d) the actual or threatened material waste, removal or demolition of any building or other property on the Premises, except as permitted by Article 3 after thirty (30) days notice to Mortgagor and its failure to cure; or

(e) assignment by Mortgagor of the whole or any part of the rents, issues or profits arising from the Premises to any person without the written consent of Mortgagee; or

(f) if the buildings on the Premises are not maintained in reasonably good repair in any material respect after thirty (30) days' notice to Mortgagor and its failure to cure; or

(g) failure to comply in any material respect with any requirement or order or notice of violation of law or ordinance issued by any governmental department claiming jurisdiction over the Premises within thirty (30) days from the issuance thereof; or

(h) if, on application of Mortgagee, two or more fire insurance companies lawfully doing business in the State of New Jersey refuse to issue policies insuring the buildings on the Premises; or

(i) if Mortgagor shall fail to make payment of any other sums required to be paid hereunder within the period required by specific provision of this Mortgage or, if no such period is so provided, by not later than ten (10) days after written notice; or

(j) if, without the prior consent of Mortgagee, the Premises or any interest therein shall be sold, pledged, hypothecated, contracted to be sold, leased with an option to purchase, conveyed, alienated or otherwise disposed of or transferred or further encumbered for debt by Mortgagor; or

(k) if a lien for the performance of work or the supply of materials is filed against the Premises or any portion thereof which shall not be discharged or bonded within thirty (30) days from the filing thereof; or

(l) if an Event of Default shall occur under the Credit Agreement.

21. Remedies. Upon any default under paragraph 20, without notice or presentment, each of which are hereby waived by Mortgagor, and without waiving any rights and/or remedies Mortgagee may now or hereafter have under or in connection with the Credit Agreement and under or in connection with any other agreements Mortgagee may now or hereafter have with or concerning Mortgagor, Mortgagee shall have the right to and may:

(a) declare the entire principal of all indebtedness secured hereunder then outstanding (if not then due and payable), and all accrued and unpaid interest thereon, and all other sums connected therewith, to be due and payable immediately, and upon any such declaration all indebtedness secured hereunder and said accrued and unpaid interest and other sums shall become and be immediately due and payable, anything in any of the Loan Documents or in this Mortgage to the contrary notwithstanding;

(b) personally, or by its agents or attorneys, may enter into and upon all or any part of the Premises, and each and every part thereof, with or without force and with or without process of law and may exclude Mortgagor, its agents and servants wholly therefrom and from having and holding the same, may use, operate, manage and control the Premises or any part thereof and all records, documents, leases, books, papers and accounts of Mortgagor relating thereto and conduct the business thereof, either personally or by its superintendents, managers, agents, servants, attorneys or receivers; and likewise, from time to time, at the expense of Mortgagor, Mortgagee may make all necessary or proper repairs, renewals and replacements and such useful alterations, additions, betterments and improvements thereto and thereon as to it may seem advisable; and in every such case Mortgagor shall, at any time, or times, upon demand of Mortgagee forthwith surrender possession of the Premises and Mortgagee shall have the right to manage and operate the Premises and to carry on the business thereof and exercise all rights and powers of Mortgagor with respect thereto either in the name of Mortgagor or otherwise as it shall deem best; and Mortgagee shall be entitled to collect and receive all gross receipts, earnings, revenues, rents, issues, profits and income of the Mortgaged Property and every part thereof, all of which shall for all purposes constitute property of Mortgagee; and after deducting the expenses of conducting the business thereof and of all maintenance, repairs, renewals, replacements, alterations, additions, betterments and improvements and amounts necessary to pay for taxes, assessments, insurance and prior or other proper charges upon the Premises or any part thereof, as well as just and reasonable compensation for the services of Mortgagee and for all attorneys, counsel, agents, clerks, servants and other employees by it properly engaged and employed, Mortgagee may apply the monies arising as aforesaid in such manner, in such order and at such times as Mortgagee shall determine in its discretion to the payment of any indebtedness secured hereby and the interest thereon, when and as the same shall become payable and/or to the payment of any other sums required to be paid by Mortgagor under this Mortgage;

(c) (i) with or without entry, personally or by its agents or attorneys, insofar as applicable, sell the Premises, including, without limitation, the Building Equipment or any part thereof to the extent permitted and pursuant to the procedures provided by law, and all estate, right, title and interest, claim and demand therein, and right of redemption thereof, at one or more sales as a single entity or in parcels, and at such time and place, upon such terms and after such notice thereof as may be required or permitted by law;

(ii) institute an action of judicial foreclosure on this Mortgage or institute other proceedings according to law for the foreclosure hereof or otherwise as may be allowed, at law or in equity, and may prosecute the same to judgment, execution and sale for the collection of all of the obligations secured hereby, and all interest with

respect thereto, together with all taxes and insurance premiums advanced by Mortgagee and other sums payable by Mortgagor hereunder, and all fees, costs and expenses of such proceedings, including reasonable attorneys' fees and expenses;

(iii) take such steps to protect and enforce its rights, whether by action, suit or proceeding in equity or at law, for the specific

performance of any covenant, condition or agreement in the Credit Agreement and/or in this Mortgage or in aid of the execution of any power herein or therein granted, or for any foreclosure hereunder, or for the enforcement of any other appropriate legal or equitable remedy or otherwise as Mortgagee shall elect;

(iv) exercise in respect of the Premises consisting of personal property or fixtures, or both, all of the rights and remedies available to a secured party upon default under the applicable provisions of the Uniform Commercial Code in effect in the State of New Jersey; and

(v) exercise any or all other rights and remedies afforded Mortgagee under the Loan Documents, or at law or in equity.

(d) (i) Mortgagee may adjourn from time to time any sale by it to be made under or by virtue of this Mortgage by announcement at the time and place appointed for such sale or for such adjourned sale or sales; and, except as otherwise provided by any applicable provision of law, Mortgagee, without further notice or publication, may make such sale at the time and place to which the same shall be so adjourned.

(ii) Upon any sale, it shall not be necessary for Mortgagee or any public officer acting under execution or order of court to have present or constructive possession of any of the Premises.

(iii) The recitals contained in any conveyance made by Mortgagee to any purchaser at any sale made pursuant hereto or under applicable law shall be full evidence of the matters therein stated, and all prerequisites to such sale shall be presumed to have been satisfied and performed.

(iv) To the extent permitted by law, any such sale or sales made under or by virtue of this Mortgage, or under or by virtue of any judicial proceedings, shall operate to divest all estate, right, title, interest, claim and demand whatsoever, either at law or in equity, of Mortgagor in and to the interest, rights, premises and property sold, and shall be a perpetual bar, both at law and in equity, against Mortgagor, their respective successors and assigns, and against any and all persons or entities claiming

the premises and property sold, or any part thereof, from, through or under Mortgagor and their respective successors or assigns.

(v) The receipt of Mortgagee for the purchase money paid at any such sale, or the receipt of any other person authorized to receive the same, shall be sufficient discharge therefor to any purchaser of the property, or any part thereof, sold as aforesaid, and no such purchaser, or his representatives, grantees or assigns, after paying such purchase money and receiving such receipt, shall be bound to see to the application of such purchase money or any part thereof upon or for any trust or purpose of this Mortgage, or be liable for misapplication or nonapplication of any such purchase money, or any part thereof, or be bound to inquire as to the authorization, necessity, expediency or regularity of any such sale.

(vi) In case the liens or security interests hereunder, or by the exercise of any other right or power, shall be foreclosed by Mortgagee's sale or by other judicial action, the purchaser at any such sale shall receive, as an incident to his ownership, immediate possession of the property purchased, and if Mortgagor or its respective successors shall hold possession of said property, or any part thereof, subsequent to foreclosure, Mortgagor or its respective successors shall be considered as tenants at sufferance of the purchaser at foreclosure sale, and anyone occupying the property after demand made for possession thereof shall be guilty of forcible detainer and shall be subject to eviction and removal, forcible or otherwise, with or without process of law, and all damages by reason thereof are hereby expressly waived.

(vii) In the event a foreclosure hereunder shall be commenced by Mortgagee, Mortgagee may at any time before the sale abandon the suit, and may then institute suit for the collection of amounts due or to become due under the Credit Agreement and for the foreclosure of the liens and security interest hereof. If Mortgagee should institute a suit for the

collection of amounts due or to become due under the Credit Agreement and for a foreclosure of the liens and security interest hereof, it may at any time before the entry of a final judgment in said suit dismiss the same and proceed to sell the Premises, or any part thereof, in accordance with provisions of this Mortgage.

(viii) Should any default occur hereunder, any reasonable expenses incurred by Mortgagee in consulting, negotiating, prosecuting, resettling or settling the claim of Mortgagee, including, without limitation, reasonable attorneys' fees and disbursements, shall become an additional obligation of Mortgagor hereunder.

(ix) In the event of any sale made under or by virtue of this Mortgage the entire principal of, interest on, and all other indebtedness secured hereunder, if not previously due and payable, immediately thereupon shall, anything in the Credit

Agreement or in this Mortgage to the contrary notwithstanding, become due and payable.

(x) The purchase money proceeds or avails of any sale made under or by virtue of this Mortgage, together with any other sums which then may be held by Mortgagee under this Mortgage, whether under the provisions hereof or otherwise, shall be applied in accordance with the applicable law and, to the extent not inconsistent therewith, as follows:

First: To the payment of the reasonable costs and expenses of such sale, including reasonable compensation to Mortgagee, its agents and counsel, and of any judicial proceedings wherein the same may be made, and of all expenses, liabilities and advances made or incurred by Mortgagee under this Mortgage, including without limitation any such expenses, liabilities and/or advances to remedy default by Mortgagor, or to otherwise establish, preserve or enforce any rights hereunder, together with interest at the rate set forth in Article 4 on all advances made by Mortgagee and all taxes or assessments, except any taxes, assessments or other charges subject to which the Premises shall have been sold.

Second: To the payment of the whole amount then due, owing or unpaid upon indebtedness secured hereunder in accordance with the provisions of the Credit Agreement, including, without limitation, all principal and interest due and to become due under or in connection with the Credit Agreement, with interest on the unpaid principal at the rate set forth in Article 4 from and after the happening of any event of default described in paragraph 20, from the due date of any such payment of principal until the same is paid.

Third: To the payment of any other sums required to be paid by Mortgagor pursuant to any provision of this Mortgage or the Credit Agreement, all with interest at the rate set forth in Article 4, from the date such sums were or are required to be paid under this Mortgage.

Fourth: To the payment of the surplus, if any, to whomsoever may be lawfully entitled to receive the same.

(xi) Upon any sale made under or by virtue of this Mortgage, by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, Mortgagee may bid for and acquire the Premises or any part thereof and in lieu of paying cash therefor, and upon compliance with the terms of said sale, may hold, retain and dispose of such property without further accountability therefor. Mortgagee may also make settlement for the purchase price by crediting upon the indebtedness of

Mortgagor secured by this Mortgage the net sales price after deducting therefrom the expense of the sale and the costs of the action and any other sums which Mortgagee is authorized to deduct under this Mortgage.

22. Non-Waiver by Mortgagee. That any failure by Mortgagee to insist upon the strict performance by Mortgagor of any of the terms and provisions hereof shall not be deemed to be a waiver of any of the terms and provisions hereof, and Mortgagee, notwithstanding any such failure, shall have the right thereafter to insist upon the strict performance by Mortgagor of any and all of the terms and provisions of this Mortgage to be performed by Mortgagor; that neither Mortgagor nor any other person now or hereafter obligated for the payment of the whole or any part of the sums now or hereafter secured by this Mortgage shall be relieved of such obligation by reason of the failure of Mortgagee to comply with any request of Mortgagor, or of any other person so obligated, to take action to foreclose this Mortgage or otherwise enforce any of the provisions of this Mortgage or any obligations secured by this Mortgage, or by reason of the release, regardless of consideration, of the whole or any part of the security held for the indebtedness secured by this Mortgage, or by reason of any agreement or stipulation between any subsequent owner or owners of the Premises and Mortgagee extending the time of payment or modifying the terms of any indebtedness secured hereunder or this Mortgage without first having obtained the consent of Mortgagor or such other person, and in the latter event, Mortgagor and all such other persons shall continue liable to make such payments according to the terms of any such agreement of extension or modification unless expressly released and discharged in writing by Mortgagee; that, regardless of consideration and without the necessity for any notice to or consent by the holder of any subordinate lien on the Premises, Mortgagee may release the obligation of anyone at any time liable for any of the indebtedness secured by this Mortgage or any part of the security held for the indebtedness without, as to the security or the remainder thereof, in any way impairing or affecting the lien hereof or the priority thereof over any subordinate encumbrance; and that Mortgagee may resort for the payment of the indebtedness secured hereby to any other security therefor held by Mortgagee in such order and manner as Mortgagee may elect.

23. Taxation of Mortgagee or Indebtedness. That if at any time the United States of America, any state thereof or any department, agency, bureau or governmental subdivision thereof, having jurisdiction, shall require revenue stamps to be affixed to any indebtedness secured hereunder, or other tax paid on or in connection therewith, Mortgagor will pay the same with any interest or penalties imposed in connection therewith.

24. Building Equipment, Fixtures and Personal Property. That Mortgagor shall execute any and all such documents, including Financing Statements pursuant to the Uniform Commercial Code of the State of New Jersey as Mortgagee may request, to preserve and maintain the priority of the lien created hereby on property which may be deemed personal property or fixtures, and Mortgagor shall pay to Mortgagee on demand any

expenses incurred by Mortgagee in connection with the preparation, execution and filing of any such documents. Mortgagor hereby authorizes and empowers Mortgagee to execute and file, on Mortgagor's behalf, all Financing Statements, and refilings and continuations thereof as Mortgagee deems necessary or advisable to create, preserve and protect the lien granted to Mortgagee herein. When and if Mortgagor and Mortgagee shall respectively become Debtor and Secured Party in any Uniform Commercial Code Financing Statement affecting Building Equipment or other property referred to or described herein, this Mortgage shall be deemed the Security Agreement as defined in said Uniform Commercial Code and the remedies for any violation of the covenants, terms and conditions of the agreements herein contained shall be (i) as prescribed herein, (ii) by general law or (iii) as to such part of the security which is also reflected in said Financing Statement, by the specific statutory consequences now or hereafter enacted and specified in said Uniform Commercial Code, all at Mortgagee's sole election. The filing of such a Financing Statement in the records normally having to do with personal property shall never be construed as in any way derogating from or impairing this declaration and hereby stated intention of the parties hereto, that all items of Building Equipment and other property used in connection with the production of income from the Premises (furniture only excepted) or adapted for use therein or which are described or reflected in this Mortgage are, and at all times and for all purposes and in all proceedings, both legal and equitable, shall be, regarded as part of the real estate irrespective of whether or not (i) any such item is physically attached to the improvement,

serial numbers are used for the better identification of certain equipment items capable of being thus identified in a recital contained herein or in any list filed with Mortgagee or (iii) any such item is referred to or reflected in any such Financing Statement so filed at any time. Similarly, the mention in any such Financing Statement of (1) the rights in or the proceeds of any fire and/or hazard insurance policy, (2) any award in eminent domain proceedings for a taking or for loss of value or (3) the debtor's interest as lessor in any present or future lease or rights to income growing out of the use or occupancy of the Premises, whether pursuant to a lease or otherwise, shall never be construed as in any way altering any of the rights of Mortgagee as determined by this instrument or impugning the priority of Mortgagee's lien granted hereby or by any other recorded document, but such mention in the Financing Statement is declared to be for the protection of Mortgagee in the event any court or judge shall at any time hold with respect to (1), (2) or (3) that notice of Mortgagee's priority of interest, to be effective against a particular class of persons, including but not limited to the Federal government and any subdivisions or entity of the Federal government, must be filed in the Uniform Commercial Code records.

25. Certain Waivers. That Mortgagor will not at any time insist upon, or plead, or in any manner whatever claim or take any benefit or advantage of any stay or extension or moratorium law, any exemption from execution or sale of the Premises or any part thereof, wherever enacted, now or at any time hereafter in force, which may affect the covenants and terms of performance of this Mortgage, nor claim, take or insist upon any benefit or advantage of any law now or hereafter in force providing for the valuation or

appraisal of the Premises or any part thereof, prior to any sale or sales thereof which may be made pursuant to any provision herein, or pursuant to the decree, judgment or order of any court of competent jurisdiction; nor, after any such sale or sales, claim or exercise any right under any statute heretofore or hereafter enacted to redeem the property so sold or any part thereof and Mortgagor hereby expressly waives all benefit or advantage of any such law or laws and covenants not to hinder, delay or impede the execution of any power herein granted or delegated to Mortgagee, but to suffer and permit the execution of every power as though no such law or laws had been made or enacted. Mortgagor, for itself and all who may claim under it, waives, to the extent that it lawfully may, all right to have the Premises marshaled upon any foreclosure hereof.

26. Environmental Matters. (a) Definitions for this Section:

(i) "Environmental Laws" means and includes any federal, state or local law, statute, regulation, charter, fire rule, code or ordinance, concerning environmental, health or safety matters all as presently in effect and as the same may hereafter be amended, including, without limitation, the Industrial Site Recovery Act, as amended, N.J.S.A. 13:1K-6 et seq. ("ISRA"), the Spill Compensation and Control Act, as amended, N.J.S.A. 58:10-23.11 et seq. (the "Spill Act"), the Federal Safe Drinking Water Act, as amended, 42 U.S.C.A. ss.300F et seq. ("FSDWA"), the Comprehensive Environmental Response Compensation and Liability Act, as amended, 42 U.S.C.A. ss.9601 et seq. ("CERCLA"), the New Jersey Underground Storage of Hazardous Substances Act, as amended, N.J.S.A. 58:10A-21 et seq. ("USTA"), the Resource Conservation and Recovery Act, as amended, 42 U.S.C.A. ss.6901 et seq ("RCRA"), the Federal Water Pollution Control Act, as amended, 33 U.S.C.A. ss.1251 et seq. ("FWPCA") and the Federal Clean Air Act, as amended, 42 U.S.C.A. ss.7401 et seq. ("FCAA"), and the Federal Toxic Substances Control Act, as amended, 15 U.S.C.A. ss.2601 et seq. ("FTSCA") and any rule, regulation, binding interpretation, binding policy, permit, order, directive, court order or consent decree issued pursuant to any of the following activities: (A) the emission, discharge, release or spilling of any substance into the air, surface water, groundwater, soil or substrata, (B) the manufacturing, processing, sale, generation, treatment, storage, disposal, transportation, labeling or other management of any waste, Hazardous Substance, Hazardous Waste, Pollutant or Contaminant as those terms are hereinafter defined, or (C) any activity which involves any Hazardous Substance, as that term is hereinafter defined.

(ii) "Hazardous Substances" means and includes any material or substance that, whether by its nature or use, is subject to regulation under any Environmental Laws.

(iii) "Premises" means the mortgaged premises.

(iv) "Release" means releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing or dumping.

(v) "Notice" means any summons, citation, directive, order, claim, litigation, investigation, proceeding, judgment, letter or other communication, written or oral, actual or threatened, from the New Jersey Department of Environmental Protection ("NJDEP"), the United States Environmental Protection Agency ("USEPA") or other federal, state or local agency or authority, or any other entity or any individual, concerning any intentional or unintentional act or omission which has resulted or which may result in the Release of Hazardous Substances into the waters or onto the lands of the State of New Jersey, or into water outside the jurisdiction of the State of New Jersey or into the environment from or on the Premises, and shall include the imposition of any lien on the Premises, pursuant to Environmental Laws, or any violation of any Environmental Law or any knowledge, after due inquiry and investigation, of any facts which could give rise to any of the above.

(b) Mortgagor warrants and represents to Mortgagee as follows, knowing that Mortgagee is relying on in entering into this these representations and warranties, Mortgage:

(i) To the best of Mortgagor's knowledge, after diligent inquiry and investigation, no lien has been attached to any revenues or any real or personal property owned by Mortgagor and located in the State of New Jersey, including, but not limited to the Premises, in connection with any Environmental Law.

(ii) Mortgagor has received no Notice.

(iii) In connection with the purchase of the Premises, and any other ISRA-triggering transaction entered into by Mortgagor on or after January 1, 1984, (A) there has been obtained from NJDEP a letter certifying that the transaction was not subject to the provisions of ISRA, or (B) Mortgagor required that the party triggering ISRA comply with the provisions of ISRA to the extent applicable to such transaction, and the party did comply therewith, or (C) no interruption of Mortgagor's business, or any portion thereof, will result from any ISRA-related issues and/or by reason of or in connection with any ISRA compliance activities.

(iv) To the best of Mortgagor's knowledge, after diligent inquiry and investigation, the Premises are in full compliance with all provisions of Environmental Laws.

(v) Neither Mortgagor nor any other person or party (including prior owner(s) or current or prior tenants) has caused or permitted the Premises to be used

to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce or process Hazardous Substances, or other hazardous, dangerous, toxic substances, or solid waste, has not caused or permitted and has no knowledge of the Release of any Hazardous Substances on or off-site of the Premises except in accordance with all Environmental Laws.

(c) Mortgagor hereby covenants and agrees with Mortgagee as follows:

(i) If Mortgagor is presently an owner or operator of a "Major Facility" in the State of New Jersey, or if Mortgagor ever becomes such an owner or operator, then Mortgagor shall furnish to the NJEP all the information required by N.J.S.A. 58:10-23.11d.

(ii) Mortgagor shall not cause or permit to exist, as a result of an

intentional or unintentional action or omission on its part, a Release of a Hazardous Substance into waters of the State of New Jersey or onto the lands from which it might flow or drain into said waters, or into waters outside the jurisdiction of the State of New Jersey, where damage may result to the lands, waters, fish, shellfish, wildlife, biota, air and other resources owned, managed, held in trust or otherwise controlled by the State of New Jersey, unless said Release is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal and state governmental authorities.

(iii) So long as Mortgagor shall own or operate any real property located in the State of New Jersey, which is used as a "Major Facility," Mortgagor shall duly file or cause to be duly filed with the Director of the Division of Taxation in the New Jersey Department of the Treasury, a tax report or return and shall pay or make provision for the payment of all taxes due therewith, all in accordance with and pursuant to N.J.S.A. 58:10-23.11h.

(iv) In the event that there shall be filed a lien against the Premises by NJDEP and/or USEPA, then Mortgagor shall, within thirty (30) days after the date that Mortgagor is given notice that the lien has been placed against the Premises or within such shorter period of time in the event that the State of New Jersey has commenced steps to cause the Premises to be sold pursuant to the lien, either (A) pay the claim and remove the lien from the Premises, or (B) furnish a bond satisfactory to Mortgagee in the amount of the claim out of which the lien arises or a cash deposit in the amount of the claim out of which the lien arises or other security reasonably satisfactory to Mortgagee in an amount sufficient to discharge the claim out of which the lien arises.

(v) If Mortgagor receives any notice of (i) the happening of any event involving the use, spill, discharge or cleanup of any Hazardous Substances, any toxic substance or waste or any oil or pesticides on or about the Premises (a "Hazardous Discharge") or (ii) any complaint, order, citation or notice with regard to air emissions, water discharges, noise emissions or any other environmental, health or safety matter affecting Mortgagor or the Premises (an "Environmental Complaint") from any person or entity, including, without limitation the NJDEP, then Mortgagor will give immediate oral and written notice of same to Mortgagee.

(vi) Mortgagor agrees that, as landlord, it shall use its best efforts to include the language stated below in all non-residential leases (which shall include renegotiations of existing leases) of all or any portion of the Premises that it enters into:

"ARTICLE ____: ENVIRONMENTAL OBLIGATIONS OF TENANT"

" -.1 Use of Hazardous Substances. Tenant agrees not to use any Hazardous Substances at the demised premises unless it has first taken all necessary steps to obtain any necessary permits governing the use, storage and disposal of such substances and has made adequate arrangements to use, store and dispose of such substances safely.

" -.2 Notices. If Tenant receives any notice of the happening of any event involving the use, spill, discharge or cleanup of any Hazardous Substance, and toxic substance or waste, or any oil or pesticide on or about the demised premises or into the sewer, septic system or waste treatment system servicing the demised premises (any such event is hereinafter referred to as a "Hazardous Discharge") or of any complaint, order, citation, or notice with regard to air emissions, water discharges, noise emissions or any other environmental, health or safety matter affecting Tenant (an "Environmental Complaint") from any person or entity, including, without limitation, the Department of Environmental Protection of New Jersey ("DEP") and the United States Environmental Protection Agency ("EPA"), then Tenant shall give immediate oral and written notice of same to Landlord and Landlord's mortgagee, detailing all relevant facts and circumstances.

" -.3 Landlord's Option. (a) Without limiting the foregoing, Landlord shall have the right, but not the obligation, to exercise any of its rights as provided in this Lease or to enter onto the Premises or to take such actions as it deems necessary or advisable to clean up, remove, resolve or minimize the impact of or otherwise deal with any Hazardous Discharge or

Environmental Complaint upon its receipt of any notice from any person or entity, including, without limitation, the DEP and the EPA, asserting the happening of a Hazardous Discharge or an Environmental Complaint on or pertaining to the demised premises. All costs and expenses incurred by Landlord in the exercise of any such rights

shall be deemed to be additional rent hereunder and shall be payable by Tenant to Landlord upon demand.

" -.4 Insurance. To the extent available at reasonable rates, Tenant shall at all times during the term of this Lease maintain in full force and effect environmental impairment insurance satisfactory to Landlord and Landlord's mortgagee as to carrier, amount, coverage and all other aspects.

" -.5 Default. The occurrence of any of the following events shall constitute an Event of Default under this Lease:

"(a) If Tenant does not give Landlord notice of a Hazardous Discharge or an Environmental Complaint on or pertaining to the demised premises (which may be given in any oral or written form, provided same is followed with all due dispatch by written notice given by certified mail, return receipt requested) within three (3) business days of the time Tenant first receives notice of such Hazardous Discharge or Environmental Complaint; or

"(b) If the DEP, EPA, or any other local, state or federal agency asserts or creates a lien upon any or all of the demised premises by reason of the occurrence of a Hazardous Discharge or an Environmental Complaint or otherwise; or

"(c) If the DEP, EPA or any other local, state or federal agency asserts a claim against the Tenant, the demised premises or Landlord for damages or cleanup costs related to a Hazardous Discharge or an Environmental Complaint on or pertaining to the demised premises; provided, however, such claim shall not constitute a default if, within five (5) days of the occurrence giving rise to the claim:

"(i) Tenant can prove to Landlord's satisfaction that Tenant has commenced and is diligently pursuing either: (x) cure or correction of the event which constitutes the basis for the claim, and continues diligently to pursue such cure or correction to completion, or (y) proceedings for an injunction, a restraining order or other appropriate emergent relief preventing such agency or agencies from asserting such claim, which relief is granted within ten (10) days of the occurrence giving rise to the claim and the emergent relief is not thereafter dissolved or reversed on appeal; and

"(ii) In either of the foregoing events, Tenant has posted a bond, letter of credit or other security satisfactory in form, substance and amount to Landlord and the agency or entity asserting the claim to secure the proper and complete cure or correction of the event which constitutes the basis for the claim.

" -.6 Indemnification. Tenant hereby agrees to defend, indemnify and hold Landlord and Landlord's mortgagee, their agents, employees and contractors harmless from and against any and all claims, losses, liabilities, damages and expenses (including, without limitation, consequential damages, cleanup costs and reasonable attorney's fees arising by reason of any of the aforesaid or any action against Tenant under this indemnity) arising directly or indirectly from, out of or by reason of any Hazardous Discharge or Environmental Complaint or ISRA occurring either (i) during or attributable to the period of this Lease and any other period of possession of the demised premises by Tenant or (ii) by reason of or attributable to Tenant's operations.

" -.7 ISRA Compliance. (a) If Tenant's operations on the Premises now or hereafter constitute an "Industrial Establishment" subject to the requirements of the New Jersey Industrial Site Recovery Act, N.J.S.A. 13:1k-6 et seq., and the regulations pertaining thereto, N.J.A.C. 26B-1.1 et seq., as same may be amended from time to time ("ISRA"), then prior to the expiration or sooner termination of this Lease and upon any and every condemnation, assignment or sublease (if permitted), change in ownership or control of Tenant or any other closure or transfer by, Landlord or Tenant covered by ISRA, Tenant shall comply with all requirements of ISRA pertaining to an Industrial Establishment closing or transferring operations, at its sole cost and expense, to the satisfaction of the DEPE and Landlord. Without limiting the foregoing, Tenant's obligations shall include (i) the proper filing of the Initial Notice to the DEPE required by ISPA, (ii) the performance to DEPE's and Landlord's satisfaction of all air, soil, ground water and surface water sampling and tests required by ISRA, and (iii) either (x) obtaining an approved "Negative Declaration" from the DEPE, without qualification, or (y) obtaining a non-qualified final DEPE approval of the complete implementation of all necessary cleanups and post cleanup sampling pursuant to an approved final Cleanup Plan for the Premises, accomplished to Landlord's reasonable satisfaction. Tenant shall immediately provide Landlord with copies of all correspondence, reports, test results, notices, orders, findings, declarations and other materials pertinent to Tenant's compliance and DEPE's requirements under ISRA, as any of same are issued or received by Tenant from time to time.

"(b) In no event shall any remedial action work plan or any remediation required to be conducted by Tenant under ISRA, the Spill Act or any other state or federal law involve or permit engineering or institutional controls, on, under or about the demised premises, or any part thereof, including without limitation, capping, a notice of contamination recorded on the land records, any use or excess restriction or the posting of signs and in all respects, all remedial remediation shall meet then current residential standards.

"(c) In the event that Landlord has reason to believe that there has been a Hazardous Discharge on or about the demised premises, then notwithstanding that Tenant is not obligated to comply with subparagraph _____.5(a) above for any reason, including without

limitation because Tenant is not an "Industrial Establishment," then at least thirty (30) but not more than sixty (60) days prior to the expiration or sooner termination of this Lease, Tenant shall:

"(i) prepare a detailed air, soil, ground water and surface water sampling plan for the demised premises in form and substance satisfactory to the Landlord;

"(ii) implement the landlord-approved sampling plan;

"(iii) submit the results of the sampling plan to the Landlord; and

"(iv) after the Landlord's review of the results of the sampling plan, comply with Landlord's requirements for additional testing and/or cleanup and site detoxification of any and all toxic or hazardous wastes or substances identified by reason of the sampling plan, or conduct additional testing, including, without limitation, any of Landlord's requirements corresponding to those which the DEP could require under ISRA if same applied to Tenant and/or the demised premises. All costs associated with Tenant's compliance with this Article, including, without limitation, Landlord's costs in reviewing the sampling plan and test results and developing a plan for and monitoring the cleanup and site detoxification, shall be additional rent to be paid by Tenant to Landlord upon demand. Upon completion of the cleanup and site detoxification to Landlord's satisfaction expressed in writing, Tenant's obligations under this subparagraph _____.5(b) shall cease.

" -.8 Performance by Landlord. In the event of Tenant's failure to comply in full with this Article, Landlord may, at its option, perform any or all of Tenant's obligations as aforesaid and all costs and expenses incurred by Landlord in exercise of this right shall be deemed to be additional rent payable on demand.

" -.9 General. This Article shall survive the expiration or termination of the Lease."

(d) With regard to CERCLA and the Spill Act, Mortgagor agrees that if NJDEP and/or USEPA shall serve upon Mortgagor a directive to remove or arrange for the removal of any "Hazardous Substances" on the Premises, the repayment of the indebtedness secured by this Mortgage may, at Mortgagee's election, be accelerated, in the event that Mortgagor shall not comply with the directive within thirty (30) days from its date or such other period as described therein, to the satisfaction of NJDEP and/or USEPA, as applicable; provided, however, that if Mortgagor shall furnish a bond, cash or other security reasonably satisfactory to Mortgagee in an amount sufficient to pay the costs of taking the actions required by said directive, then the debt shall not be accelerated.

(e) Mortgagor agrees to comply promptly with all applicable laws, rules regulations and orders including, without limitation, Environmental Laws, and to immediately notify Mortgagee, in writing, of (i) the discovery, discharge, or release of any Hazardous Substances for which Mortgagor is in any way responsible under CERCLA or the Spill Act or any similar federal or state statute; or (ii) the use or proposed use of the Premises as a "Major Facility".

(f) Mortgagor agrees to indemnify, defend and hold harmless Mortgagee, its agents, employees and contractors against any penalties, obligations, damages, actions, judgments, suits, claims, disbursements, losses or liabilities, costs or expenses of any kind (including, without limitation, reasonable attorneys' fees and disbursements) which the Indemnitees may sustain as a result of or on account of (1) any lien imposed upon the Premises pursuant to CERCLA or the Spill Act or any amendments thereto; or (2) any other Environmental Law governing Mortgagor or the Premises; or (3) the presence of asbestoscontaining materials at the Premises; or (4) the past, present or future operations of Mortgagor or any of Mortgagor's subsidiaries or any of its or their predecessors in interest. The provisions of this paragraph shall survive any transfer of the Premises, including a transfer after a foreclosure of this Mortgage, and delivery of the deed effecting such transfer, or a satisfaction, discharge, release or termination of this Mortgage; and shall apply notwithstanding any negligent or contributory conduct by or on the part of Mortgagee, its agents, employees, contractors, third parties or other parties.

(g) In the event that there has been, or Mortgagee reasonably believes that there has been, a Release of a Hazardous Substance at the Premises, Mortgagor shall promptly arrange for an environmental audit and tests, as set forth in subparagraph (j) below, of such representative soil, air and/or water samples of the Premises as Mortgagee may require. Mortgagor agrees that the repayment of the indebtedness secured hereby may, at Mortgagee's election, be accelerated if Mortgagee shall have determined that, based on such soil, air and/or water samples, there exists a violation under any applicable Environmental Law and Mortgagor shall not, within thirty (30) days (or a shorter period of time if Mortgagee or its counsel shall determine, in their sole discretion, that such shorter period is necessary to comply with any applicable law, rule or regulation) of notice from Mortgagee that such violation exists, have remedied such violation.

(h) At the option of Mortgagee, it shall constitute an Event of Default if the effect of any Environmental Law that is modified or enacted after the date hereof is to materially increase the liability that may be imposed on Mortgagee as a result of any violation of an Environmental Law by Mortgagor or in respect of the Premises.

(i) In addition to the rights of Mortgagee set forth above, all costs and expenses incurred by Mortgagee pursuant to the terms of this Section shall be paid by Mortgagor to Mortgagee upon demand, with interest at the rate set forth in Article 4 hereof

or at the maximum interest rate which Mortgagor may by law pay, whichever is lower, for the period after notice from Mortgagee that such cost or expense was incurred to the date of payment to Mortgagee. All such costs and expenses incurred by Mortgagee pursuant to the terms of this Section, with interest, shall be deemed to be secured by this Mortgage.

(j) Mortgagee may require that Mortgagor, at Mortgagor's expense, from time to time promptly cause such audits, tests and procedures as Mortgagee deems appropriate to be conducted, by such professionals and otherwise in a manner satisfactory to Mortgagee, for the purpose of ensuring compliance with all Environmental Laws. The results of such audits, tests and procedures shall be promptly submitted to Mortgagee in writing and certified as true and complete by such professionals. Such audits, tests and procedures shall be commenced promptly after not less than ten (10) days notice from Mortgagee.

27. No Merger. In the event the holder of this Mortgage shall acquire the fee title to the Premises or any part thereof or a leasehold interest, or any other interest in the Premises, or any part thereof, by foreclosure or otherwise, Mortgagor agrees that the title to the Premises or such leasehold or any other interest in the Premises or any part thereof, shall not merge with the interests conveyed and mortgaged hereunder as a result of such acquisition or for any other reason, but shall remain separate and distinct states for all purposes; provided, however, that in such event the holder of this Mortgage may, at its option, elect to merge such interests.

28. Joint and Several Liability. That if Mortgagor consists of more than one party, such parties shall be jointly and severally liable under any and all obligations, covenants and agreements of Mortgagor contained herein.

29. Rights Cumulative. That the rights of Mortgagee arising under the clauses and covenants contained in this Mortgage shall be separate, distinct and cumulative and none of them shall be in exclusion of the others; that no act of Mortgagee shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision, anything herein or otherwise to the contrary notwithstanding.

30. Construction. That wherever used in this Mortgage, unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, the word "lease" shall mean "tenancy, subtenancy, lease or sublease", the word "Mortgagor" shall mean "Mortgagor and any subsequent owner or owners of the Premises" and shall be construed as if it read "Mortgagors" whenever the sense of any agreement or instrument secured hereunder so requires, the word "Mortgagee" shall mean "Mortgagee or any subsequent holder or holders of this Mortgage", the word "person" shall mean "an individual, corporation, partnership or unincorporated association", and the word "Premises" shall mean any, all or either of the parcels described in SCHEDULE A hereto, together with

all Building Equipment, condemnation awards and any other rights or property interests at any time made subject to the lien of this Mortgage by the terms hereof. To the extent there is any inconsistency between the terms of this Mortgage and the terms of the Credit Agreement, except for the remedy provisions hereunder, the terms thereof shall govern.

31. No Oral Modification. That this Mortgage cannot be changed or terminated orally.

32. No Impairment. That Mortgagor: shall keep this Mortgage a valid mortgage lien upon the Premises; shall not at any time create or allow to accrue or exist any debt, lien or charge which would be prior to or on a parity with the lien of this Mortgage upon any part of the Premises; and shall not cause or permit the lien of this Mortgage to be diminished or impaired in any way.

33. Fees and Expenses. That Mortgagor shall pay all fees and charges incurred in the procuring and making of the loans secured by this Mortgage, including, without limitation, the reasonable fees and disbursements of Mortgagee's attorneys, charges for appraisals, fees and expenses relating to

examination of title, title insurance premiums, surveys and mortgage recording documents, transfer or other similar taxes and revenue stamps, and in default thereof Mortgagee may pay the same and Mortgagor will repay the same with interest thereon at the rate per annum specified in Article 4 hereof and the same shall be added to the indebtedness secured hereby and be secured by this Mortgage.

34. Governing Law. This Mortgage shall, in all respects, be governed, construed, applied and enforced in accordance with the laws of the State of New Jersey.

35. Severability. In case any one or more of the covenants, agreements, terms or provisions contained in this Mortgage and Security Agreement or related documents shall be invalid, illegal or unenforceable in any respect, the validity of the remaining covenants, agreements, terms or provisions contained herein and in the related documents shall be in no way affected, prejudiced or disturbed thereby.

36. Binding Effect. The covenants contained in this Mortgage shall run with the land and bind Mortgagor, the heirs, personal representatives, successors and assigns of Mortgagor and all subsequent encumbrances, tenants and subtenants of the Premises and shall enure to the benefit of Mortgagee and their respective successors and assigns.

37. Headings. The headings of this Mortgage are for the convenience of reference only and are not to be considered a part hereof, and shall not limit or expand or otherwise affect any of the terms hereof.

BOTH MORTGAGOR AND MORTGAGEE HEREBY IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR IN CONNECTION WITH THIS INSTRUMENT, INCLUDING, BUT NOT LIMITED TO, ALL TORT ACTIONS.

IN WITNESS WHEREOF, this Mortgage has been duly executed by Mortgagor the day and year first above written.

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC.

BY:_____

ACKNOWLEDGMENT

STATE OF _____)
) ss.:
COUNTY OF _____)

I CERTIFY that on September __, 1996, _____ personally came before me and this person acknowledged under oath, to my satisfaction that:

(a) this person signed, sealed and delivered the attached document as _____ of MEDIQ/PRN Life Support Services, Inc. the corporation named in this document; and

(b) this document was signed and made by the corporation as its voluntary act and deed by virtue of authority from its Board of Directors.

_____
Notary Public

SCHEDULE A

DESCRIPTION OF MORTGAGED PREMISES

Schedule A
Legal Description

All the real property located in the Township of Pennsauken, County of Camden, State of New Jersey and more particularly described as follows:

Tract #1

BEGINNING at a point in the Northeasterly line of Suckle Highway (60 feet wide) said point being distant 834.59 feet measured South 24 degrees 41 minutes 20 seconds East along the Northeasterly line of said Suckle Highway from the Southeasterly line of National Highway (60 feet wide): and running thence

1. North 65 degrees 18 minutes 40 seconds East a distance of 550.00 feet to a point; thence

2. South 24 degrees 41 minutes 20 seconds East a distance of 395.99 feet to a point corner to lands of Pacific Coast Realty Corporation of Delaware; thence

3. along same South 65 degrees 18 minutes 40 seconds West a distance of 550.00 feet to a point in the Northeasterly line of said Suckle Highway; thence

4. along same North 24 degrees 41 minutes 20 seconds West a distance of 396.00 feet, to the point or place of BEGINNING.

Tract #2

BEGINNING at a point in the Northeasterly line of Suckle Highway (60.00 feet wide) said point being distant 1255.59 feet measured South 24 degrees 41 minutes 20 seconds East along the Northeasterly line of said Suckle Highway from the intersection of same with the Southwesterly line of National Highway (60.00 feet wide), said beginning point also being corner to lands of Pacific Coast Realty Corporation of Delaware: and running thence

1. along said lands North 65 degrees 18 minutes 40 seconds East a distance of 330.00 feet to a point corner to same; thence

2. still along said lands South 24 degrees 41 minutes 20 seconds East a distance of 60.00 feet to a point in same; thence

3. South 65 degrees 18 minutes 40 seconds West a distance of 330.00 feet to a point in the Northeasterly line of said Suckle Highway; thence

4. along said highway North 24 degrees 41 minutes 20 seconds West a distance of 60.00 feet, to the point or place of BEGINNING.

Tract #3

BEGINNING at a point in the Northeasterly line of Suckle Highway (60 feet wide) said point being distant 1315.59 feet measured South 24 degrees 41 minutes 20 seconds East along the Northeasterly line of said Suckle Highway from the intersection of same with the Southeasterly line of National Highway (60.00 feet wide): and running thence

1. North 65 degrees 18 minutes 40 seconds East a distance of 330.00 feet to a point in line of lands of Pacific Coast Realty Corporation of Delaware; thence

2. along same South 24 degrees 41 minutes 40 seconds East a distance of 309.81 feet to a point in the Northwesterly line of New Jersey State Highway Route No. 130 (93.00 feet wide); thence

3. along same South 65 degrees 18 minutes 40 seconds West a distance of 169.00 feet to a point corner to same; thence

4. North 24 degrees 41 minutes 20 seconds West measured along the Northeasterly line of said State Highway a distance of 2.50 feet to a point of curve; thence

5. in a general Westerly direction curving to the right with a radius of 190.00 feet an arc distance of 166.36 feet to a point of compound curve in the curved Northeasterly line of said Route No. 130; thence

6. in a general Northwesterly direction curving to the right with a radius of 65.00 feet an arc distance of 45.15 to a point of tangency in the Northeasterly line of said Suckle Highway; thence

7. along same North 24 degrees 41 minutes 20 seconds West a distance of 197.37 feet, to the point or place of BEGINNING.

Together with a 25 foot wide easement for ingress and egress lying between Tracts #1 and #2 for so long as the Tracts south and north of the 25 foot easement are in common ownership as set forth and reserved in Deed Book 2907, Page 82.

Being described in accordance with a survey made by Edward J. Martin P.L.S. dated September 20, 1994 except for the beginning point distances from the Southeasterly line of National Highway (60 feet wide) which were not indicated on the survey.

FOR INFORMATION ONLY: Being known as Lot 4A, 4AB, 4ABB Block 251 as shown on the tax assessment map of the Township of Pennsauken.

S&S DRAFT
9/30/96
EXHIBIT F TO THE
CREDIT AGREEMENT

FORM OF NOTICE OF DRAWING
FROM THE ASSET SALE BLOCKED ACCOUNT

Banque Nationale de Paris,
as Administrative Agent under the
Credit Agreement referred to below
499 Park Avenue
New York, NY 10022 [Date]

Attention: Ms. Kimberly Williams

Ladies and Gentlemen:

The undersigned, MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Borrower"), refers to the Credit Agreement dated as of October 1, 1996 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the Borrower, MEDIQ Incorporated, a Delaware corporation, and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the lender parties party thereto (the "Lender Parties"), Banque Nationale de Paris, as Administrative Agent and Initial Issuing Bank, and NationsBank, N.A., as Documentation Agent, and hereby gives you notice, irrevocably, pursuant to Section 2.16 of the Credit Agreement, that the Borrower hereby requests permission to release funds on deposit in the Asset Sale Blocked Account, and in

that connection sets forth below the information relating to such release (the "Proposed Release") as required by Section 2.16 of the Credit Agreement:

(i) The Business Day of the Proposed Release is _____ __, ____.

(ii) The aggregate amount of the Proposed Release is $_____.

The Borrower hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Release:

(A) no event has occurred and is continuing, or would result from such Release or from the application of the proceeds therefrom, that constitutes a Default;

(B) for each release from the Asset Sale Blocked Account, if such Release is used for the purposes set forth in:

(1) Section 2.16(A) of the Credit Agreement, subject to the terms set forth in Section 2.14(b) of the Credit Agreement, provided however, that if such release is used for the purposes set forth in:

(a) Section 2.14(b)(ii) of the Credit Agreement, subject to the terms of Section 5.02(k)(i)(y)(B), including but not limited to the provision that immediately after giving effect to each release of funds from the Asset Sale Blocked Account the Senior Leverage Ratio is less than or equal to 3.75 to 1, as calculated on the attached Schedule I;

(b) Section 2.14(b)(iii)(x) of the Credit Agreement, from and after the Asset Sale Threshold Date, subject to the terms set forth in Section 5.02(f)(i) of the Credit Agreement, including but not limited to the provisions that (x) immediately after giving effect to each release of funds from the Asset Sale Blocked Account, the Leverage Ratio is less than or equal to 3.5 to 1, (y) any requested Acquisition Advances plus proceeds released from the Asset Sale Blocked Account used for acquisitions of a Person or assets pursuant to Section 5.02(f)(i) is less than or equal to 5.5 times the EBITDA for the prior 12 months of the Person or assets acquired pursuant to Section 5.02(f)(i), and (z) the aggregate amount any Acquisition Advances plus the aggregate amount of proceeds used from the Asset Sale Blocked Account plus an amount equal to the aggregate value of the common stock of MEDIQ used for all such Investments made pursuant to Section 5.02(f)(i) is less than or equal to $100,000,000, each as calculated on the attached Schedule II;

(c) Section 2.14(b)(iii)(y) of the Credit Agreement, from and after the Asset Sale Threshold Date and not less than twelve months after the Initial Extension of Credit, subject to the terms set forth in Section 5.02(g)(i) of the Credit Agreement, including but not limited to the provisions that immediately after giving effect to each release of funds from the Asset Sale Blocked Account (x) the Leverage Ratio is less than or equal to 3.0 to 1 and (y) the aggregate amount of funds released from the Asset Sale Blocked Account plus Acquisition Advances used for dividends paid or funds advanced directly or indirectly by the Borrower to MEDIQ to permit MEDIQ to repurchase the common stock of MEDIQ and to pay dividends does not exceed $20,000,000, each as calculated on the attached Schedule III;

(2) Section 2.16(B) of the Credit Agreement, for the purposes set forth in and pursuant to the terms of Section 2.06(a) of the Credit Agreement; and

(3) Section 2.16(C) of the Credit Agreement, for the purposes set forth in and pursuant to the terms of Section 2.06(b)(ix) of the Credit Agreement.

Very truly yours,

MEDIQ/PRN LIFE SUPPORT SERVICES, INC.

By_____
Title:

SCHEDULE I

SECTION 5.02(k)(i)(y)(B)
SENIOR LEVERAGE RATIO CALCULATION
FOR REPAYMENT OF SUBORDINATED NOTES

(1)	outstanding Term Loan A Advances	_____
(2)	outstanding Term Loan B Advances	_____
(3)	outstanding Acquisition Advances	_____
(4)	outstanding Working Capital Advances	_____
(5)	outstanding Letter of Credit Advances	_____
(6)	outstanding amount of other Senior Debt(1)	_____
(7)	TOTAL SENIOR DEBT [sum of (1) through (6)]	_____
(8)	Consolidated EBITDA for the Rolling Period ended as of the most recent period for which financial statements were required to be furnished pursuant to Sections 5.03(b), (c) or (d)	_____
(9)	SENIOR LEVERAGE RATIO [(7) divided by (8)]	_____

---

(1) excluding (i) contingent obligations of the type described in clause (f) or (h) in the definition of "Debt" and (ii) Debt permitted under Section 5.02(b)(i)(A) (Parent Guarantor Debt-A), as specified in the definition of "Senior Leverage Ratio".

SCHEDULE II

SECTION 5.02(f)(i)
CALCULATIONS
FOR INVESTMENTS BY THE BORROWER

A. CALCULATION OF LEVERAGE RATIO

(1)	outstanding Term Loan A Advance	_____

(2) outstanding Term Loan B Advances _____

(3) outstanding Acquisition Advances _____

(4) outstanding Working Capital Advances _____

(5) outstanding amount of Letter of Credit Advances _____

(6) outstanding amount of other Funded Debt(1)

---

(7) Total Funded Debt
[sum of (1) through (6)]

(8) Amount on deposit in the Asset Sale Blocked Account
(after the Proposed Release of funds)

(9) principal amount of the NutraMax Note
to the extent secured by the NutraMax Letter of Credit

(10) NUMERATOR TOTAL
[(7) minus (8) minus (9)] _____

(11) Consolidated EBITDA for the Monthly Rolling Period
ended as of the most recent month for which
financial statements were required to be furnished
pursuant to Sections 5.02(b), (c) or (d) _____

(12) LEVERAGE RATIO
[(10) divided by (11)] _____

---

1 excluding (i) contingent obligations of the type described in clause (f) or (h) in the definition of "Debt" and (ii) Debt permitted under Section 5.02(b)(i)(A) (Parent Guarantor Debt-A), as specified in the definition of "Leverage Ratio".

B. For Investments permitted under Section 5.02(f)(i), the amount of the Proposed Release is capped at the Acquisition Facility Sublimit, calculated as follows:

(a) Acquisition Facility Commitment _____

(b) Acquisition Advances outstanding _____

(c) common stock used in Investments pursuant to
Section 5.02(f)(i) _____

(d) Subordinated Notes outstanding _____

(e) ACQUISITION FACILITY SUBLIMIT
[(a) minus (b) minus (c) minus (d)] _____

C. RATIO OF ANY ACQUISITION ADVANCE PLUS PROPOSED RELEASE FROM THE ASSET SALE BLOCKED ACCOUNT TO EBITDA FOR PRIOR 12 MONTHS OF THE PERSON OR ASSETS ACQUIRED PURSUANT TO SECTION 5.02(f)(i) WITH SUCH ADVANCE OR PROCEEDS _____

(1) amount of any requested Acquisition Advance
made simultaneously with the Proposed
Release of funds from the Asset Sale Blocked
Account used for the acquisition of the
Person or assets acquired pursuant to
Section 5.02(f)(i) _____

(2) amount of Proposed Release from the Asset
Sale Blocked Account for the acquisition of
the Person or assets pursuant to Section
5.02(f)(i) _____

(3) NUMERATOR TOTAL
[sum of (1) and (2)] _____

(4) EBITDA for the prior 12 months of the Person or assets acquired pursuant to Section 5.02(f)(i) _____

(5) RATIO [(3) divided by (4)] _____

D. CAP ON AGGREGATE AMOUNT OF INVESTMENTS PURSUANT TO 5.02(f)(i) _____

(1) aggregate amount of Acquisition Advances (including Advances drawn simultaneously with the Proposed Release of funds) used for all acquisitions of Persons or assets pursuant to Section 5.02(f)(i) _____

(2) aggregate amount of proceeds from the Asset Sale Blocked Account used for all acquisitions of Persons or assets pursuant to Section 5.02(f)(i) _____

(3) aggregate amount of common stock used for all acquisitions of Persons or assets pursuant to Section 5.02(f)(i) _____

(4) TOTAL [sum of (1) through (3)] _____

SCHEDULE III

SECTION 5.02(g)(i)
CALCULATIONS
FOR PAYMENT OF DIVIDENDS OR ADVANCING OF FUNDS BY THE BORROWER

A. CALCULATION OF LEVERAGE RATIO

(1) outstanding Term Loan A Advances _____

(2) outstanding Term Loan B Advances _____

(3) outstanding Acquisition Advances _____

(4) outstanding Working Capital Advances _____

(5) outstanding Letter of Credit Advances _____

(6) amount of outstanding other Funded Debt(1) _____

(7) TOTAL FUNDED DEBT [sum of (1) through (6)] _____

(8) principal amount of the NutraMax Note to the extent secured by the NutraMax Letter of Credit _____

(9) Amount on deposit in the Asset Sale Blocked Account (after the Proposed Release of funds) _____

(10) NUMERATOR TOTAL [(7) minus (8) minus (9)] _____

(11) Consolidated EBITDA for the Rolling Period ended as of the most recent period for which financial statements were required to be furnished pursuant to Sections 5.03(b), (c) or (d) _____

(12) LEVERAGE RATIO [(10) divided by (11)] _____

---

(1) excluding (i) contingent obligations of the type described in clause (f)

or (h) in the definition of "Debt" and (ii) Debt permitted under Section 5.02(b)(i)(A) (Parent Guarantor Debt-A), as specified in the definition of "Leverage Ratio".

B. For Investments permitted under Section 5.02(g)(i), the amount of the Proposed Release is capped at the Acquisition Facility Sublimit, calculated as follows:

(a) Acquisition Facility Commitment _____

(b) Acquisition Advances outstanding _____

(c) common stock used in Investments pursuant to Section 5.02(f)(i) _____

(d) Subordinated Notes outstanding _____

(e) ACQUISITION FACILITY SUBLIMIT [(a) minus (b) minus (c) minus (d)] _____

C. THE AGGREGATE AMOUNT OF PROCEEDS FROM THE ASSET SALE BLOCKED ACCOUNT PLUS ACQUISITION ADVANCES USED BY THE BORROWER TO PAY DIVIDENDS OR ADVANCE FUNDS DIRECTLY OR INDIRECTLY TO MEDIQ TO PERMIT MEDIQ TO REPURCHASE THE COMMON STOCK OF MEDIQ AND TO PAY CASH DIVIDENDS

EXHIBIT G TO THE
CREDIT AGREEMENT

FORM OF SUBSIDIARY GUARANTY

Dated October 1, 1996

From

THE PARTIES LISTED ON THE SIGNATURE PAGES HEREOF

as SUBSIDIARY GUARANTORS,

in favor of

THE SECURED PARTIES REFERRED TO IN
THE CREDIT AGREEMENT REFERRED TO HEREIN

Section Page

T A B L E O F C O N T E N T S

Section Page

SUBSIDIARY GUARANTY

Subsidiary Guaranty dated October 1, 1996 made by the parties listed on the signature pages hereof (each such party, a "Subsidiary Guarantor"), in favor of the Secured Parties (as defined in the Credit Agreement referred to below).

PRELIMINARY STATEMENT. The Lender Parties, Banque Nationale de Paris, as Administrative Agent and as Initial Issuing Bank, and NationsBank N.A., as Documentation Agent, are parties to a Credit Agreement dated as of October 1, 1996 (said Agreement, as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "Credit Agreement", the terms defined therein and not otherwise defined herein being used herein as therein defined) with MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Borrower"), MEDIQ Incorporated, a Delaware corporation ("MEDIQ") and PRN Holdings, Inc., a Delaware corporation ("Holdings", and, together with MEDIQ, the "Parent Guarantors"). Each Subsidiary Guarantor may receive a portion of the proceeds of the Advances under the Credit Agreement and will derive substantial direct and indirect benefit from the transactions contemplated by the Credit Agreement. It is a condition precedent to the making of Advances and the issuance of Letters of Credit by the Lender Parties under the Credit Agreement and the entry by the Hedge Banks into Bank Hedge Agreements with the Borrower from time to time that each Subsidiary Guarantor shall have executed and delivered this Subsidiary Guaranty.

NOW, THEREFORE, in consideration of the premises and in order to induce the Lender Parties to make Advances and to issue Letters of Credit under the Credit Agreement, each Subsidiary Guarantor, jointly and severally with each other Subsidiary Guarantor, hereby agrees as follows:

Section 1. Subsidiary Guaranty; Limitation of Liability. (a) Each Subsidiary Guarantor hereby absolutely, unconditionally and irrevocably guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all Obligations of each other Loan Party now or hereafter existing under the Loan Documents, whether for principal, interest, fees, expenses or otherwise (such Obligations being the "Guaranteed Obligations"), and agrees to pay any and all reasonable expenses (including counsel fees and expenses) incurred by the Administrative Agent or any other Secured Party in enforcing any rights under this Subsidiary Guaranty or any other Loan Document. Without limiting the generality of the foregoing, each Subsidiary Guarantor's liability shall extend to all amounts that constitute part of the Guaranteed Obligations and would be owed by any other Loan Party to the Administrative Agent or any other Secured Party under the Loan Documents but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving such Loan Party.

(b) (i) Each Subsidiary Guarantor and by its acceptance of this Subsidiary Guaranty, the Administrative Agent and each other Secured Party, hereby

confirms that it is the intention of all such parties that this Subsidiary Guaranty not constitute a fraudulent transfer or conveyance for purposes of Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law to the extent applicable to this Subsidiary Guaranty. To effectuate the foregoing intention, the Administrative Agent, the other Secured Parties and the

Subsidiary Guarantors hereby irrevocably agree that the Obligations of each Subsidiary Guarantor under this Subsidiary Guaranty shall not exceed the greater of (A) the net benefit realized by such Subsidiary Guarantor from the proceeds of the Advances made from time to time by the Borrower to such Subsidiary Guarantor or any subsidiary of such Subsidiary Guarantor and (B) the maximum amount that will, after giving effect to such maximum amount and all other contingent and fixed liabilities of such Subsidiary Guarantor that are relevant under such laws, and after giving effect to any collections from, rights to receive contribution from or payments made by or on behalf of any other Subsidiary Guarantor in respect of the Obligations of such other Subsidiary Guarantor under this Subsidiary Guaranty, result in the Obligations of such Subsidiary Guarantor under this Subsidiary Guaranty not constituting a fraudulent transfer or conveyance. For purposes hereof, "Bankruptcy Law" means Title 11, U.S. Code, or any similar Federal or state law for the relief of debtors.

(ii) Each Subsidiary Guarantor agrees that in the event any payment shall be required to be made to the Secured Parties under this Subsidiary Guaranty or any other guaranty, such Subsidiary Guarantor will contribute, to the maximum extent permitted by law, such amounts to each other Subsidiary Guarantor and each other guarantor so as to maximize the aggregate amount paid to the Secured Parties under the Loan Documents.

Section 2. Subsidiary Guaranty Absolute. Each Subsidiary Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Loan Documents, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Administrative Agent or any other Secured Party with respect thereto. The Obligations of each Subsidiary Guarantor under this Subsidiary Guaranty are independent of the Guaranteed Obligations or any other Obligations of any other Loan Party under the Loan Documents, and a separate action or actions may be brought and prosecuted against such Subsidiary Guarantor to enforce this Subsidiary Guaranty, irrespective of whether any action is brought against the Borrower or any other Loan Party or whether the Borrower or any other Loan Party is joined in any such action or actions. The liability of each Subsidiary Guarantor under this Subsidiary Guaranty shall be irrevocable, absolute and unconditional irrespective of, and each Subsidiary Guarantor hereby irrevocably waives any defenses it may now or hereafter have in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of any Loan Document or any agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations or any other Obligations of any other Loan Party under the Loan Documents, or any other amendment or waiver of or any consent to departure from any Loan Document, including, without limitation, any increase in the Guaranteed Obligations resulting from the extension of additional credit to any Loan Party or any of its Subsidiaries or otherwise;

(c) any taking, exchange, release or non-perfection of any Collateral, or any taking, release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Guaranteed Obligations;

(d) any manner of application of Collateral, or proceeds thereof, to all or any of the Guaranteed Obligations, or any manner of sale or other disposition of any Collateral for all or any of the Guaranteed Obligations or any other Obligations of any other Loan Party under the Loan Documents or any other assets of any Loan Party or any of its Subsidiaries;

(e) any change, restructuring or termination of the corporate structure or existence of any Loan Party or any of its Subsidiaries; or

(f) any other circumstance (including, without limitation, any statute of limitations) or any existence of or reliance on any representation by the Administrative Agent or any other Secured Party that might otherwise constitute a defense available to, or a discharge of, the Borrower, any Subsidiary Guarantor or any other guarantor or surety.

This Subsidiary Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by any Secured Party or any other Person upon the insolvency, bankruptcy or reorganization of the Borrower or any other Loan Party or otherwise, all as though such payment had not been made.

Section 3. Waiver. (a) Each Subsidiary Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this Subsidiary Guaranty and any requirement that the Administrative Agent, or any other Secured Party protect, secure, perfect or insure any Lien or any property subject thereto or exhaust any right or take any action against any Loan Party or any other Person or any collateral. Each Subsidiary Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the

Loan Documents and that the waiver set forth in this Section 3 is knowingly made in contemplation of such benefits.

Section 4. Subrogation. No Subsidiary Guarantor will exercise any rights that it may now or hereafter acquire against the Borrower or any other insider guarantor that arise from the existence, payment, performance or enforcement of such Subsidiary Guarantor's Obligations under this Subsidiary Guaranty or any other Loan Document, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Administrative Agent or any other Secured Party against the Borrower or any other insider guarantor or any collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including, without limitation, the right to take or receive from the Borrower or any other insider guarantor, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right, unless and until all of the Obligations and all other amounts payable under this Subsidiary Guaranty shall have been paid in full in cash and the Commitments shall have expired or terminated. If any amount shall be paid to any Subsidiary Guarantor in violation of the preceding sentence at any time prior to the later of the payment in full in cash of the Guaranteed Obligations and all other amounts payable under this Subsidiary Guaranty and the Termination Date, such amount shall be held in trust for the benefit of the Administrative Agent and the other Secured Parties and shall forthwith be paid to the Administrative Agent to be credited and applied to the Guaranteed Obligations and all other amounts payable under this Subsidiary Guaranty, whether matured or unmatured, in accordance with the terms of the Loan Documents, or to be held as collateral for any Guaranteed Obligations or other amounts payable under this Subsidiary Guaranty thereafter arising. If (i) any Subsidiary Guarantor shall make payment to the Administrative Agent or any other Secured Party of all or any part of the Guaranteed Obligations, (ii) all of the Guaranteed Obligations and all other amounts payable under this Subsidiary Guaranty shall be paid in full in cash and (iii) the Termination Date shall have occurred, the Administrative Agent and the other Secured Parties will, at such Subsidiary Guarantor's request and expense, execute and deliver to such Subsidiary Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to such Subsidiary Guarantor of an interest in the Guaranteed Obligations resulting from such payment by such Subsidiary Guarantor.

Section 5. Payments Free and Clear of Taxes, Etc. (a) Any and all payments by any Subsidiary Guarantor hereunder shall be made, in accordance with Section 2.11 of the Credit Agreement, free and clear of and without deduction for any and all present or future Taxes. If any Subsidiary Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Administrative Agent or any other Secured Party, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums

payable under this Section) the Administrative Agent or such other Secured Party (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Subsidiary Guarantor shall make such deductions and (iii) such Subsidiary Guarantor shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Subsidiary Guarantor agrees to pay any present or future Other Taxes.

(c) Each Subsidiary Guarantor shall indemnify the Administrative Agent and each other Secured Party for and hold it harmless against the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section) paid by the Administrative Agent or such other Secured Party (as the case may be) and any liability (including penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date the Administrative Agent or such other Secured Party (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, such Subsidiary Guarantor shall furnish to the Administrative Agent, at its address referred to in Section 9.02 of the Credit Agreement, the original or a certified copy of a receipt evidencing such payment. If no Taxes are payable in respect of any payment hereunder by any Subsidiary Guarantor through an account or branch outside the United States or by or on behalf of such Subsidiary Guarantor by a payor that is not a United States person, such Subsidiary Guarantor shall furnish, or shall cause such payor to furnish, to the Administrative Agent, a certificate from each appropriate taxing authority or authorities, or an opinion of counsel acceptable to the Administrative Agent, in either case stating that such payment is exempt from or not subject to Taxes. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Without prejudice to the survival of any other agreement of any Subsidiary Guarantor hereunder, the agreements and obligations of each Subsidiary Guarantor contained in this Section 5 shall survive the payment in full of the Guaranteed Obligations and all other amounts payable under this Subsidiary Guaranty.

Section 6. Representations and Warranties. Each Subsidiary Guarantor hereby represents and warrants as follows:

(a) Such Subsidiary Guarantor (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) is duly qualified and in good standing as a foreign corporation in each other

jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed except where the failure to so qualify or be licensed is not reasonably likely to have a Material Adverse Effect and (iii) has all requisite corporate power and authority (including, without limitation, all governmental licenses, permits and other approvals) to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted. All of the outstanding Capital Stock of such Subsidiary Guarantor has been validly issued, is fully paid and non-assessable and each Subsidiary Guarantor is owned by a Loan Party, free and clear of all Liens, except those created under the Loan Documents.

(b) The execution, delivery and performance by such Subsidiary Guarantor of this Subsidiary Guaranty are within such Subsidiary Guarantor's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene such Subsidiary Guarantor's charter or bylaws, (ii) violate any law (including, without limitation, the Securities Exchange Act of 1934 and the Racketeer Influences and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970), rule, regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System), order, writ, judgment,

injunction, decree, determination or award, (iii) conflict with or result in the breach of, or constitute a default under, any loan agreement, contract, indenture, mortgage, deed of trust, lease or other instrument binding on or affecting such Subsidiary Guarantor, any of its Subsidiaries or any of its or their properties or (iv) except for the Liens created under the Loan Documents, result in or require the creation or imposition of any Lien upon or with respect to any of the properties of such Subsidiary Guarantor or any of its Subsidiaries. Neither such Subsidiary Guarantor nor any of its Subsidiaries is in violation of any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or in breach of any such contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument, the violation or breach of which is reasonably likely to have a Material Adverse Effect.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for (i) the due execution, delivery, recordation, filing or performance by such Subsidiary Guarantor of this Subsidiary Guaranty or any other Loan Document to which such Subsidiary Guarantor is a party and (ii) the exercise by the Administrative Agent or any Secured Party of its rights under this Subsidiary Guaranty or any other Loan Document to which such Subsidiary Guarantor is a party.

(d) There is no action, suit, investigation, litigation or proceeding affecting such Subsidiary Guarantor, including any Environmental Action, pending or threatened before any court, governmental agency or arbitrator that (i) would be

reasonably likely to have a Material Adverse Effect or (ii) purports to affect the legality, validity or enforceability of this Subsidiary Guaranty or any other Loan Document to which such Subsidiary Guarantor is a party.

(e) This Subsidiary Guaranty and each other Loan Document to which it is a party has been duly executed and delivered by such Subsidiary Guarantor. Each of this Subsidiary Guaranty and each other Loan Document to which it is a party is the legal, valid and binding obligation of such Subsidiary Guarantor, enforceable against such Subsidiary Guarantor in accordance with its terms.

(f) There are no conditions precedent to the effectiveness of this Subsidiary Guaranty that have not been satisfied or waived.

(g) Such Subsidiary Guarantor has, independently and without reliance upon the Administrative Agent or any Lender Party and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Subsidiary Guaranty, and such Subsidiary Guarantor has established adequate means of obtaining from any other Loan Parties on a continuing basis information pertaining to, and is now and on a continuing basis will be completely familiar with, the financial condition, operations, properties and prospects of such other Loan Parties.

Section 7. Covenants. Each Subsidiary Guarantor covenants and agrees that, so long as any part of the Guaranteed Obligations shall remain unpaid, any Letter of Credit shall be outstanding or any Lender Party shall have any Commitment, such Subsidiary Guarantor will at all times perform or observe, and will cause each of its Subsidiaries to perform or observe, all of the terms, covenants and agreements that the Loan Documents state that the Borrower is to cause such Subsidiary Guarantor or such Subsidiaries to perform or observe.

Section 8. Amendments, Etc. (a) No amendment or waiver of any provision of this Subsidiary Guaranty and no consent to any departure by any Subsidiary Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by the Administrative Agent and the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all of the Secured Parties, (i) reduce or limit the liability of such Subsidiary Guarantor hereunder or release any Subsidiary Guarantor hereunder, (ii) postpone

any date fixed for payment hereunder or (iii) amend this Section 8.

(b) (i) With the consent of the Required Lenders or (ii) upon the merger, consolidation, sale or liquidation of any Guarantor in accordance with the terms of the

Credit Agreement, the Administrative Agent will, at such Guarantor's expense, execute and deliver to such Guarantor such documents as such Guarantor shall reasonably request to evidence the release of such Guarantor from its obligations under this Guaranty; provided, however, as to clause (ii) above, that (x) at the time of such request and such release no Default shall have occurred and be continuing, (y) such Guarantor shall have delivered to the Administrative Agent, at least five Business Days prior to the date of the proposed release (or such shorter period of time as may be acceptable to the Administrative Agent), a written request for release identifying such Guarantor and, if the Subsidiary Guarantor is an Ongoing Subsidiary only, the terms of the sale, liquidation, merger or consolidation in reasonable detail, including, in the case of a sale, the price thereof and any expenses in connection therewith, together, in all cases, with a form of release for execution by the Administrative Agent and a certification by MEDIQ to the effect that the sale, liquidation, merger or consolidation, as the case may be, is in compliance with the terms of the Credit Agreement and as to such other matters as the Administrative Agent may reasonably request and (z) in the case of a sale, any proceeds of any such sale required to be applied to the prepayment of Advances or reduction of Commitments in accordance with the terms of the Credit Agreement shall be so applied; provided further as to any merger or consolidation in which the surviving corporation thereof is a Subsidiary of MEDIQ, such surviving corporation shall have assumed in a form satisfactory to the Administrative Agent the Guaranteed Obligations of such Guarantor.

Section 9. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telegraphic, telecopy or telex communication) and mailed, telegraphed, telecopied, telexed or delivered to it, if to any Subsidiary Guarantor, to the address set forth below such Subsidiary Guarantor's signature on the signature pages hereof, if to the Administrative Agent, the Documentation Agent or any Lender Party, at its address specified in the Credit Agreement, or as to any party at such other address as shall be designated by such party in a written notice to each other party. All such notices and other communications shall, when mailed, telegraphed, telecopied, telexed or sent by courier, be effective when deposited in the mails, delivered to the telegraph company, transmitted by telecopier, confirmed by telex answerback or delivered to the overnight courier, respectively. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Subsidiary Guaranty shall be effective as delivery of a manually executed counterpart thereof.

Section 10. No Waiver; Remedies. No failure on the part of the Administrative Agent or any other Secured Party to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any

other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 11. Right of Set-off. Upon (a) the occurrence and during the continuance of any Event of Default and (b) the making of the request or the granting of the consent specified by Section 6.01 of the Credit Agreement to authorize the Administrative Agent to declare the Notes due and payable pursuant to the provisions of said Section 6.01, each Lender Party and each of its respective Affiliates is hereby authorized at any time and from time to time, to

the fullest extent permitted by law, to set off and otherwise apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender Party or such Affiliate to or for the credit or the account of any Subsidiary Guarantor against any and all of the Obligations of such Subsidiary Guarantor now or hereafter existing under this Subsidiary Guaranty, irrespective of whether such Lender Party shall have made any demand under this Subsidiary Guaranty and although such Obligations may be unmatured. Each Lender Party agrees promptly to notify such Subsidiary Guarantor after any such set-off and application; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender Party and its respective Affiliates under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender Party and its respective Affiliates may have.

Section 12. Indemnification. Without limitation on any other Obligations of any Subsidiary Guarantor or remedies of the Secured Parties under this Subsidiary Guaranty, each Subsidiary Guarantor shall, to the fullest extent permitted by law, indemnify, defend and save and hold harmless each Secured Party from and against, and shall pay on demand, any and all losses, liabilities, damages, costs, expenses and charges (including the fees and disbursements of such Secured Party's legal counsel) suffered or incurred by such Secured Party as a result of any failure of any Guaranteed Obligations to be the legal, valid and binding obligations of any Loan Party enforceable against such Loan Party in accordance with their terms.

Section 13. Continuing Subsidiary Guaranty; Assignments under the Credit Agreement. This Subsidiary Guaranty is a continuing guaranty and shall (a) remain in full force and effect until the later of the payment in full in cash of the Guaranteed Obligations and all other amounts payable under this Subsidiary Guaranty and the Termination Date, (b) be binding upon each Subsidiary Guarantor, its successors and assigns and (c) inure to the benefit of and be enforceable by the Administrative Agent and the other Secured Parties and their successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), any Secured Party may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement (including, without limitation, all or any portion of its Commitments, the Advances owing to it and the Note or Notes held by it) to any other Person, and such other Person shall thereupon become vested with all the

benefits in respect thereof granted to such Secured Party herein or otherwise, in each case as and to the extent provided in Section 9.07 of the Credit Agreement. No Subsidiary Guarantor shall have the right to assign its rights hereunder or any interest herein without the prior written consent of the Secured Parties.

Section 14. Governing Law; Jurisdiction; Waiver of Jury Trial, Etc. (a) This Subsidiary Guaranty shall be governed by, and construed in accordance with, the laws of the State of New York.

(b) Each Subsidiary Guarantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Subsidiary Guaranty or any of the other Loan Documents to which it is or is to be a party, or for recognition or enforcement of any judgment, and each Subsidiary Guarantor hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. Each Subsidiary Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Subsidiary Guaranty shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Subsidiary Guaranty or any of the other Loan Documents to which it is or is to be a party in the courts of any jurisdiction.

(c) Each Subsidiary Guarantor irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit,

action or proceeding arising out of or relating to this Subsidiary Guaranty or any of the other Loan Documents to which it is or is to be a party in any New York State or federal court. Each Subsidiary Guarantor hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each Subsidiary Guarantor hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to any of the Loan Documents, the transactions contemplated thereby or the actions of the Administrative Agent or any other Secured Party in the negotiation, administration, performance or enforcement thereof.

IN WITNESS WHEREOF, each Subsidiary Guarantor has caused this Subsidiary Guaranty to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

MEDIQ INVESTMENT SERVICES, INC.

By _____
Name:
Title:

MEDIQ MANAGEMENT SERVICES, INC.

By _____
Name:
Title:

MEDIQ SURGICAL EQUIPMENT SERVICES, INC.

By _____
Name:
Title:

VALUE-MED PRODUCTS, INC.

By _____
Name:
Title:

MEDIQ MOBILE X-RAY SERVICES, INC.

By _____
Name:
Title:

HEALTH EXAMINETICS, INC.

By _____
Name:
Title:

THERA-KINETICS ACQUISITION
CORPORATION

By _____
Name:
Title:

MDTC HADDON, INC.

By _____
Name:
Title:

MEDIQ DIAGNOSTIC CENTERS INC.

By _____
Name:
Title:

MEDIQ DIAGNOSTIC CENTERS-I INC.

By _____
Name:
Title:

MEDIQ IMAGING SERVICES, INC.

By _____
Name:
Title:

AMERICAN CARDIOVASCULAR
IMAGING LABS, INC.

By _____
Name:
Title:

ALPHA HEALTH CONSULTANTS, INC.

By _____
Name:
Title:

P. I. CORPORATION

By _____
Name:
Title:

MEDIQ SERVICES, INC.

By _____
Name:
Title:

MEDIQ HOME THERAPY SERVICES OF
ARIZONA, INC.

By _____

Name:
Title:

EXHIBIT H TO THE
CREDIT AGREEMENT

BORROWING BASE CERTIFICATE

To: Banque Nationale de Paris
499 Park Avenue
New York, New York 10022
Attn: Mr. Alan Mustacchi
Telecopy: (212) 418-8269

MEDIQ/PRN Life Support Services, Inc.

Date: _____

(1)	Inventory Net Availability [Total from Schedule I]	$_____
(2)	Accounts Receivable Net Availability [Total from Schedule II]	$_____
(3)	Total Borrowing Base Availability [1 plus 2]	$_____
(4)	Working Capital Facility	$_____
(5)	The lesser of (3) and (4)	$_____
(6)	Working Capital Advances Outstanding	$_____
(7)	Aggregate Principal Amount of Letter of Credit Advances Outstanding	$_____
(8)	Total Available Amount of all Letters of Credit Outstanding	
	a. Standby Letters of Credit	$_____
	b. Trade Letters of Credit	$_____
	c. Total Letters of Credit [(a) + (b)]	$_____

(9)	Total Working Capital Availability [(5) less (6) less (7) less (8)]	$_____

This report is submitted pursuant to the Credit Agreement dated as of September 30, 1996 among MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Borrower"), MEDIQ Incorporated, a Delaware corporation, PRN Holdings, Inc., a Delaware corporation, the lender parties (the "Lender Parties") that are, or may from time to time become, party thereto, Banque Nationale de Paris, as administrative agent (the "Administrative Agent") and as initial issuing bank, and NationsBank, N.A., as documentation agent. All of the current accounts referred to in this report (the "Accounts") have been assigned to the Administrative Agent and the Administrative Agent has been granted a security interest in the Accounts pursuant to the Loan Documents. Unless otherwise indicated, capitalized terms used herein have the meanings ascribed to them in the Credit Agreement.

The undersigned hereby certifies that (i) the amounts and the representations set forth above are true and correct in all material respects, (ii) the calculations determined herein are determined in accordance with the Credit Agreement and (iii) except as noted, none of the Accounts referred to in this report falls within the ineligible or prohibited categories as noted in the Credit Agreement. We further confirm the above mentioned assignment and grant of security interest in the Accounts to the Administrative Agent.

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC.

Date: _____ By:_____
Name:
Title:

SCHEDULE I

MEDIQ/PRN Life Support Services, Inc.
Inventory Net Availability

(a) Gross Inventory _____

Less: Ineligible Inventory

(b) Inventory consisting of "perishable agricultural commodities" within the meaning of the Perishable Agricultural Commodities Act of 1930, as amended, and the regulations thereunder, or on which a Lien has arisen or may arise in favor of agricultural producers under comparable state or local laws _____

(c) Inventory located on leaseholds as to which the lessor has not entered into a consent and agreement providing the Administrative Agent with the right to receive notice of default, the right to repossess such Inventory at any reasonable time pursuant to such consent and agreement and such other rights as may be reasonably acceptable to the Administrative Agent _____

(d) Inventory that is obsolete, unusable or otherwise unavailable for sale _____

(e) Inventory with respect to which the representations and warranties set forth in Section 8 of the Security Agreement applicable to Inventory are not true and correct _____

(f) Inventory consisting of promotional, marketing, packaging or shipping materials and supplies _____

(g) Inventory that fails to meet all standards imposed by any governmental agency, or department or division thereof, having regulatory authority over such Inventory or its use or sale _____

(h) Inventory that is subject to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third party from whom the

Borrower has received written notice of a dispute in respect of any such agreement _____

(i) Inventory located outside the United States _____

(j) Inventory that is not in the possession of or under the sole control of the Borrower or not in a Leased facility in respect of which the owner has entered into a consent and agreement

providing the Administrative Agent with the right to receive notice of default, the right to repossess such Inventory at any reasonable time pursuant to such consent and agreement and such other rights as may be reasonably acceptable to the Administrative Agent _____

(k) Inventory consisting of work in progress _____

(l) Inventory in respect of which the Security Agreement, after giving effect to the related filings of financing statements that have then been made, if any, does not or has ceased to create a valid and perfected first priority lien or security interest in favor of the Secured Parties securing the Secured Obligations and as to which no other Liens exist, other than Permitted Liens _____

(m) Inventory not recorded under a perpetual inventory system reasonably acceptable to the Administrative Agent _____

(n) Total Ineligible Inventory [sum of (b) through (m)] _____

(o) Total Eligible Inventory [(a) less (n)] _____

Net Inventory Availability at 50% of Eligible Inventory [(o) multiplied by 50%] ==========

SCHEDULE II

MEDIQ/PRN Life Support Services, Inc.
Accounts Receivable Net Availability

(a) Gross Receivables _____

Less: Ineligible Receivables

(b) Receivables that do not arise out of sales of goods or rendering of services in the ordinary course of business _____

(c) Receivables on terms other than those normal or customary in the Borrower's business _____

(d) Receivables owing from Affiliates of the Borrower _____

(e) Receivables more than 120 days past the invoice date _____

(f) Receivables owing from any Person for whom an aggregate amount of more than 50% of Receivables owing from such Person are more than 120 days past the original invoice date _____

(g) Receivables owing from any Person that has asserted any claim, demand or liability, by action, suit, counterclaim or other judicial or arbitral proceeding _____

(h) Receivables owing from any Person that shall take or is the subject of any action or proceeding of a type described in Section 6.01(f) _____

(i) Receivables (i) owing from any supplier to or

creditor of the Borrower (to the extent such Person has any right of setoff but only to the extent of such setoff) unless such Person has waived any right of setoff in a manner acceptable to the Administrative Agent or (ii) representing any manufacturer's or supplier's credits, discounts, incentive plans or similar arrangements entitling the

Borrower or its Subsidiaries to discounts on future purchases therefrom _____

(j) Receivables arising out of sales to account debtors outside of the United States _____

(k) Receivables arising out of sales on a bill-and-hold, guaranteed sale, sale-or-return, sale on approval or consignment basis or subject to any right of return, set-off or charge-back _____

(l) Receivables owing from an account debtor that is an agency, department or instrumentality of the United States or any State thereof _____

(m) Receivables in respect of which the Security Agreement, after giving effect to the related filings of financing statements that have then been made, if any, does not or has ceased to create a valid and perfected first priority lien or security interest in favor of the Agent for the benefit of the Secured Parties securing the Secured Obligations as to which no other Liens exist, other than Permitted Liens _____

(n) Total Ineligible Receivables [(sum of (b) through (m)] _____

(o) Eligible Receivables [(a) less (n)] _____

Net Availability at 80% of Eligible Receivables [(o) multiplied by 80%] _____

EXHIBIT J TO THE CREDIT AGREEMENT

FORM OF SOLVENCY CERTIFICATE

OF MEDIQ/PRN LIFE SUPPORT SERVICES, INC.

I, Jay M. Kaplan, Senior Vice President and Chief Financial Officer of MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Borrower"), hereby certify that I am the Senior Vice President and Chief Financial Officer of the Borrower, that I am familiar with its properties, businesses, assets, finances and operations and that I am duly authorized to execute this Solvency Certificate on behalf of the Borrower, which is being delivered pursuant to Section 3.01(g)(xiii) of the Credit Agreement dated as of October 1, 1996 (as it may be hereafter amended, supplemented or otherwise modified from time to time in accordance with its terms, the "Credit Agreement") among the Borrower, MEDIQ Incorporated, a Delaware corporation, and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the lender parties from time to time party thereto (the "Lender Parties"), Banque Nationale de Paris, as administrative agent (the "Administrative Agent") for the Lender Parties and as initial issuing bank, and NationsBank, N.A. as documentation agent (the "Documentation Agent" and, together with the Administrative Agent, the "Agents") for the Lender Parties. Unless otherwise defined herein, capitalized terms defined in the Credit Agreement are used herein as therein defined.

I further certify that I am familiar with the properties, businesses and assets of the Borrower and have carefully reviewed the Loan Documents, the Related Documents and the contents of this Solvency Certificate and, in connection herewith, have made such investigation and inquiries as I deem

necessary and prudent therefor. I further certify, as the Senior Vice President and Chief Financial Officer of the Borrower, that the financial information and assumptions which underlie and form the basis for the representations made in this Solvency Certificate were reasonable when made and were made in good faith and continue to be reasonable as of the date hereof.

To secure, among other things, the payment of the Borrower's Obligations under the Loan Documents, the Borrower has granted a security interest in certain Collateral, now owned or hereafter acquired by it, pursuant to the Collateral Documents.

The Borrower understands that the Agents and the Lender Parties are relying on the truth and accuracy of this Solvency Certificate in connection with the transactions contemplated by the Loan Documents.

I do hereby further certify, as the Senior Vice President and Chief Financial Officer of the Borrower, that:

1. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the fair value of any and all property of the Borrower is greater than the total amount of liabilities (including contingent, subordinated, absolute, fixed, matured or unmatured and liquidated or unliquidated liabilities) of the Borrower.

2. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the present fair saleable value of the assets of the Borrower exceeds the amount that will be required to pay the probable liabilities of the Borrower on its debts as they become absolute and matured.

3. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the Borrower is not engaged in business or in a transaction, and is not about to engage in business or in a transaction, for which its capital would constitute unreasonably small capital (after giving due consideration to the prevailing practice in the industry in which it is engaged).

4. The Borrower does not intend or believe that it will incur debts and liabilities that will be beyond its ability to pay as such debts or liabilities mature.

5. The Borrower does not intend, in consummating the transactions contemplated by the Credit Agreement, the other Loan Documents, or the Related Documents, to hinder, delay or defraud either present or future creditors or any other Person to which the Borrower is or will become, on or after the date hereof, indebted.

6. In reaching the conclusions set forth in this Solvency Certificate, I have considered, on behalf of the Borrower, among other things:

(a) the cash and other assets of the Borrower reflected in the Financial Statements of the Borrower;

(b) all contingent liabilities of the Borrower including, without limitation, any claims arising out of pending or threatened litigation against the Borrower, and in so doing, the Borrower has computed the amount of such liabilities as the amount that, in light of all the facts and circumstances existing on the date hereof, represents the amount that can reasonably be expected to become an actual or matured liability (the "Contingent Liabilities");

(c) all obligations and liabilities of the Borrower, whether matured or unmatured, liquidated or unliquidated, disputed or undisputed, secured

or unsecured, subordinated, absolute, fixed or contingent (other than Contingent Liabilities);

(d) historical and anticipated growth in sales volume of the Borrower and income stream generated by the Borrower as reflected in, among other things, the cash flow statements delivered as part of the Financial Statements;

(e) the customary terms and trade payables of the Borrower;

(f) the amount of the credit extended by and to customers of the Borrower;

(g) the amortization requirements of the Credit Agreement and the Related Documents, the anticipated interest payable on the Advances and fees payable under the Credit Agreement;

(h) the level of capital customarily maintained by the Borrower and other entities engaged in the same or similar business as the business of the Borrower; and

(i) the environmental assessment reports delivered pursuant to Section 3.01(g)(xiv) of the Credit Agreement.

Delivery of an executed counterpart of a signature page to this Solvency Certificate by telecopier shall be effective as delivery of a manually executed counterpart of this Solvency Certificate.

I have given this Solvency Certificate (a) solely in my capacity as an officer of the Borrower and not individually and (b) on the understanding, and subject to the condition, that I will have no personal liability on account of having given this Solvency Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate on behalf of the Borrower this 1st day of October, 1996.

By _____
Name: Jay M. Kaplan
Title: Senior Vice Presient and
Chief Financial Officer

EXHIBIT K-1 TO THE
CREDIT AGREEMENT

FORM OF SOLVENCY CERTIFICATE

OF MEDIQ/PRN LIFE SUPPORT SERVICES, INC.

I, Jay M. Kaplan, Senior Vice President and Chief Financial Officer of MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Borrower"), hereby certify that I am the Senior Vice President and Chief Financial Officer of the Borrower, that I am familiar with its properties, businesses, assets, finances and operations and that I am duly authorized to execute this Solvency Certificate on behalf of the Borrower, which is being delivered pursuant to Section 3.01(g)(xiii) of the Credit Agreement dated as of October 1, 1996 (as it may be hereafter amended, supplemented or otherwise modified from time to time in accordance with its terms, the "Credit Agreement") among the Borrower, MEDIQ Incorporated, a Delaware corporation, and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the lender parties from time to time party thereto (the "Lender Parties"), Banque Nationale de Paris, as administrative agent (the "Administrative Agent") for the Lender Parties and as initial issuing bank, and NationsBank, N.A. as documentation agent (the "Documentation Agent" and, together with the Administrative Agent, the "Agents") for the Lender Parties. Unless otherwise defined herein, capitalized terms defined in the Credit Agreement are used herein as therein defined.

I further certify that I am familiar with the properties, businesses and assets of the Borrower and have carefully reviewed the Loan Documents, the Related Documents and the contents of this Solvency Certificate and, in connection herewith, have made such investigation and inquiries as I deem necessary and prudent therefor. I further certify, as the Senior Vice President and Chief Financial Officer of the Borrower, that the financial information and assumptions which underlie and form the basis for the representations made in

this Solvency Certificate were reasonable when made and were made in good faith and continue to be reasonable as of the date hereof.

To secure, among other things, the payment of the Borrower's Obligations under the Loan Documents, the Borrower has granted a security interest in certain Collateral, now owned or hereafter acquired by it, pursuant to the Collateral Documents.

The Borrower understands that the Agents and the Lender Parties are relying on the truth and accuracy of this Solvency Certificate in connection with the transactions contemplated by the Loan Documents.

I do hereby further certify, as the Senior Vice President and Chief Financial Officer of the Borrower, that:

1. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the fair value of any and all property of the Borrower is greater than the total amount of liabilities (including contingent, subordinated, absolute, fixed, matured or unmatured and liquidated or unliquidated liabilities) of the Borrower.

2. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the present fair saleable value of the assets of the Borrower exceeds the amount that will be required to pay the probable liabilities of the Borrower on its debts as they become absolute and matured.

3. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the Borrower is not engaged in business or in a transaction, and is not about to engage in business or in a transaction, for which its capital would constitute unreasonably small capital (after giving due consideration to the prevailing practice in the industry in which it is engaged).

4. The Borrower does not intend or believe that it will incur debts and liabilities that will be beyond its ability to pay as such debts or liabilities mature.

5. The Borrower does not intend, in consummating the transactions contemplated by the Credit Agreement, the other Loan Documents, or the Related Documents, to hinder, delay or defraud either present or future creditors or any other Person to which the Borrower is or will become, on or after the date hereof, indebted.

6. In reaching the conclusions set forth in this Solvency Certificate, I have considered, on behalf of the Borrower, among other things:

(a) the cash and other assets of the Borrower reflected in the Financial Statements of the Borrower;

(b) all contingent liabilities of the Borrower including, without limitation, any claims arising out of pending or threatened litigation against the Borrower, and in so doing, the Borrower has computed the amount of such liabilities as the amount that, in light of all the facts and circumstances existing on the date hereof, represents the amount that can reasonably be expected to become an actual or matured liability (the "Contingent Liabilities");

(c) all obligations and liabilities of the Borrower, whether matured or unmatured, liquidated or unliquidated, disputed or undisputed, secured or unsecured, subordinated, absolute, fixed or contingent (other than Contingent Liabilities);

(d) historical and anticipated growth in sales volume of the Borrower and income stream generated by the Borrower as reflected in, among other things, the cash flow statements delivered as part of the Financial Statements;

(e) the customary terms and trade payables of the Borrower;

(f) the amount of the credit extended by and to customers of the Borrower;

(g) the amortization requirements of the Credit Agreement and the Related Documents, the anticipated interest payable on the Advances and fees payable under the Credit Agreement;

(h) the level of capital customarily maintained by the Borrower and other entities engaged in the same or similar business as the business of the Borrower; and

(i) the environmental assessment reports delivered pursuant to Section 3.01(g)(xiv) of the Credit Agreement.

Delivery of an executed counterpart of a signature page to this Solvency Certificate by telecopier shall be effective as delivery of a manually executed counterpart of this Solvency Certificate.

I have given this Solvency Certificate (a) solely in my capacity as an officer of the Borrower and not individually and (b) on the understanding, and subject to the condition, that I will have no personal liability on account of having given this Solvency Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate on behalf of the Borrower this 1st day of October, 1996.

By:_____
Name: Jay M. Kaplan
Title: Senior Vice President and
Chief Financial Officer

EXHIBIT K-2 TO
THE CREDIT
AGREEMENT

FORM OF SOLVENCY CERTIFICATE

OF MEDIQ INCORPORATED

I, Michael F. Sandler, Chief Financial Officer of MEDIQ Incorporated, a Delaware corporation ("MEDIQ"), hereby certify that I am the Chief Financial Officer of MEDIQ, that I am familiar with the properties, businesses, assets, finances and operations of MEDIQ and its Subsidiaries (collectively, the "Company"), and that I am duly authorized to execute this Solvency Certificate on behalf of MEDIQ, which is being delivered pursuant to Section 3.01(g)(xiii) of the Credit Agreement dated as of October 1, 1996 (as it may be hereafter amended, supplemented or otherwise modified from time to time in accordance with its terms, the "Credit Agreement") among MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Borrower"), MEDIQ and PRN Holdings, Inc., a Delaware corporation, as Parent Guarantors, the lender parties from time to time party thereto (the "Lender Parties"), Banque Nationale de Paris, as administrative agent (the "Administrative Agent") for the Lender Parties and as initial issuing bank, and NationsBank, N.A. as documentation agent (the "Documentation Agent" and, together with the Administrative Agent, the "Agents") for the Lender Parties. Unless otherwise defined herein, capitalized terms defined in the Credit Agreement are used herein as therein defined.

I further certify that I am familiar with the properties, businesses and assets of the Company and have carefully reviewed the Loan Documents, the Related Documents and the contents of this Solvency Certificate and, in connection herewith, have made such investigation and inquiries as I deem necessary and prudent therefor. I further certify, as the Senior Vice President and Chief Financial Officer of MEDIQ, that the financial information and assumptions which underlie and form the basis for the representations made in this Solvency Certificate were reasonable when made and were made in good faith and continue to be reasonable as of the date hereof.

To secure, among other things, the payment of the Company's Obligations under the Loan Documents, the Company has granted a security interest in certain Collateral, now owned or hereafter acquired by it, pursuant to the Collateral Documents.

The Company understands that the Agents and the Lender Parties are relying on the truth and accuracy of this Solvency Certificate in connection with the transactions contemplated by the Loan Documents.

I do hereby further certify, as the Senior Vice President and Chief Financial Officer of MEDIQ, that:

1. Attached hereto as Annex A are the projected consolidated financial statements of the Company on a monthly basis for the first two years following the day of the Initial Extension of Credit and on an annual basis for each year thereafter until the Final Maturity Date (the "Projected Financial Statements") prepared by management in good faith. The Projected Financial Statements fairly present the best estimate of the future financial performance of the Company and are reasonable in light of the business conditions existing on the date hereof, although actual results during the periods covered by the Projected Financial Statements may differ materially from the projected results stated therein.

2. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the fair value of any and all property of the Company is greater than the total amount of liabilities (including contingent, subordinated, absolute, fixed, matured or unmatured and liquidated or unliquidated liabilities) of the Company.

3. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the present fair saleable value of the assets of the Company exceeds the amount that will be required to pay the probable liabilities of the Company on debts as they become absolute and matured.

4. On the date hereof, both before and after giving effect to the consummation of the transactions contemplated by the Credit Agreement, the other Loan Documents and the Related Documents, the Company is not engaged in any business or transaction, and is not about to engage in any business or transaction, for which the capital of the Company would constitute unreasonably small capital (after giving due consideration to the prevailing practice in the industry in which the Company is engaged).

5. The Company does not intend or believe that it will incur debts and liabilities that will be beyond its ability to pay as such debts or liabilities mature.

6. The Company does not intend, in consummating the transactions contemplated by the Credit Agreement, the other Loan Documents, or the Related Documents, to hinder, delay or defraud either present or future creditors or any other Person to which the Company is or will become, on or after the date hereof, indebted.

7. In reaching the conclusions set forth in this Solvency Certificate, I have considered, on behalf of the Company, among other things:

(a) the cash and other assets of the Company;

(b) all contingent liabilities of the Company including, without limitation, any claims arising out of pending or threatened litigation against the Company, and in so doing, the Company has computed the amount of such liabilities as the amount that, in light of all the facts and circumstances existing on the date hereof, represents the amount that can

reasonably be expected to become an actual or matured liability (the "Contingent Liabilities");

(c) all obligations and liabilities of the Company, whether matured or unmatured, liquidated or unliquidated, disputed or undisputed, secured or unsecured, subordinated, absolute, fixed or contingent (other than Contingent Liabilities);

(d) historical and anticipated growth in sales volume of the Company and income stream generated by the Company as reflected in, among other things, the cash flow statements delivered as part of the Projected Financial Statements;

(e) the customary terms and trade payables of the Company;

(f) the amount of the credit extended by and to customers of the Company;

(g) the amortization requirements of the Credit Agreement and the Related Documents, the anticipated interest payable on the Advances and fees payable under the Credit Agreement;

(h) the level of capital customarily maintained by the Company and other entities engaged in the same or similar business as the business of the Company;

(i) the environmental assessment reports delivered pursuant to Section 3.01(g)(xiv) of the Credit Agreement; and

(j) the Projected Financial Statements.

Delivery of an executed counterpart of a signature page to this Solvency Certificate by telecopier shall be effective as delivery of a manually executed counterpart of this Solvency Certificate.

I have given this Solvency Certificate (a) solely in my capacity as an officer of MEDIQ and not individually and (b) on the understanding, and subject to the condition, that I will have no personal liability on account of having given this Solvency Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate on behalf of the Company this 30th day of September, 1996.

By _____
Name: Michael F. Sandler
Title: Chief Financial Officer

SECOND SUPPLEMENTAL INDENTURE, dated as of October 1, 1996 between MEDIQ/PRN Life Support Services, Inc., a Delaware corporation (the "Company"), and Summit Bank f/k/a United Jersey Bank, as Trustee (the "Trustee") under that certain Indenture dated as of July 6, 1992 as supplemented by Supplemental Indenture dated as of September 30, 1994 (as so supplemented, the "Indenture").

W I T N E S S E T H:

WHEREAS, the Company has heretofore executed and delivered to the Trustee the Indenture providing for the issuance of the Company's 11-1/8% Senior Secured Notes Due 1999 (the "Senior Secured Notes"); and

WHEREAS, Section 9.02 of the Indenture authorizes the Company and the Trustee, with the consent of at least a majority in aggregate principal amount of the Senior Secured Notes then Outstanding, to amend the Indenture, the Security Documents or the Senior Secured Notes and to execute a Supplemental Indenture in connection therewith, to make certain changes; and

WHEREAS, all acts and proceedings required by law and by the Indenture to constitute this Supplemental Indenture a valid and binding agreement for the uses and purposes herein as set forth, in accordance with its terms, have been done and taken, and the execution and delivery of this Second Supplemental Indenture have been in all respects duly authorized by the Company.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, each party hereto covenants and agrees with the other party, for the equal and proportionate benefit of all present and future Noteholders, as follows:

1. The Indenture is hereby amended by deleting the following Sections in their entirety:

(a) 4.03

(b) 4.04

(c) 4.05

(d) 4.09

(e) 4.10

(f) 4.14

(g) 4.15

(h) 4.18

2. The definition of "Permitted Liens" is hereby amended by adding two new clauses (xii) and (xiii) at the end of such definition as follows:

"and (xii) Liens on any assets which are not subject to the Liens of the Trustee for the benefit of the Noteholders, and (xiii) Liens on assets subject to the Liens of the Trustee for the benefit of Noteholders, but which are expressly subordinate in priority to such Liens in favor of the Trustee created under this Indenture."

3. Section 2.09 of the Indenture is hereby amended by deleting such Section in its entirety and replacing it with the following:

"Section 2.09. Outstanding Senior Secured Notes.

Senior Secured Notes outstanding at any time are all Senior Secured Notes that have been authenticated by the Trustee, except for those cancelled or deemed cancelled pursuant to Section 2.12(b) hereof by the Trustee, those delivered to it for cancellation and those described in this Section as not outstanding. A Senior Secured Note does not cease to be outstanding because the Company or one of its Affiliates holds the Senior Secured Note.

If a Senior Secured Note is replaced pursuant to Section 2.08, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Senior Secured Note is held by a bona fide purchaser.

If the Paying Agent (other than the Company or a Subsidiary of the Company) holds, on a redemption date or the Maturity Date, money sufficient to pay all accrued interest and principal with respect to such Senior Secured Notes payable on that date and is not prohibited from paying such money to the Holders thereof pursuant to the terms of this Indenture, then on and after that date such Senior Secured Notes cease to be outstanding and interest on them cease to accrue."

4. Section 2.12 of the Indenture is hereby amended by designating the existing text as subsection "(a)" and adding a new subsection (b) as follows:

"(b) In the event that the Company deposits trust monies with the Trustee pursuant to Section 8.01(a)(ii) hereof and the Company or an Affiliate of the Company

holds Senior Secured Notes for which no such deposit is being made, all such Senior Secured Notes held by the Company or its Affiliate

shall be deemed cancelled by the Trustee pursuant to this Section 2.12 effective immediately prior to the Trustee's receipt of such deposit, regardless of whether such Senior Secured Notes have been delivered to the Trustee in accordance with Section 2.12(a)."

5. Section 4.13(b) is hereby amended by deleting such Section and replacing it with the following:

"(b) requires, prior to the payment in full or defeasance of the Senior Secured Notes, that the proceeds received from the sale of any Collateral be applied to repay, redeem or otherwise retire any Indebtedness of any Person other than the Indebtedness represented by the Senior Secured Notes."

6. Section 4.17 is hereby amended by adding the following sentence to the end of such Section:

"Notwithstanding anything to the contrary contained herein, the Company and its subsidiaries and Affiliates may grant Liens on any assets which are not subject to the Liens of the Trustee for the benefit of the Noteholders."

7. Section 5.01 of the Indenture is hereby amended by deleting Subsection 5.01(ii) in its entirety and renumbering existing Subsection 5.01(iii) as 5.01(ii).

8. Section 8.01 of the Indenture is hereby amended by deleting such Section in its entirety and by replacing such Section with the following:

"SECTION 8.01. Termination of Obligations.

The Company may terminate its obligations under the Senior Secured Notes and this Indenture, except those obligations referred to in the immediately succeeding paragraph, if:

(a) (i) all Senior Secured Notes previously authenticated and delivered (other than destroyed, lost or stolen Senior Secured Notes which have been replaced or paid) have been delivered to the Trustee for cancellation or have been deemed cancelled pursuant to Section 2.12(b) hereof or monies sufficient for the payment of Senior Secured Notes which are due and payable but have not been surrendered for payment shall have been deposited with the Trustee or Paying Agent and the Company has paid all sums payable by it hereunder; or

(ii) the Company shall have irrevocably deposited or caused to be deposited with the Trustee or the Paying Agent, under the terms of an irrevocable trust agreement in form and substance satisfactory to the

Trustee, as trust funds in trust solely for the benefit of the Holders (other than the Company or any Affiliates of the Company) for that purpose, money or direct non-callable obligations of, or non-callable obligations guaranteed by, the United States of American for the payment of which guarantee or obligation the full faith and credit of the United States is pledged ("U.S. Government Obligations"), maturing as to principal and interest in such amounts and at such times as are sufficient, without consideration of any reinvestment of such interest, to pay principal of and interest on the outstanding Senior Secured Notes held by Holders other than the Company or any Affiliate to maturity or redemption, as the case may be, as certified by the Company in an Officers' Certificate; provided that the Trustee shall have been irrevocably instructed pursuant to such Officers' Certificate to apply such money or the proceeds of such U.S. Government Obligations to the payment of said principal and interest with respect to the Senior Secured Notes held by Holders other than the Company or any Affiliate of the Company; and provided, further, that the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that, after the passage of 124 days following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally; and

(b) the Company pays or causes to be paid all other sums then payable by the Company hereunder; or

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

provided, however, that no deposit under 8.01(a)(ii) shall be effective to terminate the obligations of the Company under the Senior Secured Notes or this Indenture prior to 124 days following such deposit.

Notwithstanding the foregoing paragraph, the Company's obligations in Sections 2.03, 2.04, 2.05, 2.06, 2.07, 2.13, 4.02, 7.07, 7.08, 8.03 and 8.04 shall survive until the Senior Secured Notes are no longer outstanding. Thereafter, the Company's obligations in Sections 7.07, 8.03 and 8.04 shall survive.

After such delivery or irrevocable deposit the Trustee upon request shall acknowledge in writing the discharge of the Company's obligations under the Senior Secured Notes and this Indenture except for those surviving obligations specified above.

The Company will pay any taxes or other expenses incurred by any trust created pursuant to this Article 8."

9. Section 8.02 of the Indenture is hereby amended by deleting such Section in its entirety and replacing such Section with the following:

"SECTION 8.02. Application of Trust Money

"The Trustee or Paying Agent shall hold in trust money or U.S. Government Obligations deposited with it pursuant to Section 8.01, and shall apply the deposited money and the money from U.S. Government Obligations in accordance with this Indenture to the payment of principal of and interest on the Senior Secured Notes; provided, however, that notwithstanding to anything the contrary contained herein the Trustee shall have no obligation to make payments of principal and interest under this Indenture for Senior Secured Notes held by the Company or its Affiliates for which no deposit was made under Section 8.01 hereof. The Trustee shall be under no obligation to invest said money or U.S. Government Obligations except as it may agree with the Company."

10. Except as expressly amended, the Indenture and the Senior Secured Notes issued thereunder are in all respects ratified and confirmed and all the terms, conditions and provisions shall remain in full force and effect. Capitalized terms used herein but not defined shall have the meanings given to such terms in the Indenture.

11. This Second Supplemental Indenture shall form a part of the Indenture for all purposes, and every Note heretofore or hereafter authenticated and delivered shall be bound hereby.

12. This Second Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts together constitute one and the same instrument. All capitalized terms used and not otherwise defined herein shall have the meanings given to them in the Original Indenture, the Senior Secured Notes or the Security Documents as applicable.

13. This Second Supplemental Indenture shall be construed in accordance with and governed by the laws of the State of New Jersey.

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

[Corporate Seal] MEDIQ/PRN Life Support Services, Inc.

By /s/ Jay M. Kaplan

Attest: /s/ Alan Einhorn

[Corporate Seal]

Summit Bank f/k/a United Jersey Bank,
as Trustee

By /s/ Donna J. Flanagan

Attest:_____

This AMENDMENT TO SECURITY AGREEMENT is made this 1st day of October, 1996 by and between MEDIQ/PRN Life Support Services, Inc. (the "Pledgor"), and Summit Bank f/k/a United Jersey Bank as collateral agent (the "Collateral Agent") and as trustee for the noteholders (and defined in the Indenture) under the Indenture (as defined herein).

BACKGROUND

A. The Pledgor and the Trustee are parties to that certain Indenture dated July 6, 1992, as amended by Supplemental Indentures dated September 30, 1994 and October 1, 1996 (collectively, the "Indenture").

B. Under the terms of the Indenture, the Pledgor and the Collateral Agent are parties to a Security Agreement dated as of July 6, 1992.

C. The Pledgor and the Trustee have executed today the Second Supplemental Indenture. Pursuant to the Second Supplemental Indenture, certain amendments need to be made to the Security Agreement so that it conforms to the Indenture as modified. Accordingly, the Pledgor and the Collateral Agent agree to amend the Security Agreement as set forth herein.

D. Capitalized terms used herein, but not defined herein, shall have the meanings given to such terms in the Indenture or the Security Agreement, as appropriate.

NOW THEREFORE, the foregoing Background being incorporated herein by reference, the parties hereto agree as follows:

AMENDMENT

1. Section 5(b) of the Security Agreement is hereby amended by adding the following clause (3) to the end of such Section as follows:

> "; and (3) liens expressly subordinate to the Liens in favor of the Collateral Agent created under this Agreement and otherwise permitted under the Indenture."

2. Section 5(c) of the Security Agreement is hereby amended by deleting the last sentence of such Section and replacing it with the following:

> "So long as the Secured Obligations remain unpaid, Pledgor shall not execute or authorize to be filed in any public office any financing statement (or similar statement or instrument of registration under the law of any jurisdiction) or statements relating to the Pledged Collateral, except financing statements filed or to be filed in respect of and covering the security interests granted hereby by

Pledgor or granted and filed in connection with of a Permitted Encumbrance."

3. Except as expressly amended hereby, the Security Agreement shall remain in full force and effect according to its terms.

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

5. This Amendment to Security Agreement shall be construed in accordance with and governed by the laws of the State of New Jersey.

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

MEDIQ/PRN LIFE SUPPORT
SERVICES, INC.

By: /s/ Jay M. Kaplan

Its: Chief Financial Officer

SUMMIT BANK f/k/a UNITED
JERSEY BANK, as COLLATERAL AGENT

By: /s/ Donna J. Flanagan

Its:

DEFEASANCE TRUST AGREEMENT

DEFEASANCE TRUST AGREEMENT dated as of October 1, 1996 (the "Agreement") among SUMMIT BANK, f/k/a United Jersey Bank (the "Trustee"), a banking corporation organized and existing under the laws of the State of New Jersey and MEDIQ/PRN Life Support Services, Inc., a Delaware corporation ("MEDIQ/PRN").

WITNESSETH:

WHEREAS, MEDIQ/PRN has heretofore issued its 11-1/8% Senior Secured Notes due 1999 (the "Senior Secured Notes"); and

WHEREAS, the Senior Secured Notes were issued under and pursuant to an Indenture dated as of July 6, 1992, as amended by supplemental indentures dated as of September 30, 1994 and October 1, 1996, as amended (the "Indenture"), between MEDIQ/PRN and the Trustee; and

WHEREAS, the Senior Secured Notes are secured by, among other things, a security interest in the Collateral (as defined in the Indenture) granted pursuant to a Security Agreement by and between MEDIQ/PRN and the Trustee in its capacity as Collateral Agent dated as of July 6, 1992, as amended by Amendment of even date herewith; and

WHEREAS, MEDIQ/PRN has determined that it is desirable to defease the Senior Secured Notes and for such purpose, among other things, MEDIQ/PRN has entered into a Credit Agreement with Banque Nationale de Paris, NationsBank and certain other parties, (the "BNP Credit Agreement"); and

WHEREAS, concurrently with the execution and delivery hereof, a portion of the proceeds borrowed under the BNP Credit Agreement, will be used to acquire securities to be deposited with the Trustee pursuant to Section 8.01(a) of the Indenture and applied for and toward the redemption on July 1, 1997, of all Senior Secured Notes outstanding on such date at a redemption price of 103.5% of the principal amount thereof plus all outstanding interest thereon; and

WHEREAS, upon the deposit with the Trustee of the Defeasance Deposit (as defined herein), which deposit is sufficient without consideration of the reinvestment of interest to pay the principal of and interest on, the Senior Secured Notes upon the redemption of such Senior Secured Notes on July 1, 1997, the Trustee will terminate its rights, title and interest in the Indenture; and

WHEREAS, MEDIQ/PRN and the Trustee desire to enter into this Agreement to set forth their respective rights and duties hereunder and to provide for the payment of the Senior Secured Notes in accordance with the terms hereof and the Indenture;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto, intending to be legally bound hereby, covenant and agree as follows:

SECTION 1. Defeasance Fund.

(a) The Trustee hereby acknowledges receipt of the securities described on Exhibit A hereto which shall constitute the Defeasance Fund.

(b) The Trustee shall hold the securities in the Defeasance Fund and all money received by it from the collection of interest on the securities in the Defeasance Fund, in special funds and separate trust accounts for the benefit of the holders of the Senior Secured Notes, wholly segregated from all other funds and investments deposited with the Trustee, and shall never commingle such investments with other moneys or investments. Amounts in the Defeasance Fund shall be applied only as hereinafter provided.

SECTION 2. Instructions for Payment of Bonds and Notice of Defeasance. The Trustee shall, out of the moneys available in the Defeasance Fund after the securities in the Defeasance Fund have matured, redeem all of the Senior Secured Notes on July 1, 1997 at a redemption price of 103.5% of the principal amount thereof as provided in the Indenture. Notice of Redemption of the Senior Secured Notes to be redeemed on such date, meeting the requirements of Section 3.03 of the Indenture and substantially in the form attached hereto as Exhibit B, shall be sent by first class mail, postage prepaid to the registered owners of the Senior Secured Notes at their addresses set forth on the bond registry books kept by the Trustee (in its capacity as Trustee) not less than 30 days nor more than 60 days prior to July 1, 1997. The Trustee shall, as soon as practicable following deposit of the securities into the Defeasance Fund, also cause a notice of defeasance, substantially in the form attached hereto as Exhibit C to be mailed by first class mail, postage prepaid, to the registered owners of the Senior Secured Notes as shown on the registration books of the Trustee. Copies of the notices described in this Section shall also be sent by the Trustee to each other person entitled to receive notices of redemption in accordance with the Indenture.

SECTION 3. No Revocation or Amendment of Agreement.

(a) Irrevocable Trust. The Trustee and MEDIQ/PRN recognize that the holders from time to time of the outstanding Senior Secured Notes have a beneficial and vested interest in the Defeasance Fund. It is therefore recited, understood and agreed that this Agreement shall not be subject to revocation or amendment if such revocation or amendment would impair the rights of such holders.

SECTION 4. Duties of Trustee: Indemnification. The Trustee agrees to

service and manage the Defeasance Fund in accordance with the terms of this Agreement. The Trustee takes no responsibility for any acts or omissions of MEDIQ/PRN or any other party. The Trustee shall have no obligation with respect to this Agreement other than those duties specifically mentioned herein and shall have the right to act upon any document or written request believed by it to be genuine and shall have no duty to inquire into the authenticity of any signature. The Trustee shall not be liable for the accuracy of the calculations as to the sufficiency of the principal amount of the securities and earnings thereon, to redeem all of the Senior Secured Notes. So long as the Trustee applies any moneys, securities, and earnings therefrom to redeem the Senior Secured Notes as provided herein, the Trustee shall not be liable for any deficiencies in the amounts necessary to purchase the Senior Secured Notes caused by such calculations. The Trustee shall also be entitled to consult and rely upon the advice of counsel if either deems such consultations to be necessary in the performance of its duties. Neither the Trustee nor its officers, directors, employees or agents shall be liable to any party herein mentioned for any action or omission taken in connection herewith unless due to willful misconduct or gross negligence. MEDIQ/PRN hereby agrees to indemnify and hold harmless the Trustee, its officers, directors, employees or agents from and against any and all claims or demands, suits, liabilities, losses, court costs and out-of-pocket expenses (including reasonable attorneys' fees) by persons or parties, whether or not party to this Agreement, which may arise or be caused by any act of omission of Trustee in connection with its duties hereunder, except where due to Trustee's willful misconduct or gross negligence. The provisions of this Section shall survive termination of this Agreement.

SECTION 5. Termination of this Agreement. This Agreement shall be irrevocable and shall not terminate until such time as the principal of and interest on all Senior Secured Notes have been paid to the registered owners thereof in accordance with the terms of the Indenture or this Agreement; provided that moneys held by the Trustee in the Defeasance Fund shall be paid to MEDIQ/PRN as provided in Section 8.03 of the Indenture.

SECTION 6. Satisfaction and Discharge of the Indenture. On February 3, 1997 (the "Termination Date"), MEDIQ/PRN's obligations under the Senior Secured Notes and the Indenture shall terminate, other than MEDIQ/PRN's obligations in Sections 2.03, 2.04, 2.05, 2.06, 2.07, 2.13, 4.02, 7.07, 7.08, 8.03 and 8.04 of the Indenture, which shall survive until the Senior Secured Notes are no longer outstanding, and thereafter MEDIQ/PRN's obligations in Sections 7.07, 8.03 and 8.04 of the Indenture shall survive. Except as provided above, MEDIQ/PRN's obligations under the Senior Secured Notes and the Indenture shall be finally and completely discharged and released. Effective as of the Termination Date, all liens in the Collateral and all other property of MEDIQ/PRN in

favor of the Trustee for the benefit of the holders of the Senior Secured Notes, including without limitation all liens created by or arising under the Indenture, the Security Agreement or the Collateral Account Agreement, shall be

terminated and released without need for further action by the Trustee or any other Person. The Collateral Agent hereby agrees to execute and deliver such instruments as MEDIQ/PRN may reasonably request to evidence the release of the liens under the Indenture and the Security Agreement, including without limitation (i) UCC-3 termination statements, and (ii) the return of any pledged collateral. The Trustee hereby authorizes the filing and recording of the release documents and termination statements.

SECTION 7. No Rights Conferred on Others. This Agreement is made for the sole and exclusive benefit of the parties hereto and the holders of the Senior Secured Notes. Nothing contained in this Agreement expressed or implied is intended or shall be construed to confer upon any person, or to give any person other than the parties hereto and such holders of the Senior Secured Notes any right, remedy or claim under or by reason of this Agreement.

SECTION 8. Severability. If any provision of this Agreement shall be held or deemed to be invalid or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatsoever.

SECTION 9. Governing Laws. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey.

SECTION 10. Descriptive Headings. Section headings contained herein have been inserted for convenience only and shall not affect the interpretation of this Agreement.

SECTION 11. Amendment. This Agreement may, without the consent or notice to the holders of the Senior Secured Notes, be amended from time to time to cure any ambiguity or formal defect or omission in this Agreement or in any supplement hereto, and to grant to or confer upon the Trustee for the benefit of such holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Trustee.

SECTION 12. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument. Delivery of an executed counterpart or signature page by telecopier shall be effective as delivery of a manually executed counterpart.

SECTION 13. Further Assurances. The Collateral Agent shall cause, at the expense of MEDIQ/PRN, any stock certificates and other instruments which represent collateral released hereunder to be delivered to such party as MEDIQ/PRN may designate and shall execute such further documents as MEDIQ/PRN may request to terminate the security interests of the Collateral Agent in such

Collateral.

IN WITNESS WHEREOF, the parties hereto have each caused this Defeasance Agreement to be executed by their duly authorized officers as of the date first above written.

MEDIQ/PRN LIFE SUPPORT SYSTEMS, INC.

By /s/ Jay M. Kaplan

SUMMIT BANK,
f/k/a United Jersey Bank

By /s/ Donna J. Flanagan

Authorized Officer

AMENDMENT TO THE
1987 STOCK OPTION PLAN

Section 6A of the Company's 1987 Stock Option Plan will be amended to read in full as follows:

6. Options

A. Subject to adjustment as provided in paragraph 13 hereof, Options may be issued pursuant to the Plan for the purchase of not more than 2,000,000 Shares; provided, however, that if prior to the termination of the Plan, an Option shall expire or terminate for any reason without having been exercised in full, the unpurchased Shares subject thereto shall again be available for the purposes of the Plan.

EXHIBIT 11

MEDIQ INCORPORATED AND SUBSIDIARIES

Computation of Net Income Per Common Share
(in thousands except per share amounts)

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Computation of Primary Earnings Per Share:			
Net Loss	$(15,704)	$ (4,947)	$ (7,318)
Weighted Average Number of Primary Shares:			
Beginning Balance	24,578	24,174	24,034
Assumed Conversion of Options	389	431	371
Total	24,967	24,605	24,405
Primary Loss Per Share	$ (.63)	$ (.20)	$ (.30)
Computation of Fully Diluted Earnings Per Share:			
Net Loss	$(15,704)	$ (4,947)	$ (7,318)
Interest and Amortization on Convertible Subordinated Debentures - Net of Tax	1,697	2,317	2,317
Total	$(14,007)	$ (2,630)	$ (5,001)
Weighted Average Number of Fully Diluted Shares:			
Beginning Balance	24,578	24,174	24,034
Assumed Conversion of Options	426	445	371
Assumed Conversion of Debentures	3,897	6,897	6,897
Total	28,901	31,516	31,302
Fully Diluted Loss Per Share	$ (.48)	$ (.08)	$ (.16)

</TABLE>

EXHIBIT 21

Set forth below is a list of MEDIQ's subsidiaries, as of December 20, 1996, with their respective states of incorporation, names under which they do business and the percentage of their voting securities owned by the Company as of such date.

<TABLE>
<CAPTION>

Name	State of Incorporation	Percentage of Ownership
<S>	<C>	<C>
Alpha Health Consultants, Inc. (1)	DE	100
American Cardiovascular Imaging Labs, Inc. (2)	PA	100
Health Examinetics, Inc.	DE	100
MDTC Haddon, Inc. (3)	DE	100
MEDIQ Diagnostic Centers Inc.	DE	100
MEDIQ Diagnostic Centers-I Inc. (3)	DE	100
MEDIQ Imaging Services, Inc.	DE	100
MEDIQ Investment Services, Inc.	DE	100
MEDIQ Management Services, Inc.	DE	100
MEDIQ Mobile X-Ray Services, Inc.	DE	100
MEDIQ/PRN Life Support Services, Inc. (4)	DE	100
MEDIQ Services, Inc.	DE	100
P.I. Corporation (5)	DE	100
PRN Holdings, Inc.	DE	100
Thera-Kinetics Acquisition Corporation	NJ	100

</TABLE>

(1) Subsidiary of MEDIQ Management Services, Inc.
(2) Subsidiary of MEDIQ Imaging Services, Inc.
(3) Subsidiary of MEDIQ Diagnostics Inc.
(4) Subsidiary of PRN Holdings, Inc.
(5) Subsidiary of MEDIQ Investment Services, Inc.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference, in the Registration Statements listed below of our report, dated December 26, 1996 appearing in this Annual Report on Form 10-K of MEDIQ Incorporated and subsidiaries for the year ended September 30, 1996.

Registration Statement No. 33-13122 on Form S-8
Registration Statement No. 33-11042 on Form S-8
Registration Statement No. 33-59126 on Form S-3
Registration Statement No. 33-61724 on Form S-2
Registration Statement No. 33-16802 on Form S-8
Registration Statement No. 33-5089 on Form S-2
Registration Statement No. 33-47416 on Form S-8

DELOITTE & TOUCHE LLP
Philadelphia, Pennsylvania
December 30, 1996

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	SEP-30-1996
<PERIOD-END>	SEP-30-1996
<CASH>	3,219
<SECURITIES>	0
<RECEIVABLES>	32,616
<ALLOWANCES>	2,383
<INVENTORY>	6,614
<CURRENT-ASSETS>	44,793
<PP&E>	231,043
<DEPRECIATION>	108,337
<TOTAL-ASSETS>	297,863
<CURRENT-LIABILITIES>	35,054
<BONDS>	233,690
<PREFERRED-MANDATORY>	0
<PREFERRED>	3,344
<COMMON>	19,191
<OTHER-SE>	(5,090)
<TOTAL-LIABILITY-AND-EQUITY>	297,863
<SALES>	0
<TOTAL-REVENUES>	136,066
<CGS>	0
<TOTAL-COSTS>	110,620
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	27,307
<INCOME-PRETAX>	(6,556)
<INCOME-TAX>	(378)
<INCOME-CONTINUING>	(6,178)
<DISCONTINUED>	(10,669)
<EXTRAORDINARY>	1,143
<CHANGES>	0
<NET-INCOME>	(15,704)
<EPS-PRIMARY>	(.63)
<EPS-DILUTED>	(.48)

</TABLE>