FORM 10-K

Annual report pursuant to section 13 and 15(d)

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RAYTEL MEDICAL CORP

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

FORM 10-K

(Mark One)

/X/ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the fiscal year ended September 30, 1996. (Fee required)

/ / Transitional report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the transition period from _____ to _____.

Commission File No. 0-27186

RAYTEL MEDICAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	94-2787342
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2755 CAMPUS DRIVE, SUITE 200, SAN MATEO, CA 94403
(Address of principal executive offices) (Zip Code)

(415) 349-0800
(Registrant's telephone number, including area code)

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

COMMON STOCK, $0.001 par value

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 filing requirements for the past 90 days. Yes X No
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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. / /

The aggregate market value of the registrant's Common Stock held by non-affiliates as of November 29, 1996 was $72,473,174 based on the closing sale price of the Common Stock, as reported on the Nasdaq National Market System on that day.

The number of shares of the registrant's Common Stock outstanding on November 29, 1996 was 8,332,924.

DOCUMENTS INCORPORATED BY REFERENCE:

DOCUMENT	WHERE INCORPORATED
Annual Report for fiscal year ended September 30, 1996	PART II
Proxy Statement for the Annual Meeting to be held on March 6, 1997	PART III

PART I.

This report includes a number of forward-looking statements which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including those discussed in "Item 17. Management's Discussion and Analysis of Financial Conditions and Results of Operations - Business Environment and Future Financial Results" and elsewhere in this report, that

could cause actual results to differ materially from historical results or those anticipated. In this report, the words "anticipates," "believes," "expects," "intends," "future," "goals" and similar expressions identifying forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

ITEM 1. BUSINESS

Raytel Medical Corporation is a provider of healthcare services, focusing on the needs of patients with cardiovascular disease ("CVD"). The Company believes, based on its industry experience, that it is the leading provider of remote cardiac monitoring and testing services utilizing transtelephonic monitoring technology in the United States. The Company's goal is to become a leading CVD healthcare management company by developing a network of integrated heart centers that will coordinate or provide a full range of diagnostic, therapeutic and follow up services, augmented by Raytel's cardiac monitoring and testing services. Raytel intends to develop its heart centers in affiliation with cardiology physician groups and hospitals delivering high quality patient care. Raytel believes its planned heart centers will address the cost containment pressures currently shaping the healthcare industry. The Company has executed an agreement with Stanford Health Services to develop a diagnostic cardiac catheterization facility. The Company has also entered into an agreement with Granada Hills Community Hospital in Southern California under which the Company is managing an existing, on-site heart center and is negotiating to upgrade the hospital-based cardiac catheterization facility at the hospital. The Company expanded its physician practice management business in 1996 through its acquisitions of cardiology practices in Beaumont, Texas, and Granada Hills, California. The Company is negotiating to develop a fully integrated heart center with a general acute care hospital in Southeast Texas. In June 1996, Raytel acquired the assets and assumed certain liabilities of Cardio Data Services, Inc., ("CDS"), a provider of pacemaker monitoring, cardiac detection and Holter monitoring services.

Raytel was incorporated in California in October 1981 under the name Raytel Labs, Inc. and changed its name to Raytel Medical Imaging, Inc. in 1983 and to Raytel Systems Corporation in 1985. In August 1987, the Company was reincorporated in Delaware under the name Raytel Systems Corporation. Following the organization of its majority-owned subsidiary Raytel Corporation in 1990, the Company changed its name to Raytel Holding Corporation. In October 1992, the Company changed its name to Raytel Medical Corporation. Unless the context otherwise requires, "Raytel" or the "Company" as used herein refers to Raytel Medical Corporation, a Delaware corporation, and its consolidated subsidiaries. The Company's executive offices are located at 2755 Campus Drive, Suite 200, San Mateo, California 94403, and its telephone number is (415) 349-0800.

RECENT CORPORATE DEVELOPMENTS

Initial Public Offering

In December 1995, the Company completed the initial public offering of its Common Stock which yielded net proceeds of $20,400,000 after underwriting discounts and expenses. The Company used approximately $6,000,000 of the proceeds of the offering to pay the remaining balance of a term loan from two banks, approximately $2,101,000 to repurchase certain outstanding redeemable warrants

and $5,000,000 to repay substantially all of the outstanding balance of a subordinated note of the Company. The remaining proceeds were used for working capital, general corporate purposes and to fund a portion of the purchase price for an acquisition in June 1996.

Acquisition of Certain Assets from Cardio Data Services, Inc.

In June 1996, the Company acquired certain assets and assumed certain liabilities of Cardio Data Services, Inc. ("CDS"). Total consideration for the acquisition was $14,000,000, consisting entirely of cash from the Company's available cash and short-term investments and a line of credit with its banks. Through this acquisition the Company expanded its cardiac monitoring and testing services, and added Holter monitoring services, a new line of business.

Acquisition of Nonmedical Assets of Southeast Texas Cardiology Associates, P.A.

In October 1996, the Company acquired certain nonmedical assets and

assumed certain liabilities of Southeast Texas Cardiology Associates, P.A., a cardiology practice in Beaumont, Texas, and entered into a long-term management agreement to manage the medical practice after the acquisition.

Acquistion of Nonmedical Assets of Comprehensive Cardiology Medical Group, Inc.

In November 1996, the Company acquired certain nonmedical assets and assumed certain liabilities of Comprehensive Cardiology Medical Group, Inc., a cardiology practice in Granada Hills, California, and entered into a long-term agreement to manage the medical practice after the acquisition.

OVERVIEW OF CARDIOVASCULAR DISEASE AND ITS TREATMENT

Cardiovascular disease is the leading cause of death in the United States and represents the highest percentage of hospital patient days of stay. CVD is a category of illnesses that generally develop progressively, and in many cases asymptomatically, over a number of years. As a result, CVD frequently goes undiagnosed until the patient suffers an acute episode such as a stroke or heart attack. CVD manifests itself in a number of disease states, including atherosclerosis, electrophysiological defects, valvular dysfunction, congestive heart failure, hypertension and congenital defects. The American Heart Association (the "AHA") estimates that approximately 59 million people in the United States suffer from one or more forms of CVD and approximately 1.5 million Americans will suffer a heart attack during 1995. According to AHA estimates, the medical costs associated with the treatment of CVD in 1996 will be approximately $129 billion, or approximately 12% of total healthcare expenditures in the United States. Due to the aging of the United States population, the Company believes that the need for medical services to diagnose and treat CVD will increase significantly in the future.

BUSINESS STRATEGY

Raytel's objective is to be a leader in the coordination and provision of CVD services across the continuum of cardiac care through a network of heart centers, augmented by Raytel's remote cardiac monitoring and testing services. The Company is pursuing this objective through the following strategies:

Focus on Establishment of Heart Centers. Raytel is focusing its primary efforts on the establishment of heart centers designed to coordinate or provide quality, integrated CVD services on a cost-effective basis. The Company believes that these heart centers will offer substantial benefits over the traditional fragmented healthcare delivery system to all of the constituencies involved in CVD care. Patients will benefit from the convenience of dealing with a single entity administering their CVD management needs and providing many services at a single location. Referring physicians will benefit from simplified referral patterns and more consistent patient treatment. Cardiologists and other professionals affiliated with the centers will benefit from local access to a wider range of complementary specialists and diagnostic equipment as well as management, marketing and administrative resources.

The Company believes that its heart centers will be able to offer more integrated services at a lower cost than traditional providers, thus addressing the cost containment objectives of managed care plans and other third-party payors. All of these constituencies will benefit from improved accountability.

Leverage Expertise and Existing Businesses. Raytel has significant experience in providing diagnostic and monitoring services to CVD patients and in acquiring and operating geographically dispersed healthcare service businesses. The Company believes that the expertise it has acquired through the management and operation of its existing businesses, including its extensive experience in marketing, billing and collection, as well as its existing relationships with cardiologists, hospitals and third-party payors, will be of substantial benefit to the Company in the establishment and operation of its heart centers. Raytel intends to integrate the services provided at its heart centers by making its current and future cardiac monitoring and testing services available to heart center patients.

Develop Affiliations with Providers. Raytel plans to develop its heart centers on a regional basis, in cooperation with cardiology groups and hospitals with a reputation for the delivery of high quality services among referring primary care physicians and the general population in the communities that they

serve. As part of its strategy to create a flexible format for its heart centers, the Company will seek to establish relationships with cardiovascular and thoracic surgeons and other specialists who perform invasive therapeutic procedures not offered at the heart center in order to create consistent referral patterns and assure the seamless delivery of quality service throughout the continuum of cardiac care.

Expand Managed Care Relationships. The Company believes that interaction with managed care organizations will become an increasingly important element in the provision of cardiac care, including care for Medicare patients, and that third-party payors will increasingly prefer to contract with providers offering a wide range of cardiovascular services provided on a multistate or regional basis. Raytel actively markets its existing healthcare services to managed care plans and provides value added services, such as utilization review and outcome studies, to such organizations. The Company intends to utilize its experience in working with managed care plans to market the services of its heart centers to such organizations. The Company believes that the ability to offer payors a system of integrated and coordinated cardiac care on a cost-effective basis will constitute a competitive advantage in obtaining contracts with such payors.

Develop Standardized Protocols and Information Systems. The Company believes that the development and ongoing refinement of guidelines and protocols for the diagnosis, treatment and management of CVD, reflecting currently accepted practices, is important for improving the consistency of patient care and reducing overall costs of treatment. Raytel intends to establish a medical advisory board, comprised of cardiologists and other specialists and sub-specialists, to work with the Company and its physician and hospital affiliates, to define guidelines for diagnosis, treatment and management of various CVD disease states. The Company also intends to expand its existing information systems to collect and analyze clinical and financial data at its heart centers to promote more efficient practice patterns and better enable the Company to negotiate managed care contracts.

Expand the Company's Telemedical Business. The Company believes that the establishment of heart centers will enhance its ability to market its cardiac monitoring and testing services. Raytel also intends to utilize its technology and expertise as well as its operating and administrative systems to address additional transtelephonic applications in the treatment and management of cardiac patients and thereby widen the range of cardiac services offered both nationally and through its heart centers.

Pursue Strategic Acquisitions. Raytel has built its existing organization largely through a series of acquisitions. The Company believes that it is often more cost-effective to acquire and reconfigure an existing business than to establish a new business. The Company believes that its experience in identifying, structuring and completing acquisitions of healthcare service organizations and effectively integrating these organizations will enable it to take advantage of future acquisition

opportunities that arise as a result of the trends toward consolidation of healthcare service providers. Raytel intends to explore opportunities to establish heart centers and expand its other cardiac businesses through additional strategic acquisitions, including the acquisition of the assets of physician practices.

RAYTEL HEART CENTERS

The principal element in Raytel's strategy is the development and operation of heart centers that will coordinate or provide integrated CVD services to patients, including management of the patient's diagnostic, therapeutic and follow up needs. The Company anticipates that each heart center will include a catheterization laboratory, specialized diagnostic equipment, examination and consultation rooms an operating room and patient beds and monitoring equipment. Personnel at the heart center will perform diagnostic services, coordinate therapeutic care with affiliated physicians and/or hospitals, conduct post-therapeutic follow up programs and enroll patients in cardiac monitoring and testing programs. The Company currently operates two catheterization laboratories, has completed the construction of a diagnostic catheterization laboratory in Fremont, California, in collaboration with Stanford Health Services and is in negotiations for the development of a fourth facility in Beaumont, Texas. The Company has also entered into a 10-year agreement with Granada Hills Community Hospital in Southern California under

which it is managing an existing, on-site heart center and is negotiating to upgrade the hospital-based cardiac catheterization facility. The Company expanded its physician practice management business in 1996 through its acquisitions of cardiology practices in Beaumont, Texas, and Granada Hills, California. The Company is negotiating to develop a fully integrated heart center with a general acute care hospital in Southeast Texas, which would include a cardiac catheterization laboratory among other possible facilities and equipment. In addition, Raytel is evaluating opportunities for the development and acquisition of additional heart centers.

The Raytel Heart Center Approach

The Company plans to organize an integrated delivery system for cardiovascular services in each region in which it develops a heart center. Raytel heart centers will be designed and developed on a region-by-region basis to maximize the available resources and address the specific needs of each community served. The structure of the heart centers will be flexible to permit the Company to proactively respond to the restructuring of the healthcare system as it occurs. The Company intends to develop its heart centers in conjunction with academic medical centers, established hospitals and cardiology specialists. In certain cases, the Company may develop heart centers by acquiring the assets of cardiology practices and negotiating long-term agreements to provide management services to such practices. The heart centers will be located on hospital premises or in free-standing facilities in close proximity to the hospitals or physicians with whom the heart centers are affiliated. The heart centers will be designed to enable affiliated cardiologists and cardiovascular surgeons to perform a comprehensive range of diagnostic procedures on site. Therapeutic procedures will generally be performed by physicians either at the affiliated hospital or the heart center. Post-therapeutic monitoring and follow up programs will be offered through the Company's cardiac monitoring services and through on-site programs to be developed by the Company in conjunction with its physician and hospital affiliates.

The Company believes that the heart centers and the related integrated delivery systems will be well positioned in their local markets to capture patients enrolled in HMOs and other managed care programs, as well as patient referrals from local primary care physicians and the heart centers' affiliated hospitals.

Southmore and Mesquite Catheterization Laboratories

In September 1994, the Company acquired two catheterization laboratories, located at Southmore Hospital in Pasadena, Texas, a suburb of Houston, and Mesquite Hospital in Mesquite, Texas, a suburb of Dallas (the "Catheterization Laboratories"). These facilities are each operated under contracts with the respective hospitals under which Raytel provides equipment, technical staff and certain management and administrative services. The hospitals provide space for the facility within the hospital, all supplies, and credentialing of physicians. The Company receives a fee from the hospital on a per procedure basis, with a guaranteed minimum monthly payment. Physicians practicing at the Catheterization Laboratories are not obligated to refer patients to or practice at these facilities and in many cases also practice at other hospitals. The contract with Southmore Hospital expires in March 1998, and the contract with Mesquite Hospital expires in January 1999. In addition to diagnostic catheterization procedures, the Southmore facility currently performs pacemaker installations, peripheral vascular angioplasty and peripheral stent installations. There can be no assurance that the Company will be successful in negotiating extensions of the terms of the Southmore or Mesquite contracts.

Cardiac catheterization utilizes catheters and sophisticated diagnostic instruments to evaluate the functioning of the heart and the coronary arteries. A narrow, flexible tube, or catheter, is inserted through a main artery in the leg or arm and guided into the patient's coronary arteries, where a cardiologist can use the catheter to perform various tests to diagnose the nature and extent of the patient's coronary artery disease.

Northern California Heart Center

In January 1996, the Company entered into an agreement with Stanford Health Services ("SHS") to develop a diagnostic cardiac catheterization facility (the "Northern California Heart Center") in Fremont, California. In November 1996, the Company completed the construction of the facility and is in

the final process of completing the requirements for a license from the California Department of Health Services. The Company expects the facility to be fully licensed and operational during the second quarter of the 1997 fiscal year. However, there can be no assurance that the company will be able to obtain such licensure or any additional licenses that may be required to expand the services offered at the facility.

Under the agreement with SHS, the Company will provide the facilities and equipment for the facility and will be responsible for the facility's administration, including maintenance and repairs, administrative support services, personnel administration and billing and collection. The agreement provides that SHS will be responsible for providing all medical services at the facility, including providing the medical director, physicians, protocols, credentialing and quality assurance. The parties have subsequently agreed that the Company, through an affiliated medical group, will collaborate with SHS in providing certain of these services. The Company will bill and collect for the technical component of services rendered at the facility, and SHS, the affiliated medical group or physicians with staff privileges at the facility will bill and collect for their professional component of such services. The Company will also receive a fee from SHS for the Company's marketing services and pay a fee to SHS for the services of the medical director.

The initial term of the agreement is one year, subject to successive, automatic one-year extensions unless terminated by either party. The agreement is subject to earlier termination under certain circumstances, including, among others, the failure to obtain licensure by the State of California prior to June 30, 1996 and without cause at any time upon 60 days notice during the initial term and upon 90 days notice during any extension. Should the agreement be terminated, the Company will endeavor to operate the facility in collaboration with other medical service providers.

Raytel Heart Center at Granada Hills Community Hospital

The Company has entered into an agreement with Granada Hills Community Hospital, in the San Fernando Valley north of Los Angeles, pursuant to which Raytel manages an integrated heart center located on the premises of the hospital. Granada Hills Community Hospital is a general, acute care hospital. The hospital's heart program includes cardiac catheterization procedures, stress testing, ultrasound and other

diagnostic services, cardiovascular and cardiothoracic surgical procedures and cardiac rehabilitation programs.

There are two phases to Raytel's agreement with the hospital. Under Phase I, known as the interim agreement, the Company manages the hospital's heart center, leases space from the hospital, provides capital equipment and has provided improvements to consolidate the hospital's program in a contiguous physical location. The Company is responsible for supervising and coordinating all day-to-day operations of the heart center, including administrative support and on-site management. The Company is also primarily responsible for marketing and public relations activities and assists the hospital in the negotiation and administration of contracts with managed care organizations and other third-party payors and in its compliance with Medicare coverage and accreditation requirements and governmental licensing and certification matters. All medical service at the facility are the responsibility of the hospital and its medical staff.

The Company and the hospital intend to implement Phase II of the agreement in the second quarter of the 1997 fiscal year. Under Phase II, the duties and responsibilities will remain the same as under Phase I. The principal difference between Phase I and Phase II is the method of calculating the procedure costs for which Raytel reimburses the hospital. Once Phase II has been implemented, the initial term of the definitive agreement will be 10 years and the Company will have an option to extend the term for an additional five years. The agreement will be subject to termination under certain circumstances, including the failure by either party to maintain any material license, Joint Commission on Accreditation of Healthcare Organizations accreditation or Medicare certification for the hospital and will also be terminable by the hospital in the event that fewer than a specified number of procedures are performed at the center during any successive two-year period. During the term of the agreement, the parties have each agreed to refrain from competitive activities.

The Company and the hospital are also in the process of negotiating an agreement for Raytel to manage the hospital's cardiovascular surgery program, although there can be no assurance that this agreement will be consummated.

RAYTEL CARDIAC MONITORING SERVICES

The Company is the largest provider of cardiac monitoring and testing services in the United States utilizing Holter monitoring and transtelephonic pacemaker monitoring ("TTM") technology. The Company believes that its TTM-based services are the most cost-effective means of testing the performance of implanted cardiac pacemakers and detecting symptoms of transient arrhythmias. Since its acquisition of assets from CDS in June 1996, the Company has also offered Holter monitoring services.

Pacemaker Monitoring

The Company believes, based on its industry experience, that it is the largest provider of transtelephonic pacemaker monitoring services in the United States, currently serving over 70,000 patients with implanted pacemaker systems.

Pacemaker systems are designed to assist the human heart in maintaining an adequate pumping rate. A pacemaker is an electronic device that is implanted in the patient and is designed to monitor and, if necessary, to stimulate the patient's heartbeat. As it senses the heart's failure to respond to normal

physiologic signals, the pacemaker emits electrical pulses directly into the atrium and/or the ventricle of the heart, causing the heart muscle to contract and pump blood through the patient's body. A pacemaker system consists of the pacemaker device, sensing and pacing leads and a battery.

The purpose of pacemaker monitoring is to enable the patient to maintain a normal lifestyle without the fear of an unexpected system failure. Pacemaker monitoring can detect failures in the pacemaker system as well as changes in the patient's heart rhythms that can cause the system to become ineffective. In TTM-based pacemaker monitoring, the pacemaker system and its interaction with the patient's heart is tested by conducting periodic, prescheduled ECG examinations. The patient is provided with a battery-powered ECG transmitter which detects the heart's impulses from the surface of the skin, converts these impulses into an acoustic signal and transmits the signal over ordinary telephone lines to one of the Company's three technical operations centers, where the signal is converted and displayed on a computer screen or strip chart recorder.

The Company's pacemaker monitoring services are prescribed by the patient's physician. After receipt of a prescription and enrollment by the Company, the patient is sent a transmitter and trained to use the device over the telephone by one of the Company's technologists. Unlike most physician-operated monitoring services, the Company's monitoring services are provided 24 hours a day, seven days a week in order to accommodate unscheduled calls from patients experiencing problems.

Each patient is tested on a schedule recommended by his or her prescribing physician with such prescription updated annually. The Company generates most of its pacemaker monitoring revenues from reimbursement by Medicare and payors of supplemental Medicare benefits. Patients are typically tested between three and 12 times per year. The Company is reimbursed for pacemaker monitoring services on a per-call basis. Routine pacemaker testing is performed in accordance with a prearranged, computer generated schedule. A trained technologist telephones the patient and requests that the patient initiate transmission of ECG data which is received by recorders in one of the Company's technical operations centers. Once a continuous graph displaying the rhythm of the heart and the pacemaker is generated, this data is interpreted by the technologist to determine the status of the implanted pacemaker and its relationship to the patient's cardiac rhythm. If problems with the pacemaker system are noted or a serious abnormality is detected, including an abnormality in the heart's own rhythm (an arrhythmia), the patient's physician is notified immediately by telephone. After each test, the results are promptly reviewed by a supervising technologist and a cardiologist and a written report is mailed to the patient's physician.

Cardiac Event Detection Service

The Company operates the Cardiac Event Detection Service ("CEDS"), which tests and documents transtelephonically an ambulatory patient's cardiac rhythm irregularities while the patient is experiencing symptoms. CEDS testing aids in the diagnosis of transient cardiac arrhythmias, including atrial and ventricular abnormalities, such as tachycardia, which causes the heart to beat at an abnormally rapid and potentially life threatening rate. During its fiscal year ended September 30, 1996, Raytel tested over 30,000 patients for potential transient arrhythmic events. The Company believes, based on its industry experience, that it is the largest provider of these services in the United States.

Upon enrollment in its CEDS program, the Company provides the patient with a cardiac event recorder for a testing period lasting up to 30 days. Upon experiencing symptoms, the patient activates the event recorder to capture one or more ECGs which the patient will later transmit to one of the Company's two CEDS technical operations center for analysis. Skilled technologists, under the supervision of cardiac care nurses and cardiologists, make preliminary evaluations of these transmissions for cardiac irregularities. Unlike similar services offered by individuals or small clinics, the Company's centers are staffed 24 hours a day, seven days a week to respond to a patient's needs on a timely basis. During 1994, approximately 56% of patient calls to the center were received outside of normal business hours, and

approximately 21% of the patients who underwent CEDS testing placed one or more calls to the center that resulted in immediate contact with the referring physician, based upon preselected clinical criteria. Emergency medical response is initiated for CEDS patients when necessary. Regardless of the number of calls placed, payors reimburse the Company on a 30-day program basis for its CEDS service.

Holter Monitoring Services

Since the acquisition of assets from CDS in June 1996, the Company has offered Holter monitoring services. The Company believes, based on its industry experience, that it is the largest provider of Holter monitoring services in the United States, currently serving over 60,000 patients annually. Holter monitoring service tests and documents an ambulatory patient's cardiac rhythm irregularities while the patient is fitted with a recording device, with leads attached to the patient's chest, typically for a single 24-hour period. Should Holter monitoring or other testing procedures fail to detect an arrhythmia event in a symptomatic patient, the patient's physician often will refer the patient to an event detection service such as CEDs.

Cardiac Rehabilitation and Follow Up Programs

The Company's cardiac rehabilitation and follow up program was discontinued during 1996. The successful commercialization of the cardiac rehabilitation and follow-up program was dependent upon reimbursement authorization under Medicare and by other third-party payors. Although the Company's program services were approved for reimbursement by several private insurers, such services are not reimbursable under current Medicare guidelines. Because the Company does not believe that Medicare reimbursement for both services will be authorized in the near future, the Company has determined to discontinue offering the service until the availability of Medicare reimbursement is more certain.

Training and Quality Assurance

As of November 30, 1996, the Company employed approximately 153 full time equivalent technologists in all of its cardiac monitoring and testing operations. All of the Company's pacemaker monitoring technologists undergo a formal six-week training program that includes basic cardiac physiology, the operation of pacemaker devices, the interaction of pacemaker systems with the heart, and the administration and interpretation of ECG tests. As technologists become more experienced, they are trained to monitor increasingly complex pacemaker systems. Technologists administering the Company's CEDS and Holter services undergo training in the interpretation of ECG data to detect symptoms of cardiac arrhythmia.

The Company maintains a rigorous quality assurance program. The Company's technologists are directed by board-certified cardiologists with special training in the fields of cardiac pacing and electrophysiology. Each pacemaker monitoring test is separately reviewed by a supervising technologist

and a cardiologist. CEDS transmissions and Holter test results are evaluated by technologists under the supervision of cardiac care nurses and cardiologists.

DIAGNOSTIC IMAGING SERVICES

The Company provides outpatient diagnostic imaging services through operating and investment interests in 12 free-standing imaging centers and two mobile MRI units (the "Imaging Centers"). The Company also operates the Raytel Imaging Network, a specialized preferred provider network currently consisting of 241 independent imaging centers located from Maryland to New York, including four centers managed by the Company.

Diagnostic imaging technology consists of a number of medical diagnostic modalities, many of which integrate computer hardware and software. These modalities include MRI, computed tomography ("CT"), nuclear medicine, radiography/fluoroscopy ("R/F"), ultrasound, general X-ray and

mammography. These imaging modalities are generally non-invasive (with the exception of the injection of contrast material in certain techniques and the occasional use of tranquilizing agents) and subject the patient either to sound waves (ultrasound), X-rays (CT, R/F and X-ray mammography) or radio waves (MRI) to gather data that aid in medical diagnosis. These diagnostic technologies enable physicians to view certain internal body anatomy and pathology and in many instances provide early diagnostic capability and aid in effective treatment planning without the need for more costly exploratory surgery.

The principal diagnostic imaging modality in use at the Imaging Centers is MRI. MRI is used to provide high resolution images of the soft tissue of the body. In the field of cardiology, MRI is used for the assessment of congenital and anatomical cardiac defects. Other MRI techniques, such as MR angiography, are also used in the assessment of peripheral vascular and other cardiovascular diseases. The Imaging Centers also provide a wide range of imaging services for the diagnosis of neurological disorders of the head, neck and spine, as well as imaging of the musculoskeletal system and a variety of internal organs, including the liver and prostate, and the female pelvis.

Raytel Imaging Centers

The Imaging Centers are located in six states, with clusters in the northeast and California. All of the Imaging Centers offer MRI services, and six offer other imaging modalities. The Company owns four of the Imaging Centers and holds its interests in the other eight through investments in various joint ventures and limited partnerships (the "Ventures"). Historically, the Company provided imaging equipment and/or financing for most of the Ventures. In exchange for providing such equipment and/or financing, the Company receives a fixed priority payment as defined in each Venture agreement. To the extent that each Venture has distributable cash after such priority payments, the Company will also receive a cash distribution to the extent of its proportionate Venture interest which ranges from 37.5% to 90%. In Imaging Centers where the equipment is not owned by the Company, the Company receives only its proportionate Venture interest in the distributable cash of the entity. The Company provides management services to seven of the Imaging Centers (including the four owned by the Company). Such services include marketing, data processing, billing and collection, accounting and supervision. Day-to-day management of the other five Imaging Centers is the responsibility of either the Company's Venture partners or independent managers who receive a fee based upon the Imaging Center's revenues.

The Ventures were established for fixed terms. Ventures that operate four consolidated and two unconsolidated Imaging Centers are scheduled to terminate on or before July 31, 1997. Unless these terminating Ventures are extended or restructured by the Company and its Venture partners, these Ventures will discontinue operations. See Item 3, "Legal Proceedings," for a description of the dispute between the Company and one of its Venture partners relating to the expiration of the term of one of the Imaging Centers. Ventures that operate the remaining Imaging Centers have terms that expire between 1999 and 2026.

Raytel Imaging Network

The trends toward cost containment and managed care have resulted in changes in the patterns of patient referrals to diagnostic imaging facilities, adversely affecting the profitability of independent imaging centers and

encouraging the formation of networks of independent centers. Many independent operators of diagnostic imaging facilities lack the management and marketing expertise and systems, as well as the experience in dealing with large managed care organizations, that are necessary to effectively establish and operate such networks. The Company's experience in dealing with a wide variety of managed care organizations and its established, centralized marketing, scheduling, billing and accounting systems provide the Company with the capability to establish and operate networks of

independent diagnostic imaging centers. In addition, the Company's purchasing power allows it to provide participating centers with supplies, such as drugs and film, and with equipment maintenance and other services at considerable cost savings.

The Raytel Imaging Network (the "Network") is a dedicated network of diagnostic imaging facilities established to provide services to patients participating in healthcare benefit programs offered by municipal and state employers, corporations that self-insure, third-party insurance carriers, union health and welfare plans and managed care providers. Independent imaging centers enter into fixed fee contractual relationships with the Network to provide imaging services to patients referred by payors which have contracted with the Network for services at a negotiated fee. The Network handles scheduling for patients whose healthcare benefit programs participate in the Network and guarantees these participating entities a fixed fee for all radiology procedures performed in Network centers. The Network also offers centralized billing services for those procedures, promptly reports the results of the studies to the patient's referring physician and the outcomes of the studies to the administrators responsible for the management of the patient's healthcare program.

The Network is a preferred provider organization with participating imaging centers in the states of New Jersey, Pennsylvania, Maryland, and New York. The Network currently provides diagnostic imaging services under referral arrangements with approximately 90 organizations administering healthcare programs covering more than 400,000 individual participants.

SALES AND MARKETING

The Company's marketing activities are directed at managed care organizations and referring physicians. The Company maintains a central managed care sales group that negotiates and manages contracts with managed care organizations. The Company's marketing organization also supervises the marketing of its TTM-based services to physicians nationwide and supports the efforts of local centers to market their services to referring physicians in the communities they serve.

Raytel Cardiac Monitoring and Testing Services

The Company markets its cardiac monitoring and testing services nationwide through a sales force made up of 17 full-time regional field managers who direct a network of over 350 part-time salespersons and independent sales representatives, and supported by the Company's customer service and telemarketing personnel. The Company's sales force works closely with the approximately 15,000 physicians currently prescribing the Company's pacemaker monitoring services. The Company works closely with all major pacemaker manufacturers and has agreements with certain manufacturers for the distribution of the Company's services through their direct sales forces. In addition, the Company has arrangements with the major pacemaker manufacturers to place its prescription form in the document packages included with their pacemakers.

The Company differentiates its cardiac monitoring and testing services from most of its competitors by providing its services 24 hours a day, seven days a week. In addition, the Company offers technologists who specialize in monitoring specific pacemaker models (the more complex the unit, the more expertise a technologist is required to have), extensive quality control procedures, computerized reports for complex pacemakers, detailed reporting procedures for abnormal findings and an extensive database on pacemaker performance.

Diagnostic Imaging Services

The Company markets services of the Imaging Centers it manages through a team approach tailored to the needs of each Imaging Center. The Company's central sales organization coordinates the Imaging Center's selling activities with the Imaging Center's radiologists. The principal selling effort is directed toward the local base of referring physicians. In support of the selling effort, the Company provides marketing materials, including newsletters and brochures and holds routine educational sessions for physicians. The Company also assists the Imaging Center in addressing needs of managed care organizations by negotiating contracts with these organizations and working closely with insurance plan administrators, HMO personnel, workers' compensation coordinators and hospital administrators.

Raytel Heart Centers

The Company markets the services of its heart centers using the basic approach employed with the Imaging Centers. As is the practice at the Granada Hills Heart Center, each heart center will undertake marketing activities specifically structured for its local or regional market. The manager of each heart center will initiate and maintain contact with local referring physicians. The Company's central sales organization will support the local selling effort with marketing materials and assistance in the development of clinical outreach programs designed to make the capabilities of the center available to underserved segments of the community. The center manager will coordinate local physician contacts with the Company's cardiac monitoring and testing sales force to cross-sell the Company's transtelephonic pacemaker monitoring, Holter monitoring and cardiac event detection services. The Company's central sales group will negotiate contacts with managed care organizations. This group will also assist the center manager in addressing the needs of such organizations.

BILLING AND COLLECTION

The Company's cardiac monitoring and testing operations generate a high volume of relatively low-cost services delivered to patients living throughout the United States. The Company derives substantially all of its transtelephonic pacemaker monitoring, Holter monitoring and cardiac event detection services revenues from Medicare and other third-party payors and, in most cases, renders bills to at least two payors for each procedure. In the year ended September 30, 1996, the Company generated more than one million bills to Medicare and other third-party payors related to these businesses. Accordingly, the Company's success in these businesses is substantially dependent upon the efficiency of its billing and collection systems.

All of the billing and collection functions for the Company's cardiology operations are centralized at the Company's facilities in Connecticut and New Jersey. As of November 30, 1996, the Company employed approximately 64 billing and collection personnel. The Company has specialized data management systems that it uses to obtain and record primary and secondary insurance data at the time of patient enrollment and to maintain and update that information. The Company's billing and collection staff is specially trained in third-party coverage and reimbursement procedures. The Company communicates continuously with carriers administering Medicare and has established procedures that allow it to submit most primary Medicare claims electronically, on a batch-billing basis. In addition, the Company maintains a database on the billing procedures and requirements of more than 1,500 insurance carriers, which enables it to efficiently process claims to primary, secondary and tertiary private

insurers. Computerized billing and collection reports allow the Company's personnel to continually monitor open accounts.

Due to the complexity of the billing and collection process, the Company, like many other healthcare service providers, experiences normal payment cycles that are considerably longer than those customary in many other industries. The Company typically experiences billing cycles of 60 to 240 days from the billing date, depending on the type and number of third-party payors, although billing cycles can be even longer in certain situations. Based upon its experience, the Company believes that its specialized data processing system and its extensive background in processing high volume, third-party claims serve to minimize collection cycles and the incidence of rejected claims due to incomplete or inaccurate information.

The Company bills and collects for the Imaging Centers it manages and expects to manage these functions centrally for certain of its heart centers.

THIRD-PARTY REIMBURSEMENT

The Company derives substantially all of its revenues from Medicare, HMOs and commercial insurers and other third-party payors. Both government and private payment sources have instituted cost containment measures designed to limit payments made to healthcare providers, by reducing reimbursement rates, limiting services covered, increasing utilization review of services, negotiating prospective or discounted contract pricing, adopting capitation strategies and seeking competitive bids. There can be no assurance that such measures will not adversely affect the amounts or types of services that may be reimbursable to the Company in the future, or that the future reimbursement for any service offered by the Company will be sufficient to cover the costs and overhead allocated to such service by the Company, either of which could have a material adverse effect on the Company's operating results. The Company cannot predict with any certainty whether or when additional changes in Medicare, Medicaid or other third-party reimbursement rates or policies will be implemented. However, such future changes could have a material adverse effect on the Company's business, financial condition or operating results.

Reimbursement rates vary depending on the type of third-party payors. Changes in the composition of third-party payors from higher reimbursement rate payors to lower reimbursement rate payors could have an adverse effect on the Company's operating results. In addition, the Company anticipates that it may increasingly offer its services to third-party payors on a capitated or other risk-sharing basis. To the extent that patients or enrollees covered by a risk-sharing contract require more frequent or extensive services than is anticipated by the Company, the revenue derived from such contract may be insufficient to cover the costs of the services provided. Insufficient revenue under capitated or other risk-sharing contracts could have a material adverse effect on the Company's business, financial condition or operating results.

GOVERNMENT REGULATION

The healthcare industry is highly regulated, and there can be no assurance that the regulatory environment in which the Company operates will not change significantly and adversely in the future. In general, the scrutiny of methods and levels of payment of healthcare providers and companies is increasing.

The Company believes that healthcare legislation, regulations and interpretations will continue to change and, as a result, routinely monitors developments in healthcare law. The Company expects to modify its agreements and operations from time to time as the business and regulatory environment changes. While the Company believes it will be able to structure all of its agreements and operations in accordance with applicable law, the lack of definitive interpretations of many statutory and regulatory provisions means that there can be no assurance that the Company's arrangements are in compliance with such provisions or will not be successfully challenged.

Government Reimbursement Programs

The federal government maintains the Medicare health insurance program for the aged. Individual states have programs for medical assistance to the indigent known generally as Medicaid, which are partially financed by the federal government. Federal Medicaid funds are currently conditioned on state compliance with federal requirements. A significant portion of the Company's revenues is received under Medicare and other government programs. Both the Medicare and Medicaid programs are subject to statutory and regulatory changes, retroactive and prospective rate adjustments, administrative rulings, interpretations of policy, intermediary determinations, and government funding restrictions, all of which may materially increase or decrease the rate of program payments to healthcare facilities and other healthcare suppliers and practitioners.

The Company anticipates that its heart centers and catheterization laboratories will derive a substantial portion of their revenue from payments made under the Medicare program. In order to participate in this program, a newly-developed facility must be certified after officials administering the Medicare program in the state where the facility is located, or their designees, have conducted a survey of the facility, a process that cannot commence until the facility opens and begins providing services to patients. Once a facility is

certified, it will be reimbursed by Medicare for services performed from the date on which a satisfactory survey is conducted in connection with the certification of the facility or such later date as an acceptable plan is submitted to correct any deficiencies noted in the survey. The Company expects that delays in the certification process may occur and may increase with the funding limitations being imposed on certifying authorities. Combined with the billing and collection cycle for Medicare reimbursement that all healthcare facilities experience, these delays could result in a three to

six month working capital deficiency during the start-up phase for all newly developed heart centers. These working capital deficiencies will have to be funded by the Company through working capital advances to the facilities using funds provided by operating or financing activities.

Stark Legislation and Fraud and Abuse Laws

The Company is subject to a variety of laws and regulations governing the referral of patients to facilities with whom the referring physician has a financial relationship.

Subject to certain exceptions, physicians who have a financial relationship with an entity providing healthcare services are prohibited by federal law (the "Stark Legislation") from referring or admitting patients to that entity for the provision of certain designated services reimbursable under Medicare or Medicaid, as well as certain other federally assisted state healthcare programs. The entity providing healthcare services is also prohibited from presenting, or causing to be presented, a claim or bill for the designated services furnished pursuant to a prohibited referral. Possible sanctions for violations of the Stark Legislation include civil monetary penalties, exclusion from the Medicare and Medicaid programs and forfeiture of amounts collected in violation of such prohibition. The Stark Legislation prohibits a physician who owns stock of a company from referring patients to the medical facilities in which such company has an ownership interest unless such Company's stockholders' equity exceeds $75.0 million.

In addition to the limitations of the Stark Legislation, a number of states have laws which apply to referrals made for services reimbursed by all payors, and not simply Medicare or Medicaid. Some of these laws may extend to the services furnished by medical facilities in which the Company has an ownership interest and, absent the availability of an exception under such laws, could prohibit physicians with ownership interests in the Company from referring any patients to such facilities.

The Company is also subject to the illegal remuneration provisions of the federal Social Security Act and similar state laws ("Fraud and Abuse Laws") which collectively impose civil and criminal sanctions on persons who solicit, offer, receive or pay any remuneration, directly or indirectly, for referring a patient for treatment that is paid for in whole or in part by Medicare, Medicaid or similar state or private programs. The courts and the Office of the Inspector General of HHS have stated that the Fraud and Abuse Laws are violated where even one purpose, as opposed to a primary or sole purpose, of the arrangement is to induce referrals. Violations of the Fraud and Abuse Laws are punishable by criminal or civil penalties, which may include exclusion or suspension of the provider from future participation in the Medicare, Medicaid and similar state and federal programs, as well as substantial fines. The federal government has published exemptions, or "safe harbors," for business transactions that will be deemed not to violate the federal Fraud and Abuse Laws. Although satisfaction of the requirements of these safe harbors provides protection from criminal prosecution or penalties under the federal anti-kickback legislation, failure to meet the safe harbors does not necessarily mean a transaction violates the statutory prohibitions. Due to the breadth of the statutory provisions of the Fraud and Abuse Laws and the absence of definitive regulations or court decisions addressing the type of arrangements by which the Company and its affiliated entities conduct and will conduct their business, from time to time certain of their practices may be subject to challenge under these laws. In October 1995, Congress passed a bill that would extend the prohibitions of the Fraud and Abuse Laws to all third-party payors, governmental and private.

The Company has attempted to structure its business relations to comply with the Stark Legislation, the Fraud and Abuse Laws and all other applicable healthcare laws and regulations. However, there can be no assurance that such laws will be interpreted in a manner consistent with the Company's practices. The Company holds interests in 8 diagnostic imaging centers through investments

in the Ventures. Day-to-day management of five of these Venture centers is controlled by the Company's Venture partners or by independent managers, and the Company is unable to exercise significant control over the operation of these centers. While the Company believes that these centers operate in material

compliance with all applicable laws, the Company may not be responsible for ensuring compliance with these laws by other centers under its joint venture and partnership agreements. However, failure of the entity operating or managing such centers to ensure compliance may adversely affect the Company's business, financial condition or operating results. In 1994, a joint venture in which a Company subsidiary was a non-managing general partner was subject to litigation brought on behalf of the federal government by a private plaintiff relating to alleged non-compliance with the Fraud and Abuse laws. Such litigation was settled with no material adverse consequences to the Company. There can be no assurance that additional challenges under such laws or regulations or new laws or regulations will not require the Company or its affiliated entities to change their practices or will not have a material adverse effect on the Company's business, financial condition or operating results. In addition, state legislatures and other governmental entities are considering additional measures restricting or regulating referrals, and there can be no assurance that new laws or regulations will not be enacted which will require restructuring of the Company's operations or otherwise have a material adverse effect on the Company's business, financial condition or operating results.

Certificates of Need and Other Licensing Requirements

Certain states in which the Company operates or may operate in the future prohibit the establishment, expansion or modification of certain healthcare facilities and the services provided at such facilities, including heart centers, catheterization laboratories and diagnostic imaging centers, without first obtaining a certificate of need ("CON") or comparable license from the appropriate state regulatory agency. In addition to any CON or comparable licensing requirements that may apply, heart centers, catheterization laboratories and diagnostic imaging centers developed or operated by the Company may also be required to comply with other licensing requirements, which vary from state to state. Obtaining CON approval or comparable licensing is typically an expensive and lengthy process and may involve adversarial proceedings initiated by competing facilities or taxpayer groups. The existence of these laws may make it more difficult for the Company to develop heart centers, catheterization laboratories or other diagnostic facilities or expand the services provided at such facilities or its other diagnostic imaging facilities.

Under current California regulations, the performance of cardiac catheterization procedures is generally restricted to licensed general acute care hospitals. The Company has applied for a license for its free-standing cardiac catheterization laboratory in Fremont, California under a pilot program. Although the pilot program was repealed in 1993, the Company believes that it meets all of the requirements for the granting of a license because the entity holding the permit for such a facility was in active status as of December 31, 1993. However, there can be no assurance that a license will be granted on acceptable terms, if at all. If the Company cannot obtain such license, it is uncertain under current California regulations whether the Company could otherwise separately obtain a license to operate a free-standing catheterization laboratory.

Restrictions on Corporate Practice of Medicine

The laws of certain states in which the Company operates or may operate in the future prohibit non-physician entities from practicing medicine, exercising control over physicians or engaging in certain practices such as fee-splitting with physicians. Although the Company has structured its affiliations with physician groups so that the physicians maintain exclusive authority regarding the delivery of medical care, there can be no assurance that these laws will be interpreted in a manner consistent with the Company's practices or that other laws or regulations will not be enacted in the future that could have a material adverse effect on the Company's business. If a corporate practice of medicine law is interpreted in a manner that is inconsistent with the Company's practices, the Company would be required to restructure or terminate its relationship with the applicable physician group to bring its activities into compliance with such law. The termination of, or failure of the Company to successfully restructure, any such relationship could result in fines or a loss of revenue that could have a material adverse effect on the Company's business, financial condition or operating results.

MEDICAL MALPRACTICE INSURANCE

The Company does not, itself, engage in the practice of medicine and requires physicians performing medical services at its facilities to maintain medical malpractice insurance. Although the Company's employees do not practice medicine, certain of its employees are or will be involved in the delivery of healthcare services to the public under the supervision of physicians. To protect the Company from medical malpractice claims, including claims associated with its employees' activities, the Company, or the Ventures for which the Company serves as general partner, maintains professional liability and general liability insurance on a "claims made" basis in amounts deemed appropriate by management based upon the nature and risks of the Company's business. Such policies provide malpractice coverage in the amount of $1 million per occurrence with an aggregate limit of $3 million. Insurance coverage under such policies is contingent upon a policy being in effect when a claim is made, regardless of when the events which caused the claim occurred. The cost and availability of such coverage has varied widely in recent years. While the Company believes its insurance policies are adequate in amount and coverage for its current operations, there can be no assurance that the coverage maintained by the Company is sufficient to cover all future claims. In addition, there can be no assurance that the Company will be able to obtain such insurance on commercially reasonable terms in the future.

COMPETITION

The healthcare service businesses in which the Company is currently engaged are highly competitive. The restructuring of the healthcare system is leading to rapid consolidation of the existing highly-fragmented healthcare delivery system into larger and more organized groups and networks of healthcare providers. The Company expects competition to increase as a result of this consolidation and ongoing cost containment pressures among other factors. In executing its business strategy, the Company competes with management services organizations, for-profit and nonprofit hospitals, HMOs and other competitors that are seeking to form strategic alliances with physicians or provide management services to physicians or to diagnostic and therapeutic facilities owned by such physicians.

In operating its heart centers, the Company encounters competition from physician groups, general acute care hospitals and free-standing and hospital-based cardiac care facilities located in the same markets.

The Company's cardiac monitoring and testing programs compete with a number of smaller, regional commercial entities as well as hospitals, clinics and physicians who generally provide these services as an adjunct to their primary practice. Principal competitive factors are availability and quality of service. The Company believes that it competes favorably with most of its smaller competitors based on its 24 hour a day, seven day a week service, specialized technical staff and sophisticated billing and collection system. Certain of its competitors, including local physicians and hospitals, may have certain competitive advantages over the Company based upon their direct relationships with patients.

Diagnostic imaging is performed in hospitals, private physicians' offices, clinics operated by group practices of physicians and independent imaging centers. Although the Company and its affiliates operate in New York, New Jersey, Massachusetts, Pennsylvania, and California, competition focuses on physician referrals at the local market level. Principal competitors in each of the Company's markets are hospital and physician affiliated imaging centers, some of which may have greater financial and other resources than the Company, more experience and greater name recognition than the local managers and radiologists associated with the Company's Imaging Centers, or better ties to the local medical community. Successful competition for referrals is a result of many factors, including quality and timeliness of test results, type and quality of equipment, facility location, convenience of scheduling and, increasingly, relationships with managed care programs. The Company believes that it competes favorably with other providers of diagnostic imaging services based on the quality of its service, its emphasis on sophisticated equipment, and the

professionalism of its staff, among other factors. Other independent companies (including some which have substantially greater financial and operating resources than the Company) are in the business of establishing facilities similar to the facilities in which the Company has or may obtain interests and providing management services to such facilities, including at least one publicly-held Company of which the Company is aware whose primary business consists of the development and operation of cardiac care centers.

EMPLOYEES

As of November 30, 1996, the Company employed approximately 554 full time equivalent employees. None of the Company's employees are covered by collective bargaining contracts.

ITEM 2. PROPERTIES

The principal operations of the Company and its subsidiaries are conducted at facilities located in Windsor, Connecticut, New York, New York, Haddonfield, New Jersey and San Mateo, California. The Windsor facility, consisting of approximately 33,000 square feet, is occupied under a lease expiring in July 1999. The New York facility, consisting of approximately 23,300 square feet, is occupied under a lease expiring in September 1996. The Haddonfield facility, consisting of approximately 13,000 square feet, is occupied under a lease expiring in June 1997. The San Mateo facility, consisting of approximately 2,400 square feet, is occupied under a lease expiring in June 1998. In addition, through seven of its consolidated Imaging Centers, the Company leases a total of approximately 31,000 square feet in facilities located in New York, New Jersey, California and Pennsylvania.

The Company generally considers its properties to be in good condition and suitable for the Company's anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

The Company and certain of its subsidiaries are involved in litigation with Medical Diagnostics, Inc. ("MDI"), the joint venture partner in Mass. Mobile Imaging Venture ("MMIV"), one of the Ventures in which the Company, through a subsidiary, holds an interest. The dispute arose out of MDI's proposal to co-develop a new MRI center with a hospital utilizing assets of MMIV. In the course of the dispute, other differences have arisen between the Company and MDI concerning provisions of the joint venture agreement, the ability of MDI to adequately manage MMIV and other matters concerning the operations of the Imaging Centers owned by MMIV. In September 1992, MDI filed an action against the Company, certain of its subsidiaries and certain other defendants in the Superior Court of the Commonwealth of Massachusetts, County of Middlesex. The suit alleges that the Company and the other defendants violated fiduciary and contractual obligations to MDI and MMIV by refusing to approve the development of the new center and by generally failing to cooperate in good faith with MDI in the business affairs of MMIV and seeks declaratory relief, the dissolution of MMIV, unspecified damages and injunctive relief. In addition to denying MDI's allegations, the Company has asserted counterclaims, alleging that MDI and an affiliate of MDI have breached their fiduciary and contractual obligations to the Company and MMIV and have sought to benefit their own business interests at the expense of the Company and MMIV. The counterclaim seeks the removal of MDI as the manager of MMIV and equity participation, or damages in lieu of equity participation, in the new center for the duration of the operating agreement with the hospital. The Company believes that the complaint filed against it is without merit and is vigorously defending the complaint and prosecuting its counterclaims relating to the new center and the management of MMIV.

In September 1996, the Company won an administrative decision related to a billing dispute with a New York Medicare carrier. The Company billed the carrier at a reimbursement rate which was in effect at the time the Company acquired the CardioCare division from Medtronic, Inc. in 1993. The reimbursement rate was confirmed by the carrier after the acquisition. Following an audit of the carrier by the Healthcare Finance Administration ("HFCA"), the Company was ordered to return approximately $4 million to Medicare, a decision the Company appealed. The Company was notified on September 23, 1996, that an administrative law judge found that the Company was without fault and is entitled to the reimbursement of approximately $4 million in question.

Raytel and its subsidiaries are parties to other litigation and claims arising out of its ongoing business operations. The Company believes that none of these matters, either individually or in the aggregate, are likely to have a material adverse effect on the Company's business, financial condition or operating results.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

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

The information required by this item is incorporated by reference to information set forth under the heading "Stock Data Nasdaq Symbol: RTEL" on page 37 of the Company's 1996 Annual Report to Shareholders.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is incorporated by reference to the information set forth under the heading "Five Year Financial Summary" on page 17 of the Company's 1996 Annual Report to Shareholders.

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

The information required by this item is incorporated by reference to information set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 18 to 22 of the Company's 1996 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference to the financial statements and supplementary data on pages 23 to 36 of the Company's 1996 Annual Report to Shareholders.

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

Not Applicable.

PART III

Certain information required by Part III is omitted from the report in that the Company intends to file its definitive proxy statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this report, and certain information therein is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to information set forth in the Proxy Statement under the heading "Proposal No. 1 - Election of Directors."

The information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to information set forth in the Proxy Statement under the heading

Executive Compensation and Other Matters."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to information set forth in the Proxy Statement under the heading "Executive Compensation and Other Matters."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to information set forth in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to information set forth in the Proxy Statement under the heading "Certain Transactions."

PART IV

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

(A) 1. FINANCIAL STATEMENTS:

Independent Auditors Report
Consolidated Statements of Income for the Years Ended September 30, 1996, 1995 and 1994
Consolidated Balance Sheets as of September 30, 1995 and 1996
Consolidated Statements of Shareholders' Equity for the Years Ended September 30, 1996, 1995 and 1994
Consolidated Statements of Cash Flows for the Years Ended September 30, 1996, 1995 and 1994
Notes to Consolidated Financial Statements
Supplementary Data: Quarterly Financial Data (unaudited)

2. FINANCIAL STATEMENT SCHEDULES

Schedule II - Valuation and Qualifying Accounts
Independent Auditor's Report

3. EXHIBITS

The exhibits which are filed with this Form 10-K, or incorporated herein by reference, are set forth in the Exhibit Index, which immediately precedes the exhibits to this Report.

(B) REPORTS ON FORM 8-K DURING THE QUARTER ENDED SEPTEMBER 30, 1996

None.

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.

RAYTEL MEDICAL CORPORATION

Dated: December 30, 1996 By: /s/ RICHARD F. BADER

Richard F. Bader
Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael Kokesh and E. Payson Smith, Jr., or either of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Report on Form 10-K and to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might and could do in person, hereby ratify and confirming all that said attorneys-in-fact and agents, or either of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on the dates indicated.

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ RICHARD F. BADER (Richard F. Bader)	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	December 26, 1996
/s/ ALLAN ZINBERG* (Allan Zinberg)	President, Chief Operating Officer and Director	December 26, 1996
/s/ E. PAYSON SMITH, JR. (E. Payson Smith, Jr.)	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	December 26, 1996
/s/ THOMAS J. FOGARTY (Thomas J. Fogarty)	Director	December 26, 1996
/s/ ALBERT J. HENRY* (Albert J. Henry)	Director	December 26, 1996
_____ (Gene I. Miller)	Director	December __, 1996
/s/ DAVID ROLLO* (David Rollo)	Director	December 26, 1996
/s/ TIMOTHY J. WOLLAEGER* (Timothy J. Wollaeger)	Director	December 26, 1996

</TABLE>

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

To the Board of Directors and Stockholders of
Raytel Medical Corporation:

We have audited in accordance with generally accepted auditing standards, the consolidated balance sheets of Raytel Medical Corporation and Subsidiaries as of September 30, 1996 and September 30, 1995 and the related

consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended September 30, 1996 included in this Form 10-K, and have issued our report thereon dated November 8, 1996. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission rules and is not part of the basic financial statements. The information reflected on the schedule has been subjected to the auditing procedures applied in the audits of the basic financial data, and in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Arthur Andersen LLP

Hartford, Connecticut
November 8, 1996

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Schedule II

RAYTEL MEDICAL CORPORATION AND SUBSIDIARIES

For the years ended September 30, 1996, 1995 and 1994

VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
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DESCRIPTION	Balance at Beginning of Year	Charged to Cost and Expenses	Deductions	Balance at End of Year
<S>	<C>	<C>	<C>	<C>
September 30, 1996				
Allowance for doubtful accounts	$7,709,000	$5,352,000	$(7,206,000)	$5,855,000
September 30, 1995				
Allowance for doubtful accounts	$8,220,000	$5,187,000	$(5,698,000)	$7,709,000
September 30, 1994				
Allowance for doubtful accounts	$9,395,000	$4,643,000	$(5,818,000)	$8,220,000

</TABLE>

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INDEX TO EXHIBITS

<TABLE>
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EXHIBIT NUMBER	EXHIBIT TITLE
<S>	<C>
++2.1(1)	Master Transaction Agreement, dated as of August 21, 1996, but effective as of September 18, 1996, between and among Raytel Medical Corporation, Raytel Texas Physician Services, Inc., Raytel Southeast Management, L.P., Southeast Texas Cardiology Associates, P.A., Southeast Texas Cardiology Associates II, P.A., Rodolfo P. Sotolongo, M.D., Wayne S. Margolis, M.D., Michael L. Smith, M.D., and Miguel Castellanos, M.D.
++2.2(1)	Agreement for the Purchase and Sale of Assets, dated as of

	August 21, 1996, but effective as of September 18, 1996, between and among Raytel Medical Corporation, Raytel Texas Physician Services, Inc., Raytel Southeast Management, L.P., Southeast Texas Cardiology Associates, P.A., Southeast Texas Cardiology Associates II, P.A., Rodolfo P. Sotolongo, M.D., Wayne S. Margolis, M.D., and Michael L. Smith, M.D.
++2.3(1)	Management Services Agreement, dated and effective as of September 18, 1996, between Cardiology Management Partnership, a Texas general partnership, and Southeast Texas Cardiology Associates II, P.A., as assigned to Raytel Southeast Management, L.P.
3.1(2)	Restated Certificate of Incorporation of the Registrant, as proposed to be amended.
3.2(3)	Bylaws of the Registrant, as amended.
4.1(4)	Registration Rights Agreement dated October 31, 1985 among the Registrant and certain of its stockholders.
*10.1(4)	1983 Incentive Stock Option Plan, as amended.
*10.2(4)	1990 Stock Option Plan, as amended.
10.3(4)	1995 Outside Directors Stock Option Plan.
*10.5(4)	Executive Deferred Compensation Plan.
*10.7(4)	Form of Indemnity Agreement for officers and directors.
*10.8(4)	Employment Agreement dated September 28, 1995 between the Registrant and Richard F. Bader.
*10.9(4)	Employment Agreement dated September 28, 1995 between the Registrant and Allan Zinberg.
*10.10(4)	Employment Agreement dated September 28, 1995 between the Registrant and E. Payson Smith, Jr.
10.11(4)	Asset Purchase Agreement dated February 26, 1993 between the Registrant and Medtronic, Inc.
10.12(4)	Warrant dated February 26, 1993 issued to Medtronic, Inc. and related Put Agreement dated February 26, 1993 between the Registrant and Medtronic, Inc., with form of Registration Rights Agreement.
10.13(4)	Subordinated Promissory Note dated February 26, 1993 issued to Medtronic, Inc.
10.14(4)	Services Agreement dated February 26, 1993 between the Registrant and Medtronic, Inc.

</TABLE>

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<S> <C>

10.21(4)	Warrant issued to Thomas J. Fogarty, M.D. August 30, 1990.
10.22(4)	Lease Agreement dated March 6, 1992 between the Registrant and Peninsula Office Park, as amended.
10.23(4)	Lease dated August 27, 1993 between the Registrant and USGC Joint Venture.
10.24(4)	Agreement of Lease dated July 22, 1983 between the Registrant and C.E. Towers Co., as amended, with Lease Assignment and Assumption Agreement dated February 26, 1993 between the Registrant and Medtronic, Inc. and Consent of C.E. Towers Co. dated February 12, 1993.
10.25(4)	Letter of Intent dated May 31, 1995 between the Registrant and

	Stanford Health Services and related letter dated June 12, 1995 from Bruce A. Reitz, M.D.
+10.26(4)	American Diagnostics and Management, Inc. Diagnostic Catheterization Services Agreement dated September 2, 1992 between American Diagnostics And Management, Inc. ("ADAM") and Southmore Medical Center, as assumed from ADAM by Registrant.
+10.27(4)	American Diagnostics And Management, Inc. Diagnostic Catheterization Services Agreement dated June 10, 1993 between ADAM and Southmore Medical Center, as assumed from ADAM by Registrant.
10.28(4)	Joint Venture Agreement dated March 3, 1988 between Medical Imaging Partners, L.P. and California Medical Imaging Services, Inc., as amended, and related agreements.
10.29(4)	Joint Venture Agreement dated November 25, 1987 between Medical Imaging Partners, L.P. and Mastercare Diagnostic Limited Partners, as amended, and related agreements.
10.30(4)	MRI Diagnostic Partners I, L.P. 1986 Limited Partnership Agreement dated December 31, 1986, and related agreements and MRI Building Partners, L.P. 1986 Agreement of Limited Partnership dated December 31, 1986.
10.31(4)	Amended and Restated Joint Venture Agreement dated August 6, 1990 between Medical Imaging Partners, L.P. and Medical Diagnostics, Inc., and related agreements.
10.32(4)	Letter Agreement dated October 2, 1995 between the Registrant and Bank of Boston Connecticut.
10.33(4)	Letter of Intent dated October 26, 1995 between the Registrant and Granada Hills Community Hospital.
+10.34(5)	Cardiac Catheterization Facility and Administrative Services Agreement dated January 10, 1996 between the Company and Stanford Health Services.
+10.35(6)	Letter Agreement dated January 9, 1996 between the Company and International Philanthropic Hospital Foundation, doing business as Granada Hills Community Hospital.
+10.36(7)	Cardiac Catheterization Facility and Administrative Services Agreement dated January 10, 1996 between the Company and Stanford Health Services.
+10.37(8)	Letter Agreement dated January 9, 1996 between the Company and International Philanthropic Hospital Foundation, doing business as Granada Hills Community Hospital.
++10.38	Master Transaction Agreement, dated as of August 21, 1996, but effective as of September 18, 1996, between and among Raytel Medical Corporation, Raytel Texas Physician Services, Inc., Raytel Southeast Management, L.P., Southeast Texas Cardiology Associates, P.A., Southeast Texas Cardiology Associates II, P.A., Rodolfo P. Sotolongo, M.D., Wayne S. Margolis, M.D., Michael L. Smith, M.D., and Miguel Castellanos, M.D. Reference is made to Exhibit 2.1.
++10.39	Agreement for the Purchase and Sale of Assets, dated as of August 21, 1996, but effective as of September 18, 1996, between and among Raytel Medical Corporation, Raytel Texas Physician Services, Inc., Raytel Southeast Management, L.P., Southeast Texas Cardiology Associates, P.A., Southeast Texas Cardiology Associates II, P.A., Rodolfo P. Sotolongo, M.D., Wayne S. Margolis, M.D., and Michael L. Smith, M.D., Reference is made to Exhibit 2.2.
++10.40	Management Services Agreement, dated and effective as of September 18, 1996, between Cardiology Management Partnership, a Texas general partnership, and Southeast Texas Cardiology Associates II, P.A., as assigned to Raytel Southeast Management, L.P. Reference is made to Exhibit 2.3.
*10.41	Employee Stock Purchase Plan dated May 8, 1996

10.42	Amended and Restated Credit Agreement, and form of Promissory Note dated August 14, 1996 among the Registrant, Bank of Boston Connecticut and Banque Paribas, and Bank of Boston Connecticut, as agent.
10.43	Promissory Note in the amount of $15,000,000 between the Registrant and Bank of Boston Connecticut dated September 2, 1996.
10.44	Promissory Note in the amount of $10,000,000 between the Registrant and Banque Paribas dated September 2, 1996.
13.1	Portions of Annual Report to Stockholders incorporated by reference in this Report on Form 10-K.
21.1	List of subsidiaries of the Registrant.
23.1	Consent of Arthur Andersen LLP.

</TABLE>

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<S>	<C>	<C>
24.1	Power of Attorney. Reference is made to page 23 of this Report on Form 10-K.	
27	Financial Data Schedule.	

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* Constitutes a management contract or compensatory plan required to be filed pursuant to Item 14(c) of Form 10-K.

\+ Confidential treatment has been granted as to a portion of this Exhibit.

++ Confidential treatment has been requested as to a portion of this Exhibit.

(1) Incorporated by reference to identically numbered exhibit to the Registrant's Form 8-K Reports filed on October 3, 1996.

(2) Incorporated by reference to identically numbered exhibits to the Registrant's Form 10-Q Report for the quarter ended December 31, 1995 (the "December 1995 Form 10-Q").

(3) Incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-1, No. 33-97860, which became effective on November 30, 1995 (the "1995 Registration Statement").

(4) Incorporated by reference to identically numbered exhibit to the 1995 Registration Statement.

(5) Incorporated by reference to Exhibit 10.1 to the December 1995 Form 10-Q.

(6) Incorporated by reference to Exhibit 10.2 to the December 1995 Form 10-Q.

(7) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q Report for the quarter ended June 30, 1996 (the "June 1996 Form 10-Q").

(8) Incorporated by reference to Exhibit 10.2 to the June 1996 Form 10-Q.

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

The following entities are corporations in which Raytel Medical Corporation ("RMC") has an ownership interest:

NAME OF CORPORATION	STATE OF INCORPORATION
Raytel Cardiac Services, Inc.	Delaware
Raytel Cardiovascular Labs, Inc. ("RCL")	Delaware
Raytel Imaging Holdings, Inc. ("RIH")	Delaware
Raytel Management Holdings, Inc. ("RMH")	Delaware

The following entities are corporations in which RIH has an ownership interest:

NAME OF CORPORATION	STATE OF INCORPORATION
Raytel Imaging East, Inc. ("RIE")	Delaware
Raytel Imaging Mid-Atlantic, Inc. ("RIMA")	Delaware
Raytel Imaging West, Inc. ("RIW")	Delaware
Raytel Medical Imaging, Inc. ("RMI")	Delaware
Raytel Imaging Network, Inc.	Delaware

The following entities are corporations that RMH has an ownership interest:

NAME OF CORPORATION	STATE OF INCORPORATION
Raytel California Physician Services, Inc.	Delaware
Raytel Texas Physician Services, Inc. ("RTPS")	Delaware

RMI is the sole general partner and RMC is the sole limited partner of Medical Imaging Partners L.P. ("MIP"), a Delaware limited partnership.

RTPS is the sole general partner and RMH is the sole limited partner of Raytel Southeast Management, L.P., a Texas limited partnership.

RCL is the sole general partner and RGH is the sole limited partner of Northern California Heart Center, Ltd., a California limited partnership.

The following entities are partnerships in which RIE, RIMA, RIW or MIP have an ownership interest:

NAME OF CORPORATION	OWNER	STATE OF ORGANIZATION

CIFMI Joint Venture	RIW	California
Five East 82nd Street Imaging Venture	RIE	New York
Forest Hills Imaging Venture	RIE	New York
Mass. Mobile Imaging Venture	MIP	Massachusetts
MRI Diagnostic Partners I, L.P.-1986	RIMA	Pennsylvania
MRI Building Partners I, L.P.-1986	RIMA	Pennsylvania
Orlando Diagnostic Center	RIMA	California
San Louis Obispo Medical Imaging Center	RIW	California

EXHIBIT 10.41

RAYTEL MEDICAL CORPORATION

1996 EMPLOYEE STOCK PURCHASE PLAN

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 ESTABLISHMENT. The Raytel Medical Corporation 1996 Employee Stock Purchase Plan (the "PLAN") is hereby established effective upon its approval by the Company's stockholders.

1.2 PURPOSE. The purpose of the Plan is to provide Eligible Employees of the Participating Company Group with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Company intends that the Plan shall qualify as an "employee stock purchase plan" under Section 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed.

1.3 TERM OF PLAN. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued.

2. DEFINITIONS AND CONSTRUCTION.

2.1 DEFINITIONS. Any term not expressly defined in the Plan but defined for purposes of Section 423 of the Code shall have the same definition herein. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "BOARD" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "Board" also means such Committee(s).

(b) "CODE" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(c) "COMMITTEE" means a committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(d) "COMPANY" means Raytel Medical Corporation, a Delaware corporation, or any successor corporation thereto.

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(e) "COMPENSATION" means, with respect to an Offering Period under the Plan, all amounts paid in cash in the forms of base salary or commissions during such Offering Period before deduction for any contributions to any plan maintained by a Participating Company and described in Section 401(k) or Section 125 of the Code. Compensation shall not include bonuses, annual awards, other incentive payments, shift premiums, reimbursements of expenses, allowances, long-term disability, workers' compensation or any amount deemed received without the actual transfer of cash or any amounts directly or indirectly paid pursuant to the Plan or any other stock purchase or stock option plan.

(f) "ELIGIBLE EMPLOYEE" means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan.

(g) "EMPLOYEE" means any person treated as an employee (including an officer or a director who is also treated as an employee) in the records of a Participating Company and for purposes of Section 423 of the Code; provided, however, that neither service as a director nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan.

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

(i) "FAIR MARKET VALUE" means, as of any date, if there is then a public market for the Stock, the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so reported instead) as reported on the National Association of Securities Dealers Automated Quotation ("NASDAQ") System, the NASDAQ National Market System or such other national or regional securities exchange or market system constituting the primary market for the Stock. If the relevant date does not fall on a day on which the Stock is trading on NASDAQ, the NASDAQ National Market System or other national or regional securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its sole discretion. If there is then no public market for the Stock, the Fair Market Value on any relevant date shall be as determined by the Board without regard to any restriction other than a restriction which, by its terms, will never lapse.

(j) "OFFERING" means an offering of Stock as provided in Section 6.

(k) "OFFERING DATE" means, for any Offering Period, the first day of such Offering Period.

(l) "OFFERING PERIOD" means a period determined in accordance with Section 6.1.

(m) "PARENT CORPORATION" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(n) "PARTICIPANT" means an Eligible Employee participating in the Plan.

(o) "PARTICIPATING COMPANY" means the Company or any Parent Corporation or Subsidiary Corporation which the Board determines should be included in the Plan. The Board shall have the sole and absolute discretion to determine from time to time what Parent Corporations or Subsidiary Corporations shall be Participating Companies.

(p) "PARTICIPATING COMPANY GROUP" means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(q) "PURCHASE DATE" means, for any Offering Period (or Purchase Period if so determined by the Board in accordance with Section 6.2), the last day of such period.

(r) "PURCHASE PERIOD" means a period determined in accordance with Section 6.2.

(s) "PURCHASE PRICE" means the price at which a share of Stock may be purchased pursuant to the Plan, as determined in accordance with Section 9.

(t) "PURCHASE RIGHT" means an option pursuant to the Plan to purchase such shares of Stock as provided in Section 8 which may or may not be exercised during an Offering Period. Such option arises from the right of a Participant to withdraw such Participant's accumulated payroll deductions not previously applied to the purchase of Stock under the Plan (if any) and terminate participation in the Plan or any Offering therein at any time during an Offering Period.

(u) "STOCK" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(v) "SUBSIDIARY CORPORATION" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

2.2 CONSTRUCTION. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any

provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural, the plural shall include the singular, and use of the term "or" shall include the conjunctive as well as the disjunctive.

3. ADMINISTRATION. The Plan shall be administered by the Board, including any duly appointed Committee of the Board. All questions of interpretation of the Plan or of any Purchase Right shall be determined by the Board and shall be final and binding upon all persons having an interest in the Plan or such Purchase Right. Subject to the provisions of the Plan, the Board shall determine all of the relevant terms and conditions of Purchase Rights granted pursuant to the Plan; provided, however, that all Participants granted Purchase Rights pursuant to the Plan shall have the same rights and privileges within the meaning of Section 423(b)(5) of the Code. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be one hundred thousand (100,000) and shall consist of authorized but unissued or reacquired shares of the Stock, or any combination thereof. If an outstanding Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of such Purchase Right shall again be available for issuance under the Plan.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, or in the event of any merger (including a merger effected for the purpose of changing the Company's domicile), sale of assets or other reorganization in which the Company is a party, appropriate adjustments shall be made in the number and class of shares subject to the Plan, to the Per Offering Share Limit set forth in Section 8.1 and to each Purchase Right and in the Purchase Price.

5. ELIGIBILITY.

5.1 EMPLOYEES ELIGIBLE TO PARTICIPATE. Any Employee of a Participating Company is eligible to participate in the Plan except the following:

(a) Employees who are customarily employed by the Participating Company Group for twenty (20) hours or less per week;

(b) Employees who are customarily employed by the

Participating Company Group for not more than five (5) months in any calendar year; and

(c) Employees who own or hold options to purchase or who, as a result of participation in the Plan, would own or hold options to purchase, stock of the Company or of any Parent Corporation or Subsidiary Corporation possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of such corporation within the meaning of Section 423(b)(3) of the Code.

5.2 LEASED EMPLOYEES EXCLUDED. Notwithstanding anything herein to the contrary, any individual performing services for a Participating Company solely through a leasing agency or employment agency shall not be deemed an "Employee" of such Participating Company.

6. OFFERINGS.

6.1 OFFERING PERIODS. Except as otherwise set forth below, the Plan shall be implemented by sequential Offerings of approximately three (3) months duration (an "OFFERING PERIOD"). The first Offering Period shall commence on October 1, 1996 (the "INITIAL OFFERING DATE") and end on December 31, 1996. Subsequent Offerings shall commence on the first days of January, April, July and October of each year and end on the last days of the next March, June, September, and December, respectively, occurring thereafter. Notwithstanding the foregoing, the Board may establish a different term for one or more Offerings or different commencing or ending dates for such Offerings; provided, however, that no Offering may exceed a term of twenty-seven (27) months. An Employee who becomes an Eligible Employee after an Offering Period has commenced shall not be eligible to participate in such Offering but may participate in any subsequent Offering provided such Employee is still an Eligible Employee as of the commencement of any such subsequent Offering. Eligible Employees may not participate in more than one Offering at a time. In the event the first or last day of an Offering Period is not a business day, the Company shall specify the business day that will be deemed the first or last day, as the case may be, of the Offering Period.

6.2 PURCHASE PERIODS. If the Board shall so determine, in its discretion, each Offering Period may consist of two (2) or more consecutive purchase periods having such duration as the Board shall specify (individually, a "PURCHASE PERIOD"), and the last day of each such Purchase Period shall be a Purchase Date. In the event the first or last day of a Purchase Period is not a business day, the Company shall specify the business day that will be deemed the first or last day, as the case may be, of the Purchase Period.

6.3 GOVERNMENTAL APPROVAL; STOCKHOLDER APPROVAL. Notwithstanding any other provision of the Plan to the contrary, any Purchase Right granted pursuant to the Plan shall be subject to (a) obtaining all necessary governmental approvals or qualifications of the sale or issuance of the Purchase Rights or

the shares of Stock and (b) obtaining stockholder approval of the Plan. Notwithstanding the foregoing, stockholder approval shall not be necessary in order to grant any Purchase Right granted in the Plan's initial Offering Period; provided, however, that the exercise of any such Purchase Right shall be subject to obtaining stockholder approval of the Plan.

7. PARTICIPATION IN THE PLAN.

7.1 INITIAL PARTICIPATION. An Eligible Employee shall become a Participant on the first Offering Date after satisfying the eligibility requirements of

Section 5 and delivering to the Company's payroll office or other office designated by the Company not later than the close of business for such office on the last business day before such Offering Date (the "SUBSCRIPTION DATE") a subscription agreement indicating the Employee's election to participate in the Plan and authorizing payroll deductions. An Eligible Employee who does not deliver a subscription agreement to the Company's payroll or other designated office on or before the Subscription Date shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless such Employee subsequently enrolls in the Plan by filing a subscription agreement with the Company by the Subscription Date for such subsequent Offering Period. The Company may, from time to time, change the Subscription Date as deemed advisable by the Company in its sole discretion for proper administration of the Plan.

7.2 CONTINUED PARTICIPATION. A Participant shall automatically participate in the Offering Period commencing immediately after the final Purchase Date of each Offering Period in which the Participant participates until such time as such Participant (a) ceases to be an Eligible Employee, (b) withdraws from the Plan pursuant to Section 13.2 or (c) terminates employment as provided in Section 14. If a Participant automatically may participate in a subsequent Offering Period pursuant to this Section 7.2, then the Participant is not required to file any additional subscription agreement for such subsequent Offering Period in order to continue participation in the Plan. However, a Participant may file a subscription agreement with respect to a subsequent Offering Period if the Participant desires to change any of the Participant's elections contained in the Participant's then effective subscription agreement.

8. RIGHT TO PURCHASE SHARES.

8.1 PURCHASE RIGHT. Except as set forth below, during an Offering Period each Participant in such Offering Period shall have a Purchase Right consisting of the right to purchase that number of whole shares of Stock arrived at by dividing One Thousand Two Hundred Fifty Dollars ($1,250) by the Fair Market Value of a share of Stock on the Offering Date of such Offering Period; provided, however, that such number shall not exceed one hundred twenty-five (125) shares (the "PER OFFERING SHARE LIMIT"). Shares of Stock may only be

purchased through a Participant's payroll deductions pursuant to Section 10.

8.2 PRO RATA ADJUSTMENT OF PURCHASE RIGHT. Notwithstanding the foregoing, if the Board shall establish an Offering Period of less than two and one-half (2 1/2) months or more than three and one-half (3 1/2) months in duration, (a) the dollar amount in Section 8.1 shall be determined by multiplying $416.67 by the number of months in the Offering Period and rounding to the nearest whole dollar, and (b) the Per Offering Share Limit shall be determined by multiplying 41.67 shares by the number of months in the Offering Period and rounding to the nearest whole share. For purposes of the preceding sentence, fractional months shall be rounded to the nearest whole month.

9. PURCHASE PRICE. The Purchase Price at which each share of Stock may be acquired in a given Offering Period pursuant to the exercise of all or any portion of a Purchase Right granted under the Plan shall be set by the Board; provided, however, that the Purchase Price shall not be less than one hundred percent (100%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period, or (b) the Fair Market Value of a share of Stock on the Purchase Date of the Offering Period. Unless otherwise provided by the Board prior to the commencement of an Offering Period, the Purchase Price for that Offering Period shall be one hundred percent (100%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date, or (b) the Fair Market Value of a share of Stock on the Purchase Date.

10. ACCUMULATION OF PURCHASE PRICE THROUGH PAYROLL DEDUCTION. Shares of Stock which are acquired pursuant to the exercise of all or any portion of a Purchase Right for an Offering Period may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period. Except as set forth below, the amount of Compensation to be deducted from a Participant's Compensation during each pay period shall be determined by the Participant's subscription agreement.

10.1 COMMENCEMENT OF PAYROLL DEDUCTIONS. Payroll deductions shall commence on the first payday following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided in the Plan.

10.2 LIMITATIONS ON PAYROLL DEDUCTIONS. The amount of payroll deductions with respect to the Plan for any Participant during any pay period shall be in one percent (1%) increments not to exceed ten percent (10%) of the Participant's Compensation for such pay period. Notwithstanding the foregoing, the Board may change the limits on payroll deductions effective as of a future Offering Date, as determined by the Board. Amounts deducted from Compensation shall be reduced by any amounts contributed by the Participant and applied to the purchase of Company stock pursuant to any other employee stock purchase plan qualifying under Section 423 of the Code.

10.3 ELECTION TO DECREASE OR STOP PAYROLL DEDUCTIONS. During an Offering Period, a Participant may elect to decrease the amount deducted or stop deductions from his or her Compensation by filing an amended subscription agreement with the Company on or before the "Change Notice Date." The "CHANGE NOTICE DATE" shall initially be the seventh (7th) day prior to the end of the first pay period for which such election is to be effective; however, the Company may change such Change Notice Date from time to time. A Participant may not elect to increase the amount deducted from the Participant's Compensation during an Offering Period.

10.4 PARTICIPANT ACCOUNTS. Individual Plan accounts shall be maintained for each Participant. All payroll deductions from a Participant's Compensation shall be credited to such account and shall be deposited with the

general funds of the Company. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose.

10.5 NO INTEREST PAID. Interest shall not be paid on sums deducted from a Participant's Compensation pursuant to the Plan.

10.6 COMPANY ESTABLISHED PROCEDURES. The Company may, from time to time, establish or change (a) a minimum required payroll deduction amount for participation in an Offering, (b) limitations on the frequency or number of changes in the rate of payroll deduction during an Offering, (c) an exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, (d) payroll deduction in excess of or less than the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of subscription agreements, (e) the date(s) and manner by which the Fair Market Value of a share of Stock is determined for purposes of administration of the Plan, or (f) such other limitations or procedures as deemed advisable by the Company in the Company's sole discretion which are consistent with the Plan and in accordance with the requirements of Section 423 of the Code.

11. PURCHASE OF SHARES.

11.1 EXERCISE OF PURCHASE RIGHT. On each Purchase Date of an Offering Period, each Participant who has not withdrawn from the Offering or whose participation in the Offering has not terminated on or before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right the number of whole shares of Stock arrived at by dividing the total amount of the Participant's accumulated payroll deductions for the Offering Period not previously applied toward the purchase of Stock by the Purchase Price; provided, however, in no event shall the number of shares purchased by the Participant during an Offering Period exceed the number of shares subject to the Participant's Purchase Right. No shares of Stock shall be

purchased on a Purchase Date on behalf of a Participant whose participation in the Offering or the Plan has terminated on or before such Purchase Date.

11.2 RETURN OF CASH BALANCE. Any cash balance remaining in the Participant's Plan account shall be refunded to the Participant as soon as practicable after the Purchase Date. In the event the cash to be returned to a Participant pursuant to the preceding sentence is an amount less than the amount necessary to purchase a whole share of Stock, the Company may establish procedures whereby such cash is maintained in the Participant's Plan account and applied toward the purchase of shares of Stock in the subsequent Offering Period (or Purchase Period, as the case may be).

11.3 TAX WITHHOLDING. At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the foreign, federal, state and local tax withholding

obligations of the Participating Company Group, if any, which arise upon exercise of the Purchase Right or upon such disposition of shares, respectively. The Participating Company Group may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

11.4 EXPIRATION OF PURCHASE RIGHT. Any portion of a Participant's Purchase Right remaining unexercised after the end of the Offering Period to which such Purchase Right relates shall expire immediately upon the end of such Offering Period.

12. LIMITATIONS ON PURCHASE OF SHARES; RIGHTS AS A STOCKHOLDER.

12.1 FAIR MARKET VALUE LIMITATION. Notwithstanding any other provision of the Plan, no Participant shall be entitled to purchase shares of Stock under the Plan (or any other employee stock purchase plan which is intended to meet the requirements of Section 423 of the Code sponsored by the Company or a Parent Corporation or Subsidiary Corporation at a rate which exceeds $25,000 in Fair Market Value, which Fair Market Value is determined for shares purchased during a given Offering Period as of the Offering Date for such Offering Period (or such other limit as may be imposed by the Code), for each calendar year in which the Participant participates in the Plan (or any other employee stock purchase plan described in this sentence).

12.2 PRO RATA ALLOCATION. In the event the number of shares of Stock which might be purchased by all Participants in the Plan exceeds the number of shares of Stock available in the Plan, the Company shall make a pro rata allocation of the remaining shares in as uniform a manner as shall be practicable and as the Company shall determine to be equitable.

12.3 RIGHTS AS A STOCKHOLDER AND EMPLOYEE. A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the issuance of a stock certificate for the shares of Stock being purchased pursuant to the exercise of the Participant's Purchase Right. No adjustment shall be made for cash dividends or distributions or other rights for which the record date is prior to the date such stock certificate is issued. Nothing herein shall confer upon a Participant any right to continue in the employ of the Participating Company Group or interfere in any way with any right of the Participating Company Group to terminate the Participant's employment at any time.

12.4 RESTRICTION ON RESALE OF SHARES. A Participant may not, for a period of three (3) months from the Purchase Date, offer to sell, sell, contract to sell, grant any option to purchase, assign, transfer, pledge, encumber or otherwise sell or dispose of any shares of Stock acquired pursuant to the exercise of a Purchase Right on such Purchase Date. Notwithstanding the foregoing, a Participant may transfer any or all of such shares of Stock by gift or pursuant to the laws of descent and distribution; provided, however, that in any such case it shall be a condition to the

transfer that the transferee execute an agreement stating that the transferee is receiving and holding such shares of Stock subject to the provisions of this Section 12.4, and there shall be no further transfer of such shares except in accordance with this Section 12.4.

13. WITHDRAWAL.

13.1 WITHDRAWAL FROM AN OFFERING. A Participant may withdraw from an Offering by signing and delivering to the Company's payroll or other designated office a written notice of withdrawal on a form provided by the Company for such purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period; provided, however, if a Participant withdraws after a Purchase Date, the withdrawal shall not affect shares of Stock acquired by the Participant on such Purchase Date. Unless otherwise indicated, withdrawal from an Offering shall not result in a withdrawal from the Plan or any succeeding Offering therein. A Participant is prohibited from again participating in an Offering at any time following withdrawal from such Offering. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company's payroll office or other designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal from an Offering.

13.2 WITHDRAWAL FROM THE PLAN. A Participant may withdraw from the Plan by signing and delivering to the Company's payroll office or other designated office a written notice of withdrawal on a form provided by the Company for such purpose. Withdrawals made after a Purchase Date shall not

affect shares of Stock acquired by the Participant on such Purchase Date. In the event a Participant voluntarily elects to withdraw from the Plan, the Participant may not resume participation in the Plan during the same Offering Period, but may participate in any subsequent Offering under the Plan by again satisfying the requirements of Sections 5 and 7.1. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company's payroll office or other designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal from the Plan.

13.3 RETURN OF PAYROLL DEDUCTIONS. Upon a Participant's withdrawal from an Offering or the Plan pursuant to Sections 13.1 or 13.2, respectively, the Participant's accumulated payroll deductions which have not been applied toward the purchase of shares of Stock shall be returned as soon as practicable after the withdrawal, without the payment of any interest, to the Participant, and the Participant's interest in the Offering or the Plan, as applicable, shall terminate. Such accumulated payroll deductions may not be applied to any other Offering under the Plan.

13.4 WAIVER OF WITHDRAWAL RIGHT. The Company may, from time to time, establish a procedure pursuant to which a Participant may elect, at least six (6) months prior to a Purchase Date, to have all payroll deductions accumulated in his or her Plan account as of such Purchase Date applied to purchase shares of Stock under

the Plan, and (a) to waive his or her right to withdraw from the Offering or the Plan and (b) to waive his or her right to increase, decrease, or cease payroll deductions under the Plan from his or her Compensation during the period ending on such Purchase Date. Such election shall be made in writing on a form provided by the Company for such purpose and must be delivered to the Company not later than the close of business on the day preceding the date which is six (6) months before the Purchase Date for which such election is to first be effective.

14. TERMINATION OF EMPLOYMENT OR ELIGIBILITY. Termination of a Participant's employment with a Participating Company for any reason, including retirement, disability or death or the failure of a Participant to remain an Eligible Employee, shall terminate the Participant's participation in the Plan immediately. In such event, the payroll deductions credited to the Participant's Plan account since the last Purchase Date shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's legal representative, and all of the Participant's rights under the Plan shall terminate. Interest shall not be paid on sums returned to a Participant pursuant to this Section 14. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by again satisfying the requirements of Sections 5 and 7.1.

15. TRANSFER OF CONTROL.

15.1 DEFINITIONS.

(a) An "OWNERSHIP CHANGE EVENT" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A "TRANSFER OF CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, the "TRANSACTION") wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the "TRANSFEREE CORPORATION(S)"), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporations which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Board shall have the right to determine whether multiple sales or

exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

15.2 EFFECT OF TRANSFER OF CONTROL ON PURCHASE RIGHTS. In the event of a Transfer of Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "ACQUIRING CORPORATION"), may assume the Company's rights and obligations under the Plan or substitute substantially equivalent Purchase Rights for stock of the Acquiring Corporation. If the Acquiring Corporation elects not to assume or substitute for the outstanding Purchase Rights, the Board may, in its sole discretion and notwithstanding any other provision herein to the contrary, adjust the Purchase Date of the then current Purchase Period to a date on or before the date of the Transfer of Control, but shall not adjust the number of shares of Stock subject to any Purchase Right. All Purchase Rights which are neither assumed or substituted for by the Acquiring Corporation in connection with the Transfer of Control nor exercised as of the date of the Transfer of Control shall terminate and cease to be outstanding effective as of the date of the Transfer of Control. Notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Purchase Rights immediately prior to an Ownership Change

Event described in Section 15.1(a)(i) constituting a Transfer of Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of section 1504(a) of the Code without regard to the provisions of section 1504(b) of the Code, the outstanding Purchase Rights shall not terminate unless the Board otherwise provides in its sole discretion.

16. NONTRANSFERABILITY OF PURCHASE RIGHTS. A Purchase Right may not be transferred in any manner otherwise than by will or the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. The Company, in its absolute discretion, may impose such restrictions on the transferability of the shares purchasable upon the exercise of a Purchase Right as it deems appropriate and any such restriction shall be set forth in the respective subscription agreement and may be referred to on the certificates evidencing such shares.

17. REPORTS. Each Participant who exercised all or part of his or her Purchase Right shall receive, as soon as practicable after the Purchase Date, a report of such Participant's Plan account setting forth the total payroll deductions accumulated, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the remaining cash balance to be refunded or retained in the Participant's Plan account pursuant to Section 11.2, if any. Each Participant shall be provided information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

18. RESTRICTION ON ISSUANCE OF SHARES. The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of foreign, federal or

state law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable foreign, federal or state securities laws or other law or regulations. In addition, no Purchase Right may be exercised unless (a) a registration statement under the Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of a

Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

19. LEGENDS. The Company may at any time place legends or other identifying symbols referencing any applicable foreign, federal or state securities law restrictions or any provision convenient in the administration of the Plan on some or all of the certificates representing shares of Stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to carry out the provisions of this Section . Unless otherwise specified by the Company, legends placed on such certificates may include but shall not be limited to the following:

"THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON THE PURCHASE OF SHARES UNDER AN EMPLOYEE STOCK PURCHASE PLAN AS DEFINED IN SECTION 423 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE TRANSFER AGENT FOR THE SHARES EVIDENCED HEREBY SHALL NOTIFY THE CORPORATION IMMEDIATELY OF ANY TRANSFER OF THE SHARES BY THE REGISTERED HOLDER HEREOF MADE ON OR BEFORE , 19 . THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE PLAN IN THE REGISTERED HOLDER'S NAME (AND NOT IN THE NAME OF ANY NOMINEE) PRIOR TO THIS DATE."

20. NOTIFICATION OF SALE OF SHARES. The Company may require the Participant to give the Company prompt notice of any disposition of shares acquired by exercise of a Purchase Right within two years from the date of granting such Purchase Right or one year from the date of exercise of such Purchase Right. The Company may require that until such time as a Participant disposes of shares acquired upon exercise of a Purchase Right, the Participant shall hold all such shares in the Participant's name (and not in the name of any nominee) until the lapse of the

time periods with respect to such Purchase Right referred to in the preceding sentence. The Company may direct that the certificates evidencing shares acquired by exercise of a Purchase Right refer to such requirement to give prompt notice of disposition.

21. AMENDMENT OR TERMINATION OF THE PLAN. The Board may at any time amend or terminate the Plan, except that (a) such termination shall not affect Purchase Rights previously granted under the Plan, except as permitted under the Plan, and (b) no amendment may adversely affect a Purchase Right previously granted under the Plan (except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to obtain qualification or registration of the shares

of Stock under applicable foreign, federal or state securities laws). In addition, an amendment to the Plan must be approved by the stockholders of the Company within twelve (12) months of the adoption of such amendment if such amendment would authorize the sale of more shares than are authorized for issuance under the Plan or would change the definition of the corporations that may be designated by the Board as Participating Companies.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing Raytel Medical Corporation 1996 Employee Stock Purchase Plan was duly adopted by the Board of Directors of the Company on May 8, 1996.

/s/ Michael O. Kokesh, Esq.

_____

Secretary

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EXHIBIT 10.42

AMENDED AND RESTATED CREDIT AGREEMENT

DATED

AS OF

AUGUST 14, 1996

BY AND AMONG

RAYTEL MEDICAL CORPORATION,

BANK OF BOSTON CONNECTICUT

AND

THE OTHER LENDERS WHICH ARE OR MAY BECOME PARTIES HERETO

AND

BANK OF BOSTON CONNECTICUT, AS AGENT

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SCHEDULES

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AMENDED AND RESTATED
CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT is made as of the 14th day of August, 1996, by and among RAYTEL MEDICAL CORPORATION (the "BORROWER"), a Delaware corporation having its principal place of business at 2755 Campus Drive, San Mateo, California 94403, and BANK OF BOSTON CONNECTICUT and the other lending institutions listed on Schedule 1 attached hereto (collectively, the "BANKS") and BANK OF BOSTON CONNECTICUT as agent for itself and the other Banks (the "AGENT").

W I T N E S S E T H

WHEREAS, pursuant to a Credit Agreement dated as of February 26, 1993, as amended, modified, or supplemented from time to time (the "ORIGINAL LOAN AGREEMENT"), the Agent and Internationale Nederlanden [U.S.] Capital Corporation have made loans (the "EXISTING INDEBTEDNESS") to the Borrower for the purposes described therein; and

WHEREAS, the Agent and each of the Banks have agreed to make loans and other extensions of credit to the Borrower for the purpose of (i) refinancing or replacing the Existing Indebtedness, (ii) financing Acquisitions (as hereinafter defined) and (iii) providing the Borrower with working capital.

NOW, THEREFORE, the Borrower, the Banks and the Agent agree that as of the Effective Date (as hereinafter defined) the Original Loan Agreement shall be amended and restated in its entirety as set forth herein.

SECTION 1. DEFINITIONS.

SECTION 1.1. TERMS DEFINED. Except as otherwise expressly provided herein, all capitalized terms used in this Credit Agreement, the exhibits hereto and any notes, certificates, reports or other documents or instruments made or delivered pursuant to or in connection with this Credit Agreement shall have the meanings set forth for such terms in Schedule 2 hereto.

SECTION 1.2. RULES OF INTERPRETATION. Except as otherwise expressly provided herein, the rules of interpretation set forth in Schedule 2 hereto shall apply to this Credit Agreement, the exhibits hereto and any notes, certificates, reports or other documents or instruments made or delivered pursuant to or in connection with this Credit Agreement.

SECTION 2. THE REVOLVING CREDIT FACILITY.

SECTION 2.1. COMMITMENT TO LEND. Subject to the terms and conditions set forth in this Credit Agreement, each of the Banks agrees severally to lend to the Borrower and the Borrower may borrow, repay, and reborrow from time to time between the Effective Date and the Revolving Credit Termination Date upon notice by the Borrower to the Agent given

in accordance with Section 2.6, such sums as are requested by the Borrower up to a maximum aggregate amount outstanding (after giving effect to all amounts requested) at any one time equal to such Bank's Commitment, provided that the sum of the outstanding amount of the Revolving Credit Loans (after giving effect to all amounts requested) shall not at any time exceed the Total Commitment. The Revolving Credit Loans shall be made pro rata in accordance with each Bank's Commitment Percentage. Each request for a Revolving Credit Loan hereunder shall constitute a representation and warranty by the Borrower that the conditions set forth in Section 11 and Section 12A, in the case of the initial Revolving Credit Loans to be made on the Effective Date, Sections 12 and 12A in the case of a Revolving Credit Loan which is an Acquisition Credit Loan and Section 12A, in the case of all other Revolving Credit Loans, have been satisfied on the date of such request.

SECTION 2.2. REVOLVING CREDIT COMMITMENT FEE. The Borrower agrees to pay to the Agent for the accounts of the Banks in accordance with their respective Commitment Percentages a commitment fee calculated at the rate of one-quarter of one percent (1/4%) per annum on the average daily amount during each calendar quarter or portion thereof from the Effective Date to the Revolving Credit Termination

Date by which the Total Commitment exceeds the outstanding aggregate amount of Revolving Credit Loans during such calendar quarter. Such commitment fee shall be payable quarterly in arrears on the first day of each calendar quarter for the immediately preceding calendar quarter, commencing on the first such date following the Effective Date, with a final payment on the Revolving Credit Termination Date or any earlier date on which the Commitments shall terminate.

SECTION 2.3. REDUCTION OF COMMITMENTS. The Borrower shall have the right at any time and from time to time upon five (5) Business Days' prior written notice to the Agent to reduce by $300,000 or any greater integral multiple of $100,000 or terminate entirely the Total Commitment, whereupon the Commitments of the Banks shall be reduced pro rata in accordance with their respective Commitment Percentages of the amount specified in such notice or, as the case may be, terminated. Promptly after receiving any notice of the Borrower delivered pursuant to this Section 2.3, the Agent will notify the Banks of the substance thereof. Upon the effective date of any such reduction or termination, the Borrower shall pay to the Agent for the respective accounts of the Banks the full amount of any commitment fee then accrued under Section 2.2 hereof on the amount of the reduction. No reduction or termination of the Commitments may be reinstated.

SECTION 2.4. THE NOTES. The Revolving Credit Loans, together with the Term Loan, shall be evidenced by separate promissory notes of the Borrower in substantially the form of Exhibit A hereto (each a "NOTE"), dated as of the Effective Date and completed with appropriate insertions. One Note shall be payable to the order of each Bank in a principal amount equal to such Bank's Commitment. The Borrower irrevocably authorizes each Bank to make or cause to be made, at or about the time of the Drawdown Date of any Revolving Credit Loan or at the time of receipt of any payment of principal on such Bank's Note, an appropriate notation on such Bank's Note Record reflecting the making of such Revolving Credit Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Revolving Credit Loans and the Term Loan set forth on such Note Record shall be prima

facie evidence of the principal amount thereof owing and unpaid to such Bank, but the failure to record, or any error in so recording, any such amount on any Note Record shall not limit or otherwise affect the obligations of the Borrower hereunder or under any Note to make payments of principal of or interest on any Note when due.

SECTION 2.5. INTEREST ON REVOLVING CREDIT LOANS. Except as otherwise provided in Section 5.11,

(a) Each Revolving Credit Base Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of each Interest Period with respect thereto at the Base Rate plus the Applicable Base Rate Margin. With respect to each Revolving Credit Base Rate Loan (and any portion of the Term Loan bearing interest at an interest rate determined by reference to the Base Rate) and each fiscal quarter of the Borrower, the Applicable Base Rate Margin will be determined by the Agent after review of the Leverage Ratio and the Debt Service Coverage Ratio of the Borrower and its Subsidiaries for the period of four (4) consecutive fiscal quarters ending on the fiscal last day of the quarter immediately preceding such fiscal quarter, all as follows:

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DEBT SERVICE COVERAGE RATIO	LEVERAGE RATIO	APPLICABLE BASE RATE MARGIN
<S>	<C>	<C>

Less than 1.7:1.0	Greater than 1.5:1.0	.50%
Greater than or equal to 1.7:1.0 but less than or equal to 1.9:1.0	Less than or equal to 1.5 but greater than or equal to 1.0:1.0	0.25%
Greater than 1.9:1.0	Less than 1.0:1.0	0.00%

The Agent will determine the Applicable Base Rate Margin for each fiscal quarter on the forty-fifth (45th) day following the last day of the immediately preceding fiscal quarter by reference to the financial statements delivered to the Agent and the Banks by the Borrower in accordance with the terms hereof with respect to the period of four (4) consecutive fiscal quarters ending on such immediately preceding fiscal quarter. The Leverage Ratio and the Debt Service Coverage Ratio for such period of four (4) consecutive fiscal quarters must meet both of the above referenced thresholds for any decrease in the Applicable Base Rate Margin to occur.

(b) Each Revolving Credit LIBOR Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of each Interest Period with respect thereto at the LIBOR Rate determined for such Interest Period plus the Applicable LIBOR Rate Margin. With respect to each Revolving Credit LIBOR Rate Loan (and any portion of the Term Loan bearing interest at an interest rate determined by reference to the LIBOR Rate) and each fiscal quarter of the Borrower, the Applicable LIBOR Rate Margin will be determined by the Agent after review of the Leverage Ratio and the Debt Service Coverage Ratio of

the Borrower and its Subsidiaries for the period of four (4) consecutive fiscal quarters ending on the immediately preceding fiscal quarter, all as follows:

DEBT SERVICE COVERAGE RATIO	LEVERAGE RATIO	APPLICABLE LIBOR RATE MARGIN
<S>	<C>	<C>
Less than 1.7:1.0	Greater than 1.5:1.0	2.00%
Greater than or equal to 1.7:1.0 but less than or equal to 1.9:1.0	Less than or equal to 1.5 but greater than or equal to 1.0:1.0	1.75%
Greater than 1.9:1.0	Less than 1.0:1.0	1.50%

The Agent will determine the Applicable LIBOR Rate Margin for each fiscal quarter on the forty-fifth (45th) day following the last day of the immediately preceding fiscal quarter by reference to the financial statements delivered to the Agent and the Banks by the Borrower in accordance with the terms hereof with respect to the period of four (4) consecutive fiscal quarters ending on such immediately preceding fiscal quarter. Both the Leverage Ratio and the Debt Service Coverage Ratio for the period of four (4) consecutive fiscal quarters must meet both of the above referenced thresholds for any decrease in the Applicable LIBOR Rate Margin to occur.

(c)The Borrower promises to pay interest on each Revolving Credit Loan in arrears on each Interest Payment Date with respect thereto.

SECTION 2.6. REQUESTS FOR REVOLVING CREDIT LOANS. The Borrower shall give to the Agent written notice in the form of Exhibit B hereto (or telephonic notice confirmed in a writing in the form of Exhibit B hereto) of each Revolving Credit Loan requested hereunder (a "REVOLVING CREDIT LOAN REQUEST") (a) no less than one (1) Business Day prior the proposed Drawdown Date of any Revolving Credit Loan which is a

Revolving Credit Base Rate Loan and (b) no less than three (3) LIBOR Business Days prior to the proposed Drawdown Date of any Revolving Credit Loan which is a Revolving Credit LIBOR Rate Loan. Each such notice shall specify (i) the principal amount of the Revolving Credit Loan requested, (ii) the proposed Drawdown Date of such Revolving Credit Loan, (iii) the Interest Period for such Revolving Credit Loan, (iv) the Type of such Revolving Credit Loan and (v) whether or not such Revolving Credit Loan is an Acquisition Credit Loan. Promptly upon receipt of any such notice, the Agent shall notify each of the Banks thereof. Each Revolving Credit Loan Request shall be irrevocable and binding on the Borrower and shall obligate the Borrower to accept the Revolving Credit Loan requested from the Banks on the proposed Drawdown Date. Each Revolving Credit Loan Request shall be in a minimum aggregate amount of (1) $1,000,000 or an integral multiple thereof for any Revolving Credit LIBOR Rate Loan and (2) $100,000 or an integral multiple thereof for any Revolving Credit Base Rate Loan. Each request for an Acquisition Credit Loan hereunder shall constitute a representation and warranty by the Borrower that the conditions set forth in Section 12 and Section 12A have been satisfied on the date of such request. Each request for a Revolving Credit Loan (other than an Acquisition Loan) shall constitute a representation and warranty by the

Borrower that the conditions set forth in Section 11 and Section 12A have been satisfied on the date of such request.

SECTION 2.7. CONVERSION OPTIONS.

(a) The Borrower may elect from time to time to convert any outstanding Revolving Credit Loan to a Revolving Credit Loan of another Type, provided that (i) with respect to any such conversion of a Revolving Credit LIBOR Rate Loan to a Revolving Credit Base Rate Loan, the Borrower shall give the Agent at least one (1) Business Days' prior written notice of such election; (ii) with respect to any such conversion of a Revolving Credit Base Rate Loan to a Revolving Credit LIBOR Rate Loan, the Borrower shall give the Agent at least three (3) LIBOR Business Days' prior written notice of such election; (iii) with respect to any such conversion of a Revolving Credit LIBOR Rate Loan into a Revolving Credit Base Rate Loan, such conversion shall only be made on the last day of the Interest Period with respect thereto and (iv) no Revolving Credit Base Rate Loan may be converted into a Revolving Credit LIBOR Rate Loan when any Default or Event of Default has occurred and is continuing. On the date on which such conversion is being made each Bank shall take such action as is necessary to transfer its Commitment Percentage of such Revolving Credit Loans to its Domestic Lending Office or its LIBOR Lending Office, as the case may be. All or any part of outstanding Revolving Credit Loans of any Type may be converted into a Revolving Credit Loan of another Type as provided herein, provided that (i) any partial conversion shall be in an aggregate principal amount of $1,000,000 or a whole multiple thereof and (ii) with respect to Revolving Credit LIBOR Rate Loans, there shall be no more than three (3) separate Interest Periods in effect at any one time. Each Conversion Request relating to the conversion of a Revolving Credit Base Rate Loan to a Revolving Credit LIBOR Rate Loan shall be irrevocable by the Borrower.

(b) Any Revolving Credit Loan of any Type may be continued as a Revolving Credit Loan of the same Type upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the notice provisions contained in Section 2.7(a); provided that no Revolving Credit LIBOR Rate Loan may be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to a Revolving Credit Base Rate Loan on the

last day of the first Interest Period relating thereto ending during the continuance of any Default or Event of Default of which officers of the Agent active upon the Borrower's account have actual knowledge. The Agent shall notify the Banks promptly when any such automatic conversion contemplated by this Section 2.7 is scheduled to occur.

(c) Any conversion to or from Revolving Credit LIBOR Rate Loans shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of all Revolving Credit LIBOR Rate Loans

having the same Interest Period shall not be less than $1,000,000 or a whole multiple of $1,000,000 in excess thereof.

SECTION 2.8. FUNDS FOR REVOLVING CREDIT LOANS.

(a) Not later than 11:00 a.m. (Hartford, Connecticut time) on the proposed Drawdown Date of any Revolving Credit Loans, each of the Banks will make available to the Agent, at the Agent's Head Office, in immediately available funds, the amount of such Bank's Commitment Percentage of the amount of the requested Revolving Credit Loans. Upon receipt from each Bank of such amount, and upon receipt of the documents required by (i) Sections 11 and 12A in the case of the initial Revolving Credit Loans, (ii) Sections 12 and 12A in the case of any Revolving Credit Loan which is an Acquisition Credit Loan and (ii) by Section 12A for all other Revolving Credit Loans, and in each case upon the reasonable determination by the Majority Banks that the satisfaction of the other conditions set forth therein has occurred, to the extent applicable, the Agent will make available to the Borrower the aggregate amount of such Revolving Credit Loans made available to the Agent by the Banks. The failure or refusal of any Bank to make available to the Agent at the aforesaid time and place on any Drawdown Date the amount of its Commitment Percentage of the requested Revolving Credit Loans shall not relieve any other Bank from its several obligation hereunder to make available to the Borrower, in accordance with the terms and conditions hereof, the amount of such other Bank's Commitment Percentage of any requested Revolving Credit Loans.

(b) The Agent may, unless notified to the contrary by any Bank prior to a Drawdown Date, assume that such Bank has made available to the Agent on such Drawdown Date the amount of such Bank's Commitment Percentage of the Revolving Credit Loans to be made on such Drawdown Date, and the Agent may (but it shall no be required to), in reliance upon such assumption, make available to the Borrower on such Drawdown Date a corresponding amount (the Agent hereby agreeing to give notice to the Borrower of the making of any such advance by it on behalf of any Bank as soon as practicable thereafter). If any Bank makes available to the Agent such amount on a date after such Drawdown Date, such Bank shall pay to the Agent on demand an amount equal to the product of (i) the average, computed for the period referred to in clause (iii) below, of the weighted average interest rate paid by the Agent for federal funds acquired by the Agent during each day included in such period, times (ii) the amount of such Bank's Commitment Percentage of such Revolving Credit Loans, times (iii) a fraction, the numerator of which is the number of days that elapse from and including such Drawdown Date to the date on which the amount of such Bank's Commitment Percentage of such Revolving Credit Loans shall become immediately available to the Agent, and the denominator of which is 365. A statement of the Agent submitted to such Bank with respect to any amounts owing under this paragraph shall be prima facie evidence of the amount due and owing to the Agent by such Bank. If the amount of

such Bank's Commitment Percentage of such Revolving Credit Loans is not made available to the Agent by such Bank within three

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(3) Business Days following such Drawdown Date, the Agent shall be entitled to recover such amount from the Borrower on demand, with interest thereon at the rate per annum applicable to the Revolving Credit Loans made on such Drawdown Date.

SECTION 3. REPAYMENT OF THE REVOLVING CREDIT LOANS.

SECTION 3.1. TERMINATION OF COMMITMENTS. The Borrower promises to pay to the Agent for the account of the Banks in accordance with their respective Commitment Percentages all amount due and payable hereunder or under any of the other Loan Documents. All amounts owing in respect of the Revolving Credit Loans outstanding on the Revolving Credit Termination Date, including unpaid principal and any and all accrued and unpaid interest thereon, shall automatically and without any further act become due and payable on the Revolving Credit Termination Date unless converted in accordance with the terms of Section 4.1 hereof.

SECTION 3.2. MANDATORY REPAYMENTS OF REVOLVING CREDIT LOANS. If at any time and for any reason the outstanding aggregate amount of the Revolving Credit Loans exceeds the Total Commitment, then the Borrower shall immediately pay the amount of such excess to the Agent for the respective accounts of the Banks in accordance with their respective Commitment Percentages for application to such excess.

SECTION 3.3. OPTIONAL REPAYMENTS OF REVOLVING CREDIT LOANS. The Borrower shall have the right, at its election, to repay the outstanding amount of the Revolving Credit Loans, as a whole or in part, at any time without penalty or premium, provided that any full or partial prepayment of the outstanding amount of any Revolving Credit Loans which are Revolving Credit LIBOR Rate Loans pursuant to this Section 3.3 may be made only on the Last day of the Interest Period relating thereto. Except as provided for in certain cash management arrangements between the Borrower and the Agent, the Borrower shall give the Agent prior written notice (a) no later than 10:00 a.m., Hartford time of any proposed prepayment pursuant to this Section 3.3 of Any Revolving Credit Loans which are Revolving Credit Base Rate Loans, and (b) at least three (3) LIBOR Business Days' notice of any proposed prepayment pursuant to this Section 3.3 of any Revolving Credit Loans which are Revolving Credit LIBOR Rate Loans, in each case specifying the proposed date of prepayment of Revolving Credit Loans and the principal amount to be prepaid. Each such partial prepayment of the Revolving Credit Loans shall be in an integral multiple of (1) $1,000,000 with respect to Revolving Credit LIBOR Rate Loans and (2) $100,000 with respect to Revolving Credit Base Rate Loans, shall be accompanied by the payment of accrued interest on the principal prepaid to the date of prepayment and shall be applied, in the absence of instruction by the Borrower, first to the principal of Revolving Credit Base Rate Loans and then to the principal of Revolving Credit LIBOR Rate Loans or both, at the Agent's option. Each partial prepayment shall be allocated among the Banks, in proportion, as nearly as practicable, to the respective unpaid principal amount of each Bank's Note, with adjustments to the extent practicable to equalize any prior repayments not exactly in proportion.

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SECTION 3.4. APPLICATION OF PRINCIPAL PAYMENTS. Unless an Event of Default has occurred and is continuing or the Agent has determined that it is illegal for a Bank to render Revolving Credit LIBOR Rate Loans, if on the date a principal payment is made with respect to the Revolving Credit Loans or the Term Loan, as applicable,

interest is calculated both on the basis of the Base Rate and the LIBOR Rate, then such payment shall be applied first to the Revolving Credit Loans principal or the Term Loan principal, as applicable, for which interest is calculated on the basis of the Base Rate (the "BASE RATE PRINCIPAL"). Unless an Event of Default has occurred and is continuing or the Agent has determined that it is illegal for a Bank to render Revolving Credit LIBOR Rate Loans, only when the Base Revolver Rate Principal is fully paid shall the principal payment be applied to the Revolving Credit LIBOR Rate Loan(s) principal or the Term Loan principal bearing interest at a rate determined by reference to the LIBOR Rate, as applicable. If more than one Revolving Credit LIBOR Rate Loan is outstanding the principal amount shall be applied to the Revolving Credit LIBOR Rate Loans in the order of maturity, with the Revolving Credit LIBOR Rate Loans with the shortest time to maturity paid first.

SECTION 4. THE TERM LOAN.

SECTION 4.1. CONVERSION OF REVOLVING CREDIT LOANS. As long as no Default or Event of Default shall have occurred and be continuing, the outstanding principal amount of the Revolving Credit Loans on the Revolving Credit Termination Date shall be converted to a term loan (the "TERM LOAN"). The Term Loan shall be in an original principal amount equal to the lesser of (a) the Total Commitment in effect on the Revolving Credit Termination Date and (b) the aggregate principal amount of the Revolving Credit Loans outstanding on the Revolving Credit Termination Date. Each Bank will be deemed to have made a loan to the Borrower on the Revolving Credit Termination Date in the amount of its Commitment Percentage of the principal amount of the Term Loan on such date. The Term Loan shall be evidenced by the Notes.

SECTION 4.2. SCHEDULE OF INSTALLMENT PAYMENTS OF PRINCIPAL OF TERM LOAN. The Borrower promises to pay to the Agent for the account of the Banks the principal amount of the Term Loan in ten (10) equal semiannual installments, each in an amount determined by the Agent by reference to a five year amortization schedule commencing on the Revolving Credit Termination Date. Such installments shall be due and payable on the last day of January 1 and July 1 of each calendar year, commencing on the first such date following the Revolving Credit Termination Date, with a final payment on the Maturity Date in an amount equal to the unpaid balance of the Term Loan.

SECTION 4.3. OPTIONAL PREPAYMENT OF TERM LOAN. The BorroWER shall have the right at any time to prepay the Term Loan on or before the Maturity Date, as a whole, or in part, upon not less than five (5) Business Days' prior written notice to the Agent, without premium or penalty, provided that each partial prepayment shall be in the principal amount of (i) $100,000 or an integral multiple thereof with respect to any portion of the Term Loan bearing interest at an interest rate determined by reference to the Base Rate and (ii) $1,000,000 or integral multiple thereof with respect to any portion of the Term Loan bearing interest at an interest rate determined by reference to LIBOR Rate, no portion of the Term Loan

bearing interest at an interest rate determined by reference to the LIBOR Rate may be prepaid pursuant to this Section 4.3 exCEPT on the last day of the Interest Period relating thereto, and each partial prepayment shall be allocated among the Banks, in proportion, as nearly as practicable, to the respective outstanding amount of each Bank's Note, with adjustments to the extent practicable to equalize any prior prepayments not exactly in proportion. Any prepayment of principal of the Term Loan shall include all interest accrued to the date of prepayment and shall be applied against the scheduled installments of principal due on the Term Loan in the inverse order of maturity. No amount repaid with respect to the Term Loan may be reborrowed.

SECTION 4.4. INTEREST ON TERM LOAN. Except as otherwise provided in Section 5.11, the Term Loan shall bear interest duriNG each Interest Period relating to all or any portion of the Term Loan at the following rates:

(a) To the extent that all or any portion of the Term Loan bears interest during such Interest Period at an interest rate determined by reference to the Base Rate, the Term Loan or such portion shall bear interest during such Interest Period at a rate per annum equal to the Base Rate plus the Applicable Base Rate Margin (as set forth in Section 2.5 hereof).

(b) To the extent that all or any portion of the Term Loan bears interest during such Interest Period at an interest rate determined by reference to the LIBOR Rate, the Term Loan or such portion shall bear interest during such Interest Period at a rate per annum equal to the LIBOR Rate plus the Applicable LIBOR Rate Margin (as set forth in Section 2.5 hereof).

The Borrower promises to pay interest on the Term Loan or any portion thereof outstanding during each Interest Period in arrears on each Interest Payment Date applicable to such Interest Period.

SECTION 4.5. CONVERSION OPTIONS.

(a) Not less than three (3) LIBOR Business Days prior to the Revolving Credit Termination Date the Borrower will notify the Agent regarding the interest rates to be applied to all of any portion of the Term Loan as of such date and the Interest Periods applicable to the Term Loan. The Borrower may elect from time to time to convert the interest rate applicable to all or any portion of the Term Loan, provided that (i) with respect to any such conversion or continuation, as the case may be, to an interest rate determined by reference to the Base Rate, the Borrower shall give the Agent at least one (1) Business Day's prior written notice of such election; (ii) with respect to any such conversion from an interest rate determined by reference to the Base Rate to one based on the LIBOR Rate, the Borrower shall give the Agent at least three (3) LIBOR Business Days' prior written notice of such election; (iii) with respect to any such conversion from an interest rate determined by reference to the LIBOR Rate to one based on the Base Rate, such conversion shall only be made

on the last day of the Interest Period with respect thereto; and (iv) the interest rate applicable to all or any portion of the Term Loan may not be converted to an interest rate determined by reference to the LIBOR Rate when any Default or Event of Default has occurred and is continuing. On the date on which such conversion is being made each Bank shall take such action as is necessary to transfer its Commitment Percentage of the applicable portion of the Term Loan to its Domestic Lending Office or its LIBOR Lending Office, as the case may be. Subject to the terms of Section 4.5(c) hereof, the interest rate applicable to all or any part of the outstanding Term Loan may be converted into a different interest rate as provided herein, provided that (1) any partial conversion shall be in an aggregate principal amount of $1,000,000 or an integral multiple thereof and (2) with respect to any portion of the Term Loan bearing interest at a rate per annum determined by reference to the LIBOR Rate, there shall be no more than six (6) separate Interest Periods in effect at any one time. Each Conversion Request relating to the conversion of the interest rate applicable to all or any portion of the Term Loan shall be irrevocable by the Borrower.

(b) The interest applicable to all or any portion of the Term Loan may be continued upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the notice provisions contained in Section 4.5(a); provided that an interest rate

determined by reference to LIBOR Rate may not be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to an interest rate determined by reference to the Base Rate on the last day of the first Interest Period relating thereto ending during the continuance of any Default or Event of Default of which officers of the Agent active upon the Borrower's account have actual knowledge.

(c) Any conversion to or from an interest rate determined by reference to the LIBOR Rate shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of that portion of the Term Loan bearing interest at an interest rate based on the LIBOR Rate having the same Interest Period shall not be less than $1,000,000 or an integral multiple thereof.

SECTION 5. CERTAIN GENERAL PROVISIONS.

SECTION 5.1. AGENT'S FEE. The Borrower agrees to pay to the Agent, for its own account, a yearly agent's fee (the "AGENT'S FEE") equal to $15,000. The Agent's Fee shall be payable annually in advance, commencing on the date hereof and on each anniversary of the Effective Date.

SECTION 5.2. INTENTIONALLY OMITTED.

SECTION 5.3. FUNDS FOR PAYMENTS.

(a) All payments of principal, interest, commitment fees, facility fees and any other amounts due hereunder or under any of the other Loan Documents shall be

made to the Agent, for the respective accounts of the Banks and the Agent, at the Agent's Head Office or at such other location that the Agent may from time to time designate, in each case in immediately available funds and not later than 1:00 p.m. (Hartford, Connecticut time) on the date when due or, in the case of optional prepayments of any Loan, on the date of such proposed repayment. Any payment made after 1:00 p.m. (Hartford, Connecticut time) on such date will be credited and deemed paid on the next succeeding Business Day. All payments made by the Borrower to the Agent for the account of the Banks will be credited to the respective accounts of the Banks in accordance with their respective Commitment Percentages on the date when made in accordance with the immediately preceding sentence.

(b) All payments by the Borrower hereunder and under any of the other Loan Documents shall be made without setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder or under any of the other Loan Documents, the Borrower will pay to the Agent, for the account of the Banks or (as the case may be) the Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Banks or the Agent to receive the same net amount which the Banks or the Agent would have received on such due date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to the Agent certificates or other valid voucher for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder or under such other Loan Document.

SECTION 5.4. COMPUTATIONS. All computations of interest on the Loans and of commitment fees payable hereunder shall be based on a three hundred sixty (360) day year and paid for the actual number of days elapsed. Except as otherwise provided in the definition of the term "INTEREST PERIOD" with respect to Revolving Credit LIBOR Rate Loans or that portion of the Term Loan bearing interest at an interest rate determined by reference to the LIBOR Rate, whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest shall accrue during such extension. The outstanding amount of the Loans as reflected on the Note Record from time to time shall be considered correct and binding on the Borrower absent manifest error.

SECTION 5.5. INABILITY TO DETERMINE LIBOR RATE. In the event, prior to the commencement of any Interest Period relating to any Revolving Credit LIBOR Rate Loan or all or any portion of the Term Loan that will bear interest at an interest rate determined by reference to the LIBOR Rate, the Agent shall determine or be notified by the Majority Banks that adequate and reasonable methods do not exist for ascertaining the LIBOR Rate that

would otherwise determine the rate of interest to be applicable to any Revolving Credit LIBOR Rate Loan or such portion of the Term Loan during any Interest Period, the Agent shall forthwith give notice of such determination (which shall be conclusive and binding on the Borrower and the Banks) to the Borrower and the Banks. In such event (a) any Loan Request or Conversion Request with respect to Revolving Credit LIBOR Rate Loans shall be automatically withdrawn and such shall be deemed a request for Revolving Credit Base Rate Loan, (b) any Conversion Request regarding the interest rate applicable to all or any portion of the Term Loan shall be automatically withdrawn, (c) each Revolving Credit LIBOR Rate Loan or such portion of the Term Loan will automatically, on the last day of the then current Interest Period relating thereto, become a Revolving Credit Base Rate Loan or bear interest at an interest rate determined by reference to the Base Rate (as applicable), and (d) the obligations of the Banks to make Revolving Credit LIBOR Rate Loans or to allow the Borrower to elect to apply the LIBOR Rate to all or any portion of the Term Loan shall be suspended until the Agent or the Majority Banks determine that the circumstances giving rise to such suspension no longer exist, whereupon the Agent or, as the case may be, the Agent upon the instruction of the Majority Banks, shall so notify the Borrower and the Banks.

SECTION 5.6. ILLEGALITY. Notwithstanding any other provisions herein, if any present or future law, regulation, treaty or directive or in the interpretation or application thereof shall make it unlawful for any Bank to make or maintain Revolving Credit LIBOR Rate Loans or the LIBOR Rate with respect to all or any portion of the Term Loan, such Bank shall forthwith give notice of such circumstances to the Borrower and the other Banks and thereupon (a) the commitment of such Bank to (i) make Revolving Credit LIBOR Rate Loans, (ii) allow the Borrower to elect an interest rate based on the LIBOR Rate with respect to all or any portion of the Term Loan, (iii) convert Revolving Credit Base Rate Loans to Revolving Credit LIBOR Rate Loans or (iv) convert the interest rate applicable to all or any portion of the Term Loan from an interest rate determined by reference to the Base Rate to one based on the LIBOR Rate shall forthwith be suspended and (b) such Bank's Revolving Credit Loans then outstanding as Revolving Credit LIBOR Rate Loans, if any, shall be converted automatically to Revolving Credit Base Rate Loans on the last day of each Interest Period applicable to such Revolving Credit LIBOR Rate Loans (or within such earlier period required by law) and all or any portion of such Bank's Commitment Percentage of the Term Loan bearing interest at an interest rate determined by reference to the LIBOR Rate shall be automatically converted to an interest rate based on the Base Rate or within such earlier period as may be required by law). The Borrower hereby agrees promptly to pay the Agent for the account of such Bank, upon demand by such Bank, any additional amounts necessary to compensate such Bank for any costs incurred by such Bank in making any conversion in accordance with this Section 5.6, including any interest or fees payable by such Bank to lenders of funds obtained by it in order to make or maintain the LIBOR Rate or its Revolving Credit LIBOR Rate Loans hereunder.

SECTION 5.7. ADDITIONAL COSTS, ETC. If any change in present applicable law, or any future applicable law, which expression, as used herein, includes statutes, rules and regulations under any present or future law and interpretations of any present or future law by any competent court or by any governmental or other regulatory body or official charged

with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Bank or the Agent by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), shall:

(a) subject any Bank or Agent to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Credit Agreement, the other Loan Documents, the Commitments or the Loans (other than franchise taxes or taxes based upon or measured by the income or profits of such Bank or the Agent), or

(b) materially change the basis of taxation (except for changes in franchise taxes or taxes on income or profits) of payments to any Bank or Agent of the principal of or the interest on any Loans or any other amounts payable to any Bank or the Agent under this Credit Agreement or any of the other Loan Documents, or

(c) impose or increase or render applicable (other than to the extent specifically provided for elsewhere in this Credit Agreement) any special deposit, reserve, assessment, liquidity or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or commitments of an office of any Bank or the Agent, or

(d) impose on any Bank or the Agent any other conditions or requirements with respect to this Credit Agreement, the other Loan Documents, the Loans, the Commitments, or any class of loans or commitments of which any of the Loans or the Commitments forms a part, and the result of any of the foregoing is

(i) to increase the cost to any Bank or the Agent of making, funding, issuing, renewing, extending or maintaining any of the Loans or the Commitments, or

(ii) to reduce the amount of principal, interest or other amount payable to any Bank or the Agent hereunder on account of the Commitments or any of the Loans, or

(iii) to require any Bank or the Agent to make any payment or to forego any interest or other sum payable hereunder, the amount of which payment or foregone interest or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Bank or the Agent from the Borrower hereunder,

then, and in each such case, the Borrower will, within five (5) days of demand made by such Bank or (as the case may be) the Agent at any time and from time to time and as often as the occasion therefor may arise, pay to such Bank or Agent such additional amounts as will be sufficient to compensate such Bank or Agent for such additional cost, reduction, payment or foregone interest or other sum.

SECTION 5.8. CAPITAL ADEQUACY. If any change in present applicable law or any future applicable law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) or the interpretation of any such present or future law by a court or governmental authority with appropriate jurisdiction affects the amount of capital required

or expected to be maintained by any Bank or the Agent or any corporation controlling such Bank or the Agent and such Bank or the Agent determines that the amount of capital required to be maintained by it is increased by or based upon the existence of the Commitments or the Loans, then such Bank or the Agent may notify the Borrower of such fact. To the extent that the costs of such increased capital requirements are not reflected in the Base Rate, the Borrower and such Bank or (as the case may be) the Agent shall thereafter attempt to negotiate in good faith, within thirty (30) days of the day on which the Borrower receives such notice, an adjustment payable hereunder that will adequately compensate such Bank or the Agent in light of these circumstances. If the Borrower and such Bank or the Agent are unable to agree to such adjustment within thirty (30) days of the date on which the Borrower receives such notice, then commencing on the date of such notice (but not earlier than the effective date of any such increased capital requirement), the fees payable hereunder shall increase by an amount that will, in such Bank's or the Agent's reasonable determination provide adequate compensation. Each Bank and the Agent shall allocate such cost increases among its customers in good faith and on an equitable basis.

SECTION 5.9. CERTIFICATE. A certificate setting forth any additional amounts payable pursuant to Sections 5.7 or 5.8 hereof and a brief explanation of such amounts which are due, submitted by such Bank or the Agent to the Borrower, shall be conclusive, absent manifest error, that such amounts are due and owing.

SECTION 5.10. INDEMNITY. The Borrower agrees to indemnify each Bank and to hold each Bank harmless from and against any loss, cost or expense (including loss of anticipated profits) that such Bank may sustain or incur as a consequence of (a) default by the Borrower in payment of the principal amount of or any interest on (i) any Revolving Credit LIBOR Rate Loans or (ii) any portion of the Term Loan bearing interest rate at an interest rate based on the LIBOR Rate as and when due and payable, including any such loss or expense arising from interest or fee payable by such Bank to lenders of funds obtained by it in order to maintain the LIBOR Rate with respect to all or any portion of the Term Loan or its Revolving Credit LIBOR Rate Loans, (b) default by the Borrower in making a borrowing or conversion after the Borrower has given (or is deemed to have given) a Revolving Credit Loan Request or a Conversion Request relating thereto in accordance with the terms hereof or (c) the making of any payment of (i) a Revolving Credit LIBOR Rate Loan or (ii) any portion of the Term Loan bearing interest at an interest rate based on the LIBOR Rate or the making of any conversion of (1) any such Revolving Credit LIBOR Rate Loan to a Revolving Credit Base Rate Loan or (2) the interest rate applicable to any portion of the Term Loan from an interest rate determined by reference to the LIBOR Rate to one based on the Base Rate in each case on a day that is not the last day of the applicable Interest Period with respect thereto, including interest or fees payable by such Bank to lenders of funds obtained by it in order to maintain any such Revolving Credit LIBOR Rate Loans or the LIBOR Rate with respect to all or any portion of the Term Loan.

SECTION 5.11. INTEREST AFTER DEFAULT.

(a) Overdue principal and (to the extent permitted by applicable law) interest on the Loans and all other overdue amounts payable hereunder or under any of the other Loan Documents shall bear interest compounded monthly and payable on demand at a rate per annum equal to four percent (4%) above the Base Rate until such amount shall be paid in full (after as well as before judgment).

(b) During the continuance of any Event of Default described in Sections 13(a) or (b) hereof, the principal of the Loans not overdue shall, until such Default or Event of Default has been cured or remedied or such Default or Event of Default has been waived by the Banks pursuant to Section 26, bear interest at a rate per annum equal to the rate of interest applicable to overdue principal pursuant to

Section 5.11(a).

Section 5.12. WITHHOLDING TAX EXEMPTION. Each Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it will deliver to each of the Borrower and the Agent, at least three (3) Business Days before interest or fees first become payable hereunder for the account of such Bank, two (2) duly completed copies of United States Internal Revenue Service Form 1001 or 4224, in either case certifying whether such Bank is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States Federal income taxes. Each Bank which so delivers a Form 1001 or 4224 further undertakes to deliver to each of the Borrower and the Agent two (2) additional copies of such form (or a successor form) on or before the date that such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent, in each case certifying whether such Bank is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States Federal income taxes, unless an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States Federal income tax.

SECTION 6. COLLATERAL SECURITY AND GUARANTEES.

(a) The Obligations shall be secured by a perfected first priority security interest (subject only to Permitted Liens entitled to priority under applicable law) in all of the assets of the Borrower, whether now owned or hereafter acquired, including, without limitation, accounts receivable, inventory, real property, plant, equipment, intangibles and shares of stock of all of the subsidiaries of the Borrower pursuant to the terms of the Security Documents to which the Borrower is a party.

(b) The prompt payment and performance of the Obligations shall also be guaranteed pursuant to the terms of the Guarantees by each Subsidiary of the

Borrower. The obligations of each of the Subsidiaries under the Guaranty to which it is a party shall be in turn secured by a perfected first priority security interest (subject only to Permitted Liens entitled to priority under applicable law) in all of the assets of each Subsidiary, whether now owned or hereafter acquired, including, without limitation, accounts receivable, inventory, real property, plant, equipment, intangibles and shares of stock of any subsidiaries of such Subsidiary pursuant to the terms of the Security Documents to which such Subsidiary is a party.

(c) Without limiting anything set forth above, the Borrower shall guarantee, pursuant to the Borrower Guaranty, the prompt payment and performance of each Subsidiary under the Loan Documents to which such Subsidiary is a party.

SECTION 7. REPRESENTATIONS AND WARRANTIES. The Borrower represents and warrants to each of the Banks and the Agent as follows:

SECTION 7.1. CORPORATE AUTHORITY.

(a) Incorporation; Good Standing. Each of the Borrower and its Subsidiaries (i) is a corporation or partnership duly organized, validly existing and in good standing under the laws of its state of

incorporation or organization, as the case may be, (ii) has all requisite corporate or partnership power to own its property and conduct its business as now conducted and as presently contemplated upon the completion of any Acquisition, and (iii) is in good standing as a foreign corporation or partnership and is duly authorized to do business in each jurisdiction where such qualification is necessary except where a failure to be so qualified would not have a materially adverse effect on the business, assets or financial condition of the Borrower or such Subsidiary.

(b) Authorization. The execution, delivery and performance of this Credit Agreement, the other Loan Documents and the Acquisition Documents to which the Borrower or any of its Subsidiaries is or is to become a party and the transactions contemplated hereby and thereby (i) are within the corporate or partnership authority of each such Person, (ii) have been duly authorized by all necessary corporate or partnership proceedings, (iii) do not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which any such Person is subject or any judgment, order, writ, injunction, license or permit applicable to any such Person, (iv) do not conflict with any provision of the corporate charter or bylaws or agreement of limited partnership of any such Person and (v) do not conflict with any agreement or other instrument binding upon any such Person, except where such conflict would not have a materially adverse affect on the business, assets or the financial condition of any such Person.

(c) Enforceability. (i) The execution and delivery of this Credit Agreement, the other Loan Documents and the Acquisition Documents to which the Borrower or any of its Subsidiaries is or is to become a party will result in valid and legally binding obligations of such Person enforceable against it in accordance with the respective

terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to general principles of equity and to the discretion of the court before which any proceeding therefor may be brought.

(ii) Each Seller has duly executed and delivered each of the Acquisition Documents to which it is or is to become a party and each of such documents is in full force and effect. The agreements and obligations of each Seller contained in each of the Acquisition Documents to which it is or is to become a party constitute its legal, valid and binding obligations, enforceable against it in accordance with their respective terms, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent the availability of the remedy of specific performance and injunctive or other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(d) Acquisition Assets. In connection with each Acquisition, the applicable Seller has transferred to the Borrower valid title to the property and assets of such Seller purported to be conveyed thereby, free and clear of all mortgages, pledges, liens, charges, restrictions, conditions and other sale agreements, encumbrances, security interests, options or claims other than those permitted by Section 9.2 hereof.

SECTION 7.2. Subsidiaries. As of the Effective Date:

(a) Except as indicated on Schedule 7.2 attached hereto, neither the Borrower nor any of its Subsidiaries has any Subsidiaries.

(b) Except as indicated on Schedule 7.2 hereto, neither the Borrower nor any of its Subsidiaries owns or holds of record and/or beneficially (whether directly or indirectly) any shares of any class in the capital of any other corporations or any legal and/or beneficial interests in any corporation, partnership, business trust or joint venture or in any other unincorporated trade or business enterprise.

SECTION 7.3. GOVERNMENTAL APPROVALS To the best of the Borrower's knowledge after due and diligent inquiry and investigation, the execution, delivery and performance by the Borrower and any of its Subsidiaries of this Credit Agreement, the other Loan Documents and the Acquisition Documents to which any such Person is or is to become a party and the transactions contemplated hereby and thereby do not require the approval or consent of, or filing with, any governmental agency or authority other than those already obtained. The premerger waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended (the "H-S-R ACT"), is not applicable to the transactions contemplated hereby and by any of the Acquisition Documents.

SECTION 7.4. TITLE TO PROPERTIES. Except as indicated on Schedule 7.4 hereto, the Borrower and its Subsidiaries own all of the assets reflected in the consolidated balance sheet of the Borrower and its Subsidiaries as at the Balance Sheet Date or acquired since that date (except property and assets sold or otherwise disposed of in the ordinary course of business since that date), subject to no rights of others, including any mortgages, leases, conditional sales agreements, title retention agreements, liens or other encumbrances except Permitted Liens.

SECTION 7.5. FINANCIAL STATEMENTS. There has been furnished to each of the Banks audited consolidated balance sheets of the Borrower and its Subsidiaries as at September 30, 1995, and audited consolidated statements of income of the Borrower and its Subsidiaries for the fiscal year then ended, in each case certified by Arthur Andersen & Co. LLP. Such balance sheet and statements of income of the Borrower and its Subsidiaries have been prepared in accordance with generally accepted accounting principles and fairly present the financial condition of the Borrower and its Subsidiaries as at the close of business on the date thereof and the results of operations for the fiscal year then ended. There are no contingent liabilities of the Borrower or any of its Subsidiaries as of such date involving material amounts which were not disclosed in the balance sheets of the Borrower and the notes related thereto.

(b) There has been furnished to each of the Banks an unaudited consolidated balance sheet of the Borrower and its Subsidiaries as at the Balance Sheet Date. Such balance sheet of the Borrower and its Subsidiaries has been prepared in accordance with generally accepted accounting principles and fairly presents the financial condition of the Borrower and its Subsidiaries as at the close of business on the date thereof. There are no contingent liabilities of the Borrower or any of its Subsidiaries as of such date involving material amounts which were not disclosed in such consolidated balance sheet of the Borrower and the notes related thereto.

(c) Both before and immediately after giving effect to the transactions contemplated hereby and by any of the Acquisition Documents, each of the Borrower and its Subsidiaries is solvent on a going concern basis, has assets having a fair value in excess of the amount required to pay its probable liabilities on its existing debts as they become absolute and matured, and has, and will have as of the Effective Date, access to adequate capital for the conduct of its

business and the ability to pay its debts from time to time incurred in connection herewith as such debts mature.

SECTION 7.6. ACQUISITION ASSET FINANCIAL STATEMENTS. Any and all financial statements furnished to the Agent and the Banks in connection with any Acquisition have been reviewed by the Borrower and to the best of Borrower's knowledge after due inquiry fairly present the financial condition of the applicable Seller and the applicable Acquisition Assets as at the close of business on the date thereof.

SECTION 7.7. NO MATERIAL CHANGES. Except as described on Schedule 7.7 hereto, since the Balance Sheet Date there has occurred no materially adverse change in the

financial condition or business of the Borrower and its Subsidiaries considered as a whole, as shown on or reflected in the consolidated balance sheet of the Borrower and its Subsidiaries as at the Balance Sheet Date, or the consolidated statements of income for the fiscal year then ended of the Borrower and its Subsidiaries, other than changes in the ordinary course of business that have not had any materially adverse effect either individually or in the aggregate on the business or financial condition of the Borrower and its Subsidiaries, considered as a whole.

SECTION 7.8. FRANCHISES, PATENTS, COPYRIGHTS, ETC. Each of the Borrower and its Subsidiaries possesses, and upon completion of each Acquisition will possess, all franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of its business substantially as now conducted and as contemplated after consummation of any Acquisition without known conflict with any rights of others.

SECTION 7.9. LITIGATION. Except as set forth in Schedule 7.9 hereto, there are no actions, suits, proceedings or investigations of any kind pending or, to the best knowledge of the Borrower, threatened against the Borrower or any of its Subsidiaries or, to the best of the Borrower's knowledge after due inquiry, against any Seller, before any court, tribunal or administrative agency or board that, if adversely determined, might, either in any case or in the aggregate, materially adversely affect the properties, assets financial condition or business of the Borrower and its Subsidiaries, considered as a whole or materially impair the right of the Borrower and its Subsidiaries, considered as a whole to carry on business substantially as now conducted by them, or result in any material liability not adequately covered by insurance, or for which adequate reserves are not maintained on the consolidated balance sheet of the Borrower and its Subsidiaries or such Seller or which question the validity of any of the Acquisition Documents or of this Credit Agreement or any the other Loan Documents, or any action taken or to be taken pursuant hereto or thereto.

SECTION 7.10. NO MATERIALLY ADVERSE CONTRACTS, ETC. Except as set forth in Schedule 7.10 hereto, neither the Borrower nor any of its Subsidiaries nor to the best knowledge of the Borrower, after due and diligent inquiry, any Seller (with respect to the Acquisition Assets being sold by such Seller) is subject to any charter, corporate or other legal restriction, or any judgment, decree or order, or, to the best knowledge of the Borrower after due and diligent inquiry, any rule or regulation, in each case that has or is expected in the future to have a materially adverse effect on the business, assets or financial condition of the Borrower or any of its Subsidiaries. Except as set forth in Schedule 7.10 attached hereto, neither the Borrower nor any of its Subsidiaries nor, to the best knowledge of the Borrower after due inquiry, any Seller (with respect to the Acquisition Assets being sold by such Seller) is a party to any contract or agreement that has or is expected, in the judgment of the Borrower's officers, to have any materially adverse effect on the business of the Borrower and its Subsidiaries, considered as a whole.

SECTION 7.11. COMPLIANCE WITH OTHER INSTRUMENTS, LAWS, ETC. Except as set forth in Schedule 7.11 hereto, neither the Borrower nor any of its Subsidiaries nor to the best

of the Borrower's knowledge after due inquiry, any Seller (with respect to the Acquisition Assets being sold by such Seller), is in violation of any provision of any of their respective charter documents, bylaws, or any agreement or instrument to which any of them may be subject or by which any of them or any of their properties may be bound or any decree, order, judgment, statute or license, or, to the best knowledge of the Borrower after due and diligent inquiry, rule or regulation, in any of the foregoing cases in a manner that could result in the imposition of substantial penalties or materially and adversely affect the financial condition, properties or business of the Borrower and its Subsidiaries, considered as a whole.

SECTION 7.12. TAX STATUS. To the best knowledge of the Borrower after due and diligent inquiry, except as set forth in Schedule 7.12 attached hereto, the Borrower and each of its Subsidiaries (a) have made or filed all federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which any of them is subject, (b) have paid all taxes and other governmental assessments and charges shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and by appropriate proceedings and (c) have set aside on their books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and, to the best knowledge of the Borrower after due and diligent inquiry, there is no basis for any such claim. The Borrower is also not liable with respect to any taxes incurred by any Seller.

SECTION 7.13. NO EVENT OF DEFAULT. No Default or Event of Default has occurred and is continuing.

SECTION 7.14. HOLDING COMPANY AND INVESTMENT COMPANY ACTS. Neither the Borrower nor any of its Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935; nor is it an "investment company", or an "affiliated company" or a "principal underwriter" of an "investment company", as such terms are defined in the Investment Company Act of 1940.

SECTION 7.15. ABSENCE OF FINANCING STATEMENTS, ETC. Except with respect to Permitted Liens there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry or other public office, that purports to cover, affect or give notice of any present or possible future lien on, or security interest in, any of the Acquisition Assets or any assets or property of the Borrower or any of its Subsidiaries or any rights relating thereto.

SECTION 7.16. PERFECTION OF SECURITY INTEREST. All filings, assignments, pledges and deposits of documents or instruments have been made and all other actions have been taken that are necessary or advisable, under applicable law, to establish and, to the best knowledge of the Borrower, to perfect the Agent's security interest in the Collateral. The Collateral and the Agent's rights with respect to the Collateral are not subject to any setoff, claims, withholdings or other defenses. The Borrower or a Subsidiary of the Borrower party to one

of the Security Agreements is the owner of the Collateral free from any lien, security interest, encumbrance and any other claim or demand, except for Permitted Liens.

SECTION 7.17. CERTAIN TRANSACTIONS. Except as set forth on Schedule 7.17 hereto, none of the officers, directors, or employees of the Borrower or any of its Subsidiaries is presently a party to any transaction with the Borrower or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

SECTION 7.18. EMPLOYEE BENEFIT PLANS.

(a) In General. Each Employee Benefit Plan has been maintained and operated in compliance in all material respects with the provisions of ERISA and, to the extent applicable, the Code, including but not limited to the provisions thereunder respecting prohibited transactions. The Borrower has heretofore delivered to each Bank the most recently completed annual report, Form 5500, with all required attachments, and actuarial statement required to be submitted under Section 103(d) of ERISA, with respect to each Guaranteed Pension Plan.

(b) Terminability of Welfare Plans. Under each Employee Benefit Plan which is an employee welfare benefit plan within the meaning of Section 3(1) or Section 3(2)(B) of ERISA, no benefits are due unless the event giving rise to the benefit entitlement occurs prior to plan termination (except as required by Title I, Part 6 of ERISA). The Borrower or an ERISA Affiliate, as appropriate, may terminate each such Plan at any time (or at any time subsequent to the expiration of any applicable bargaining agreement) in the discretion of the Borrower or such ERISA Affiliate without liability to any Person.

(c) Guaranteed Pension Plans. Each contribution required to be made to a Guaranteed Pension Plan, whether required to be made to avoid the incurrence of an accumulated funding deficiency, the notice or lien provisions of Section 302(f) of ERISA, or otherwise, has been timely made. No waiver of an accumulated funding deficiency or extension of amortization periods has been received with respect to any Guaranteed Pension Plan. No liability to the PBGC (other than required insurance premiums, all of which have been paid) has been incurred by the Borrower or any ERISA Affiliate with respect to any Guaranteed Pension Plan and there has not been any ERISA Reportable Event, or any other event or condition which presents a material risk of termination of any Guaranteed Pension Plan by the PBGC. Based on the latest valuation of each Guaranteed Pension Plan (which in each case occurred within twelve months of the date of this representation), and on the actuarial methods and assumptions employed for that valuation, the present value of the aggregate benefit liabilities of all such Guaranteed Pension Plans within the meaning of Section 4001 of ERISA

did not exceed the aggregate value of the assets of all such Guaranteed Pension Plans, disregarding for this purpose the benefit liabilities and assets of any Guaranteed Pension Plan with assets in excess of benefit liabilities.

(d) Multiemplover Plans. Neither the Borrower nor any ERISA Affiliate has incurred any material liability (including secondary liability) to any Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan under Section 4201 of

ERISA or as a result of a sale of assets described in Section 4204 of ERISA. Neither the Borrower nor any ERISA Affiliate has been notified that any Multiemployer Plan is in reorganization or insolvent under and within the meaning of Section 4241 or Section 4245 of ERISA or that any Multiemployer Plan intends to terminate or has been terminated under Section 4041A of ERISA.

SECTION 7.19. REGULATIONS G,T,U AND X. The proceeds of the Loans shall be used (i) to finance the Acquisitions, (ii) to refinance on the Effective Date the Existing Indebtedness and (iii) for working capital and general corporate purposes. No portion of any Loan is to be used for the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations G,T,U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

SECTION 7.20. ENVIRONMENTAL COMPLIANCE. The Borrower represents and warrants that:

(a) To the best knowledge of the Borrower, after reasonable inquiry and investigation, none of the Borrower, its Subsidiaries, any Seller (with respect to the Acquisition Assets being sold by such Seller), or any operator of the Real Estate or any operations thereon is in violation, or alleged violation, of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state or local statute, regulation, ordinance, order or decree relating to health, safety or the environment (hereinafter "ENVIRONMENTAL LAWS"), which violation would have material adverse effect on the environment or the business, assets or financial condition of the Borrower and its Subsidiaries, considered as a whole.

(b) None of the Borrower, any of its Subsidiaries or, to the best knowledge of the Borrower after due and diligent inquiry, any Seller (with respect to the Acquisition Assets being sold by such Seller) has received written notice from any third party including, without limitation: any federal, state or local governmental authority, (i) that any one of them has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part

300 Appendix B (1986); (ii) that any hazardous waste, as defined by 42 U.S.C. Section 9601(5), any hazardous substances, as defined by 42 U.S.C. Section 9601(14), any pollutant or contaminant, as defined by 42 U.S.C. Section 9601(33), and any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws ("HAZARDOUS SUBSTANCES") which any one of them has generated, transported or disposed of has been found at any site at which a federal, state or local agency or other third party has conducted or has ordered that the Borrower or any of its Subsidiaries or such Seller (with respect to the Acquisition Assets being sold by such Seller) conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that it is or shall be a named party to any claim, action, cause of action, complaint, or legal or administrative proceeding (in each case, contingent or otherwise) arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances.

(c) To the best knowledge of the Borrower after reasonable inquiry and investigation, except as set forth on Schedule 7.20 attached hereto: (i) none of the Borrower, any of its Subsidiaries or any Seller (with respect to the Acquisition Assets being sold by such Seller) has used or is using any portion of the Real Estate for the handling, processing, storage or disposal of Hazardous Substances except in material compliance with applicable Environmental Laws; and no underground tank or other underground storage receptacle for Hazardous Substances is located on any portion of the Real Estate; (ii) in the course of any activities conducted by the Borrower, its Subsidiaries, such Seller (with respect to the Acquisition Assets being sold by such Seller), or operators of its properties, no Hazardous Substances have been generated or are being used on the Real Estate except in material compliance with applicable Environmental Laws; (iii) none of the Borrower, any of it Subsidiaries or such Seller (with respect to the Acquisition Assets being sold by such Seller) has caused or is causing any releases (i.e. any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping) or threatened releases of Hazardous Substances on, upon, into or from the properties of the Borrower or its Subsidiaries or such Seller (with respect to the Acquisition Assets being sold by such Seller), which releases have had or would have a material adverse effect on the value of any of the Real Estate or adjacent properties or the environment; (iv) in the course of any activities conducted by the Borrower, its Subsidiaries, such Seller (with respect to the Acquisition Assets being sold by such Seller), or operators of properties of any of such Person, there have been no releases on, upon, from or into any of the Real Estate which, through soil or groundwater contamination, may have come to be located on, and which would have a material adverse effect on the value of, the Real Estate; and (v) in addition, any Hazardous Substances that have been generated by the Borrower, any of its Subsidiaries or such Seller (with respect to the Acquisition Assets being sold by such Seller) on any of the Real Estate have been transported offsite only by carriers having an identification number issued by the EPA and have been treated or disposed of only by treatment or

disposal facilities maintaining valid permits as required under applicable Environmental Laws.

(d) None of the Borrower, any of its Subsidiaries, any Seller (with respect to the Acquisition Assets being sold by such Seller), or any of the Real Estate is subject to any applicable Environmental Law requiring the performance of Hazardous Substances site assessments, or the removal or remediation of Hazardous Substances, or the giving of notice to any governmental agency or the recording or delivery to other Persons of an environmental disclosure document or statement by virtue of the transactions set forth herein and contemplated hereby, or as a condition to the recording of any Mortgage or to the effectiveness of any other transactions contemplated hereby.

SECTION 7.21. FISCAL YEAR. Each fiscal year of the Borrower and each of its Subsidiaries begins on October 1 of each calendar year and ends on September 30 of each calendar year.

SECTION 7.22. MEDICARE QUALIFICATIONS. Except as set forth on Schedule 7.9 hereto, neither the Borrower nor any of its Subsidiaries, nor, to the best knowledge of Borrower after due inquiry, any Seller (with respect to the Acquisition Assets being sold by such Seller) has engaged in any activity in material violation of any law, statute, rule or regulation related to the delivery of health care or health care services or the payment for health care or health care services, including, but not limited to, 42 U.S.C. Section 1320a-7 t seq., 42 U.S.C. Section 1395 et seq., 42 U.S.C. Section 1396 et seq.,

42 U.S.C. Section 1307 et seq., 18 U.S.C. Section 286, 18 U.S.C. Section 287, 19 U.S.C. Section 666; or any activity which could result in the exclusion of the Borrower, any of its Subsidiaries or such Seller (with respect to the Acquisition Assets being sold by such Seller) from any program promulgated or established under Medicare or Medicaid Laws.

SECTION 7.23. RECOUPMENT. Except as set forth on Schedule 7.9 hereto, there are no actions, suits, proceedings or investigations of any kind pending or, to the best knowledge of the Borrower after diligent inquiry and investigation, threatened against the Borrower, any of its Subsidiaries or any Seller (with respect to the Acquisition Assets being sold by such Seller) and which seek the recoupment of any material portion of any payments previously received by the Borrower, any of its Subsidiaries or such Seller pursuant to any law, statute, rule or regulation related to the delivery of health care or health care services, including without limitation, Medicare or Medicaid Laws.

SECTION 7.24. OTHER REPRESENTATIONS. Each of the representations and warranties made by the Borrower or any of its Subsidiaries in any of the Loan Documents or Acquisition Documents to which any such Person is or is to become a party, and to the best of the Borrower's knowledge after due and diligent inquiry, by any Seller in any of the Acquisition Documents, was true and correct in all material respects when made and continues to be true and correct in all material respects on the Effective Date, except to the extent that any of such representations and warranties relate to a prior date or may have been affected by the consummation of the transactions contemplated and permitted or required by the Loan Documents and the applicable Acquisition Documents.

SECTION 8. AFFIRMATIVE COVENANTS OF THE BORROWER. The Borrower covenants and agrees that so long as any Loan or Note is outstanding or any Bank has any obligation to make any Loans:

SECTION 8.1. PUNCTUAL PAYMENT. The Borrower will duly and punctually pay or cause to be paid the principal and interest on the Loans, the commitment fees and all other amounts provided for in this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is a party, all in accordance with the terms of this Credit Agreement and such other Loan Documents.

SECTION 8.2. MAINTENANCE OF OFFICE. The Borrower will maintain its chief executive office at 2755 Campus Drive, San Mateo, California 94403 and its principal place of business at 7 Waterside Crossing, Windsor, Connecticut 06095, or at such other place in the United States of America as the Borrower shall designate upon written notice to the Agent, for further transmission to the Banks, where notices, presentations and demands to or upon the Borrower in respect of the Loan Documents to which the Borrower is a party may be given or made.

SECTION 8.3. RECORDS AND ACCOUNTS. The Borrower will (a) keep, and cause each of its Subsidiaries to keep, true and accurate records and books of account in which full, true and correct entries will be made in accordance with generally accepted accounting principles and (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation, depletion, obsolescence and amortization of its properties and the properties of its Subsidiaries, contingencies, and other reserves.

SECTION 8.4. FINANCIAL STATEMENTS, CERTIFICATES AND INFORMATION. The Borrower will deliver to each of the Banks:

(a) as soon as practicable, but in any event not later than ninety (90) days after the end of each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such year, and the related consolidated statement of income and consolidated statement of cash flow for such year, each setting

forth in comparative form the figures for the previous fiscal year and all such consolidated statements to be in reasonable detail, prepared in accordance with generally accepted accounting principles, and certified without qualification by Arthur Andersen & Co., LLP or by other independent certified public accountants of nationally recognized standing and reasonably satisfactory to the Agent, together with a written statement from such accountants to the effect that they have read a copy of this Credit Agreement, and that, in making the examination necessary to said certification, they have obtained no knowledge of any Default or Event of Default, or, if such accountants shall have obtained knowledge of any then existing Default or Event of Default they shall disclose in such statement any such Default or Event of Default; provided that such accountants shall not be liable to the Banks for failure to obtain knowledge of any Default or Event of Default;

(b) as soon as practicable, but in any event not later than forty-five (45) days after the end of each of the first three fiscal quarters of the Borrower, copies of the unaudited consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such quarter, and the related consolidated statement of income and consolidated statement of cash flow for the portion of the Borrower's fiscal year then elapsed, all in reasonable detail and prepared in accordance with generally accepted accounting principles, together with a certification by the principal financial or accounting officer of the Borrower that the information contained in such financial statements fairly presents the financial position of the Borrower and its Subsidiaries on the date thereof (subject to year-end adjustments);

(c) simultaneously with the delivery of the financial statements referred to in subsections (a) and (b) above, a statement certified by the principal financial or accounting officer of the Borrower in substantially the form of Exhibit E hereto and setting forth in reasonable detail computations evidencing compliance with the covenants contained in Section 10 and (if applicable) reconciliations to reflect changes in generally accepted accounting principles since the Balance Sheet Date or since the date of the last financial statements delivered to the Banks pursuant to the terms hereof;

(d) contemporaneously with the filing or mailing thereof, copies of all material of a financial nature filed with the Securities and Exchange Commission or any national securities exchange or sent to the stockholders of the Borrower, including, without limitation, copies of all registration statements and Forms 10-K, 10-Q and 8-K and all amendments thereto;

(e) from time to time such other financial data and information (including accountants' management letters) as any Bank or the Agent may reasonably request.

SECTION 8.5. NOTICES.

(a) Defaults. The Borrower will promptly notify the Agent and each of the Banks in writing of the occurrence of any Default or Event of Default. If any Person shall give any notice or take any other action in respect of a claimed material default (whether or not constituting an Event of Default) under this Credit Agreement or any other note, evidence of indebtedness, indenture or other obligation to which or with respect to which the Borrower or any of its Subsidiaries is a party or obligor, whether as principal, guarantor, surety or otherwise, the Borrower shall forthwith give written notice thereof to the Agent and each of the Banks, describing the notice or action and the nature of the claimed default.

(b) Environmental Events. The Borrower will promptly give notice to the Agent and each of the Banks (i) of any violation of any Environmental Law that the Borrower or any of its Subsidiaries reports in writing (or for which any written report supplemental to any oral report is made) to any federal, state or local environmental agency and (ii) upon any officer of the Borrower or any of its Subsidiaries becoming

aware thereof, of any inquiry, proceeding, investigation, or other action, including a notice from any agency of potential environmental liability, of any federal, state or local environmental agency or board, that has the potential to materially affect the assets, liabilities, financial conditions or operations of the Borrower and its Subsidiaries, considered as a whole, or the Agent's liens or security interests pursuant to the Security Documents.

(c) Notification of Claims against Collateral. The Borrower will, immediately upon becoming aware thereof, notify the Agent and each of the Banks in writing of any setoff, claims (including, with respect to the Real Estate, environmental claims), withholdings or other defenses to which any of the Collateral, or the Agent's rights with respect to the Collateral, are subject.

(d) Notice of Litigation and Judgments. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Agent and each of the Banks in writing within fifteen (15) days of becoming aware of any litigation or proceedings threatened in writing or any pending litigation and proceedings affecting the Borrower or any of its Subsidiaries or to which the Borrower or any of its Subsidiaries is or becomes a party involving an uninsured claim against the Borrower or any of its Subsidiaries that could reasonably be expected to have a materially adverse effect on the Borrower or any of its Subsidiaries and stating the nature and status of such litigation or proceedings. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Agent and each of the Banks, in writing, in form and detail satisfactory to the Bank, within ten (10) days of any judgment not covered by insurance, final or otherwise, against the Borrower or any of its Subsidiaries in an amount in excess of $1,000,000.

SECTION 8.6. CORPORATE EXISTENCE. The Borrower will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights and franchises and those of its Subsidiaries.

SECTION 8.7. MAINTENANCE OF PROPERTIES. The Borrower (a) will cause all of its properties and those of its Subsidiaries used or useful in the conduct of its business or the business of its Subsidiaries to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment, (b) will cause to be made all necessary repairs, renewal, replacements, betterments and improvements thereof, all as in the judgment of the Borrower may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times, and (c) will, and will cause each of its Subsidiaries to, continue to engage primarily in the businesses now conducted by them and in related businesses; provided that nothing in this Section 8.7 shall prevent the Borrower from discontinuing the operation and maintenance of any of its properties or any of those of its Subsidiaries if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its; or their business and that do not in the aggregate materially adversely affect the business of the Borrower and its Subsidiaries on a consolidated basis.

SECTION 8.8. INSURANCE The Borrower will, and will cause each of its Subsidiaries to, maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with the general practices of businesses engaged in similar activities in similar geographic areas and in amounts, containing such terms, in such forms and for such periods as may be reasonable and prudent and in accordance with the terms of the Security Agreements. The Borrower will, and will cause each of its Subsidiaries to, maintain insurance on the Mortgaged Properties in accordance with the terms of the Mortgages.

SECTION 8.9. TAXES. The Borrower will, and will cause each of its Subsidiaries to, duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its real properties, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies that if unpaid might by law become a lien or charge upon any of its property; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower or such Subsidiary shall have set aside on its books adequate reserves with respect thereto; and provided further that the Borrower and each Subsidiary of the Borrower will pay all such taxes, assessments, charges, levies or claims forthwith upon the commencement of proceedings to foreclose any lien that may have attached as security therefor.

SECTION 8.10. INSPECTION OF PROPERTIES AND BOOKS.

(a) The Borrower shall permit the Banks, through the Agent or any Bank's designated representatives and agents, to visit and inspect any of the properties of the Borrower or any of its Subsidiaries, to examine the books of account of the Borrower and its Subsidiaries (and to make copies thereof and extracts therefrom), and to discuss the affairs, finances and accounts of the Borrower and its Subsidiaries with, and to be advised as to the same by, its and their officers, all at such reasonable times and intervals as the Agent or any of the Banks may reasonably request; provided, that the Agent, the Banks and their respective representatives and agents shall agree (i) to treat in confidence information gained from such inspections, examinations and discussions; (ii) not to disclose any such information to a third party (other than a permitted participant or assignee or the legal counsel and accountants of the Agent or any of the Banks), except as required by applicable Federal, State or municipal laws or regulations or by a court, administrative board or tribunal of competent jurisdiction; and (iii) not to make use of such information for purposes unrelated to the transactions contemplated in this Credit Agreement.

(b) Only when necessary to determine the Borrower's compliance with the terms hereof or upon the receipt by the Agent or any of the Banks of financial or other information from the Borrower or such accountants, and, in each case, only after reasonable prior notice to the Borrower, the Borrower authorizes the Agent and of the Banks to communicate directly with the Borrower's independent certified public

accountants and authorizes such accountants to disclose to the Agent and/or any of the Banks any and all financial statements and other supporting financial documents and schedules including copies of any management letter with respect to the business, financial condition and other affairs of the Borrower or any of its Subsidiaries. At the request of the Agent or any of the Banks, the Borrower shall deliver a letter addressed to such accountants instructing them to comply with the provisions of this Section 8.10(b).

SECTION 8.11. COMPLIANCE WITH LAWS, CONTRACTS, LICENSES, AND PERMITS. The Borrower will, and will cause each of its Subsidiaries to, comply with (a) all material provisions of applicable laws and regulations wherever its business is conducted, including all Environmental Laws, (b) the provisions of its charter documents and by-laws, (c) all material agreements and instruments by which it or any of its properties may be bound and (d) all applicable decrees orders, and judgments. If any authorization, consent, approval, permit or license from any officer, agency or instrumentality of any government shall become necessary or required in order that the Borrower or any of its Subsidiaries may fulfill any of its obligations hereunder or under any of the other Loan Documents to which the Borrower or such Subsidiary is a party, the Borrower will, or (as the case may be) will cause such Subsidiary to, immediately take or cause to be taken all reasonable steps within the power of the Borrower or such Subsidiary to obtain such authorization, consent, approval, permit or license and furnish the Agent with evidence thereof.

SECTION 8.12. EMPLOYEE BENEFIT PLANS. The Borrower will, and will cause each Subsidiary to, (i) promptly upon filing the same with the United States Department of Labor or Internal Revenue Service, furnish to the Agent a copy of the most recent actuarial statement required to be submitted under Section 103(d) of ERISA and Annual Report, Form 5500, with all required attachments, in respect of each Guaranteed Pension Plan and (ii) promptly upon receipt or dispatch, furnish to the Agent and each of the Banks any notice, report or demand sent or received in respect of a Guaranteed Pension Plan under Sections 302, 4041, 4042, 4043, 4063, 4065, 4066 and 4068 of ERISA, or in respect of a Multiemployer Plan, under Sections 4041A, 4202, 4219, 4242, or 4245 of ERISA.

SECTION 8.13. USE OF PROCEEDS. The Borrower will use the proceeds of the Loans (i) to finance the Acquisitions, (ii) to refinance on the Effective Date the Existing Indebtedness and (iii) for working capital and general corporate purposes; provided, that the Borrower will not, and will not permit any of its Subsidiaries to, use the proceeds of any of the Loans to finance or pay for any Indebtedness or obligations arising in connection with the operations or business of any of the Joint Ventures, including, without limitation, any Indebtedness incurred by the Borrower or any of its Subsidiaries on behalf of any Joint Venture in its capacity as a general partner or joint ventures of such Joint Venture or otherwise or any Indebtedness incurred under any management or operating contract between the Borrower or any of its Subsidiaries and any of the Joint Ventures, and, provided, further, that nothing set forth in this Section 8.13 shall be deemed to restrict the ability of the Borrower and its Subsidiaries to pay Indebtedness permitted by the terms of Section 9.1(h) hereof.

SECTION 8.14. FURTHER ASSURANCES. The Borrower will, and will cause each of its Subsidiaries to, cooperate with the Agent and each of the Banks and execute such further instruments and documents as the Agent and each of the Banks shall reasonably request to carry out to its satisfaction the transactions contemplated by this Credit Agreement and the other Loan Documents.

SECTION 9. CERTAIN NEGATIVE COVENANTS OF THE BORROWER. The Borrower covenants and agrees that, so long as any Loan or Note is outstanding or any Bank has any obligation to make any Loans:

SECTION 9.1. RESTRICTIONS ON INDEBTEDNESS. The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume, guarantee or be or remain liable, contingently, by way of guarantee or partnership liability or otherwise, with respect to any Indebtedness other than:

(a) Indebtedness to the Banks and the Agent arising under any of the Loan Documents;

(b) (i) current liabilities of the Borrower or such Subsidiary

incurred in the ordinary course of business but excluding any liabilities incurred through (A) the borrowing of money, or (B) the obtaining of credit except for credit on an open account basis customarily extended and in fact extended in connection with normal purchases of goods and services and (ii) liabilities of the Borrower (other indebtedness for borrowed money) under the Acquisition Documents;

(c) Indebtedness in respect of taxes, assessments, governmental charges or levies and claims for labor, materials and supplies to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of Section 8.9;

(d) Indebtedness in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the Borrower or such Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;

(e) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(f) obligations under Capitalized Leases not exceeding $10,000,000 in aggregate amount at any time outstanding;

(g) Indebtedness incurred in connection with the acquisition after the date hereof of any real or personal property by the Borrower or such Subsidiary;

(h) Indebtedness of the Borrower or its Subsidiaries to the Joint Ventures (other than Indebtedness arising in connection with capital contributions to any Joint

Venture required to be made pursuant to the terms and conditions of any written joint venture agreement of such Joint Venture as in effect on the date hereof) that (i) is incurred solely in connection with cash management services provided by the Borrower to the Joint Ventures, (ii) is subordinated on terms and conditions satisfactory to the Majority Banks in all respects and (iii) does not exceed $3,000,000 in aggregate amount at any time;

(i) Indebtedness of a wholly-owned Subsidiary to the Borrower that has been assigned to the Agent on behalf of the Banks pursuant to the Security Documents;

(j) Indebtedness of the Borrower or any of its Subsidiaries arising in connection with required (pursuant to the terms and conditions of any written joint venture agreement of any Joint Venture as in effect on the date hereof) capital contributions to any of the Joint Ventures in an aggregate amount not in excess of $2,000,000 at any time;

(k) Indebtedness (other than that set forth above in this Section 9.1) existing on the date hereof and listed and described on Schedule 9.1 hereto; and

(l) Subordinated Debt.

SECTION 9.2. RESTRICTIONS ON LIENS. The Borrower will not, and will not permit any of its Subsidiaries to, (a) create or incur or suffer to be created or incurred or to exist any lien, encumbrance, mortgage, pledge, charge,

restriction or other security interest of any kind upon any of its property or assets of any character whether now owned or hereafter acquired, or upon the income or profits therefrom; (b) transfer any of such property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; (c) acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; (d) suffer to exist for a period of more than thirty (30) days after the same shall have been incurred any Indebtedness or claim or demand against it that if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over its general creditors; or (e) sell, assign, pledge or otherwise transfer any accounts, contract rights, general intangibles, chattel paper or instruments, with or without recourse; provided that the Borrower and any Subsidiary of the Borrower may create or incur or suffer to be created or incurred or to exist:

(i) liens to secure taxes, assessments, other government charges and claims for labor, material or supplies to the extent that payment there for shall not at the time be required to be made in accordance with the provisions of Section 8.9;

(ii) deposits or pledges made in connection with, or to secure payment of, workmen's compensation, unemployment insurance, old age pensions or other social security obligations;

(iii) liens on properties in respect of judgments or awards the Indebtedness with respect to which is permitted by Section 9.1(d);

(iv) liens of carriers, warehousemen, mechanics and materialmen, and other like liens on properties in existence less than one hundred and twenty (120) days from the date of creation thereof in respect of obligations not overdue;

(v) encumbrances on Real Estate consisting of easements, rights of way, zoning restrictions, restrictions on the use of real property and defects and irregularities in the title thereto, landlord's or lessor's liens under leases to which the Borrower or a Subsidiary of the Borrower is a party, and other minor liens or encumbrances none of which interferes materially with the use of the property affected in the ordinary conduct of the business of the Borrower and its Subsidiaries, which defects do not individually or in the aggregate have a materially adverse effect on the business of the Borrower individually or of the Borrower and its Subsidiaries on a consolidated basis;

(vi) purchase money security interests in or purchase money mortgages on real or personal property other than Mortgaged Properties acquired after the date hereof to secure purchase money Indebtedness of the type and amount permitted by Section 9.1(g), incurred in connection with the acquisition of such property, which security interests or mortgages cover only the real or personal property so acquired;

(vii) liens and encumbrances on each Mortgaged Property as and to the extent permitted by the Mortgage applicable thereto; and

(viii) liens in favor of the Agent under the Loan Documents; and

(ix) liens (other than those permitted above in this Section 9.2) existing on the date hereof and listed on Schedule 9.2 hereto;

Without limiting the foregoing, the Borrower will not, an will not permit any of its Subsidiaries to, agree with any Person in any document, agreement or instrument, whether evidencing any Indebtedness permitted by this Agreement or otherwise, to any terms and conditions similar to those set forth in this Section 9.2.

SECTION 9.3. RESTRICTIONS ON INVESTMENTS. The Borrower will not, and will not permit any of its Subsidiaries to, make or permit to exist or to remain outstanding any Investment except Investments in:

(a) marketable direct or guaranteed obligations of the United States of America that mature within one (1) year from the date of purchase by the Borrower;

(b) demand deposits, certificates of deposit, bankers acceptances and time deposits of any Bank or of any United States banks having total assets in excess of $1,000,000,000;

(c) securities commonly known as "COMMERCIAL PAPER" issued by a corporation organized and existing under the laws of the United States of America or any state thereof that at the time of purchase have been rated and the ratings for which are not less than "P 2" if rated by Moody's Investors Services, Inc., and not less than "A 2" if rated by Standard and Poor's;

(d) Investments with respect to Indebtedness permitted by Section 9.1(i) so long as such entities remain wholly-owned Subsidiaries of the Borrower if, and only if, such Subsidiaries have guaranteed payment and performance of the Obligations and have executed and delivered all Security Documents required by the terms hereof;

(e) Investments existing on the Effective Date by the Borrower in wholly-owned Subsidiaries of the Borrower;

(f) Investments, not exceeding $5,000,000 in the aggregate, in respect of the purchase by the Borrower after the date hereof of any equity interests in any of the Joint Ventures;

(g) Investments after the date hereof consisting of mandatory or required (pursuant to the terms and conditions of any written joint venture agreement of any Joint Venture as in effect on the date hereof) cash capital contributions to Joint Ventures existing on the date hereof that do not exceed in the aggregate $1,000,000;

(h) Investments (not described above in this Section 9.3) existing on the date hereof and listed on Schedule 9.3 hereto; and

(i) Investments consisting of guaranties of Subordinated Debt incurred by the Borrower or any Subsidiary of the Borrower.

SECTION 9.4. DISTRIBUTIONS. If a Default or an Event of Default shall have occurred and be continuing, the Borrower will not make, and will not permit any of its Subsidiaries to make, any Distributions.

SECTION 9.5. MERGER, CONSOLIDATION AND DISPOSITION OF ASSETS.

(a) The Borrower will not, and will not permit any of its Subsidiaries to, become a party to any merger or consolidation, or agree to or effect any asset acquisition or stock acquisition (other

than the acquisition of assets in the ordinary course of business consistent with past practices) except (i) the Acquisitions, (ii) the

merger or consolidation of one or more of the wholly-owned Subsidiaries of the Borrower with and into the Borrower, (iii) the merger or consolidation of two or more whollyowned Subsidiaries of the Borrower, (iv) acquisitions by the Borrower consisting of Investments permitted by Sections 9.3(e), (f) and (g) hereof or (v) the acquisition by RMI of certain equity interests of RCI in the RCI Joint Ventures.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, become a party to or agree to or effect any disposition of assets, other than (i) the disposition of assets in the ordinary course of business, consistent with past practices and (ii) in any fiscal year of the Borrower, the sale or disposition of equity interests in the Joint Ventures, so long as the aggregate fair market value of all such sales and dispositions during such fiscal year is less than $2,500,000.

SECTION 9.6. SALE AND LEASEBACK. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, whereby the Borrower or any Subsidiary of the Borrower shall sell or transfer any property owned by it in order then or thereafter to lease such property or lease other property that the Borrower or any Subsidiary of the Borrower intends to use for substantially the same purpose as the property being sold or transferred.

SECTION 9.7. COMPLIANCE WITH ENVIRONMENTAL LAWS. The Borrower will not, and will not permit any of its Subsidiaries to, (a) use any of the Real Estate or any portion thereof for the handling, processing, storage or disposal of Hazardous Substances, except in material compliance with all applicable Environmental Laws, (b) cause or permit to be located on any of the Real Estate any underground tank or other underground storage receptacle for Hazardous Substances, (c) generate any Hazardous Substances on any of the Real Estate, except in material compliance with all applicable Environmental Laws, (d) conduct any activity at any Real Estate or use any Real Estate in any manner so as to cause a release (i.e. releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing or dumping) or threatened release of Hazardous Substances on, upon or into the Real Estate, except in material compliance with all applicable Environmental Laws, or (e) otherwise conduct any activity at any Real Estate or use any Real Estate in any manner that would result in a material violation of any Environmental Law or bring such Real Estate into material violation of any Environmental Law.

SECTION 9.8. EMPLOYEE BENEFIT PLANS. Neither the Borrower nor any ERISA Affiliate will

(a) engage in any "PROHIBITED TRANSACTION" within the meaning of Section 406 of ERISA or Section 4975 of the Code which could result in a material liability for the Borrower or any of its Subsidiaries; or

(b) permit any Guaranteed Pension Plan to incur an "ACCUMULATED FUNDING DEFICIENCY", as such term is defined in Section 302 of ERISA, whether or not such deficiency is or may be waived; or

(c) fail to contribute to any Guaranteed Pension Plan to an extent which, or terminate any Guaranteed Pension Plan in a manner which, could result in the imposition of a lien or encumbrance on the assets of the Borrower or any of its Subsidiaries pursuant to Section

302(f) or Section 4068 of ERISA; or

(d) permit or take any action which would result in the aggregate benefit liabilities (with the meaning of Section 4001 of ERISA) of all Guaranteed Pension Plans exceeding the value of the aggregate assets of such Plans, disregarding for this purpose the benefit liabilities and assets of any such Plan with assets in excess of benefit liabilities.

SECTION 9.9. MEDICARE QUALIFICATION. The Borrower will not, and will not permit any of its Subsidiaries to, engage in any activity in material violation of any law or regulation related to the delivery of health care or health care services or the payment for health care services, including, but not limited to, 42 U.S.C. Section 1320a-7 et seq., 42 U.S.C. Section 1395 et seq., 42 U.S.C. Section 1396 et seq., 42 U.S.C. Section 1307 et seq., 18 U.S.C. Section 286, 18 U.S.C. Section 287, 18 U.S.C. Section 666; or which could result in the exclusion of the Borrower or any of its Subsidiaries from any program promulgated or established under any Medicare or Medicaid Laws or the exclusion of the Borrower or any of its Subsidiaries from receiving provider payments pursuant to any Medicare or Medicaid Laws.

SECTION 9.10. AMENDMENT OR MODIFICATION OF ACQUISITION DOCUMENTS. In connection with any Acquisition for which the total purchase price of the Acquisition Assets equals or exceeds $15,000,000, the Borrower shall not effect or permit any amendment or modification of any Acquisition Documents in any respect without the prior written consent of the Majority Banks.

SECTION 9.11. CHANGE OF FISCAL YEAR. Neither the Borrower nor any of its Subsidiaries shall change its fiscal year without the prior written consent of the Majority Banks, provided that, such consent shall not be unreasonably withheld.

SECTION 10. FINANCIAL COVENANTS OF THE BORROWER. The Borrower covenants and agrees that, so long as any Loan or Note is outstanding or any Bank has any obligation to make any Loans:

SECTION 10.1. CONSOLIDATED OPERATING CASH FLOW TO TOTAL INTEREST EXPENSE. The Borrower will not permit the ratio of Consolidated Operating Cash Flow of the Borrower and its Subsidiaries to Consolidated Total Interest Expense of the Borrower and its Subsidiaries for any period consisting of four (4) consecutive fiscal quarters of the Borrower ending after the Effective Date to be less than 3.0: 1.0 at any time.

SECTION 10.2. CONSOLIDATED OPERATING CASH FLOW TO CONSOLIDATED FINANCIAL OBLIGATIONS. The Borrower will not permit the ratio of Consolidated Operating Cash Flow of the Borrower and its Subsidiaries to Consolidated Financial Obligations of the Borrower and its Subsidiaries for any period consisting of four (4) consecutive fiscal quarters of the Borrower ending after the Effective Date to be less than 1.5:1.0.

SECTION 10.3. CONSOLIDATED TOTAL FUNDED DEBT TO CONSOLIDATED OPERATING CASH FLOW. The Borrower will not permit the ratio of Consolidated Total Funded Debt of the Borrower and its Subsidiaries to Consolidated Operating Cash Flow of the Borrower and its Subsidiaries for any period consisting of four (4) consecutive fiscal quarters of the Borrower ending after the Effective Date to exceed 3.0:1.0.

SECTION 11. CLOSING CONDITIONS. The obligations of the Banks to make the initial Revolving Credit Loan shall be subject to the satisfaction of the following conditions precedent on or prior to August 15, 1996:

SECTION 11.1. LOAN DOCUMENTS. Each of the Loan Documents shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance satisfactory to

each of the Banks. Each Bank shall have received a fully executed copy of each such document.

SECTION 11.2. CERTIFIED COPIES OF CHARTER DOCUMENTS. Each of the Banks shall have received from the Borrower and each of its Subsidiaries a copy, certified by a duly authorized officer of such Person to be true and complete, of each of (a) its charter or other incorporation or partnership documents as in effect on such date of certification, and (b) its by-laws as in effect on such date in each case as in effect on the Effective Date.

SECTION 11.3. CORPORATE ACTION. All corporate and partnership action necessary for the valid execution, delivery and performance by the Borrower and each of its Subsidiaries of this Credit Agreement and the other Loan Documents to which it is or is to become a party shall have been duly and effectively taken, and evidence thereof satisfactory to the Banks shall have been provided to each of the Banks.

SECTION 11.4. INCUMBENCY CERTIFICATE. Each of the Banks shall have received from the Borrower and each of its Subsidiaries an incumbency certificate, dated as of the Effective Date, signed by a duly authorized officer of such Person, and giving the name and bearing a specimen signature of each individual who shall be authorized: (a) to sign, in the name and on behalf of such Person, each of the Loan Documents to which such Person is or is to become a party; (b) in the case of the Borrower, to make a Revolving Credit Loan Request; and (c) to give notices and to take other action on its behalf under the Loan Documents.

SECTION 11.5. LEGALITY OF TRANSACTIONS. No change in applicable law shall have occurred as a consequence of which it shall have become and continue to be unlawful (a) for any Bank or the Agent to perform any of its agreements or obligations under any of the Loan Documents to which any such Person is a party on the Effective Date or (b) for the Borrower to perform any of its material agreements or obligations under any of the Loan Documents to which it is a party on the Effective Date.

SECTION 11.6. VALIDITY OF LIENS. The Security Documents shall be effective to create in favor of the Agent, for the ratable benefit of the Banks, a legal, valid and enforceable first (except for Permitted Liens entitled to priority under applicable law) security interest in and lien upon the Collateral. All filings, recordings, deliveries of instruments and other actions

necessary or desirable in the opinion of the Banks to protect and preserve such security interests shall have been duly effected. The Banks shall have received evidence thereof in form and substance satisfactory to the Banks.

SECTION 11.7. UCC SEARCH RESULTS. The Banks shall have received the results of Uniform Commercial Code searches with respect to the Collateral, indicating no liens other than Permitted Liens and otherwise in form and substance satisfactory to the Banks.

SECTION 11.8. LANDLORD CONSENTS. The Borrower and its Subsidiaries shall have used its best efforts to deliver to the Banks all consents required for the Agent to receive, as part of the Security Documents, a collateral assignment of each material leasehold of personal property, and a Mortgage of each material leasehold of real property, together in each case with such estoppel certificates as the Banks may reasonably request.

SECTION 11.9. CERTIFICATES OF INSURANCE. The Banks shall have received (a) a certificate of insurance from an independent insurance broker dated as of the Effective Date, identifying insurers, types of insurance, insurance limits, and policy terms, and otherwise describing the insurance obtained in accordance with the provisions of the Security Agreements and (b) certified copies of all policies evidencing such insurance (or certificates therefore signed by the insurer or an agent authorized to bind the insurer).

SECTION 11.10. DISCHARGE OF LIENS. The Banks shall have received from the Borrower evidence reasonably satisfactory to the Agent that all liens and encumbrances with respect to property of the Borrower, other than Permitted Liens shall have been discharged in full.

SECTION 11.11. INTENTIONALLY OMITTED.

SECTION 11.12. PROCEEDINGS AND DOCUMENTS. All corporate, partnership, governmental and other proceedings in connection with the transactions contemplated by the Loan Documents, and all instruments and documents incidental thereto, shall be in form and substance reasonably satisfactory to the Banks and the Banks shall have received all such counterpart originals or certified or other copies of all such instruments and documents as the Banks shall have reasonably requested.

SECTION 11.13. INTENTIONALLY OMITTED.

SECTION 11.14. OPINIONS OF COUNSEL. Each of the Banks and the Agent shall have received a favorable legal opinion addressed to the Banks and the Agent, dated as of the Effective Date, in form and substance satisfactory to the Bank, from:

(a) Gray Cary Ware & Freidenrich, counsel to the Borrower and its Subsidiaries:

(b) local counsel to the Borrower and its Subsidiaries as applicable; and

(c) regulatory counsel to the Borrower and its Subsidiaries.

SECTION 11.15. CAPITAL STRUCTURE. The Banks shall be satisfied with the capital structure of the Borrower and its subsidiaries on and as of the Effective Date.

SECTION 11.16. FINANCIAL CONDITION. The Banks shall be satisfied that the financial statements referred to in Section 7.5 fairly present the business and financial condition of the Borrower and its Subsidiaries as at and for the periods ending on the respective dates thereof, and that there has been no material adverse change in the assets, business or financial condition of the Borrower, since the applicable dates set forth in Section 7.5 hereof.

SECTION 11.17. SOLVENCY CERTIFICATE. The Agent shall have received from the Borrower and each of its Subsidiaries a certificate of the chief financial officer of each such Person, addressed to the Agent and the Banks, regarding the solvency of each such Person after the consummation of the transactions contemplated herein and such certificate shall be in form and substance satisfactory to the Banks.

SECTION 12. ACQUISITION CREDIT LOAN CLOSING CONDITIONS. The obligations of the Banks to make any Acquisition Credit Loan shall be subject to the satisfaction of the following conditions precedent on or prior to the Drawdown Date of such Acquisition Credit Loan:

SECTION 12.1. ACQUISITION DOCUMENTS. Each of the Acquisition Documents applicable to such Acquisition Credit Loan and the related Acquisition shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and, if the total purchase price for the applicable Acquisition Assets equals or exceeds $15,000,000, shall be in form and substance satisfactory to each of the Banks. Each Bank shall have received a fully executed copy of each such document.

SECTION 12.2. CORPORATE ACTION. All corporate and partnership

action necessary for the valid execution, delivery and performance by the Borrower and each of its Subsidiaries of the applicable Acquisition Document to which it is or is to become a party shall have been duly and effectively taken, and, if the total purchase price for the applicable Acquisition Assets equals or exceeds $15,000,000, evidence of such corporate and partnership action satisfactory to the Banks shall have been provided to each of the Banks.

SECTION 12.3. DISCHARGE OF LIENS. If the total purchase price for the applicable Acquisition Assets equals or exceeds $15,000,000, the Banks shall have received from the Borrower evidence reasonably satisfactory to the Agent that all liens and encumbrances with respect to property of the Borrower or property to be acquired by the Borrower from any Seller or transferred to the Borrower pursuant to or as a result of the transactions contemplated by the applicable Acquisition Documents, other than Permitted Liens shall have been discharged in full.

SECTION 12.4. PROCEEDINGS AND DOCUMENTS. If the total purchase price for the applicable Acquisition Assets equals or exceeds $15,000,000, all corporate, partnership,

governmental and other proceedings in connection with the transactions contemplated by the applicable Acquisition Documents and all instruments and documents incidental thereto shall be in form and substance reasonably satisfactory to the Banks and, regardless of the amount of such purchase price, the Banks shall have received all such counterpart originals or certified or other copies of all such instruments and documents as the Banks shall have reasonably requested.

SECTION 12.5. CLOSING OF ACQUISITION. The Borrower shall complete on the Drawdown Date of such Acquisition Credit Loan the purchase of the applicable Acquisition Assets pursuant to the applicable Acquisition Documents without recourse to any provision of such Acquisition Documents permitting the waiver by the Borrower of any material condition, obligation, covenant or other requirement without the prior written consent of the Majority Banks. Upon the purchase of the Acquisition Assets pursuant to the applicable Acquisition Documents, the Borrower will have valid and marketable title to all of the assets and properties intended to be conveyed to the Borrower pursuant to the such Acquisition Documents.

SECTION 12.6. OPINIONS OF COUNSEL. If the total purchase price for the applicable Acquisition Assets equals or exceeds $15,000,000, each of the Banks and the Agent shall have received a favorable legal opinion addressed to the Banks and the Agent, dated as of the Drawdown Date of such Acquisition Credit Loan, in form and substance satisfactory to the Bank, from counsel for the applicable Seller and the Borrower, respectively, delivered in connection with the applicable Acquisition, together with appropriate letters from such counsel authorizing the Banks and the Agent to rely on said opinions.

SECTION 12.7. CAPITAL STRUCTURE. If the total purchase price for the applicable Acquisition Assets equals or exceeds $15,000,000, the Banks shall be satisfied with the capital structure of the Borrower and its Subsidiaries (including, without limitation, the applicable Acquisition Assets) on the Drawdown Date of such Acquisition Credit Loan.

SECTION 12.8. FINANCIAL CONDITION. If the total purchase price for the applicable Acquisition Assets equals or exceeds $15,000,000, the Banks shall be satisfied (i) that the financial information delivered to the Bank with respect to the applicable Acquisition Assets is in form and detail satisfactory to the Banks and fairly presents the business and financial condition of the proposed Acquisition Assets and that there has been no material adverse change in the business, assets or financial condition of the Acquisition Assets, the Borrower and/or its Subsidiaries since the dates of such financial information, (ii) that the Banks' due diligence review of the proposed Acquisition Assets, including, without limitation, industry checkings and, if such Acquisition

Credit Loan to be made in connection with such Acquisition exceeds $15,000,000, a review by the Agent's commercial finance examiners of the Acquisition Assets, does not reveal to the Banks after the date hereof any materially adverse information and (iii) with the documentation evidencing the agreement to purchase the proposed Acquisition Assets.

SECTION 12.9. ADDITIONAL GUARANTY. If applicable, any corporation, partnership, joint venture or business associate acquired with the proceeds of such Acquisition Credit Loan shall execute and deliver to the Agent and the Banks a Guaranty satisfactory to the Banks and their counsel.

SECTION 12.10. APPROVALS. The Banks being reasonably satisfied that all parties to the proposed Acquisition have received all necessary regulatory approvals and evidence of compliance with all state and federal laws, including but not limited to Regulation U, and state and federal securities laws, applicable to any of the parties to such transactions.

SECTION 12.11. PRO FORMA CASH FLOW. The Banks' shall have determined that the ratio of the pro forma Consolidated Operating Cash Flow of the Borrower and its Subsidiaries to the pro forma Consolidated Financial Obligations of the Borrower and its Subsidiaries for the period of four (4) consecutive fiscal quarters of the Borrower ending on the last day of the fiscal quarter ending immediately prior to the first anniversary of such proposed Acquisition, in each case after giving effect to such Acquisition, does not exceed 1.5:1.0.

SECTION 12.12. PURCHASE PRICE. The Banks' shall have determined that the total purchase price to be paid by the Borrower in connection with such Acquisition does not exceed the product of (a) 2.5 times (b) the Borrower's Consolidated Operating Cash Flow for the period of four (4) consecutive fiscal quarters of the Borrower ending immediately prior to the closing of such Acquisition.

SECTION 12.13. PRO FORMA FUNDED DEBT The Banks' shall have determined that the ratio of the pro forma Consolidated Total Funded Debt of the Borrower and its Subsidiaries to the pro forma Consolidated Operating Cash Flow of the Borrower and its Subsidiaries for the period of four (4) consecutive fiscal quarters of the Borrower ending on the last day of the fiscal quarter ending immediately prior to the first anniversary of such proposed Acquisition, in each case after giving effect to such Acquisition, does not exceed 3.0:1.0.

SECTION 12.14. OTHER CONDITIONS. The Banks shall have determined that all of the conditions precedent set forth in Section 12 shall have been satisfied.

SECTION 12A. CONDITIONS TO ALL BORROWINGS. The obligations of the Banks to make any Loan, including the Revolving Credit Loans, whether on or after the Effective Date, shall also be subject to the satisfaction of the following conditions precedent:

SECTION 12A.1 REPRESENTATIONS TRUE; NO EVENT OF DEFAULT. Each of the representations and warranties of any Person contained in the Acquisition Documents, this Credit Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Credit Agreement shall be true as of the date they were made and shall also be true at and as of the time of the making of such Loan, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Credit Agreement the other Loan Documents or the Acquisition Documents, and changes occurring in the ordinary course of business that

singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing.

SECTION 12A.2 NO LEGAL IMPEDIMENT. No change shall have occurred in any law or regulations thereunder or interpretations thereof that in the reasonable opinion of any Bank would make it illegal for such Bank to make any Loan.

SECTION 12A.3 GOVERNMENTAL REGULATION. Each Bank shall have received such statements in substance and form reasonably satisfactory to such Bank as such Bank shall require for the purpose of compliance with any applicable regulations of the Comptroller of the Currency or the Board of Governors of the Federal Reserve System.

SECTION 12A.4 PROCEEDINGS AND DOCUMENTS. All proceedings in connection with the transactions contemplated by the Acquisition Documents this Credit Agreement, the other Loan Documents and all other documents incident thereto shall be satisfactory in substance and in form to the Banks and the Agent and the Agent's Special Counsel, and the Banks and the Agent and such counsel shall have received all information and such counterpart originals or certified or other copies of such documents as the Agent, such Bank or such counsel may reasonably request.

SECTION 13. EVENTS OF DEFAULT; ACCELERATION: ETC.

SECTION 13.1. EVENTS OF DEFAULT AND ACCELERATION. If any of the following events ("EVENTS OF DEFAULT" or, if the giving of notice or the lapse of time or both is required, then, prior to such notice or lapse of time, "DEFAULTS") shall occur:

(a) the Borrower or any Subsidiary shall fail to pay any principal of the Loans when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) the Borrower or any of its Subsidiaries shall fail to pay any interest on the Loans, any commitment fee or other sums due hereunder or under any of the other Loan Documents, within five (5) days of when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(c) the Borrower shall fail to comply with any of its covenants contained in Sections 8.1, 8.5, 8.6, 8.8 and 8.13, 9 or 10 or any of the covenants contained in any of the Security Documents;

(d) the Borrower shall fail to comply with any of its covenants contained in any of Sections 8.2, 8.3, 8.7, 8.9, 8.10, 8.11, 8.12 and 8.14 hereof and such non-compliance shall continue for thirty (30) days after the occurrence thereof.

(e) the Borrower or any of its Subsidiaries shall fail to comply with any of its covenants contained in Section 8.4 hereof or fail to perform any term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified elsewhere in this Section 13.1) for thirty (30) days after written notice of such failure has been given to the Borrower by the Agent;

(f) the Subsidiaries shall fail to comply with any of their respective covenants set forth in the Guarantees;

(g) any representation or warranty of the Borrower or any of its Subsidiaries in this Credit Agreement or any of the other Loan Documents or in any other document or instrument delivered pursuant to or in connection with this Credit Agreement shall prove to have been false in any material respect upon the date when made or deemed to have been made or repeated;

(h) the Borrower or any of its Subsidiaries shall fail to pay at maturity, or within any applicable period of grace, any obligations (in excess of $1,000,000 in the aggregate) for borrowed money or credit received or in respect of any Capitalized Leases, or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing borrowed money or credit received or in respect of any Capitalized Leases for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations (in excess of $1,000,000 in the aggregate) issued thereunder to accelerate the maturity thereof;

(i) the Borrower or any of its Subsidiaries shall make an assignment for the benefit of creditors, or admit in writing its inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian, liquidator or receiver of the Borrower or any of its Subsidiaries or of any substantial part of the assets of any such Person or shall commence any case or other proceeding relating to any such Person under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, or shall take any action to authorize or in furtherance of any of the foregoing, or if any such petition or application shall be filed or any such case or other proceeding shall be commence against any such Person shall indicate its approval thereof, consent thereto or acquiescence therein;

(j) a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating the Borrower or any of its Subsidiaries bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of any such Person in an involuntary case under federal bankruptcy laws as now or hereafter constituted

(k) there shall remain in force, undischarged, unsatisfied and unstayed, for more than thirty (30) days, whether or not consecutive, any final (as to which the time

for further appeals has expired or to which the appeals process has been exhausted) judgment against the Borrower or any of its Subsidiaries that, with other outstanding final judgments, undischarged, against any such Person exceeds in the aggregate $1,000,000;

(l) if any of the Loan Documents or any of the Security Documents shall be canceled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Banks, or any action at law, in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of the Borrower any of its Subsidiaries party thereto or any of their respective stockholders, or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents or, in any material respect, any Acquisition Document is illegal, invalid or unenforceable in accordance with the terms thereof;

(m) if the Borrower shall fail to observe or perform any material term, covenant or agreement contained in any Acquisition Document;

(n) with respect to any Guaranteed Pension Plan, an ERISA Reportable Event shall have occurred and the Agent shall have determined in its reasonable discretion that such event reasonably could be expected to result in liability of the Borrower or any of its Subsidiaries to the PBGC or such Guaranteed Pension Plan in an aggregate amount exceeding $1,000,000 and such event in the circumstances occurring reasonably could constitute grounds for the termination of such Guaranteed Pension Plan by the PBGC or for the appointment by the appropriate United States District Court of a trustee to administer such Guaranteed Pension Plan; or a trustee shall have been appointed by the United States District Court to administer such Plan; or the PBGC shall have instituted proceedings to terminate such Guaranteed Pension Plan;

(o) the Borrower or any of its Subsidiaries shall be indicted for a federal crime, a punishment for which could include the forfeiture of any assets of the Borrower or such Subsidiary having a fair market value in excess of $1,000,000;

(p) the Borrower (or its successors or assigns) shall, at any time, legally or beneficially own less than one hundred percent (100%) of the Voting Stock of the Subsidiaries, as adjusted pursuant to any stock split, stock dividend or recapitalization or reclassification of the capital of any of the Subsidiaries and as further adjusted to reflect the equity interests represented by any warrants or other options to purchase or otherwise acquire any such stock; or

(q) the Borrower or any of its Subsidiaries shall pay, redeem or otherwise satisfy any Subordinated Debt in contravention or violation of the written subordination terms applicable thereto;

then, and in any such event, so long as the same may be continuing, the Agent, shall, at the written request of the Majority Banks by notice in writing to the Borrower, declare all amounts owing with respect to this Credit Agreement, the Notes and the other Loan Documents to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; provided that in the event of any Event of Default specified in Section 13.1(i) or 13.1(j), all such amounts shall become immediately due and payable automatically and without any requirement of notice from the Agent.

SECTION 13.2. TERMINATION OF COMMITMENTS. If any one or more of the Events of Default specified in Section 13.1(i) or Section 13.1(j) shall occur, any unused portion of the credit hereunder shall forthwith terminate and each of the Banks shall be relieved of all further obligations to make Loans to the Borrower. If any other Event of Default shall have occurred and be continuing, or if on any Drawdown Date the conditions precedent to the making of the Loans to be made on such Drawdown Date are not satisfied, the Agent may, and upon the request of the Majority Banks, shall, by notice to the Borrower, terminate the unused portion of the credit hereunder, and upon such notice being given such unused portion of the credit hereunder shall terminate immediately and each of the Banks shall be relieved of all further obligations to make Loans. No termination of the credit hereunder shall relieve the Borrower or any of its Subsidiaries of any of the Obligations.

SECTION 13.3. REMEDIES; RIGHTS UNDER SECURITY DOCUMENTS.

(a) In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Agent shall

have accelerated the maturity of the Loans pursuant to Section 13.1, each Bank may, subject to the terms of Section 13.3(b) hereof) if owed any amount with respect to the Loans, proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Credit Agreement and the other Loan Documents or any instrument pursuant to which the Obligations to such Bank are evidenced, including as permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of such Bank. No remedy herein conferred upon any Bank or the holder of any Note is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.

(b) Notwithstanding anything to the contrary set forth herein, each of the parties hereto acknowledges and agrees that the respective rights, benefits and privileges of the Agent and the Banks under each of the Security Documents and all other instruments, documents and agreements providing the benefit of any collateral security, guarantees or subordination for the prompt payment and performance of the Obligations are for the ratable and mutual benefit of the Banks, and each of the rights,

benefits and privileges and thereunder shall be exercised (or not exercised) solely by the Agent but only at the direction and with the consent and approval of the Majority Banks in accordance with Section 15 hereof.

SECTION 13.4. DISTRIBUTION OF COLLATERAL PROCEEDS. In the event that, following the occurrence or during the continuance of any Default or Event of Default, the Agent or any Bank, as the case may be, receives any monies in connection with the enforcement of any of the Security Documents, or otherwise with respect to the realization upon any of the Collateral, such monies shall be distributed for application as follows:

(a) First, to the payment of, or (as the case may be) the reimbursement of the Agent for or in respect of all reasonable costs, expenses and disbursements which shall have been incurred or sustained by the Agent (solely in its capacity as Agent and not as a Bank) in connection with the collection of such monies by the Agent, for the exercise, protection or enforcement by the Agent of all or any of the rights, remedies, powers and privileges of the Agent under this Credit Agreement or any of the other Loan Documents or in respect of the Collateral or in support of any provision of adequate indemnity to the Agent against any taxes or liens which by law shall have, or may have, priority over the rights of the Agent to such monies:

(b) Second, to all other Obligations in such order or preference as the Majority Banks may determine; provided, however, that distributions in respect of such Obligations shall be made (i) pari passu among Obligations with respect to the Agent's fee payable pursuant to Section 5.2 and all other Obligations and (ii) Obligations owing to the Banks with respect to each type of Obligation such as interest, principal, fees and expenses, shall be made among the Banks pro rata; and provided, further, that the Agent may in its discretion make proper allowance to take into account any Obligations not then due and payable;

(c) Third, upon payment and satisfaction in full or other provisions for payment in full satisfactory to the Banks and the Agent of all of the Obligations, to the payment of any obligations required

to be paid pursuant to Section 9-504(1)(c) of the Uniform Commercial Code of the State of Connecticut; and

(d) Fourth, the excess, if any, shall be returned to the Borrower or to such other Persons as are entitled thereto.

SECTION 14. SETOFF. Regardless of the adequacy of any collateral, during the continuance of any Event of Default, any deposits or other sums credited by or due from any of the Banks to the Borrower and any securities or other property of the Borrower in the possession of such Bank may be applied to or set off by such Bank against the payment of Obligations and any and all other liabilities, direct, or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of the Borrower to such Bank. Each of the Banks agrees with each other Bank that (a) if an amount to be set off is to be applied to Indebtedness of the Borrower to such Bank, other than Indebtedness evidenced by the Notes held by such Bank or constituting Reimbursement Obligations owed to such Bank, such

amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by all such Notes held by such Bank or constituting Reimbursement Obligations owed to such Bank, and (b) if such Bank shall receive from the Borrower, whether by voluntary payment, exercise of the right of setoff, counterclaim, cross action, enforcement of the claim evidenced by the Notes held by, or constituting Reimbursement Obligations owed to, such Bank by proceedings against the Borrower at law or in equity or by proof thereof in bankruptcy, reorganization, liquidation, receivership or similar proceedings, or otherwise, and shall retain and apply to the payment of the Note or Notes held by, or Reimbursement Obligations owed to, such Bank any amount in excess of its ratable portion of the payments received by all of the Banks with respect to the Notes held by, and Reimbursement Obligations owed to, all of the Banks, such Bank will make such disposition and arrangements with the other Banks with respect to such excess, either by way of distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Bank receiving in respect of the Notes held by it or Reimbursement obligations owed it, its proportionate payment as contemplated by this Credit Agreement; provided that if all or any part of such excess payment is thereafter recovered from such Bank, such disposition and arrangements shall be rescinded and the amount restored to the extent of such recovery, but without interest.

SECTION 15. THE AGENT.

SECTION 15.1. AUTHORIZATION. The Agent is authorized to take such action on behalf of each of the Banks and to exercise all such powers as are hereunder and under any of the other Loan Documents and any related documents delegated to the Agent, together with such powers as are reasonably incident thereto, provided that no duties or responsibilities not expressly assumed herein or therein shall be implied to have been assumed by the Agent. The relationship between the Agent and the Banks is and shall be that of agent and principal only, and nothing contained in this Credit Agreement or any of the other Loan Documents shall be construed to constitute the Agent as a trustee for any Bank.

SECTION 15.2. EMPLOYEES AND AGENTS. The Agent may exercise its powers and execute its duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to its rights and duties under this Credit Agreement and the other Loan Documents. The Agent may utilize the services of such Persons as the Agent in its sole discretion may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower.

SECTION 15.3. NO LIABILITY. Neither the Agent nor any of its shareholders, directors, officers or employees nor any other Person assisting them in their duties nor any agent or employee thereof, shall be liable for an waiver, consent or approval given or any action taken, or omitted to be taken,

in good faith by it or them hereunder or under any of the other Loan Documents, or in connection herewith or therewith, or be responsible for the consequences of any oversight or error of judgment whatsoever, except that the Agent or such other Person, as the case may be, may be liable for losses due to its willful misconduct or gross negligence.

SECTION 15.4. NO REPRESENTATIONS. The Agent shall not be responsible for the execution or validity or enforceability of this Credit Agreement, the Notes, any of the other Loan Documents or any instrument at any time constituting, or intended to constitute, collateral security for the Notes, or for the value of any such collateral security or for the validity, enforceability or collectibility of any such amounts owing with respect to the Notes, or for any recitals or statements, warranties or representations made herein or in any of the other Loan Documents or in any certificate or instrument hereafter furnished to it by or on behalf of the Borrower or any of its Subsidiaries, or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any instrument at any time constituting, or intended to constitute, collateral security for the Notes or to inspect any of the properties, books or records of the Borrower or any of its Subsidiaries. The Agent shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by the Borrower or any holder of any of the Notes shall have been duly authorized or is true, accurate and complete. The Agent has not made nor does it now make any representations or warranties, express or implied, nor does it assume any liability to the Banks, with respect to the creditworthiness or financial condition of the Borrower or any of its Subsidiaries. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank, and based upon such information and documents as it has deemed appropriate, made its own credit analysis and decision to enter into this Credit Agreement.

SECTION 15.5. PAYMENTS.

(a) A payment by the Borrower to the Agent hereunder or under any of the other Loan Documents for the account of any Bank shall constitute a payment to such Bank. The Agent agrees promptly to distribute to each Bank such Bank's pro rata share of payments received by the Agent for the account of the Banks except as otherwise expressly provided herein or in any of the other Loan Documents.

(b) If in the opinion of the Agent the distribution of any amount received by it in such capacity hereunder, under the Note or under any of the other Loan Documents could reasonably be expected to involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

(c) Notwithstanding anything to the contrary contained in this Credit Agreement or any of the other Loan Documents, any Bank that fails (i) to make available to the Agent its pro rata share of any Loan or (ii) to comply with the provisions of Section 14 with respect to making dispositions and arrangements with the other Banks, where such Bank's share of any payment received, whether by setoff or otherwise, is in excess of its pro rata share of such payments due and payable to all of

the Banks, in each case as, when and to the full extent required by the provisions of this Credit Agreement, shall be deemed delinquent (a "DELINQUENT BANK") and shall be deemed a Delinquent Bank until such time as such delinquency is satisfied. A Delinquent Bank (regardless of whether such Bank serves as the Agent) shall be deemed to have assigned any and all payments due to it from the Borrower, whether on account of outstanding Loans, interest, fees or otherwise, to the remaining nondelinquent Banks for application to, and reduction of, their respective pro rata shares of all outstanding Loans. The Delinquent Bank hereby authorizes the Agent to distribute such payments to the nondelinquent Banks in proportion to their respective pro rata shares of all outstanding Loans. A Delinquent Bank shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans of the nondelinquent Banks, the Banks' respective pro rata shares of all outstanding Loans have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency.

SECTION 15.6. HOLDERS OF NOTES. The Agent may deem and treat the payee of any Note as the absolute owner for all purposes hereof until it shall have been furnished in writing with a different name by such payee or by a subsequent holder, assignee or transferee.

SECTION 15.7. INDEMNITY. The Banks ratably agree hereby to indemnify and hold harmless the Agent from and against any and all claims, actions and suits (whether groundless or otherwise), losses, damages, costs, expenses (including any expenses for which the Agent has not been reimbursed by the Borrower as required by Section 16), and liabilities of every nature and character arising out of or related to this Credit Agreement, the Notes, or any of the other Loan Documents or the transactions contemplated or evidenced hereby or thereby, or the Agent's actions taken hereunder or thereunder, except to the extent that any of the same shall be directly caused by the Agent's willful misconduct or gross negligence.

SECTION 15.8. AGENT AS BANK. In its individual capacity Bank of Boston Connecticut shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it, and as the holder of any of the Notes, as it would have were it not also the Agent.

SECTION 15.9. RESIGNATION. The Agent may resign at any time by giving sixty (60) days' prior written notice thereof to the Banks and the Borrower; provided, that such resignation shall not be effective until the appointment of a successor Agent as provided for herein. Upon any such resignation, the Majority Banks shall have the right to appoint a successor Agent. Unless a Default or Event of Default shall have occurred and be continuing, such successor Agent shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Majority Banks and shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a financial institution having a rating of not less than A or its equivalent by Standard & Poor's Corporation. Upon the acceptance of any appointment as Agent

hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation, the provisions of this Credit Agreement and the other Loan Documents shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

SECTION 15.10. NOTIFICATION OF DEFAULTS AND EVENTS OF DEFAULT.

Each Bank hereby agrees that, upon learning of the existence of a Default or an Event of Default, it shall promptly notify the Agent thereof. The Agent hereby agrees that upon receipt of any notice under this Section 15.10 it shall promptly notify the other Banks of the existence of such Default or Event of Default.

SECTION 15.11. DUTIES IN THE CASE OF ENFORCEMENT. In case one of more Events of Default have occurred and shall be continuing, and whether or not acceleration of the Obligations shall have occurred, the Agent shall, if (a) so requested by the Majority Banks and (b) the Majority Banks have provided to the Agent such additional indemnities and assurances against expenses and liabilities as the Agent may reasonably request, proceed to enforce the provisions of the Security Documents authorizing the sale or other disposition of all or any part of the Collateral and exercise all or any such other legal and equitable and other rights or remedies as it may have in respect of such Collateral. The Majority Banks may direct the Agent in writing as to the method and the extent of any such sale or other disposition, the Banks hereby agreeing to indemnify and hold the Agent, harmless from all liabilities incurred in respect of all actions taken or omitted in accordance with such directions, provided that the Agent need not comply with any such direction to the extent that the Agent reasonably believes the Agent's compliance with such direction to be unlawful or commercially unreasonable in any applicable jurisdiction.

SECTION 16. EXPENSES. The Borrower agrees to pay (a) the reasonable out-of-pocket costs of producing and reproducing this Credit Agreement, the other Loan Documents and the other agreements and instruments mentioned herein, (b) any taxes (including any interest and penalties in respect thereto) payable by the Agent or any of the Banks (other than taxes based upon the Agent's or any of the Banks' net income) on or with respect to the transactions contemplated by this Credit Agreement (the Borrower hereby agreeing to indemnify the Agent and each Bank with respect thereto), (c) the reasonable fees, expenses and disbursements of the Agent's Special Counsel or any local counsel to the Agent or any Bank incurred in connection with the preparation, administration or interpretation of the Loan Documents and other instruments mentioned herein, each closing hereunder, and amendments, modifications, approvals, consents or waivers hereto or hereunder, (d) the fees, expenses and disbursements of the Agent incurred by the Agent in connection with the preparation, administration or interpretation of the Loan Documents and other instruments mentioned herein, including all title insurance premiums and surveyor, engineering and appraisal charges, (e) all reasonable out-of-pocket expenses (including without limitation reasonable attorneys' fees and costs, which attorneys may be employees of the Agent or any Bank, and reasonable consulting, accounting, appraisal, investment banking and similar

professional fees and charges) incurred by the Agent or any Bank in connection with (i) the enforcement of or preservation of rights under any of the Loan Documents against the Borrower or any of its Subsidiaries or the administration thereof after the occurrence of a Default or Event of Default (including engineering, appraisal and investment banking charges) and (ii) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to the Agent's or the Banks' relationship with the Borrower or any of its Subsidiaries and (f) all reasonable fees, expenses and disbursements of the Agent or any Bank incurred in connection with Uniform Commercial Code searches or filings or in connection with any mortgage recordings. The covenants of this Section 16 shall survive payment or satisfaction of payment of amounts owing with respect to the Notes.

SECTION 17. INDEMNIFICATION. The Borrower agrees to indemnify and hold harmless the Agent and each of the Banks from and against any and all claims, actions and suits whether groundless or otherwise, and from and against any and all liabilities, losses, damages and expenses of every nature and character arising out of this Credit Agreement or any of the other Loan Documents or any of the Acquisition Documents or the transactions contemplated hereby or thereby including, without limitation, (a) any actual or proposed use by the Borrower or

any of its Subsidiaries of the proceeds of any of the Loans, (b) any actual or alleged infringement of any patent, copyright, trademark, service mark or similar right of the Borrower or any of its Subsidiaries comprised in the Collateral, (c) the Borrower or any of its Subsidiaries entering into or performing this Credit Agreement or any of the other Loan Documents or any of the Acquisition Documents or (d) with respect to the Borrower and its Subsidiaries and their respective properties and assets, the violation of any Environmental Law, the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release or threatened release of any Hazardous Substances or any action, suit, proceeding or investigation brought or threatened with respect to any Hazardous Substances (including, but not limited to, claims with respect to wrongful death, personal injury or damage to property), in each case including, without limitation, the reasonable fees and disbursements of counsel and allocated costs of internal counsel incurred in connection with any such investigation, litigation or other proceeding, except where any of the foregoing result from the gross negligence or willful misconduct of the Agent or any of the Banks or any other indemnified party. In litigation, or the preparation therefor, each Bank and the Agent shall be entitled to select its own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel; provided, that the Agent and the Banks shall use reasonable efforts to employ common counsel in the absence of conflicts between such parties. If, and to the extent that the obligations of the Borrower under this Section 17 are unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law. The covenants contained in this Section 17 shall survive payment or satisfaction in full of all other Obligations.

SECTION 18. SURVIVAL OF COVENANTS, ETC. All covenants, agreements, representations and warranties made herein, in the Notes, in any of the other Loan Documents or in any documents or other papers delivered by or on behalf of the Borrower or any of its Subsidiaries pursuant hereto shall be deemed to have been relied upon by the Agent

and the Banks, notwithstanding any investigation heretofore or hereafter made by any of them, and shall survive the making by the Banks of any of the Loans, as herein contemplated, and shall continue in full force and effect so long as any amount due under this Credit Agreement or the Notes or any of the other Loan Documents remains outstanding or any Bank has any obligation to make any Loans, and for such further time as may be otherwise expressly specified in this Credit Agreement. All statements contained in any certificate or other paper delivered to the Agent or any of the Banks at any time by or on behalf of the Borrower or any of its Subsidiaries pursuant hereto or in connection with the transactions contemplated hereby shall constitute representations and warranties by the Borrower or such Subsidiary hereunder.

SECTION 19. ASSIGNMENT AND PARTICIPATION.

SECTION 19.1. CONDITIONS TO ASSIGNMENT BY BANKS. Except as provided herein, each Bank may assign to one or more Persons all or a portion of its interests, rights and obligations under this Credit Agreement and the other Loan Documents (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the time owing to it, and the Notes held by it); provided that (a) except in the case of an assignment to an affiliate of any Bank, the Borrower, unless a Default or Event of Default shall have occurred and be continuing, shall have given its prior written consent to such assignment (which consent shall not be unreasonably withheld, (b) unless an Event of Default shall have occurred and is continuing, each such assignee shall be an Eligible Assignee, (c) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Credit Agreement, (d) each assignment shall be in an amount that is not less than $5,000,000 (e) except in the case of an assignment to an affiliate of either Bank and unless a Default or Event of Default shall have occurred and be continuing, each Bank which is a Bank on the date hereof shall retain, free

of any such assignment, an amount of its Commitment of not less than $5,000,000 and (I) the parties to such assignment shall execute and deliver to the Agent, for recording in the Register (as hereinafter defined), an Assignment and Acceptance, substantially in the form of Exhibit D hereto (an "ASSIGNMENT AND ACCEPTANCE"), together with any Notes subject to such assignment upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof, (i) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder, and (ii) the assigning Bank shall, to the extent provided in such assignment be released from its obligations under this Credit Agreement.

SECTION 19.2. CERTAIN REPRESENTATIONS AND WARRANTIES; LIMITATIONS; COVENANTS. By executing and delivering an Assignment and Acceptance, the parties to the assignment thereunder confirm to and agree with each other and the other parties hereto as follows: (a) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, the assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Credit

Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Credit Agreement, the other Loan Documents or any other instrument or document furnished pursuant hereto; (b) the assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower and its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations, or the performance or observance by the Borrower and its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations of any of their obligations under this Credit Agreement or any of the other Loan Documents or any other instrument or document furnished pursuant hereto or thereto; (c) such assignee confirms that it has received a copy of this Credit Agreement, together with copies of the most recent financial statements referred to in Section 7.5 and Section 8.4 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; (d) such assignee will, independently and without reliance upon the assigning Bank, the Agent or any other Bank 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 Credit Agreement; (e) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Credit Agreement and the other Loan Documents as are delegated to the Agent by the terms hereof or thereof, together with such powers as are reasonably incidental thereto; (f) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Credit Agreement are required to be performed by it as a Bank; and (g) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance.

SECTION 19.3. REGISTER. The Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Banks and the Commitment Percentage of, and principal amount of the Loans owing to, the Banks from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Agent and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Credit Agreement. The Register shall be available for inspection by the Borrower and the Banks at any reasonable time and from time to time upon reasonable prior notice.

SECTION 19.4. NEW NOTES. Upon its receipt of an Assignment and Acceptance executed by the parties to such assignment, together with each Note

subject to such assignment, the Agent shall (a) record the information contained therein in the Register, and (b) give prompt notice thereof to the Borrower and the Banks (other than the assigning Bank). Within five (5) Business Days after receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for each surrendered Note, a new Note to the order of such Person in an amount equal to the amount assumed by such Person pursuant to such Assignment and Acceptance and, if the assigning Bank has retained some portion of its obligations hereunder, a new Note to the order of the assigning Bank in an amount equal to the amount retained by it hereunder. Such new Notes shall provide that they are replacements for the surrendered Notes, shall be in an aggregate principal amount

equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such in Assignment and Acceptance and shall otherwise be substantially the form of the assigned Notes. Within five (5) days of issuance of any new Notes pursuant to this Section 19.4, the Borrower shall deliver an opinion of counsel, addressed to the Banks and the Agent, relating to the due authorization, execution and delivery of such new Notes and the legality, validity and binding effect thereof, in form and substance satisfactory to the Banks. The surrendered Notes shall be canceled and returned to the Borrower.

SECTION 19.5. PARTICIPATIONS. Each Bank may sell participations to one or more banks or other entities in all or a portion of such Bank's rights and obligations under this Credit Agreement and the other Loan Documents; provided that (a) each such participation shall be in an amount of not less than $5,000,000, (b) any such sale or participation shall not affect the rights and duties of the selling Bank hereunder to the Borrower and (c) the only rights granted to the participant pursuant to such participation arrangements with respect to waivers, amendments or modifications of the Loan Documents shall be the rights to approve waivers, amendments or modifications that would reduce the principal of or the interest rate on any Loans, extend the term or increase the amount of the Commitment of such Bank as it relates to such participant, reduce the amount of any commitment fees to which such participant is entitled, release any guaranty or release or discharge any lien on or security interest in or extend any regularly scheduled payment date for principal or interest.

SECTION 19.6. DISCLOSURE. The Borrower agrees that in addition to disclosures made in accordance with standard and customary banking practices any Bank may disclose information obtained by such Bank pursuant to this Credit Agreement to assignees or participants and potential assignees or participants hereunder; provided that such assignees or participants or potential assignees or participants shall agree (a) to treat in confidence such information, (b) not to disclose such information to a third party and (c) not to make use of such information for purposes of transactions unrelated to such contemplated assignment or participation.

SECTION 19.7. ASSIGNEE OR PARTICIPANT AFFILIATED WITH THE BORROWER. If any assignee Bank is an Affiliate of the Borrower, then any such assignee Bank shall have no right to vote as a Bank hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or other modifications to any of the Loan Documents or for purposes of making requests to the Agent pursuant to Section 13.1 or Section 13.2, and the determination of the Banks shall for all purposes of this Agreement and the other Loan Documents be made without regard to such assignee Bank's interest in any of the Loans. If any Bank sells a participating interest in any of the Loans to a participant, and such participant is the Borrower or an Affiliate of the Borrower, then such transferor Bank shall promptly notify the Agent of the sale of such participation. A transferor Bank shall have no right to vote as a Bank hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or modifications to any of the Loan Documents or for purposes of making requests to the Agent pursuant to Section 13.1 or Section 13.2 to the extent that such participation is

beneficially owned by the Borrower or any Affiliate of the Borrower, and the determination of the Banks shall for all purposes of

this Agreement and the other Loan Documents be made without regard to the interest of such transferor Bank in the Loans to the extent of such participation.

SECTION 19.8. MISCELLANEOUS ASSIGNMENT PROVISIONS. If any assignee Bank is not incorporated under the laws of the United States of America or any state thereof, it shall, prior to the date on which any interest or fees are payable hereunder or under any of the other Loan Documents for its account, deliver to the Borrower and the Agent certification as to its exemption from deduction or withholding of any United States federal income taxes. Anything contained in this Section 19 to the contrary notwithstanding, any Bank may at any time pledge all or any portion of its interest and rights under this Credit Agreement (including all or any portion of its Notes) to any of the twelve Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or the enforcement thereof shall release the pledgor Bank from its obligations hereunder or under any of the other Loan Documents.

SECTION 19.9. ASSIGNMENT BY BORROWER. The Borrower shall not assign or transfer any of its rights or obligations under any of the Loan Documents without the prior written consent of each of the Banks.

SECTION 20. NOTICES, ETC. Except as otherwise expressly provided in this Credit Agreement, all notices and other communications made or required to be given pursuant to this Credit Agreement or the Notes shall be in writing and shall be delivered in hand, mailed by United States registered or certified first class mail, postage prepaid, sent by overnight courier, or sent by telegraph, telecopy, facsimile or telex and confirmed by delivery via courier or postal service, addressed as follows:

(a) if to the Borrower, at Raytel Medical Corporation, 2755 Campus Drive, San Mateo, California 94403, Attention: E. Payson Smith, Chief Financial Officer, and at 7 Waterside Crossing, Windsor, Connecticut 06095, Attention: Alan Zinberg, President, or at such other address for notice as the Borrower shall last have furnished in writing to the Person giving the notice;

(b) if to the Agent or Bank of Boston Connecticut, at 100 Pearl Street, Hartford, Connecticut 06103, Attention: Christopher Phelan, Vice President, or at such other address for notice as the Agent or Bank of Boston Connecticut shall last have furnished in writing to the Person giving the notice; and

(c) if to any other Bank, at such address for notice as such Bank shall last have furnished in writing to the Person giving the notice.

Any such notice or demand shall be deemed to have been duly given or made and to have become effective (i) if delivered by hand, overnight courier or facsimile to a responsible officer of the party to which it is directed, at the time of the receipt thereof by such officer or the sending of such facsimile and (ii) if sent by registered or certified first-class mail, postage prepaid, on the third Business Day following the mailing thereof.

SECTION 21. GOVERNING LAW. THIS CREDIT AGREEMENT AND, EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED THEREIN, EACH OF THE OTHER LOAN DOCUMENTS ARE CONTRACTS UNDER THE LAWS OF THE STATE OF CONNECTICUT AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF SAID STATE (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF CONNECTICUT OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER BY CERTIFIED MAIL AT THE ADDRESS SPECIFIED IN Section 20. THE BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

SECTION 22. HEADINGS. The captions in this Credit Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

SECTION 23. COUNTERPARTS. This Credit Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, and all of which together shall constitute one instrument. In proving this Credit Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

SECTION 24. ENTIRE AGREEMENT, ETC. The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Credit Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in Section 26.

SECTION 25. WAIVER OF JURY TRIAL. The Agent, the Borrower and each Bank hereby waives its right to a jury trial with respect to any action or claim arising out of any dispute in connection with this Credit Agreement, the Notes or any of the other Loan Documents, any rights or obligations hereunder or thereunder or the performance of such rights and obligations. Except as prohibited by law, the Agent, the Borrower and each Bank hereby waives any right it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Agent, the Borrower and each Bank (a) certifies that no representative, agent or attorney of any party hereto has represented, expressly or otherwise, that such party would not, in the event of litigation, seek to enforce the foregoing waivers and (b) acknowledges that each party hereto have been induced to enter into this Credit Agreement, the other Loan Documents to which they are a party by, among other things, the waivers and certifications contained herein.

SECTION 26. CONSENTS, AMENDMENTS, WAIVERS, ETC. Any consent or approval required or permitted by this Credit Agreement to be given by all of the Banks may be given, and any term of this Credit Agreement, the other Loan Documents or any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower or any of its Subsidiaries of any terms of this Credit Agreement, the other Loan Documents or such other instrument or the continuance of any Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrower and the written consent of the Majority Banks. Notwithstanding the foregoing, the rate of interest on the Notes (other than interest accruing pursuant to Section 5.9 following the effective date of any waiver by the Majority Banks of the Default or Event of Default relating thereto), the term of, or date of any payment due and payable under) the Notes, the amount of the Commitments of the Banks, and the amount of any fees hereunder may not be changed without the written consent of the Borrower and the written consent of each Bank affected thereby; the definition of Majority Banks may not be amended without the written consent of

all of the Banks; and the amount of the Agent's Fee payable for the Agent's account and Section 15 may not be amended without the written consent of the Agent. No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. No course of dealing or delay or omission on the part of the Agent or any Bank in exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto. No notice to or demand upon the Borrower shall entitle the Borrower to other or further notice or demand in similar or other circumstances.

SECTION 27. SEVERABILITY. The provisions of this Credit Agreement are severable and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Credit Agreement in any jurisdiction.

SECTION 28. WAIVERS BY BORROWER. For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower hereby waives the provisions of Sections 580a through 580d, 726 and 729.010 through 729.090 of the California Code of Civil Procedure and Section 1542 of the California Civil Code.

SECTION 29. COMMERCIAL TRANSACTION; PREJUDGMENT REMEDY WAIVER. THE BORROWER REPRESENTS, WARRANTS AND ACKNOWLEDGES THAT THE TRANSACTION OF WHICH THIS LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS ARE A PART IS A "COMMERCIAL TRANSACTION" WITHIN THE MEANING OF CHAPTER 903A OF CONNECTICUT GENERAL STATUTES, AS AMENDED. THE BORROWER HEREBY WAIVES ITS RIGHT TO NOTICE AND PRIOR COURT HEARING OR COURT ORDER UNDER CONNECTICUT GENERAL STATUTES SECTIONS 52-278a ET. SEQ. AS AMENDED OR UNDER ANY OTHER STATE OR FEDERAL LAW WITH RESPECT TO ANY AND ALL PREJUDGMENT REMEDIES THE AGENT OR THE BANKS MAY EMPLOY TO ENFORCE THEIR

RIGHTS AND REMEDIES HEREUNDER AND UNDER THE OTHER LOAN DOCUMENTS. MORE SPECIFICALLY, BORROWER ACKNOWLEDGES THAT THE AGENT'S ATTORNEY AND/OR THE BANKS' ATTORNEY MAY, PURSUANT TO CONN. GEN. STAT. Section 52-278F, ISSUE A WRIT FOR A PREJUDGMENT REMEDY WITHOUT SECURING A COURT ORDER. THE BORROWER ACKNOWLEDGES AND RESERVES ITS RIGHT TO NOTICE AND A HEARING SUBSEQUENT TO THE ISSUANCE OF A WRIT FOR PREJUDGMENT REMEDY AS AFORESAID AND THE AGENT AND THE BANKS ACKNOWLEDGES BORROWER'S RIGHT TO SAID HEARING SUBSEQUENT TO THE ISSUANCE OF SAID WRIT.

SECTION 30. EFFECTIVE DATE. This Agreement shall become effective among the parties hereto as of the Effective Date. Until the Effective Date, the terms of the Original Loan Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement of the date first set forth above.

RAYTEL MEDICAL CORPORATION

By: /s/ E. Payson Smith, Jr.
_____
Name: E. Payson Smith, Jr.
Title: Senior Vice President and
Chief Financial Officer

BANK OF BOSTON CONNECTICUT, for

itself and as Agent

By: /s/ Christopher Phelan
_____
Name: Christopher Phelan
Title: Vice President

BANQUE PARIBAS

By: /s/ Don L. Unruh
_____
Name: Don L. Unruh
Title: Assistant Vice President

By: /s/ Stanley P. Berkman
_____
Name: Stanley P. Berkman
Title: General Manager
Western Region

EXHIBIT A-2

RAYTEL MEDICAL CORPORATION

PROMISSORY NOTE

$_____

Dated as of July ___, 1996

FOR VALUE RECEIVED, the undersigned, RAYTEL MEDICAL CORPORATION, a Delaware corporation (hereinafter, together with its successors in title and assigns, called the "BORROWER"), promises to pay on or before the Final Maturity Date (as defined in the Credit Agreement to which reference herein is made to the order of [INTERNATIONALE NEDERLANDEN [U.S.] CAPITAL CORPORATION] (hereinafter, together with its successors in title and assigns, called the "BANK"), at the Agent's Head Office, the principal sum of _____ DOLLARS ($_____), in immediately available funds or, if less, the aggregate unpaid principal amount of the Loans made by the Bank to the Borrower pursuant to the Credit Agreement to which reference is hereinafter made and to pay interest, in like money, on the unpaid principal amount owing hereunder from time to time from the date hereof until payment in full of such principal amount as provided in the Credit Agreement.

This Note is made and delivered by the Borrower pursuant to Section 2.4 of the Amended and Restructured Credit Agreement dated as of July __, 1996 by and among the Borrower, the Bank and Bank of Boston Connecticut in its capacity as agent for itself and the lenders therein named (as amended and in effect from time to time, the "Credit Agreement"), and is entitled to the benefits and is subject to the provisions of the Credit Agreement All capitalized terms used herein which are defined in the Credit Agreement shall have the same meanings herein as therein.

The Borrower also promises to pay interest on the unpaid principal amount of the Loans outstanding until paid in full at the rates per annum set forth in or established pursuant to the Credit Agreement. Such interest shall be payable on such dates as are determined from time to time pursuant to the Credit Agreement and shall be calculated as therein provided.

The Borrower has the right in certain circumstances to prepay the

principal of this Note on the terms and conditions specified in the Credit Agreement.

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If any Default or Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and all guarantors and endorsers hereby waive presentment, demand, protest and notice of any kind in connection with the delivery, acceptance, performance and enforcement of this Note, and also hereby assent to extensions of time of payment or forbearance or other indulgences without notice.

This Note and the obligations of the Borrower hereunder shall be governed by, and interpreted and determined in accordance with, the laws of the State of Connecticut.

THE BORROWER HEREBY REPRESENTS, COVENANTS AND AGREES THAT THE PROCEEDS OF THE LOANS SHALL BE USED FOR GENERAL COMMERCIAL PURPOSES AND AS FURTHER PROVIDED IN THE CREDIT AGREEMENT. AND THAT THIS NOTE IS PART OF A "COMMERCIAL TRANSACTION" AS DEFINED BY THE STATUTES OF THE STATE OF CONNECTICUT. THE BORROWER HEREBY WAIVES ALL RIGHTS TO NOTICE AND PRIOR COURT HEARING OR COURT ORDER UNDER CONNECTICUT GENERAL STATUES SECTIONS 52-278A ET SEQ. AS AMENDED OR UNDER ANY OTHER STATE OR FEDERAL LAW WITH RESPECT TO ANY AND ALL PREJUDGMENT REMEDIES THE BANK MAY EMPLOY TO ENFORCE ITS RIGHTS AND REMEDIES HEREUNDER. MORE SPECIFICALLY, THE BORROWER ACKNOWLEDGES THAT BANK'S ATTORNEY MAY, PURSUANT TO CONNECTICUT GENERAL STATUES, SECTION 52-278F, ISSUE A WRIT FOR A PREJUDGMENT REMEDY WITHOUT SECURING A COURT ORDER. THE BORROWER ACKNOWLEDGES AND RESERVES ITS RIGHT TO NOTICE AND A HEARING SUBSEQUENT TO THE ISSUANCE OF A WRIT FOR PREJUDGMENT REMEDY BY BANK'S ATTORNEY. THE BANK ACKNOWLEDGES THE BORROWER'S RIGHT TO SAID HEARING SUBSEQUENT TO THE ISSUANCE OF SAID WRIT.

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IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name by its duly authorized officer on the day and in the year first above written.

RAYTEL MEDICAL CORPORATION

By:

Chief Executive Officer

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SCHEDULE 2

DEFINITIONS

The following terms shall have the meanings set forth in this Schedule 2 or elsewhere in the provisions of the Credit Agreement:

Acquisition. The acquisition by the Borrower of any Acquisition Assets pursuant to the terms of the applicable Acquisition Documents.

Acquisition Assets. Either (a) the issued and outstanding capital stock of, or business assets of any corporation, partnership or business involved in the medical services industry or (b) any new equipment purchased by the Borrower that is to be used in the Borrower's medical services business.

Acquisition Credit Loans. Any Revolving Credit Loan the proceeds of which are used or intended for use in connection with any Acquisition.

Acquisition Documents. Any and all documents, agreements and instruments

executed or to be executed in connection with any Acquisition, together with all schedules, exhibits, and annexes thereto, each in form and substance satisfactory to the Agent and the Banks.

Affiliate. Any Person that would be considered to be an affiliate of the Borrower under Rule 144 (a) of the Rules and Regulations of the Securities and Exchange Commission, as in effect on the date hereof, if the Borrower were issuing securities.

Agent. Bank of Boston Connecticut when acting as agent for the Banks and any successor Agent under the Credit Agreement.

Agent's Head Office. The Agent's head office located at 100 Pearl Street, Hartford, Connecticut 06103, or at such other location as the Agent may designate from time to time.

Agent's Special Counsel. Bingham, Dana & Gould LLP or such other counsel as may be approved by the Agent.

Applicable Base Rate Margin. See Section 2.5(a) hereof.

Applicable LIBOR Rate Margin. See Section 2.5(b) hereof.

Balance Sheet Date. March 31, 1996.

Banks. Bank of Boston Connecticut and the other lending institutions and any other Person who becomes an assignee of any rights and obligations of the Banks pursuant to Section 19 of the Credit Agreement.

Base Rate. The higher of (a) the annual rate of interest announced from time to time by The First National Bank of Boston at its head office in Boston, Massachusetts, as its "base rate" and (b) one-half of one percent (1/2%) above the overnight federal funds effective rate, as published by the Board of Governors of the Federal Reserve System, as in effect from time to time.

Base Rate Principal. See Section 3.4.

Borrower. As defined in the preamble hereto.

Borrower Guaranty. The Guaranty dated February 26, 1993 executed and delivered by the Borrower to the Agent on behalf of the Banks.

Borrower Partnership Pledge Agreement. The Pledge and Security Agreement dated February 26, 1993 between the Borrower and the Agent.

Borrower Stock Pledge Agreement. The Stock Pledge Agreement dated as of February 26, 1993 between the Borrower and the Agent and in form and substance satisfactory to the Agent.

Business Day. Any day on which banking institutions in Hartford, Connecticut and New York, New York, are open for the transaction of banking business.

Capital Assets. Fixed assets, both tangible (such as land, buildings, fixtures, machinery and equipment) and intangible (such as patents, copyrights, trademarks, franchises and good will); provided that Capital Assets shall not include any item customarily charged directly to expense or depreciated over a useful life of twelve (12) months or less in accordance with generally accepted accounting principles.

Capital Expenditures. Amounts paid or indebtedness incurred by the Borrower or any of its Subsidiaries in connection with the purchase or lease by the Borrower or any of its Subsidiaries of Capital Assets that would be required to be capitalized and shown on the balance sheet of such Person in accordance with generally accepted accounting principles.

Capitalized Leases. Leases under which the Borrower or any of its Subsidiaries is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with generally accepted accounting principles.

CERCLA. See Section 7.15.

Code. The Internal Revenue Code of 1986.

Collateral. All of the property, rights and interests of the Borrower and its Subsidiaries that are or are intended to be subject to the security interests and mortgages created by the Security Documents.

Commitment Percentage. With respect to each Bank, the percentage set forth on Schedule 1 hereto as such Bank's percentage of the aggregate Commitments of all of the Banks.

Commitments. With respect to each Bank, the amount set forth on Schedule 1 hereto as the amount of such Bank's commitment to make Revolving Credit Loans to the Borrower, as the same may be reduced from time to time in accordance with the terms and conditions of the Credit Agreement; or if such commitment is terminated pursuant to the provisions hereof, zero.

Consents to Collateral Assignment. Each Consent to Collateral Assignment, dated on or prior to the Drawdown Date of any Acquisition Credit Loan, by and among the Borrower, the applicable Seller and the Agent and in form and substance satisfactory to the Agent and the Bank.

Consolidated or consolidated. With reference to any term defined herein, shall mean that term as applied to the accounts of the Borrower and its Subsidiaries, as the case may be, consolidated in accordance with generally accepted accounting principles.

Consolidated Financial Obligations With respect to any fiscal period, an amount equal to the sum of all payments on indebtedness of the Borrower, any of its Subsidiaries or any other Person (excluding indebtedness in respect of contingent obligations of RMI arising solely in its capacity as a general partner or joint venturer of any of the Joint Ventures) that become due and payable or that are to become due and payable during such fiscal period pursuant to any agreement or instrument to which the Borrower or any of its Subsidiaries or any other Person is a party relating to the borrowing of money or the obtaining of credit or in respect of Capitalized Leases. Demand obligations shall be deemed to be due and payable during any fiscal period during which such obligations are Outstanding.

Consolidated Operating Cash Flow. For any period, an amount equal to (a) the sum of (i) Earnings Before Interest and Taxes for any Person for such period, plus (ii) depreciation, amortization and all other noncash charges of such Person for such period, less (b) the sum of (i) cash payments by such Person for all taxes paid during such period, plus (ii) cash Capital Expenditures made by such Person during such period to the extent permitted by Section 10.3, plus (iii) minority interest expenses paid in cash by such Person for such period, provided that any extraordinary or non-recurring gains or losses shall be excluded from the calculation of Consolidated Operating Cash Flow.

Consolidated Total Funded Debt. For any period, the aggregate amount of all Indebtedness of any Person and its Subsidiaries relating to the borrowing of money or the obtaining of credit or in respect of capitalized leases outstanding during such period; provided, that, with respect to the Borrower and its Subsidiaries the definition of "Consolidated Total Funded Debt" hereunder shall expressly exclude any Indebtedness of the Borrower or any of its Subsidiaries arising in connection with the Joint Ventures.

Consolidated Total Interest Expense. For any period, the aggregate amount of interest required to be paid or accrued by any Person during such period on all Indebtedness of such Person Outstanding during all or any part of such period, whether such interest was or is required to be reflected as an item of expense or capitalized, including payments consisting of interest in respect of Capitalized Leases and including commitment fees, agency fees, facility fees, balance deficiency fees and similar fees or expense in connection with the borrowing of money.

Conversion Request. Any notice given by the Borrower to the Agreement of the Borrower's election to convert or continue a Loan in accordance with Sections 2.7 or 4.5 hereof.

Credit Agreement. This Amended and Restated Credit Agreement, including the Schedules and Exhibits hereto.

Debt Service Coverage Ratio. With respect to any fiscal period, the ratio of the Borrower's Consolidated Operating Cash Flow to its Consolidated Financial Obligations for such period.

Default. See Section 13.1.

Distribution. The declaration or payment of any dividend on or in respect of any shares of any class of capital stock of the Borrower, other than dividends payable solely in shares of common stock of the Borrower; the purchase, redemption, or other retirement of any shares of any class of capital stock of the Borrower, directly or indirectly through a Subsidiary of the Borrower or otherwise; the return of capital by the Borrower to its Shareholders as such; or any other distribution on or in respect of any shares of any class of capital stock of the Borrower.

Dollars or Dollars. The lawful currency of the United States of America.

Domestic Lending Office. Initially, the office of each Bank designated as such on Schedule 1 hereto; thereafter such other office of such Bank, if any, that shall be making or maintaining Revolving Credit Base Rate Loans.

Drawdown Date. The date on which any Loan is made or is to be made under the Credit Agreement.

Earnings Before Interest and Taxes. The consolidated earnings (or loss) from the operations of any Person for any period, after all expenses and other proper charges but before payment or provision for any income taxes or interest expense for such period, determined in accordance with generally accepted accounting principles, excluding any extraordinary or non-recurring gains.

Effective Date. The date on which the Agent determines all of the conditions set forth in Sections 11 and 12A are met.

Eligible Assignee. Any bank having total assets in excess of $5,000,000,000 and a rating of not less than BBB by Standard & Poors Corporation (or an equivalent rating by another credit rating agency of national recognition).

Employee Benefit Plan. Any employee benefit plan within the meaning of Section 3(3) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate, other than a Multiemployer Plan.

Environmental Laws. See Section 7.20(a).

ERISA. The Employee Retirement Income Security Act of 1974.

ERISA Affiliate. Any Person which is treated as a single employer with the Borrower under Section 414 of the Code.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of Section 4043 of ERISA and the regulations promulgated thereunder as to which the requirement of notice has not been waived.

Event of Default. See Section 13.1.

Generally Accepted Accounting Principles. (a) When use in Section 10, whether directly or indirectly through reference to a capitalized term used therein, means (i) principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and it predecessors in effect for the fiscal year ended on the Balance Sheet Date, and (ii) to the extent consistent with such principles the accounting practice of the Borrower reflected in its financial statements for the year ended on the Balance Sheet Date, and (b) when used in general other than as provided above, means principles that are (i) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors as in effect from time to time, and (ii) consistently applied with past financial statements of the Borrower adopting the same principles provided that in each case referred to in this definition of "generally accepted accounting principles" a certified public accountant would, insofar as the use of such accounting principles is pertinent be in a position to deliver an unqualified opinion (other than a qualifications regarding changes in generally accepted accounting principles) as to financial statements in which such principles have been properly applied.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of Section 3(3) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Guarantees. The Guarantees, each dated as of February 26, 1993 or to be dated on or after the Effective Date and otherwise in form and substance satisfactory to the Bank, made by the Subsidiaries in favor of the Agent pursuant to which the Subsidiaries guarantee to the Agent the payment and performance of the obligations.

Hazardous Substances. See Section 7.21(b)

H-S-R Act. See Section 7.3.

Indebtedness. All obligations, contingent and otherwise, that in accordance with generally accepted accounting principles should be classified upon the obligor's balance sheet as liabilities, or to which reference should be made by footnotes thereto, including in any event and whether or not so classified: (a) all debt and similar monetary obligations, whether direct or indirect; (b) all liabilities secured by any mortgage, pledge, security interest, lien, charge or other encumbrance existing on property owned or acquired subject thereto, whether or not the liability secured thereby shall have been assumed; and (c) all guarantees, endorsements and other contingent obligations whether direct or indirect in respect of indebtedness f others, including any obligation to supply funds to or in any manner to invest in, directly or indirectly, the debtor, to purchase indebtedness, or to assure the owner of indebtedness against loss, through an agreement to purchase goods, supplies, or services for the purpose of enabling the debtor to make payment of the indebtedness held by such owner or otherwise, and the obligations to reimburse the issuer in respect of any letters of credit.

Interest Payment Date. As to any Loan, the first day of each calendar month.

Interest Period. With respect to each Loan, (a) initially, the period commencing on the Drawdown Date of such Loan (or with respect to the Term Loan, the Revolving Credit Termination Date) and ending on the last day of one of the periods set forth below, as selected by the Borrower in a Revolving Loan Request (i) for (A) any Revolving Credit Base Rate Loan or (B) any portion of the Term Loan bearing interest at an interest rate determined by reference to the Base Rate, the last day of the fiscal quarter; and (ii) for (A) any LIBOR Rate Loan or (B) any portion of the Term Loan bearing interest at an interest rate determined by reference to LIBOR Rate, 1, 2, 3, or 6 months; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Loan and ending on the last day of one of the periods set forth above, as selected by the Borrower in a Conversion Request; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(A) if any Interest Period with respect to (1) a LIBOR Rate Loan or (2) any portion of the Term Loan bearing interest at an interest rate determined by reference to the LIBOR Rate would otherwise end on a day that is not a LIBOR Business Day, that Interest Period shall be extended to the next succeeding LIBOR Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding LIBOR Business Day;

(B) if any Interest Period with respect to (1) a Revolving Credit Base Rate Loan or (2) any portion of the Term Loan bearing interest at an interest rate determined by reference to the Base Rate would end on a day that is not a Business Day, that Interest Period shall end on the next succeeding Business Day;

(C) if the Borrower shall fail to give notice as provided in Section 2.7, the Borrower shall be deemed to have requested a conversion of the affected LIBOR Rate Loan to a Revolving Credit Base Rate Loan on the last day of the then current Interest Period with respect thereto;

(D) if the Borrower shall fail to give notice as provided in Section 4.5, the Borrower shall be deemed to have requested a conversion of the interest rate applicable to relevant portion of the Term Loan from an interest rate determined by reference to the LIBOR Rate to one based on the Base Rate on the last day of the then current Interest Period with respect thereto;

(E) any Interest Period relating to (1) any LIBOR Rate Loan or (2) any portion of the Term Loan bearing interest at an interest rate determined by reference to the LIBOR Rate that begins on the last LIBOR Business Day of a calendar month (or on a day or which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last LIBOR Business Day of a calendar month; and

(F) any Interest Period relating to (1) any LIBOR Rate Loan or (2) any portion of the Term Loan bearing interest at an interest rate determined by reference to the LIBOR Rate that would otherwise extend beyond the Revolving Credit Termination Date or the Maturity Date, as the case may be, shall end on the Revolving Credit Termination Date or the Maturity Date, as the case may be.

Investments. All expenditures made and all liabilities incurred (contingently or otherwise) for the acquisition of stock or Indebtedness of, or for loans, advances. capital contributions or transfers of property to, or in respect of any guaranties (or other commitments as described under Indebtedness), or obligations of, any Person. In determining the aggregate amount of Investments outstanding at any particular time: (a) the amount of any Investment represented by a guaranty shall be taken at not less than the principal amount of the obligations guaranteed and still outstanding; (b) there shall be included as an Investment all interest accrued with respect to Indebtedness constituting an Investment unless and until such interest is paid; (c) there shall be deducted in respect of each such Investment any amount

received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (d) there shall not be deducted in respect of any Investment any amounts received as earnings on such Investment, whether as dividends, interest or otherwise, except that accrued interest included as provided in the foregoing clause (b) may be deducted when paid; and (e) there shall not be deducted from the aggregate amount of Investments any decrease in the value thereof.

Joint Ventures. Collectively, the RII Joint Ventures and the RMI Joint Ventures, each, singly, a "JOINT VENTURE".

Leverage Ratio. With respect to any fiscal period, the ratio of the Borrower's Consolidated Total Funded Debt to its Consolidated Operating Cash Flow for such period.

LIBOR Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in London or such other LIBOR interbank market as may be selected by the agent in its sole discretion acting in good faith.

LIBOR Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such bank, if any, that shall be making or maintaining LIBOR Rate Loans.

LIBOR Rate. For any Interest Period with respect to a LIBOR Rate Loan or any portion of the Term Loan bearing interest at an interest rate determined by reference to the LIBOR Rate, the rate of interest equal to (a) the rate determined by the Agent at which Dollar deposits for such Interest Period are offered based on information presented on Telerate Page 3750 as of 11:00 a.m. London time on the second LIBOR Business Day prior to the final day of such Interest Period divided by (b) a number equal to 1.00 minus the LIBOR Reserve Rate.

LIBOR Reserve Rate. For any day with respect to a LIBOR Rate Loan, the maximum rate (expressed as a decimal) at which any lender subject thereto would be required to maintain reserves under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulations relating to such reserve requirements) against "Eurocurrency Liabilities" (as that term is used in Regulation D), if such liabilities were outstanding. The LIBOR Reserve Rate shall be adjusted automatically on and as of the effective date of any change in the LIBOR Reserve Rate.

Loan Documents. This Credit Agreement, the Notes, the Security Documents and the Subordination Agreements.

Loans. The Revolving Credit Loans and the Term Loan.

Majority Banks. As at any date, the Banks holding at least Sixty-six and two thirds (66 2/3%) percent of the outstanding principal amount of the Notes on such date; and if no such principal is outstanding, the Bank whose aggregate Commitments constitute at least sixty-six and two thirds (66 2/3%) percent of the aggregate Commitments.

Maturity Date. August 1, 2003.

Medicare and Medicaid Laws. Any and all portions of Title 42 of the United States Code relating to the Medicare or Medicaid acts and any and all rules and regulations established in connection therewith or pursuant thereto.

MIP. Medical Imaging Partners, L.P., a Delaware limited partnership, with its principal place of business located at 7 Waterside Crossing, Windsor, Connecticut 06095.

MIP Partnership Pledge Agreements. The Pledge and Security Agreements dated as of February 26, 1993 between MIP and the Agent.

Mortgaged Property. Any Real Estate which is subject to any Mortgage.

Mortgages. The several mortgages and deeds of trust dated as of February 26, 1993 or to be dated on or after the Effective Date from the Borrower and its Subsidiaries to the Agent with respect to the leasehold interests of the Borrower and its Subsidiaries in the Real Estate and in form and substance satisfactory to the Agent.

Multiemployer Plan. Any multiemployer plan within the meaning of Section 3(37) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate.

Net Income. The net income (or deficit) of any Person, after deduction of all expenses, taxes, and other proper charges, determined in accordance with generally accepted accounting principles.

Net Working Capital Changes. For any fiscal period, the net change from the immediately preceding like fiscal period in (a) both billed and unbilled Accounts Receivable of any Person, (b) current accounts payable of such Person, (c) current accruals and accretions (exclusive of interest accruals and accretions) of such Person and (d) inventory of such Person; provided, that, the calculation of "Net Working Capital Changes" shall be made without reference to such Person's cash, the current portion of such Person's long term Indebtedness and, in the case of the Borrower and its Subsidiaries, any Indebtedness arising in connection with the Loans.

Note Record. The Record with respect to a Revolving Credit Note or the Converted Loan, as the case may be.

Notes. See Section 2.4 of the Credit Agreement.

Obligations. All indebtedness, obligations and liabilities of any of the Borrower and its Subsidiaries to the Agent and the Banks, individually or collectively, existing on the date of this Credit Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, arising or incurred under this Credit Agreement or any of the other Loan Documents or in respect to any of the Loans made or any of the Notes, or other instruments at any time evidencing any thereof.

Outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination.

Partnership Pledge Agreements. Collectively, the RII Subsidiaries Partnership Pledge Agreements, the RMI Partnership Pledge Agreements, the MIP Partnership Pledge Agreements, the Borrower Partnership Pledge Agreement, and any other partnership pledge agreement dated on or after the Effective Date that is delivered by any direct or indirect Subsidiary of the Borrower to the Agent, and each, singly, a "PARTNERSHIP PLEDGE AGREEMENT".

PBGC. The Pension Benefit Guaranty Corporation created by Section 4002 of ERISA and any successor entity or entities having similar responsibilities.

Permitted Liens. Liens, security interests and other encumbrances permitted by Section 9.2.

Person. Any individual, corporation, partnership, trust, unincorporated association, business, or other legal entity, and any government or any

governmental agency or political subdivision thereof.

RCL. Raytel Cardiovascular Labs, Inc., a Delaware corporation with its principal place of business located at 7 Waterside Crossing, Windsor, Connecticut 06095.

Real Estate. All real property at any time owned or leased (as lessee or sublessee) by the Borrower or any of its subsidiaries.

Record. The grid attached to any Note, or the continuation of such grid, or any other similar record, including computer records, maintained by the Banks with respect to any Loan referred to in such Note.

Revolving Credit Base Rate Loans. Each Revolving Credit Loan bearing interest calculated by reference to the Base Rate.

Revolving Credit LIBOR Rate Loans. Each Revolving Credit Loan bearing interest calculate by reference to the LIBOR Rate.

Revolving Credit Loan Request. See Section 2.6 of the Credit Agreement.

Revolving Credit Loans. Revolving credit loans made or to be made by the Banks to the Borrower pursuant to Section 2 of the Credit Agreement.

Revolving Credit Termination Date. August 1, 1998.

RIE. Raytel Imaging East, Inc., a Delaware corporation with its principal place of business located at 7 Waterside Crossing, Windsor, Connecticut 06095.

RII. Raytel Imaging Holdings, Inc., a Delaware corporation, with its principal place of business located at 7 Waterside Crossing, Windsor, Connecticut 06095.

RII Joint Ventures. Those joint ventures and general partnerships identified on Exhibit F to the Credit Agreement as RII Joint Ventures.

RII Subsidiaries Partnership Pledge Agreements. The Pledge and Security Agreements to be dated on or before the Effective Date between each of RIW, RIE, RIMA and the Agent and in form and substance satisfactory to the Agent.

RII Stock Pledge Agreement. The Stock Pledge Agreement dated on or before the Effective Date between RII and the Agreement and in form and substance satisfactory to the Agent.

RIMA. Raytel Imaging Mid-Atlantic, Inc., a Delaware corporation with its principal place of business located at 7 Waterside Crossing, Windsor, Connecticut 06095.

RIW. Raytel Imaging West, Inc., a Delaware corporation with its principal place of business located at 7 Waterside Crossing, Windsor, Connecticut 06095.

RMI. Raytel Medical Imaging, Inc., a Delaware corporation with its principal place of business located at 7 Waterside Crossing, Windsor, Connecticut 06095.

RMI Joint Ventures. Collectively, the general partnerships and joint ventures listed on Exhibit G hereof, each, singly, a "RMI JOINT VENTURE".

RMI Partnership Pledge Agreements. The Pledge and Security Agreements dated February 26, 1993, between RMI and the Agent and in form and substance satisfactory to the Agent.

Security Agreements. The several Security Agreements dated as of February 26, 1993 or to be dated on or after the Effective Date, between the Borrower and

each of its Subsidiaries and the Agent and in form and substance satisfactory to the Agent.

Security Documents. The Guarantees, the Borrower Guaranty, the Borrower Stock Pledge Agreement, the RII Stock Pledge Agreement, the Security Agreements, the Mortgages, the Consent to Collateral Assignment and the Partnership Pledge Agreements.

Seller. Any Person who is designated as the "seller" in any Acquisition Document.

Subordinated Debt. All indebtedness of the Borrower or any of its Subsidiaries incurred in connection with any Acquisition the payment and performance of which is subordinated in writing to the payment and performance of the Obligations upon such terms and conditions as are satisfactory to the Agent.

Subsidiary. Any corporation, association, trust, partnership or other business entity of which the designated parent shall at any time own directly or indirectly through a Subsidiary or Subsidiaries at least a majority (by number of votes) of the Outstanding Voting Stock or partnership or other equity interests; provided, that no Joint Venture shall be deemed to be a Subsidiary for the purposes set forth in the Loan Documents.

Type. As to any Revolving Credit Loan, its nature as a Revolving Credit Base Rate Loan or a LIBOR Rate Loan.

Term Loan. Revolving Credit Loans converted to a term loan on the Revolving Credit Termination Date pursuant to Section 4 of the Credit Agreement.

Total Commitment. The aggregate amount of all of the Commitments in effect from time to time.

Voting Stock. Stock or similar equity interests, of any class or classes (however designated, the holders of which are at the time entitled, as such holders, to vote for the election of a majority of the directors (or Persons performing similar functions) of the

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corporation, association, trust or other business entity involved, whether or not the right to vote exists by reason of the happening of a contingency.

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RULES OF INTERPRETATION.

(a) A reference to any document or agreement hall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Credit Agreement

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted Successors and permitted assigns.

(e) Accounting terms not otherwise defined herein have the meanings assigned to them by generally accepted accounting principles applied on a consistent basis by the accounting entity to which they refer.

(f) The words "include", "includes" and "including" are not limiting.

(g) All terms not specifically defined herein or by generally accepted

accounting principles, which terms are defined in the Uniform Commercial Code as in effect in the State of Connecticut, have the meanings assigned to them therein.

(h) Reference to a particular "Section" refers to that section of this Credit Agreement unless otherwise indicated.

(i) The words "herein", "hereof', "hereunder" and words of like import shall refer to this Credit Agreement as a whole and not to any particular section or subdivision of this Credit Agreement.

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SCHEDULE 1(1)

<TABLE>
<CAPTION>

BANK	COMMITMENT AMOUNT	COMMITMENT PERCENTAGES
<S>	<C>	<C>
Bank of Boston Connecticut	$15,000,000	60%
Bankque Paribas	$10,000,000	40%

</TABLE>

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(1) As amended to reflect a partial assignment of participation by Bank of Boston Connecticut to Bank Paribas pursuant to an Assignment and Acceptance dated as of August 23, 1996 and effective September 2, 1996.

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SCHEDULE 7.2

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SCHEDULE 7.4

ASSETS OWNED

None

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SCHEDULE 7.7

MATERIAL CHANGES

None

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SCHEDULE 7.9

LITIGATION

None

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SCHEDULE 7.10

MATERIAL ADVERSE CONTRACTS, ETC.

None

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SCHEDULE 7.11

COMPLIANCE WITH OTHER INSTRUMENTS, LAWS, ETC.

None

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SCHEDULE 7.12

TAX STATUS

None.

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SCHEDULE 7.17

CERTAIN TRANSACTION

Indebtedness represented by that certain Straight Note dated as of July 25, 1996 from F. David Rolo and Linda Rolo to Raytel Medical Corporation in the original principal amount of $400,000.00.

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SCHEDULE 7.20

ENVIRONMENTAL COMPLIANCE

None

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SCHEDULE 9.1

INDEBTEDNESS

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SCHEDULE 9.2

LIENS

93

SCHEDULE 9.3

INVESTMENTS

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RAYTEL MEDICAL CORPORATION

RAYTEL CARDIAC SERVICES, INC.	100%	
RAYTEL IMAGING HOLDINGS INC.	100%	
Raytel Medical Imagings, Inc.		100%
Medical Imaging Partners	1%	
Mass Mobile Imaging JV	51%	
Raytel Imaging Network, Inc.		100%
Raytel Imaging West Inc.	100%	
San Luis Obispo Medical Imaging Center	var%	
CIFIMI Joint Venture		100%
Raytel Imaging East Inc.	100%	
Forest Hills Imaging Venture		80%
5 East 82nd Street Imaging Venture		80%
Raytel Imaging Mid-Atlantic Inc.	100%	
MRI Diagnostic Partners I-1986	88.5%	

MRI Building Partners, L.P.-1986	10%
Orlando Diagnostic Center	5%
Imaging Center of Washington Township	100%

RAYTEL CARDIOVASCULAR LABS, INC. 100%

Raytel Granada Hills Inc. 100%

MEDICAL IMAGING PARTNERS 99%

EXHIBIT E

FORM OF COMPLIANCE CERTIFICATE

Delivered Pursuant to Section 8.4(c) of
the Amended and Restated Credit Agreement
dated as of August 14, 1996
(the "CREDIT AGREEMENT")

The undersigned, the Chief Financial Officer of Raytel Medical Corporation (the "COMPANY"), hereby certifies as follows:

FINANCIAL COVENANTS

1. Consolidated Operating Cash Flow to Total Interest Expense for the period of four (4) consecutive fiscal quarters ended _____, 199 ;

(i)	Consolidated Operating Cash Flow for such period	$
(ii)	Consolidated Total Interest Expense for such period	$
(iii)	Ratio for such period	
(iv)	Minimum Ratio permitted by Section 10.1 of the Credit Agreement	3.0:1.0

2. Consolidated Operating Cash Flow to Consolidated Financial Obligations for the period of four (4) consecutive fiscal quarters ended _____, 199 :

(i)	Consolidated Operating Cash Flow for such period	$
(ii)	Consolidated Financial Obligations for such fiscal period	$
(iii)	Ratio for such period	
(iv)	Minimum Ratio permitted by Section 10.2 of the Credit Agreement	1.5:1.0

3. Consolidated Total Funded Debt to Consolidated Operating Cash Flow for the four (4) consecutive fiscal quarters ended _____, 199 :

(i)	Consolidated Total Funded Debt at _____, 199	$
(ii)	Consolidated Operating Cash Flow	

	for such period	$
(iii)	Ratio for such period	

(iv) Maximum Ratio permitted by the Credit Agreement 3.0:1.0

EVENTS OF DEFAULT

No Event of Default, or event or condition which with notice or the lapse of time or both would constitute an Event of Default, has occurred and is continuing on the date hereof.

RAYTEL MEDICAL CORPORATION

By: _____
Chief Financial Officer

Dated: _____

EXHIBIT 10.43

RAYTEL MEDICAL CORPORATION

PROMISSORY NOTE

$15,000,000

Dated as of September 2, 1996

FOR VALUE RECEIVED, the undersigned, RAYTEL MEDICAL CORPORATION, a Delaware corporation (hereinafter, together with its successors in title and assigns, called the "BORROWER"), promises to pay on or before the Final Maturity Date (as defined in the Credit Agreement to which reference herein is made to the order of BANK OF BOSTON CONNECTICUT (hereinafter, together with its successors in title and assigns, called the "BANK"), at the Agent's Head Office, the principal sum of FIFTEEN MILLION DOLLARS ($15,000,000), in immediately available funds or, if less, the aggregate unpaid principal amount of the Loans made by the Bank to the Borrower pursuant to the Credit Agreement to which reference is hereinafter made and to pay interest, in like money, on the unpaid principal amount owing hereunder from time to time from the date hereof until payment in full of such principal amount as provided in the Credit Agreement.

This Note is made and delivered by the Borrower pursuant to Section 2.4 of the Amended and Restructured Credit Agreement dated as of July __, 1996 by and among the Borrower, the Bank and Bank of Boston Connecticut in its capacity as agent for itself and the lenders therein named (as amended and in effect from time to time, the "Credit Agreement"), and is entitled to the benefits and is subject to the provisions of the Credit Agreement All capitalized terms used herein which are defined in the Credit Agreement shall have the same meanings herein as therein.

The Borrower also promises to pay interest on the unpaid principal amount of the Loans outstanding until paid in full at the rates per annum set forth in or established pursuant to the Credit Agreement. Such interest shall be payable on such dates as are determined from time to time pursuant to the Credit Agreement and shall be calculated as therein provided.

The Borrower has the right in certain circumstances to prepay the principal of this Note on the terms and conditions specified in the Credit Agreement.

If any Default or Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and all guarantors and endorsers hereby waive presentment, demand, protest and notice of any kind in connection with the delivery, acceptance, performance and enforcement of this Note, and also hereby assent to extensions of time of payment or forbearance or other indulgences without notice.

This Note and the obligations of the Borrower hereunder shall be governed by, and interpreted and determined in accordance with, the laws of the State of Connecticut.

THE BORROWER HEREBY REPRESENTS, COVENANTS AND AGREES THAT THE PROCEEDS OF THE LOANS SHALL BE USED FOR GENERAL COMMERCIAL PURPOSES AND AS FURTHER PROVIDED IN THE CREDIT AGREEMENT. AND THAT THIS NOTE IS PART OF A "COMMERCIAL TRANSACTION" AS DEFINED BY THE STATUTES OF THE STATE OF CONNECTICUT. THE BORROWER HEREBY WAIVES ALL RIGHTS TO NOTICE AND PRIOR COURT HEARING OR COURT ORDER UNDER CONNECTICUT GENERAL STATUES SECTIONS 52-278A ET SEQ. AS AMENDED OR UNDER ANY OTHER STATE OR FEDERAL LAW WITH RESPECT TO ANY AND ALL PREJUDGMENT REMEDIES THE BANK MAY EMPLOY TO ENFORCE ITS RIGHTS AND REMEDIES HEREUNDER. MORE SPECIFICALLY, THE BORROWER ACKNOWLEDGES THAT BANK'S ATTORNEY MAY, PURSUANT TO CONNECTICUT GENERAL STATUES, SECTION 52-278F, ISSUE A WRIT FOR A PREJUDGMENT REMEDY WITHOUT SECURING A COURT ORDER. THE BORROWER ACKNOWLEDGES AND RESERVES ITS RIGHT TO NOTICE AND A HEARING SUBSEQUENT TO THE ISSUANCE OF A WRIT FOR PREJUDGMENT REMEDY BY BANK'S ATTORNEY. THE BANK ACKNOWLEDGES THE BORROWER'S RIGHT TO SAID HEARING SUBSEQUENT TO THE ISSUANCE OF SAID WRIT.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name by its duly authorized officer on the day and in the year first above written.

RAYTEL MEDICAL CORPORATION

By: /s/ E. Payson Smith, Jr.

Name: E. Payson Smith, Jr.

Title: Senior Vice President
& Chief Financial Officer

EXHIBIT 10.44

RAYTEL MEDICAL CORPORATION

PROMISSORY NOTE

$10,000,000

Dated as of September 2, 1996

FOR VALUE RECEIVED, the undersigned, RAYTEL MEDICAL CORPORATION, a Delaware corporation (hereinafter, together with its successors in title and assigns, called the "BORROWER"), promises to pay on or before the Final Maturity Date (as defined in the Credit Agreement to which reference herein is made to the order of BANQUE PARIBAS (hereinafter, together with its successors in title and assigns, called the "BANK"), at the Agent's Head Office, the principal sum of TEN MILLION DOLLARS ($10,000,000) in immediately available funds or, if less, the aggregate unpaid principal amount of the Loans made by the Bank to the Borrower pursuant to the Credit Agreement to which reference is hereinafter made and to pay interest, in like money, on the unpaid principal amount owing hereunder from time to time from the date hereof until payment in full of such principal amount as provided in the Credit Agreement.

This Note is made and delivered by the Borrower pursuant to Section 2.4 of the Amended and Restated Credit Agreement dated as of August 14, 1996 by and among the Borrower, the Bank and Bank of Boston Connecticut in its capacity as agent for itself and the lenders therein named (as amended and in effect from time to time, the "CREDIT AGREEMENT"), and is entitled to the benefits and is subject to the provisions of the Credit Agreement All capitalized terms used herein which are defined in the Credit Agreement shall have the same meanings herein as therein. This Note replaces in part a certain Promissory Note dated August 14, 1996, in the original principal amount of $6,000,000, previously executed and delivered by the Borrower to Banque Paribas.

The Borrower also promises to pay interest on the unpaid principal amount of the Loans outstanding until paid in full at the rates per annum set forth in or established pursuant to the Credit Agreement. Such interest shall be payable on such dates as are determined from time to time pursuant to the Credit Agreement and shall be calculated as therein provided.

The Borrower has the right in certain circumstances to prepay the principal of this Note on the terms and conditions specified in the Credit Agreement.

If any Default or Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may

become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and all guarantors and endorsers hereby waive presentment, demand, protest and notice of any kind in connection with the delivery, acceptance, performance and enforcement of this Note, and also hereby assent to extensions of time of payment or forbearance or other indulgences without notice.

This Note and the obligations of the Borrower hereunder shall be governed by, and interpreted and determined in accordance with, the laws of the State of Connecticut.

THE BORROWER HEREBY REPRESENTS, COVENANTS AND AGREES THAT THE PROCEEDS OF THE LOANS SHALL BE USED FOR GENERAL COMMERCIAL PURPOSES AND AS FURTHER PROVIDED IN THE CREDIT AGREEMENT. AND THAT THIS NOTE IS PART OF A "COMMERCIAL TRANSACTION" AS DEFINED BY THE STATUTES OF THE STATE OF CONNECTICUT. THE BORROWER HEREBY WAIVES ALL RIGHTS TO NOTICE AND PRIOR COURT HEARING OR COURT ORDER UNDER CONNECTICUT GENERAL STATUES SECTIONS 52-278A ET SEQ. AS AMENDED OR UNDER ANY OTHER STATE OR FEDERAL LAW WITH RESPECT TO ANY AND ALL PREJUDGMENT REMEDIES THE BANK MAY EMPLOY TO ENFORCE ITS RIGHTS AND REMEDIES HEREUNDER. MORE SPECIFICALLY, THE BORROWER ACKNOWLEDGES THAT BANK'S ATTORNEY MAY, PURSUANT TO CONNECTICUT GENERAL STATUES, SECTION 52-278F, ISSUE A WRIT FOR A PREJUDGMENT REMEDY WITHOUT SECURING A COURT ORDER. THE BORROWER ACKNOWLEDGES AND RESERVES ITS RIGHT TO NOTICE AND A HEARING SUBSEQUENT TO THE ISSUANCE OF A WRIT FOR PREJUDGMENT REMEDY BY BANK'S ATTORNEY. THE BANK ACKNOWLEDGES THE BORROWER'S RIGHT TO SAID HEARING SUBSEQUENT TO THE ISSUANCE OF SAID WRIT.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name by its duly authorized officer on the day and in the year first above written.

RAYTEL MEDICAL CORPORATION

By: /s/ E. Payson Smith, Jr.

E. Payson Smith, Jr.
Senior Vice President and
Chief Financial Officer

EXHIBIT 13.1

FIVE YEAR FINANCIAL SUMMARY

<TABLE>
<CAPTION>

(in thousands, except per share data)	Fiscal Year Ended September 30, 1996	September 30, 1995	September 30, 1994	September 30, 1993	September 27, 1992
<S>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Total revenues	$ 72,515	$ 63,462	$ 58,775	$ 46,694	$ 29,707
Operating costs and selling, general and administrative expenses	56,412	47,353	44,821	34,653	20,115
Depreciation and amortization	5,590	5,806	5,880	6,215	6,291
Non-recurring tender offer expense	--	1,050	--	--	--
Operating income	10,513	9,253	8,074	5,826	3,301
Interest expense	514	2,118	2,463	2,361	1,870
Other (income)	(591)	(347)	(305)	(106)	(282)
Minority interest	762	1,161	1,099	1,359	1,030
Income before income taxes	9,828	6,321	4,817	2,212	683
Provision for income taxes	3,248	1,960	1,004	311	437
Income before extraordinary item	6,580	4,361	3,813	1,901	246
Extraordinary item, net of related tax benefit	449	--	--	--	--
Net income	$ 6,131	$ 4,361	$ 3,813	$ 1,901	$ 246
Net income per share before extraordinary item	$ .80	$ .78	$ .69	$ .35	$ .05
Net income per share	$ .75	$ .78	$ .69	$ .35	$ .05
Weighted average common shares and dilutive equivalents outstanding	8,194	5,617	5,548	5,458	4,933

(in thousands)	Fiscal Year Ended September 30, 1996	September 30, 1995	September 30, 1994	September 30, 1993	September 27, 1992
CONSOLIDATED BALANCE SHEET DATA:					
Total assets	$68,030	$ 46,768	$ 50,245	$ 51,171	$ 37,835
Long-term debt and capital lease obligations (1)	7,576	14,550	20,518	27,577	19,269
Total stockholders' equity	48,878	21,499	17,160	13,378	5,166

</TABLE>

(1) Includes current portion of long-term debt and capital lease obligations plus unamortized debt discount.

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

This discussion and analysis includes a number of forward-looking statements which reflect Raytel Medical Corporation's ("Raytel" or the "Company") current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including those discussed under "Business Environment and Future Results" and elsewhere in this Section , that could cause actual results to differ materially from historical results or those anticipated. In this Section , the words "anticipates," "believes," "expects," "intends," "future" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

OVERVIEW

The Company generates substantially all of its revenues from the provision of

transtelephonic pacemaker monitoring services for cardiac pacemaker patients ("Pacing"), cardiac event detection services ("CEDS"), diagnostic imaging services and cardiac catheterization procedures. Beginning on February 1, 1996, revenue is also being provided from the operation of the Raytel Heart Center at Granada Hills ("RHCGH"). As of September 18, 1996, revenue is also being provided from the management of the Southeast Texas Cardiology Associates, P.A. ("SETCA"), a physician practice.

In January 1996, the Company signed an agreement with Stanford Health Services whereby the Company will provide diagnostic cardiac services at a cardiac catheterization center to be developed and managed by the Company. This facility is currently under construction. A second agreement, with Granada Hills Community Hospital, became effective February 1, 1996 and provided for the creation of RHCGH, the Company's first integrated heart center. The Company is responsible for the day-to-day operations of RHCGH, including administrative support and other non-medical aspects of the program.

Effective June 11, 1996, the Company acquired certain assets and assumed certain liabilities of Cardio Data Services, Inc.. The Company has continued to operate the acquired business under the name "Cardio Data Services" ("CDS"). CDS provides clinical transtelephonic pacemaker monitoring, cardiac event detection and Holter monitoring services. The purchase price of the transaction was $14,254,000 and of such amount $13,985,000 was allocated to the acquisition of intangible assets, the majority of which will be amortized over 25 years.

On September 18, 1996, the Company acquired all of the nonmedical assets of SETCA and entered into a long-term management service agreement whereby the Company will manage the non-medical aspects of the practice. The Company has assumed responsibility for providing office space as well as marketing activities and other non-medical management services. Total consideration for the transaction was cash and transaction costs of $4,010,000, promissory notes of $2,289,000 and 122,068 shares of Common Stock to be delivered at future dates valued at $852,000.

In December 1995, the Company completed the initial public offering of its Common Stock which yielded net proceeds, after underwriting discounts and expenses, of $20,400,000. The Company used approximately $6,000,000 of the proceeds of the offering to pay the remaining balance of a term loan from two banks, approximately $2,101,000 to repurchase certain outstanding redeemable warrants and $5,000,000 to repay substantially all of a subordinated note of the Company. The remaining proceeds were used for working capital, general corporate purposes and a portion of the purchase price for an acquisition.

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RESULTS OF OPERATIONS
The following table sets forth, for the periods indicated, certain data derived from the Consolidated Statements of Operations as a percentage of total revenues:

<TABLE>
<CAPTION>

	Fiscal Year Ended		
	September 30, 1996	September 30, 1995	September 30, 1994
<S>	<C>	<C>	<C>
Total revenues	100.0%	100.0%	100.0%
Operating costs and selling, general and administrative expenses	77.8	74.6	76.3
Depreciation and amortization	7.7	9.1	10.0
Non-recurring tender offer expense	--	1.7	--
Operating income	14.5	14.6	13.7
Interest expense and other (income) expense	(.1)	2.8	3.7
Minority interest	1.1	1.8	1.8
Income before income taxes	13.5	10.0	8.2
Provision for income taxes	4.5	3.1	1.7
Income before extraordinary item	9.0	6.9	6.5
Extraordinary item	.6	--	--
Net income	8.4%	6.9%	6.5%

</TABLE>

Fiscal Year Ended September 30, 1996 Compared to Fiscal Year Ended September 30, 1995

The operations of RHCGH are included in the Company's Consolidated Statements of Operations since February 1, 1996, the effective date of the Company's agreement with Granada Hills Community Hospital. Accordingly, RHCGH's operations are

included for eight months of fiscal 1996, but are not included in fiscal 1995. The operations of CDS are included in the Company's Consolidated Statements of Operations since June 11, 1996, the effective date of the Company's acquisition of CDS. Accordingly, the operations of CDS are included for approximately four months of fiscal 1996, but are not included for fiscal 1995.

Revenues. Total revenues increased by $9,053,000, or 14.3%, from $63,462,000 in fiscal 1995 to $72,515,000 in fiscal 1996, due primarily to the inclusion of the revenues from RHCGH and CDS, partially offset by a decrease in Pacing revenues.

Operating Expenses. Operating costs and selling, general and administrative expenses increased by $9,059,000, or 19.1%, from $47,353,000 in fiscal 1995 to $56,412,000 in fiscal 1996, due primarily to the inclusion of costs and expenses from RHCGH and CDS operations. Operating costs and selling, general and administrative expenses as a percentage of total revenues increased slightly due primarily to the inclusion of revenues and expenses related to RHCGH, where operating expenses were slightly in excess of revenues.

Depreciation and Amortization. Depreciation and amortization expense decreased by $216,000, or 3.7%, from $5,806,000 in fiscal 1995 to $5,590,000 in fiscal 1996, and declined as a percentage of revenues from 9.1% for fiscal 1995 to 7.7% for fiscal 1996.

Non-Recurring Tender Offer Expense. The costs of an unsuccessful tender offer for a public company of $1,050,000 were charged off in fiscal 1995.

Operating Income. As a result of the foregoing factors, operating income increased by $1,260,000, or 13.6%, from $9,253,000 in fiscal 1995 to $10,513,000 in fiscal 1996.

Interest Expense. Interest expense decreased by $1,604,000, or 75.7%, from $2,118,000 in fiscal 1995 to $514,000 in fiscal 1996 primarily due to the final repayment of term debt in the first quarter of fiscal 1996, the repayment of a subordinated note during fiscal 1996 and a reduction in the principal amount outstanding under equipment loans and capital leases.

Income Taxes. The provision for income taxes increased by $1,288,000, or 65.7%, from $1,960,000 in fiscal 1995 to $3,248,000 in fiscal 1996 as a result of increased taxable income and a higher effective tax rate in the current period.

Extraordinary Item. An extraordinary noncash charge of $449,000, net of the related tax benefit, for the write-off of unamortized debt discount and capitalized debt issuance expense, was recorded during the year ended September 30, 1996. This charge resulted from the repayment of indebtedness and the repurchase of certain redeemable warrants from the net proceeds of the initial public offering.

Net Income. As a result of the foregoing factors, net income increased by $1,770,000, or 40.6%, from $4,361,000 in fiscal 1995 to $6,131,000 in fiscal 1996. Excluding the extraordinary item, net income would have increased by $2,219,000, or 50.9%, to $6,580,000 for the year ended September 30, 1996.

Fiscal Year Ended September 30, 1995 Compared to Fiscal Year Ended September 30, 1994

The operations of two catheterization laboratories are included in the Company's Consolidated Statements of Operations since September 1, 1994, the date of their acquisition. Accordingly, the operations of the catheterization laboratories are included for all 12 months of fiscal 1995 but for only one month of fiscal 1994.

Revenues. Total revenues increased by $4,687,000, or 8.0%, from $58,775,000 in fiscal 1994 to $63,462,000 in fiscal 1995. CEDS revenues increased by $2,719,000 over the prior period primarily due to an increase in the number of enrollments and a higher average reimbursement rate. The remaining increase was primarily due to the inclusion of revenues from the two catheterization laboratories and, to a lesser extent, increased revenues for diagnostic imaging services.

Operating Expenses. Operating costs and selling, general and administrative expenses increased by $2,532,000, or 5.6%, from $44,821,000 in fiscal 1994 to $47,353,000 in fiscal 1995 primarily as a result of increased revenues. Operating costs and selling, general and administrative expenses as a percentage of total revenues remained relatively unchanged.

Depreciation and Amortization. Depreciation and amortization expense was

relatively unchanged but declined as a percentage of revenues from 10.0% in fiscal 1994 to 9.1% in fiscal 1995.

Non-Recurring Tender Offer Expense. The costs of an unsuccessful tender offer for a public company of $1,050,000 were charged off in fiscal 1995.

Operating Income. As a result of the foregoing factors, operating income increased by $1,179,000, or 14.6%, from $8,074,000 in fiscal 1994 to $9,253,000 in fiscal 1995. Excluding the non-recurring tender offer expenses, operating income would have increased by 27.6% to $10,303,000.

Interest Expense. Interest expense decreased by $345,000, or 14.0%, from $2,463,000 in fiscal 1994 to $2,118,000 in fiscal 1995, primarily due to a decrease in term debt and a reduction in the principal amount outstanding under equipment loans and capital leases, offset by a slight increase in applicable interest rates.

Income Taxes. The provision for income taxes increased by $956,000, or 95.2%, from $1,004,000 in fiscal 1994 to $1,960,000 in fiscal 1995 as a result of increased taxable income and a higher effective tax rate in the current period.

Net Income. As a result of the foregoing factors, net income increased by $548,000, or 14.4%, from $3,813,000 in fiscal 1994 to $4,361,000 in fiscal 1995. Excluding the non-recurring tender offer expense, net income would have increased by $1,272,000, or 33.3%, to $5,085,000 in fiscal 1995.

BUSINESS ENVIRONMENT AND FUTURE RESULTS

The Company's future operating results may be affected by various trends in the healthcare industry as well as by a variety of other factors, some of which are beyond the Company's control.

The healthcare industry is undergoing significant change as third-party payors attempt to control the cost, utilization and delivery of healthcare services. Substantially all of the Company's revenues are derived from Medicare, HMOs, and commercial insurers and other third-party payors. Both government and private payment sources have instituted cost containment measures designed to limit payments made to healthcare providers by reducing reimbursement rates, limiting services covered, increasing utilization review of services, negotiating prospective or discounted contract pricing, adopting capitation strategies and seeking competitive bids. Although the Company's total revenues have increased in each of the last three fiscal years, revenue growth of the Company's Pacing operations during that period has been negatively impacted by Medicare reimbursement rate reductions in certain geographic areas. Additional reimbursement rate reductions applicable to the Company's Pacing procedures became effective on January 1, 1996. These reductions had a negative effect on the Company's operating results for fiscal 1996 and, unless modified, will continue to have some negative effect on its ongoing operating results. The Company cannot predict with any certainty whether or when additional reductions or changes in Medicare or other third-party reimbursement rates or policies will be implemented. There can be no assurance that future changes, if any, will not adversely affect the amounts or types of services that may be reimbursed to the Company, or that future reimbursement of any service offered by the Company will be sufficient to cover the costs and overhead allocated to such service.

The Company's investments in two ventures ("Ventures") that operate four of the consolidated imaging centers are expected to terminate on or before July 30, 1997. Revenues contributed by these Ventures were $3,924,000, $4,903,000 and $4,834,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

From time to time Congress considers legislation to reduce Medicare and Medicaid expenditures. Future legislation of this type could have a material adverse effect on the Company's business, financial condition and operating results.

A key element of the Company's long-range strategy is the development and operation of integrated heart centers and the acquisition of cardiac healthcare providers and the assets of physician practices and other businesses related to its current operations. In January 1996, the Company entered into an agreement for the development of a heart center which began operations on February 1, 1996 and in September 1996, the Company acquired all of the non-medical assets of a physician practice and entered into a long-term management service agreement. The success of the Company's existing and future heart centers will depend upon several factors, including the Company's ability to: obtain, and operate in compliance with, appropriate licenses; control costs and realize operating efficiencies; educate patients, referring physicians and third-party payors about the benefits of such heart centers; and provide cost-effective services that meet or exceed existing standards of care.

Providers of healthcare services are subject to numerous federal, state and

local laws and regulations that govern various aspects of their business. There can be no assurance that the Company will be able to obtain regulatory approvals that may be required to expand its services or that new laws or regulations will not be enacted or adopted that will have a material adverse effect on the Company's business, financial condition or operating results.

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

The healthcare businesses in which the Company is engaged are highly competitive. The Company expects competition to increase as a result of ongoing consolidations and cost-containment pressures, among other factors.

The trading price of the Company's Common Stock could be subject to wide fluctuations in response to quarterly variations in the Company's operating results, shortfalls in such operating results from levels forecasted by securities analysts and other events or factors. In addition, the stock market has, from time to time, experienced extreme price and volume fluctuations that have particularly affected the market prices of companies in the healthcare service industries and that have often been unrelated to the operating performance of the affected companies. Announcements of changes in reimbursement policies of third-party payors, regulatory developments, economic news and other external factors may have a significant impact on the market price of healthcare stocks.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity was materially improved as a result of the completion of the initial public offering of its Common Stock in December 1995 and its receipt of $20,400,000 in net proceeds therefrom. The Company acquired CDS in June 1996 for cash in the amount of $14,254,000 and SETCA in September 1996 for cash in the amount of $4,010,000. At September 30, 1996, the Company had working capital of $16,204,000, compared to $15,547,000 at September 30, 1995. At September 30, 1996, the Company had cash and temporary cash investments of $5,737,000. At September 30, 1996, $2,376,000 was outstanding under the Company's new $25,000,000 line of credit.

The Company batch-bills Medicare insurance carriers for most cardiac testing services performed during the first five months of each calendar year. This practice results in a temporary build-up of accounts receivable during the Company's second and third fiscal quarters and the collection of these receivables primarily during the subsequent fourth fiscal quarter and the first quarter of the following fiscal year.

The Company has a new revolving line of credit with two banks in the amount of $25,000,000 to fund working capital needs, future acquisitions, equipment purchases and other business needs. Amounts outstanding under the line of credit bear interest based on a defined formula and is subject to certain covenants. The line of credit expires in August 1998 at which time any outstanding balance converts to a five year term loan.

The Company's long-term capital requirements will depend on numerous factors, including the rate at which the Company develops and opens new heart centers or acquires existing heart centers or other businesses, if any. The Company believes that its cash and cash equivalent balances, together with amounts available from bank borrowings and cash generated by its operating activities, will be adequate to meet the Company's anticipated needs for working capital and capital expenditures through fiscal year 1997.

In September 1996, the Company won an administrative decision related to a billing dispute with a New York Medicare carrier. The Company billed the carrier at a reimbursement rate which was in effect at the time the Company acquired the CardioCare division from Medtronic, Inc. in 1993. The reimbursement rate was confirmed by the carrier after the acquisition. Following an audit of the carrier by the Healthcare Finance Administration ("HCFA"), the Company was ordered to return approximately $4 million to Medicare, a decision the Company immediately appealed. The Company was notified on September 23, 1996, that an administrative judge found that the Company was without fault and is entitled to reimbursement of the approximately $4 million in question.

The Company had fully accrued for the disputed amount in its historical financial statements. The amount to be reimbursed to the Company is fully reserved in these financial statements as prior to November 8, 1996 (the "sign-off" date), HCFA still had a right to file an appeal and the Company had not received the cash.

7
PERCENTAGE OF CONSOLIDATED REVENUES

<TABLE>
<CAPTION>

	Fiscal Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Pacing, CEDS and Holter revenues	60%	65%	66%
Diagnostic imaging service revenues	28%	32%	33%
Heart Center and other revenues	12%	3%	1%
Total	100%	100%	100%

</TABLE>

SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA

<TABLE>
<CAPTION>

	Fiscal Year Ended September 30, 1996			
(000's omitted, except per share amounts)	December 31,	March 31,	June 30,	September 30,
<S>	<C>	<C>	<C>	<C>
Net revenues	$15,816	$18,046	$18,906	$19,747
Income before income taxes and extraordinary item	$ 2,113	$ 2,734	$ 2,572	$ 2,409
Provision for income taxes	845	1,093	659	651
Income before extraordinary item	1,268	1,641	1,913	1,758
Extraordinary item, net of related tax benefit	402	--	--	47
Net income	$ 866	$ 1,641	$ 1,913	$ 1,711
Net income per share before extraordinary item(1)	$ .20	$ .19	$ .22	$ .20
Net income per share(1)	$ .14	$ .19	$ .22	$ .19

	Fiscal Year Ended September 30, 1995			
	December 31,	March 31,	June 30,	September 30,
Net revenues	$15,605	$15,798	$16,148	$15,911
Income before income taxes	$ 1,085	$ 1,275	$ 2,103	$ 1,858
Provision for income taxes	336	395	652	577
Net income	$ 749	$ 880	$ 1,451	$ 1,281
Net income per share(1)	$ .13	$ .16	$ .26	$ .23

</TABLE>

(1) Quarterly per share earnings do not necessarily equal the total per share earnings reported for the year as a result of the dilutive effect of common stock equivalents on the calculation of per share earnings.

8
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 1996 AND 1995

<TABLE>
<CAPTION>

(000's omitted, except shares)	September 30, 1996	September 30, 1995
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,737	$ 4,983

Receivables, net	21,753	22,415
Prepaid expenses and other	1,472	1,286
Total current assets	28,962	28,684
Investment in and advances to unconsolidated entities and partnerships	74	158
Property and equipment, less accumulated depreciation and amortization	9,156	8,598
Intangible assets, less accumulated amortization	29,838	9,328
Total assets	$68,030	$46,768
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,703	$ 4,275
Current portion of capital lease obligations	562	1,047
Accounts payable	2,861	2,189
Accrued liabilities	6,632	5,626
Total current liabilities	12,758	13,137
Long-term debt, net of current portion	3,842	7,718
Capital lease obligations, net of current portion	469	984
Redeemable warrants	--	1,600
Deferred liabilities	983	749
Minority interest in consolidated entities	1,100	1,081
Total liabilities	19,152	25,269
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock (Note 7)	--	7
Common stock (Note 7)	8	2
Additional paid-in capital	55,585	31,410
Common stock to be issued, 122,068 shares in 1996 (Note 1)	852	--
Accumulated deficit	(7,567)	(9,920)
Total stockholders' equity	48,878	21,499
Total liabilities and stockholders' equity	$68,030	$46,768

</TABLE>

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

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

<TABLE>
<CAPTION>

(000's omitted, except per share amounts)	September 30, 1996	September 30, 1995	September 30, 1994
<S>	<C>	<C>	<C>
Revenues:			
Net patient and service revenues	$71,711	$63,087	$57,906
Other revenues	804	375	869
Total revenues	72,515	63,462	58,775
Costs and expenses:			
Operating costs	27,582	20,687	18,685
Selling, general and administrative	28,830	26,666	26,136
Depreciation and amortization	5,590	5,806	5,880
Non-recurring tender offer expense	--	1,050	--
Total costs and expenses	62,002	54,209	50,701
Operating income	10,513	9,253	8,074
Interest expense	514	2,118	2,463
Other expense (income)	(591)	(347)	(305)
Minority interest	762	1,161	1,099
Income before income taxes and extraordinary item	9,828	6,321	4,817
Provision for income taxes	3,248	1,960	1,004
Income before extraordinary item	6,580	4,361	3,813

Extraordinary item, net of related tax benefit	449	--	--
Net income	$ 6,131	$ 4,361	$ 3,813
Net income per share before extraordinary item	$ .80	$ .78	$ .69
Net income per share (Note 14)	$ .75	$ .78	$ .69
Weighted average common shares and dilutive equivalents outstanding (Note 14)	8,194	5,617	5,548

</TABLE>

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

CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

<TABLE>
<CAPTION>

(000's omitted, except shares)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Common Stock to be Issued
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1993	3,742,288	$ 7	1,041,921	$ 2	$ 31,463	$ --
Net income for the year	--	--	--	--	--	--
Options exercised	--	--	2,913	--	4	--
Repurchase of shares	(2,497)	--	(1,030)	--	(20)	--
Change of equity interest in subsidiary	--	--	--	--	(15)	--
Balance at September 30, 1994	3,739,791	7	1,043,804	2	31,432	--
Net income for the year	--	--	--	--	--	--
Options exercised	1,361	--	--	--	3	--
Repurchase of shares	--	--	(4,121)	--	(25)	--
Balance at September 30, 1995	3,741,152	7	1,039,683	2	31,410	--
Net income for the year	--	--	--	--	--	--
Conversion of preferred stock to common stock	(3,741,152)	(7)	3,741,152	3	4	--
Issuance of common stock in payment of preferred dividends	--	--	472,250	--	3,778	--
Retirement of fractional shares	--	--	(230)	--	--	--
Payment of warrants	--	--	--	--	(501)	--
Sale of common stock in initial public offering	--	--	2,875,000	3	20,397	--
Value of 122,068 shares to be issued	--	--	--	--	--	852
Warrants exercised	--	--	15,760	--	63	--
Options exercised	--	--	189,309	--	434	--
Balance at September 30, 1996	0	$ 0	8,332,924	$ 8	$ 55,585	$ 852

</TABLE>

<TABLE>
<CAPTION>

(000's omitted, except shares)	Total Accumulated Deficit	Stockholders' Equity
<S>	<C>	<C>
Balance at September 30, 1993	$ (18,094)	$ 13,378
Net income for the year	3,813	3,813
Options exercised	--	4
Repurchase of shares	--	(20)
Change of equity interest in subsidiary	--	(15)
Balance at September 30, 1994	(14,281)	17,160
Net income for the year	4,361	4,361
Options exercised	--	3

Repurchase of shares	--	(25)
Balance at September 30, 1995	(9,920)	21,499
Net income for the year	6,131	6,131
Conversion of preferred stock to common stock	--	--
Issuance of common stock in payment of preferred dividends	(3,778)	--
Retirement of fractional shares	--	--
Payment of warrants	--	(501)
Sale of common stock in initial public offering	--	20,400
Value of 122,068 shares to be issued	--	852
Warrants exercised	--	63
Options exercised	--	434
Balance at September 30, 1996	$ (7,567)	$ 48,878

</TABLE>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1995 AND 1994

<TABLE>
<CAPTION>

(000's omitted)	September 30, 1996	September 30, 1995	September 30, 1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 6,131	$ 4,361	$ 3,813
Adjustments to reconcile net income to net Cash provided by operating activities:			
Depreciation and amortization	5,590	5,806	5,880
Minority interest	762	1,161	1,099
Other, net	245	1,390	467
Changes in operating accounts:			
Receivables, net	850	(1,090)	(1,143)
Prepaid expenses and other	(105)	(107)	(238)
Accounts payable	651	(228)	748
Accrued liabilities and other	574	(2,638)	1,653
Net cash provided by operating activities	14,698	8,655	12,279
Cash flows from investing activities:			
Capital expenditures	(3,022)	(2,244)	(1,423)
Purchases of net assets and physician practice	(18,264)	--	--
Other, net	350	104	10
Net cash used in investing activities	(20,936)	(2,140)	(1,413)
Cash flows from financing activities:			
Net proceeds from initial public offering	20,400	--	--
Repurchase of warrants	(2,101)	--	--
Income distributions to noncontrolling investors	(738)	(1,446)	(1,577)
Principal repayments of debt	(13,442)	(5,911)	(7,419)
Proceeds from line of credit	2,376	--	--
Other, net	497	(22)	(16)
Net cash provided by (used in) financing activities	6,992	(7,379)	(9,012)
Net increase (decrease) in cash and cash equivalents	754	(864)	1,854
Cash and cash equivalents at beginning of period	4,983	5,847	3,993
Cash and cash equivalents at end of period	$ 5,737	$ 4,983	$ 5,847
Supplemental disclosure of cash flow information:			
Interest paid	$ 454	$ 1,605	$ 2,025
Income taxes paid	$ 3,309	$ 1,774	$ 1,584

</TABLE>

The accompanying notes are an integral part of these consolidated financial

statements.

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND DESCRIPTION OF THE COMPANY

Since 1990, Raytel Medical Corporation ("Raytel" or the "Company") or its predecessor companies, have been in the medical service business. The Company provides a variety of medical services, focusing on the needs of patients with cardiovascular disease and is the leading provider in the United States of remote cardiac monitoring and testing services utilizing transtelephonic technology. Also, the Company is developing integrated heart centers that are located within existing hospitals and acquiring cardiology-related physician practices. Since 1990, the Company has acquired and/or entered into agreements with various medical service businesses. The significant transactions occurring during the past three fiscal years are described below:

(a) In January 1996, the Company signed an agreement with Stanford Health Services whereby the Company will provide diagnostic cardiac services at a cardiac catheterization center to be developed and managed by the Company. This facility is currently under construction. A second agreement, with Granada Hills Community Hospital, became effective February 1, 1996 and provided for the creation of the Company's first integrated heart center, the Raytel Heart Center at Granada Hills ("RHCGH"). The Company is responsible for the day-to-day operations of RHCGH, including administrative support and other non-medical aspects of the program.

(b) Effective June 11, 1996, the Company acquired certain assets and assumed certain liabilities of Cardio Data Services, Inc. The Company has continued to operate the acquired business under the name "Cardio Data Services" ("CDS"). CDS provides clinical transtelephonic pacemaker monitoring, cardiac event detection and Holter monitoring services. The purchase price of the transaction was $14,254,000 and of such amount $13,985,000 was allocated to the acquisition of intangible assets, the majority of which will be amortized over 25 years.

Unaudited pro forma consolidated financial information for the years ended September 30, 1996 and 1995, as though the acquisition of CDS had occurred at the beginning of fiscal 1995, is as shown in the table below:

<TABLE>
<CAPTION>

(in thousands, except per share amount)	September 30, 1996	1995
<S>	<C>	<C>
Revenues	$79,427	$73,341
Net income	$ 6,262	$ 4,321
Net income per share	$ .76	$ .77
Weighted average shares outstanding	8,194	5,617

</TABLE>

(c) On September 18, 1996, the Company acquired all of the non-medical assets of Southeast Texas Cardiology Associates, P.A. ("SETCA") and entered into a long-term management service agreement whereby the Company will manage the non-medical aspects of the practice. The Company has assumed responsibility for providing office space as well as marketing activities and other non-medical management services.

Total consideration for the transaction was cash and transaction costs of $4,010,000, promissory notes of $2,289,000 and 122,068 shares of Common Stock to be delivered at future dates valued at $852,000. The shares of Common Stock were valued at a discount from the estimated fair value of a delivered share after considering all relevant factors, including, but not limited to, normal discounts for marketability due to the time delay in delivery of the shares. The recorded amounts for the aggregate number of shares of Common Stock to be delivered were discounted 40% from comparable cash sales of Common Stock. The scheduled issuance of the shares of Common Stock that the Company is committed to deliver are 24,414 in 1997, 12,207 in 1998, 12,207 in 1999, 36,620 in 2000 and 36,620 in 2001.

The Company's acquisitions have been accounted for as purchases in accordance with generally accepted accounting principles and, accordingly, acquired assets and assumed liabilities were recorded at their estimated fair

values at the acquisition date. In certain acquisitions, there was an excess of the purchase price over the net tangible assets acquired which was allocated to identifiable intangible assets and goodwill (See Note 5).

In December 1995, the Company completed the initial public offering of its Common Stock (the "Offering") which yielded net proceeds, after underwriting discounts and expenses, of $20,400,000. The Company used approximately $6,000,000 of the proceeds of the Offering to pay the remaining balance of a term loan from two banks, approximately $2,101,000 to repurchase certain outstanding redeemable warrants and $5,000,000 to repay substantially all of a subordinated note. The remaining proceeds were used for working capital, general corporate purposes and a portion of the purchase price for CDS.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

At September 30, 1996, the Company owned four imaging centers and held interests in eight others through investments in various joint ventures and limited partnerships (the "Ventures"). Five Ventures operating seven of the centers are consolidated for financial reporting purposes, as the Company owns more than 50% of those Ventures and/or controls their assets and operations. The other two are accounted for using the equity method.

Two of the Ventures that operate four of the consolidated imaging centers are expected to terminate on or before July 30, 1997. Revenues contributed by these Ventures were $3,924,000, $4,903,000 and $4,834,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

Minority interests in consolidated entities represent the investment of third-parties in certain consolidated Ventures.

All significant intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition. Net patient and service revenues are recognized at established rates when the services are provided. Contractual allowances are calculated for services provided at less than the established rates as approved by Medicare or other third-party payors and are recorded as deductions from revenue. Imaging center revenues principally represent net fees of the consolidated Ventures for services provided to patients net of physician fees and certain expenses.

Other revenues include income and other revenue from unconsolidated entities and equity earnings of unconsolidated entities.

Cash Equivalents. For purposes of reporting cash flows, the Company considers temporary investments with original maturities of three months or less to be cash equivalents. The temporary investments are stated at cost, which approximates market.

Property and Equipment. Property and equipment are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets which range from three to ten years. Capital leases are recorded at the present value of the future minimum lease payments. Capital leases are amortized over the terms of the related lease on a straight-line basis.

Management Service Agreements. Management service agreements consist of the costs of purchasing the rights to manage medical groups. The agreements contain an initial noncancelable 40-year term. Under these long-term agreements, the medical groups have agreed to provide medical services on an exclusive basis only through facilities managed by the Company. The agreements are noncancelable except for performance defaults. In the event a medical group breaches the agreement, or if the Company terminates with cause, the medical group is required to repurchase all related assets, including the unamortized portion of any intangible assets, including the management service agreement, at the then net book value. Management service agreements are being amortized over twenty years.

Intangible Assets. Intangible assets principally consist of the excess of cost over the fair value of the net tangible assets acquired. Such intangible assets represent physician referrals and patient lists, joint venture/partnership interests, non-compete covenants, organization costs, capitalized debt issuance expense and goodwill.

Amortization of organization costs, capitalized debt issuance expense and goodwill is provided on the straight-line basis. Amortization of physician referrals and patient lists and joint venture/partnership interests is provided based upon the ratio of expected annual revenues to expected total revenues to

be generated over the estimated life of the asset. The amortization periods of the intangibles range from two to twenty-five years, with physician referrals and patient lists being amortized over fifteen years and goodwill being amortized over ten to twenty-five years.

Income Taxes. The Company and its subsidiaries file consolidated federal and state income tax returns.

The Company has adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS 109"). This statement requires an asset and liability approach in determining deferred income taxes. SFAS 109 also requires that the benefits realized from the utilization of tax loss carry-forwards be reflected as a reduction of the provision for income taxes and not as an extraordinary item.

Extraordinary Item. An extraordinary noncash charge of $449,000, net of the related tax benefit, for the write-off of unamortized debt discount and the write-off of capitalized debt issuance expense was recorded during the year ended September 30, 1996. This charge resulted from the early repayment of indebtedness and the repurchase of certain redeemable warrants from the net proceeds of the Offering.

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS

Tender Offer Expense. Represents the costs incurred in an unsuccessful tender offer for the stock of a public company.

Use of Estimates. The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the related disclosures. Actual results could differ from those estimates.

New Accounting Standards. The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of ("SFAS 121"). SFAS 121 requires that long-lived assets and certain identifiable intangibles to be held and used by the Company are to be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company is required to adopt SFAS 121 during the fiscal year ended 1997. The adoption of this accounting standard is not expected to have a material adverse impact on the financial statements.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). SFAS 123 requires the Company either to adopt a method of accounting for stock options at "fair value" in its financial statements or to retain its existing method and disclose the pro forma effects of using this "fair value" method beginning in fiscal year 1997. The Company intends to retain its existing method of accounting for stock options and to include the required pro forma disclosures in the notes to its consolidated financial statements. Accordingly, Statement No. 123 will have no effect on the Company's consolidated financial position or results of operations.

Fair Value of Financial Instruments. The carrying amounts of all financial instruments approximate fair value.

NOTE 3. RECEIVABLES
Receivables consist of the following:

<TABLE>
<CAPTION>

(in thousands)	September 30, 1996	1995
<S>	<C>	<C>
Patient and service receivables	$26,671	$29,247
Less allowance for doubtful accounts	(5,855)	(7,709)
	20,816	21,538
Other receivables	937	877
Total	$21,753	$22,415

</TABLE>

NOTE 4. PROPERTY AND EQUIPMENT
Property and equipment consist of the following:

<TABLE>
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(in thousands)	September 30, 1996	1995
<S>	<C>	<C>
Equipment, furniture and fixtures	$15,667	$12,456
Leasehold improvements	3,642	3,723
Equipment held under capital lease	4,575	4,575
	23,884	20,754
Less accumulated depreciation and amortization	(14,728)	(12,156)
	$ 9,156	$ 8,598

</TABLE>

Depreciation expense was $3,667,000, $3,825,000 and $3,734,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

NOTE 5. INTANGIBLE ASSETS
Intangible assets consist of the following:

<TABLE>
<CAPTION>

(in thousands)	September 30, 1996	1995
<S>	<C>	<C>
Goodwill	$ 19,800	$ 4,443
Physician referrals and patient lists	10,658	10,621
Management service agreements	7,144	--
Other	5,529	6,082
	43,131	21,146
Less accumulated amortization	(13,293)	(11,818)
	$ 29,838	$ 9,328

</TABLE>

Amortization expense related to intangible assets totaled $1,923,000, $1,981,000 and $2,146,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

NOTE 6. NOTES PAYABLE AND LONG-TERM DEBT
Notes payable and long-term debt consist of the following:

<TABLE>
<CAPTION>

(in thousands)	September 30, 1996	1995
<S>	<C>	<C>
Promissory notes(a)	$ 2,846	$ --
Line of credit(b)	2,376	--
Subordinated note payable (c)	--	5,960
Term loan and receivables facility(d)	--	6,000
Other(e)	1,323	559
Unamortized debt discount(d)	--	(526)
	6,545	11,993
Less current maturities	(2,703)	(4,275)
	$ 3,842	$ 7,718

</TABLE>

(a) In connection with the SETCA transaction, the Company assumed two

promissory notes with variable interest rates. Both notes were paid off subsequent to September 30, 1996. Also, the Company issued $2,289,000 in promissory notes bearing interest at 12%. The interest is due and payable quarterly beginning December 15, 1996. The principal balance is due in two equal annual installments in years 2001 and 2002.

(b) In August 1996, the Company entered into a new line of credit for $25,000,000. Under terms of the agreement with two banks, this credit facility can be used to fund acquisitions of physician practices, facilities and equipment, as well as for working capital purposes. The Company can draw amounts under the line of credit until August 15, 1998, at which date amounts outstanding will convert into a term loan which will amortize on a semi-annual basis for the five years thereafter. The Company's access to the line of credit is subject to the maintenance of certain financial covenants related to the Company's level of indebtedness and cash flow. The interest rate is based upon the LIBOR rate plus 150 basis points or the bank's prime rate at the option of the Company. At September 30, 1996, the interest rate was 8.25%. The line is collateralized by substantially all of the assets of the Company and its subsidiaries.

(c) The subordinated note was paid off with proceeds from the Offering.

(d) The term loan and receivables facility (the "Credit Facilities") included a beginning term loan of $15,000,000 (the "Term Loan") and working capital facilities of up to $10,000,000 (the "Receivables Facility") based upon 55% to 60% of Eligible Receivables (as defined in the Credit Facilities agreement). The term loan was paid off with proceeds from the Offering. The Credit Facilities were cancelled and replaced with the new line of credit.

(e) Other debt includes a balance due in connection with the RHCGH transaction payable in annual installments of $100,000 through 2006. Also included are nonrecourse notes payable in monthly installments through October 2001 with varying maturities at interest rates ranging from 9.8% to 10.2%. The majority of these notes are collateralized by the equipment purchased.

Long-term debt (excluding capital lease obligations) maturing within each of the five years subsequent to September 30, 1996, is as follows: 1997-$2,703,000; 1998-$461,000; 1999-$182,000; 2000-$165,000; and 2001-$1,309,000.

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. PREFERRED STOCK AND COMMON STOCK

Effective upon the closing of the Offering in December 1995, all outstanding Preferred Stock was converted into Common Stock. Upon the completion of the Offering, 2,000,000 shares of undesignated Preferred Stock were authorized for issuance. The Company's Board of Directors has the authority to issue such Preferred Stock in one or more series and to establish its terms which may be greater than the rights of the Common Stock. As of September 30, 1996, no such shares had been issued.

The previously outstanding shares of Preferred Stock were entitled to receive dividends. Upon the completion of the initial public offering, all accumulated dividends on the Preferred Stock were paid with Common Stock in amounts determined by dividing the total accumulated dividends by the Offering price.

There are 20,000,000 shares of Common Stock, $.001 par value, authorized.

The accompanying consolidated financial statements reflect a one-for-two reverse stock split approved by the Board of Directors on September 28, 1995 for all periods presented.

NOTE 8. STOCK OPTIONS AND WARRANTS

Warrants. Warrants to purchase 66,044 shares of Common Stock at an exercise price of $4.00 per share are outstanding.

The warrants expire on September 30, 1997.

In connection with the Credit Facilities, warrants were issued to the banks to purchase 5% of the fully diluted common stock of certain subsidiaries under certain circumstances. Such warrants were valued at $750,000 and $850,000, respectively, and were being amortized over the life of the term loan. The

warrants were repurchased from proceeds of the Offering.

Warrant amortization expense, which is included in interest expense, related to the debt discounts totaled $60,000, $363,000 and $363,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

In accordance with the terms of a 1993 acquisition, upon completion of the Offering, the Company issued the seller warrants to purchase 231,200 shares of Common Stock at an exercise price of $8.40 per share. At September 30, 1996, all such warrants are outstanding. The warrants will expire five years from the effective date of such Offering.

Stock Option Plans. The Company has options outstanding from two separate plans, the 1983 Incentive Stock Option Plan as Amended February 25, 1993 (the "1983 Option Plan") and the 1990 Stock Option Plan (the "1990 Option Plan"). Generally, the 1983 Option Plan and the 1990 Option Plan (together the "Plans") have similar terms. Terms for the Plans, including exercise price, are set by the Board of Directors. The exercise price for Incentive Stock Options must be granted at not less than the fair market value of the underlying stock at the date of grant. The exercise price for nonqualified options may be set at not less than 85% of fair market value. Options that are granted have a term of five to ten years from the date of grant. Vesting occurs ratably over a period ranging from two to four years beginning with the effective date of grant.

Effective upon the closing of the Offering, and the conversion of Preferred Stock into Common Stock in December 1995, all options outstanding to purchase Preferred Stock were converted into options to purchase Common Stock.

In September 1995, the Company's Board of Directors adopted the 1995 Outside Directors Stock Option Plan (the "Directors Plan"). The Directors Plan was approved by the stockholders. The Directors Plan provides for the grant of 6,000 nonstatutory stock options to nonemployee directors of the Company on the date on which the optionee first becomes a nonemployee director of the Company. Thereafter, the annual grant would be a maximum of 6,000 shares, as defined. Total vesting occurs, based on a formula, no sooner than three years nor longer than five years. The exercise price per share of all options granted under the Directors Plan shall be equal to the fair market value of a share of the Company's Common Stock on the date of grant.

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Option activity for the above plans is summarized as follows (including the effect of the conversion of the Preferred to Common)

<TABLE>
<CAPTION>

	Outstanding Stock Options		
	Shares Available	Number of Shares	Price Per Share
<S>	<C>	<C>	<C>
Balances, September 30, 1993	602,356	612,440	$1.40 - $ 2.38
Options canceled	1,765	(2,097)	1.50
Options exercised	--	(2,913)	1.50
Available shares canceled	(150,733)	--	--
Options granted	(112,498)	112,498	5.40
Additional options authorized	200,000	--	--
Balances, September 30, 1994	540,890	719,928	1.40 - 5.40
Options canceled	4,090	(13,384)	1.50 - 5.40
Options exercised	--	(1,361)	1.50 - 5.40
Balances, September 30, 1995	544,980	705,183	1.40 - 5.40
Options canceled	17,587	(20,099)	1.50 - 9.50
Options exercised	--	(189,309)	1.40 - 5.40
Options granted	(626,275)	626,275	8.00 - 11.88
Additional options authorized	700,000	--	--
Balances, September 30, 1996	636,292	1,122,050	$1.40 - $11.88

</TABLE>

NOTE 9. LEASE COMMITMENTS

The Company leases two of its facilities under agreements which expire in 2001 and 1999, respectively. The Company also leases real estate and various equipment under noncancelable leases classified as operating leases.

Certain subsidiaries and Ventures of the Company lease office space. These leases are noncancelable and expire on various dates through 2008 and are

treated as operating leases. Certain subsidiaries and Ventures also lease equipment under terms which qualify as capital leases.

At September 30, 1996, the future minimum rental payments for each fiscal year thereafter under all leases are as follows (in thousands):

Fiscal Year Ending	Operating Leases	Capital Leases
1997	$ 3,441	$ 633
1998	3,063	411
1999	2,396	84
2000	1,914	--
2001	1,835	--
Thereafter	3,759	--
Total		1,128
Less amount representing interest		(97)
Present value-minimum lease payments		1,031
Less current portion		(562)
		$ 469

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. INCOME TAXES
The provision for income taxes consists of the following:

(in thousands)	September 30, 1996	1995	1994
Current:			
Federal	$ 1,751	$ 364	$ 389
State	1,497	1,245	966
	3,248	1,609	1,355
Deferred:			
Federal	--	351	(351)
Total	$ 3,248	$ 1,960	$ 1,004

At September 30, 1996 and 1995, the Company had $2,324,000 and $4,511,000, respectively, of deferred tax assets. The Company has recorded a 100% valuation allowance against these amounts.

The tax effect of the primary temporary differences giving rise to the Company's deferred tax assets and liabilities at September 30, 1996 and 1995, are as follows (in thousands):

	Current Asset (Liability)		Long-Term Asset (Liability)	
	1996	1995	1996	1995
Net operating loss carryforward	$ --	$ 326	$ --	$ --
Depreciation and amortization	424	132	803	2,496
Reserves for accounts receivable and unbilled costs and fees	544	1,029	--	--
Other, net	235	717	318	(189)
	1,203	2,204	1,121	2,307
Valuation allowance	(1,203)	(2,204)	(1,121)	(2,307)

Total deferred income taxes	$ --	$ --	$ --	$ --

</TABLE>

Reconciliation of the federal statutory rate to the Company's effective tax rate is as follows (dollars in thousands):

<TABLE>
<CAPTION>

	September 30,					
	1996		1995		1994	
	Amount	Rate	Amount	Rate	Amount	Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Federal income tax at the statutory rate	$ 3,342	34.0%	$ 2,149	34.0%	$ 1,638	34.0%
State income taxes, net of federal benefit	988	10.0	822	13.0	638	13.2
Federal tax benefit of the utilization of net operating loss and credit carryforwards	(1,082)	(11.0)	(1,011)	(16.0)	(1,272)	(26.4)
Total	$ 3,248	33.0%	$ 1,960	31.0%	$ 1,004	20.8%

</TABLE>

At September 30, 1996, the Company had no federal net operating loss or unused credit carryforwards.

NOTE 11. EMPLOYEE BENEFIT PLANS

The Raytel Medical Corporation Pension Plan (the "Pension Plan") is a defined contribution benefit plan which covers substantially all employees. Contributions to the Pension Plan are based upon a percentage of an employee's covered compensation, as defined. Total expense under the Pension Plan amounted to $503,000, $466,000 and $372,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

The Company maintains a tax-qualified Retirement Savings Plan (the "401(k) Plan") which covers substantially all employees. Eligible employees may make salary deferral (before tax) contributions up to a specified maximum. The Company makes a matching contribution of 25% of the amount deferred. Total expense under the 401(k) Plan amounted to $133,000, $124,000 and $124,000 for the years ended September 30, 1996, 1995 and 1994, respectively.

In September 1993, the Company adopted an executive deferred compensation plan. Executive officers and key employees of the Company are eligible to participate at the discretion of the Board of Directors. Participants may defer a portion of their compensation, as defined.

NOTE 12. PRINCIPAL CUSTOMERS

All services performed by the Company are performed in the United States. No one customer accounted for more than 10% of total Company net patient and service revenues. However, certain sources of payment for the services, such as Medicare, HMOs, commercial insurers and other third party payors, do or could account for more than 10% of payments received.

NOTE 13. CONTINGENCIES

The Company is involved in a dispute with a partner in one of the Ventures. In 1992, this partner filed an action against the Company and its subsidiaries and certain other defendants seeking the dissolution of the Venture, and unspecified damages. The Company has filed a counterclaim seeking removal of the partner as manager of the Venture, damages and enforcement of the Venture agreement.

In addition to the foregoing matter, the Company is from time to time a party to various unrelated claims and disputes associated with various aspects of its ongoing business operations. In management's opinion, none of these claims or disputes are expected, either individually or in the aggregate, to have a material adverse effect on the Company's financial position or results of operations.

NOTE 14. NET INCOME PER SHARE

Net income per share is based on the weighted average number of common shares and common equivalent shares outstanding. Income per share amounts and the related number of shares used in the computation for all periods presented have been adjusted to reflect the one-for-two reverse stock split. Also, all previously outstanding preferred shares and accumulated preferred dividends were converted to Common Stock for all periods presented for purposes of the income per share calculation. Also, those shares under commitments to be issued at specified future dates are considered as outstanding for per share calculations.

NOTE 15. DEFERRED LITIGATION AWARD

In September 1996, the Company won an administrative decision related to a billing dispute with a New York Medicare carrier. The Company billed the carrier at a reimbursement rate which was in effect at the time the Company acquired the CardioCare division from Medtronic, Inc. in 1993. The reimbursement rate was confirmed by the carrier after the acquisition. Following an audit of the carrier by the Healthcare Finance Administration (HCFA), the Company was ordered to return approximately $4 million to Medicare, a decision the Company immediately appealed. The Company was notified on September 23, 1996, that an administrative judge found that the Company was without fault and is entitled to the reimbursement of approximately $4 million in question.

The Company had fully accrued for the disputed amount in its historical financial statements. The amount to be reimbursed to the Company is fully reserved in these financial statements as prior to November 8, 1996 (the "sign-off" date) HCFA still had a right to file an appeal and the Company had not received the cash.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
RAYTEL MEDICAL CORPORATION:

We have audited the accompanying consolidated balance sheets of Raytel Medical Corporation and Subsidiaries as of September 30, 1996 and 1995 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three year period ended September 30, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Raytel Medical Corporation and Subsidiaries as of September 30, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended September 30, 1996 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Hartford, Connecticut
November 8, 1996

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CORPORATE INFORMATION

BOARD OF DIRECTORS AND OFFICERS

Richard F. Bader
Chairman of the Board of Directors
and Chief Executive Officer

Allan Zinberg
President, Chief Operating Officer and Director

David Rollo, M.D.
Senior Vice President Medical Affairs,
Medical Director and Director

E. Payson Smith, Jr.
Senior Vice President and Chief Financial Officer

Swapan Sen
Vice President, General Manager,
Medical Facility Operations

Michael O. Kokesh
Vice President, General Counsel and Secretary

John F. Lawler, Jr.
Vice President, Corporate Controller

Thomas J. Fogarty, M.D.
Professor of Surgery at
Stanford University Medical School,
General Partner Three Arch Ventures, L.P.

Albert J. Henry
Chairman of the Board and
Chief Executive Officer of Henry & Co.

Gene I. Miller
General Partner of the Peregrine Venture Funds

Timothy J. Wollaeger
General Partner of Kingsbury Associates, L.P.

CORPORATE OFFICES
Raytel Medical Corporation
2755 Campus Drive, Suite 200
San Mateo, California 94403
Tel: (415) 349-0800
Fax: (415) 349-8850
http://www.raytel.com

ANNUAL MEETING OF STOCKHOLDERS
Raytel Medical Corporation's Annual Meeting of Stockholder's will be held on Thursday, March 6, 1997 beginning at 11 a.m. PST at the Hotel Sofitel, located at 2700 Harbor Way in Redwood Shores, CA. All stockholders are invited to attend.

INVESTOR RELATIONS
A copy of the Company's Annual Report 10-K, as filed with the Securities and Exchange Commission, may be obtained by writing to Investor Relations at the Company's Corporate Offices.

STOCK LISTING
The Common Stock of Raytel Medical Corporation has traded on the NASDAQ National Market under the symbol RTEL since November 30, 1995.

TRANSFER AGENT
Boston Equiserve, L.P.
150 Royall Street
Boston, Massachusetts 02021

LEGAL COUNSEL
Gray Cary Ware & Freidenrich, P.C.
Palo Alto, California

INDEPENDENT AUDITORS
Arthur Andersen, L.L.P.
Hartford, Connecticut

STOCK DATA NASDAQ SYMBOL: RTEL
The number of stockholders of record at September 30, 1996, was 610.

The Company's common stock is traded over-the-counter and is quoted on the Nasdaq National Market. The Company went public in December 1995. The following table shows the high and low sales price as reported by Nasdaq for the fiscal quarters for the year ended September 30, 1996.

<TABLE>
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	High	Low
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First quarter	$ 9 1/4	$ 8 1/2
Second quarter	$11 3/4	$ 8 5/8
Third quarter	$15 1/2	$ 9 3/4
Fourth quarter	$13 3/4	$ 9 7/8

</TABLE>

The Company has not paid cash dividends during the year ended September 30, 1996.

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report incorporated by reference in this Form 10-K into Raytel Medical Corporation's S-8 filing dated September 10, 1996 (Registration No. 333-11697).

/s/ Arthur Anderson LLP
ARTHUR ANDERSEN LLP

Hartford, Connecticut
November 8, 1996

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (A)RAYTEL MEDICAL CORPORATION AND SUBSIDIARIES FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH (B) FINANCIAL STATEMENTS.
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<F1>(RECEIVABLES) REPRESENTS NET RECEIVABLES
<F2>(LOSS PROVISION) INCLUDED IN (TOTAL COSTS)
</FN>

</TABLE>