FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1998-12-31**
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FILER

BMJ MEDICAL MANAGEMENT INC

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1998

OR

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

For the transition period from _____ to _____

Commission File Number 001-13785

BMJ MEDICAL MANAGEMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware	65-0676079
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4800 North Federal Highway Suite 101E Boca Raton, Florida	33431
(Address of principal executive offices)	(Zip Code)

(561) 391-1311
(Registrant's telephone number, including area code)

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
--- ---

The number of shares outstanding of the registrant's Common Stock, $0.001 par value per share, as of May 31, 1999 was 17,798,414 shares.

BMJ MEDICAL MANAGEMENT, INC.

INDEX

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PART I
FINANCIAL INFORMATION

Item 1 - Financial Statements

BMJ MEDICAL MANAGEMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>
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	December 31, 1998	March 31, 1998
Assets	(Unaudited)	
Current assets:		
<S>	<C>	<C>
Cash and cash equivalents	$ 1,523,000	$ 9,483,000
Accounts receivable	29,529,000	25,794,000
Prepaid expenses and other current assets	1,530,000	539,000
Due from physician groups	12,126,000	6,292,000
Total current assets	44,708,000	42,108,000
Furniture, fixtures and equipment, net	9,255,000	7,948,000
Management services agreements and other intangible assets, net	43,645,000	45,064,000
Other assets	861,000	2,142,000
Total assets	$ 98,469,000	$ 97,262,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 903,000	$ 1,706,000
Accrued expenses	2,387,000	6,858,000
Accrued interest	--	520,000
Accrued salaries and benefits	1,516,000	2,159,000
Due to physician groups	5,700,000	4,042,000
Current portion of long-term debt	--	188,000
Total current liabilities	10,506,000	15,473,000
Long-term debt, less current portion	--	17,929,000
Liabilities subject to compromise	51,689,000	
Short-term debt expected to be refinanced	--	7,125,000
Minority interest	676,000	648,000
Commitments and contingencies		
Series A Redeemable Convertible Preferred Stock, $.01 par value - 1,473,684 shares authorized, issued and outstanding (liquidation value $7,217,000), net of discount and issuance costs	5,178,000	--
Stockholders' equity :		
Series B Convertible Preferred Stock	2,889,000	--
Common Stock, $.001 par value - 35,000,000 shares authorized, 17,798,000 shares issued and outstanding at December 31, 1998; 17,384,000 shares issued and outstanding at March 31, 1998;	18,000	17,000
Additional paid-in capital	102,205,000	97,801,000
Accumulated deficit	(74,692,000)	(41,731,000)
Total stockholders' equity	30,420,000	56,087,000

Total liabilities and stockholders' equity	$ 98,469,000	$ 97,262,000

</TABLE>

See accompanying notes.

BMJ MEDICAL MANAGEMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Revenues:				
Management fees	$ 16,956,000	$ 16,526,000	$ 51,670,000	$ 32,505,000
Other, net	398,000	--	3,746,000	--
	17,354,000	16,526,000	55,416,000	32,505,000
Operating expenses:				
Medical support services	14,417,000	13,281,000	43,613,000	27,863,000
General and administrative	1,664,000	20,750,000	7,223,000	25,237,000
Impairment of long-lived assets	22,607,000	--	23,157,000	--
Reorganization expenses:				
Professional fees	1,005,000	--	1,005,000	--
Deferred financing costs	2,724,000	--	2,724,000	--
Depreciation and amortization	1,914,000	3,579,000	4,677,000	7,236,000
Total operating expenses	44,331,000	37,610,000	82,399,000	60,336,000
Operating loss	(26,977,000)	(21,084,000)	(26,983,000)	(27,831,000)
Interest expense, net	930,000	1,629,000	2,940,000	2,551,000
Loss before extraordinary item	(27,907,000)	(22,713,000)	(29,923,000)	(30,382,000)
Extraordinary item, loss on early extinguishment of debt	--	--	(3,038,000)	--
Net loss	$(27,907,000)	$(22,713,000)	$(32,961,000)	$(30,382,000)
Net loss per common share:				
Basic:				
Loss before extraordinary item	$ (1.59)	$ (2.78)	$ (1.72)	$ (4.43)
Extraordinary item	$ --	$ --	$ (0.17)	$ --
Net loss	$ (1.59)	$ (2.78)	$ (1.89)	$ (4.43)
Diluted:				
Loss before extraordinary item	$ (1.59)	$ (2.78)	$ (1.72)	$ (4.43)
Extraordinary item	$ --	$ --	$ (0.17)	$ --
Net loss	$ (1.59)	$ (2.78)	$ (1.89)	$ (4.43)
Weighted average number of common shares outstanding:				
Basic	17,795,000	8,171,000	17,716,000	6,854,000
Diluted	17,795,000	8,171,000	17,716,000	6,854,000

</TABLE>

See accompanying notes.

BMJ MEDICAL MANAGEMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

<TABLE>
<CAPTION>

	Nine Months Ended December 31, 1998	Nine Months Ended December 31, 1997
<S>	<C>	<C>
Operating activities:		
Net loss	$(32,961,000)	$(30,382,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,295,000	651,000
Amortization of management services agreements and other intangible assets	3,382,000	7,277,000
Impairment of long-lived assets	25,881,000	
Interest expense converted to preferred stock	--	34,000
Equity-based compensation expense	68,000	17,567,000
Changes in operating assets and liabilities:		
Accounts receivable	(2,513,000)	(4,366,000)
Due from physician groups, net	(5,575,000)	(251,000)
Prepaid expenses and other current assets	(990,000)	194,000
Accounts payable	819,000	2,011,000
Accrued expenses	(3,418,000)	3,489,000
Accrued salaries and benefits	(642,000)	2,209,000
Accrued interest	114,000	640,000
Net cash used in operating activities	(14,540,000)	(927,000)
Investing activities:		
Purchases of furniture, fixtures and equipment	(5,798,000)	(860,000)
Payments for management services agreements and goodwill	(11,927,000)	(10,123,000)
Payments for deferred offering costs	--	(3,186,000)
Cash used for acquisition of non-cash assets of affiliated practices	(2,745,000)	(13,230,000)
Payments for deposits and other assets	(1,111,000)	(841,000)
Net cash used in investing activities	(21,581,000)	(28,240,000)
Financing activities:		
Proceeds from issuance of preferred stock	7,000,000	4,399,000
Proceeds from debt issuance	44,310,000	41,664,000
Proceeds from shareholder notes	--	3,640,000
Payments on shareholder notes	(579,000)	(130,000)
Amounts due physician groups	--	--
Proceeds from issuance of common stock	15,000	--
Payments on borrowings	(22,505,000)	(18,567,000)
Minority interest	(80,000)	288,000
Net cash provided by financing activities	28,161,000	31,294,000
Net (decrease) increase in cash and cash equivalents	(7,960,000)	2,127,000
Cash and cash equivalents at beginning of period	9,483,000	722,000
Cash and cash equivalents at end of period	$ 1,523,000	$ 2,849,000

</TABLE>

See accompanying notes.

BMJ MEDICAL MANAGEMENT, INC. AND SUBSIDIARIES
(DEBTOR-IN-POSSESSION EFFECTIVE DECEMBER 17, 1998)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. PETITION FOR RELIEF UNDER CHAPTER 11

On December 17, 1998, ("Petition Date") BMJ Medical Management, Inc. (the "Company") and five of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11, Title 11, of the United States Bankruptcy Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Delaware, Wilmington, Delaware (the "Bankruptcy Court"). The Company is currently operating its business as a debtor-in-possession, under Sections 1107 and 1108 of the Bankruptcy Code. The Chapter 11 cases are being jointly administered for procedural purposes by the Bankruptcy Court under Case Nos. 98-2799 to 98-2804, Caption In re: BMJ Medical Management, Inc. All court

filings in connection with the Debtor's bankruptcy can be accessed on the internet at http://www.deb.uscourts.gov. The following summary of the current status of the cases is not purported to be complete and is qualified in its entirety by reference to the Bankruptcy Court filings. The Company recommends that all interested parties access the aforementioned website to obtain additional, potentially relevant information.

As a debtor-in-possession, the Company is authorized to operate its business, but may not engage in transactions outside of the ordinary course of business without approval, after notice and hearing, of the Bankruptcy Court. An unsecured creditors' committee was formed by the U.S. Trustee on January 7, 1999, which has the right to participate in the case as a party in interest.

As of the Petition Date, any act by any creditor or other person to collect pre-petition indebtedness or to exercise control over property of the Debtors is prohibited, unless specifically allowed by Court Order. As part of its "first day orders", the Bankruptcy Court approved the Debtor's payment of pre-petition employee compensation, benefits and reimbursements and withholding taxes and the continued payment of these items. The Bankruptcy Court has also approved the payment of certain essential pre-petition trade payables. Through June 15, 1999, the Debtors have paid $1,918,000 of pre-petition debt pursuant to such Court authorization.

On January 23, 1999, the Bankruptcy Court entered a final order approving a debtor-in-possession Credit Facility ("DIP Facility") pursuant to which the Company is authorized to borrow up to $3,750,000 and use the cash collateral of the Debtor's pre-petition date lenders to the extent necessary to satisfy ongoing operating

expenses so long as no event of default occurs or exists. As of June 15, 1999, no amounts were outstanding under the DIP Facility. (See Note 9).

On February 18, 1999, the Bankruptcy Court approved an employee retention bonus program pursuant to which certain of the Company's employees may receive a bonus based upon, among other things, the successful resolution of the bankruptcy cases, unless such employees are terminated prior to that date for cause. (See Note 11).

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Chapter 11 filing and circumstances relating to this event, including the debt structure and current market conditions, such matters are subject to significant uncertainty. Continuing on a going concern basis is dependent upon, among other things, the Company's confirmation of an acceptable Chapter 11 plan, the success of future operations and the generation of sufficient cash from operations and financing sources to meet the Company's obligations. The accompanying condensed consolidated financial statements do not reflect (a) the realizable value of assets on a liquidation basis or their availability to satisfy liabilities, (b) the aggregate pre-petition liability amounts that may be allowed for claims or contingencies, or their status or priority, (c) the effect of any changes to the Company's capital structure or in the Company's business operations as the result of any Chapter 11 plan or (d) adjustments to the carrying value of assets or liability amounts that may be necessary as the result of actions by the Bankruptcy Court. (See Note 4). The Company is in the process of developing a Chapter 11 plan with the assistance of its professionals. Among the alternatives being considered in connection with the development of a Chapter 11 plan is a restructuring of the Company's arrangements with its affiliated practises and physicians. This restructuring could include: (a) consummating "buy out" transactions with affiliated physicians pursuant to which the MSA's would be terminated and the Company would receive cash consideration; (b) assumption of the MSA's and assignment to third parties; (c) terminating certain of the MSA's and enforcing rights and remedies offered under the MSA's and/or applicable law and (d) any combination of the above. The Company is also negotiating with its secured lenders to convert any unpaid balance of the secured debt to a term loan as part of a Chapter 11 plan. The Chapter 11 plan will be dependent on a number of factors including approval by the Company's Board of Directors, Senior Secured Lenders, unsecured creditors and the Bankruptcy Court.

No assurances can be give that the Company will be able to obtain these approvals or negotiate these aggreements in a timely manner, if at all. If the Company is not able to timely and successfully implement such a plan as well as satisfactorily resolve certain disputes with its physician groups, its operating business, financial condition, cash flows and results of operations will be further materially and adversely affected.

All costs and expenses associated with the bankruptcy and any Chapter 11 plan incurred through December 31, 1998 have been reflected as reorganization expenses in the accompanying condensed consolidated statements of operations for the three and nine months ending December 31, 1998. Reorganization expenses

consisted primarily of the write-off of the deferred financing costs associated with the secured debt and professional fees incurred by the Company related to the bankruptcy filing, related litigation and professional fees incurred by the Company's secured lenders which the Company is obligated to pay.

2. BASIS OF PRESENTATION

In management's opinion, the accompanying unaudited condensed consolidated financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments and the recognition of impairment losses and restructuring charges through December 31, 1998) necessary to present fairly the financial position of the Company as of December 31, 1998, and the results of its operations for the three and

nine months ended December 31, 1998 and 1997. The results of operations and cash flows for the nine months ended December 31, 1998 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of the fiscal year.

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company's Transition Report on Form 10-K for the three months ended March 31, 1998.

The accounting policies followed for interim financial reporting are the same as those disclosed in Note 2 of the Notes to Consolidated Financial Statements included in the Company's Transition Report on Form 10-K for the three months ended March 31, 1998.

3. NEW ACCOUNTING PRONOUNCEMENTS

The Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus concerning certain matters relating to the physician practice management industry with respect to the requirements which must be met to consolidate a managed professional corporation and the accounting for business combinations involving professional corporations. In accordance with the EITF's guidance, the Company discontinued the use of the display method to report revenues from management contracts in financial statements beginning with the three months ended December 31, 1998. Thus, fees from management contracts are reported as a single line item in the Company's condensed consolidated financial statements under the caption "Management Fees" and amounts for prior periods have been reclassified to conform to this presentation.

4. LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS

In December 1998, three affiliated physician practices in Florida withheld monies due to the Company related to the collection of the Company's accounts receivable and initiated legal actions against the Company alleging breach of contract, fraud and securities fraud. As more fully described in Note 1, the Company filed for

protection under Chapter 11 in the U.S. Bankruptcy Court in Wilmington, Delaware. The Company also filed complaints and was granted temporary restraining orders and preliminary injunctions compelling compliance with the terms of the Management Services Agreements ("MSA's") with respect to certain of the Company's affiliated physician practices. As described in Notes 1 and 6, all acts to collect pre-petition indebtedness and/or exercise control over property of the Debtor is prohibited.

These events and circumstances triggered the re-evaluation by management of the Company's long-lived assets for impairment under Statement of Financial Accounting Standards (SFAS) No. 121 "Impairment of Long-lived Assets." Therefore, in accordance with SFAS No. 121, the Company estimated by asset groups the future cash flows expected to result from its long-lived assets. The Company's management grouped the long-lived assets associated with its ambulatory surgery centers and each individual MSA maintained by the Company with its affiliated physician practices. The long-lived asset groups primarily include furniture, fixtures and equipment, and intangible assets consisting primarily of MSA costs and goodwill. Cash flow data by individual affiliated physician practice and individual ambulatory surgery center represents what

management believes to be the lowest level of identifiable, historical cash flows which are independent of the historic cash flows of other asset groups.

Additionally, management reassessed the estimated remaining useful lives of the MSA's and reduced the periods over which the MSA's would be amortized from a range of 4 to 25 years to a range of 2 to 19 years. As a result of the Chapter 11 filing and the external factors influencing the physician practice management sector, management believes that such a downward revision to the estimated useful lives is appropriate. Management based its revised estimated useful lives on the remaining period of service to retirement age of the physicians comprising the affiliated physician practices because the Company believes that it will be unable to recruit new physicians who would be willing to become party to the MSA's.

The Company estimated undiscounted cash flows for each affiliated physician practice and ambulatory surgery center using the most recent historical experience and the estimated remaining useful lives. For certain of the affiliated physician practices and the ambulatory surgery centers, the Company was engaged in substantive settlement/sale negotiations as of December 31, 1998. Accordingly, for those operations, the estimated cash flows were adjusted to include (a) cash flows only through the estimated date of disposal/settlement; (b) estimated cash proceeds from the sale/settlement and (c) decreases in cash flows for the ambulatory surgery centers resulting from decreased referrals from affiliated physicians. (See Note 12).

As a result of comparing the estimated, undiscounted cash flows for each affiliated physician practice and each ambulatory surgery center to the net book value at December 31, 1998 of each group of long-lived assets associated with the respective entities, management identified certain assets for which an impairment charge would be required. Management then estimated the fair value of such assets using the present value of future cash flows or negotiated proceeds to be received upon settlement/disposal and compared this fair value to the carrying value of the assets to determine the amount of the impairment loss to be recorded.

Based on the analysis, the Company recorded a loss on impairment of long-lived assets of $22,607,000 and $23,157,000 which has been included in the accompanying condensed consolidated statement of operations for the three and nine months ended December 31, 1998, as follows:

<TABLE>
<CAPTION>

	Three months ended December 31, 1998	Nine months ended December 31, 1998
<S>	<C>	<C>
Management Services Agreements	$17,492,000	$18,042,000
Ambulatory surgery centers	3,350,000	3,350,000
Furniture, fixtures and equipment	1,765,000	1,765,000
	$22,607,000	$23,157,000

</TABLE>

Furthermore, management continues to conduct discussions with various affiliated physician groups. The Company is in the process of developing a Chapter 11 plan with the assistance of its professional advisors. Among the alternatives being considered is a restructuring of the Company's arrangements with its affiliated practices and physicians. This restructuring could include: (a) consummating a "buy out" transaction with affiliated physicians pursuant to which the MSA's would be terminated and the Company would receive cash consideration; (b) assumption of the MSA's and assignment to third parties; (c) terminating certain of the MSA's and enforcing rights and remedies offered under the MSA's and/or applicable law and (d) any combination of the above. The Chapter 11 plan will be dependent on a number of factors including approval by the Company's Board of Directors, Senior Secured Lenders, unsecured creditors and the Bankruptcy Court. No assurances can be given that the Company will be able to negotiate these agreements or obtain these approvals.

Further development of the Company's Chapter 11 plan and discussions with affiliated physician groups subsequent to December 31, 1998 indicate that the remaining net book value of the long-lived assets may be further impaired. The exact amount of such additional impairment loss cannot be determined at this time but is estimated to range between $8,000,000 and $12,000,000, and will be recognized, if necessary, in the period that

the Chapter 11 plan or the terms of disposal are finalized. The recognition of any such impairment loss would be material and would have a material adverse effect on the Company's results of operations and financial condition.

5. RESTRUCTURING CHARGES

In September 1998, the Company implemented a restructuring plan which included a total charge of approximately $2,050,000 (of which $1,500,000 is included in general and administrative expenses for the nine months ended December 31, 1998). This charge consisted primarily of severance costs of approximately $1,100,000 relating to 24 positions that were eliminated, other asset write-offs of $400,000 and $550,000 related to the impairment of goodwill as a result of a loss of a significant payor contract for the Company's Independent Physician Association ("IPA") acquired in 1997.

During the three months ended December 31, 1998 the Company made severance payments of approximately $330,000 related to the 24 corporate positions that were eliminated. As a result of the Chapter 11 filing the Company revised certain aspects of its restructuring plan and accordingly, the Company adjusted approximately $570,000 of severance accrual at December 31, 1998 as a reduction of expense and has classified the remainder, (which are considered, prepetition claims and amount to approximately $200,000), as Liabilities Subject to Compromise in the accompanying condensed consolidated balance sheet at December 31, 1998. (See Note 6).

6. LIABILITIES UNDER CHAPTER 11

In Chapter 11 cases, substantially all unsecured liabilities (except to the extent otherwise paid or disallowed) as of the date of filing are subject to compromise or other treatment under a plan to be confirmed by the Bankruptcy Court after submission to any required vote by affected parties. For financial reporting purposes, those liabilities and obligations whose treatment and satisfaction is dependent on the outcome of the Chapter 11 cases have been segregated and classified as Liabilities Subject to Compromise in the accompanying condensed consolidated balance sheet as of December 31, 1998. Generally, all actions to enforce or otherwise effect repayment of pre-Chapter 11 liabilities as well as all pending litigation against the Debtors are stayed while the Debtors continue their business operations as debtors-in-possession. Schedules (subject to amendment) have been filed by the Debtors with the Bankruptcy Court setting forth the assets and liabilities of the Debtors as of the Petition Date as reflected in the Debtors' accounting records. The Company has notified all known claimants of the bar date by which the claimant must file a proof of claim with the Bankruptcy Court. This bar

date (July 6, 1999) is the date by which claims against the Company must be filed if the claimants wish to receive distributions, if any, authorized under order confirming a Chapter 11 plan, or other court order in the Chapter 11 cases. Differences between amounts shown by the Debtors and eventual claims filed by creditors will be investigated and will be either amicably resolved or adjudicated before the Bankruptcy Court. The ultimate amount of and settlement terms for such liabilities are subject to court orders and, accordingly, are not presently determinable.

Under the Bankruptcy Code, the Debtors may elect to assume or reject executory contracts and leases for real property, subject to Bankruptcy Court approval. Claims for damages resulting from the rejection of such executory contracts and leases may be subject to different bar dates. The Debtors are currently evaluating the executory leases and contracts to determine if any may be rejected.

The principal categories of obligations classified as Liabilities Subject to Compromise are identified below. The amounts presented below in total may vary significantly from the stated amount of proofs of claim that will be filed with the Bankruptcy Court and may be subject to future adjustment depending on Bankruptcy Court action, further developments with respect to potential disputed claims, determination as to the value of any collateral securing claims, or other events.

LIABILITIES SUBJECT TO COMPROMISE:

	December 31, 1998
Accounts payable, trade	$ 1,622,000
Accrued expenses, including interest	2,662,000(1)
Credit Agreement	44,138,000(1)
Convertible notes to affiliates	2,276,000(1)
Shareholder note	991,000(1)
	$ 51,689,000

(1) As a result of the Chapter 11 filing, no principal or interest payments will be made on prepetition debt without Bankruptcy Court approval or until a Chapter 11 plan providing for the repayment terms has been confirmed by the Court and becomes effective. Interest on prepetition obligations has not been accrued after the Petition Date except to the extent specifically contemplated by prepetition date contracts (including the prepetition date Credit Agreement) and to the extent of interest expense

and principal amortizations on capital lease obligations. Contractual interest expense accrued but unpaid on prepetition debt totaled $634,000 at December 31, 1998.

7. EARNINGS (LOSS) PER SHARE

In 1997 the FASB issued Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings Per Share" which applies to entities with publicly held common stock and simplifies the standards for computing earnings per share. SFAS No. 128 replaces the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods and accordingly, all earnings per share amounts for all periods presented have been conformed to SFAS No. 128 requirements.

Basic and diluted net loss per share for the three and nine months ended December 31, 1998 and 1997 were calculated using the weighted average number of shares of Common Stock outstanding during the respective periods. Common Stock equivalents are not included in the computation of diluted net loss per share for the three and nine month periods ended December 31, 1998 and 1997, as their effect is antidilutive.

The following table sets forth the computation of loss per share attributable to common shareholders:

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Loss before extraordinary items as reported	$(27,907,000)	$(22,713,000)	$(29,923,000)	$(30,382,000)
Dividends, Series A Preferred Stock	(108,000)	--	(217,000)	--
Dividends, Series B Preferred Stock	(49,000)	--	(98,000)	--
Accretion, Series A Preferred Stock	(151,000)	--	(176,000)	--
Numerator for earnings per share - loss attributable to common shareholders	$(28,215,000)	$(22,713,000)	$(30,414,000)	$(30,382,000)

</TABLE>

8. PRACTICE AFFILIATIONS AND INVESTMENT IN SUBSIDIARIES

In April 1998, the Company entered into an Asset Purchase Agreement and a Management Services Agreement with Seaview Orthopaedic & Medical Associates, a New Jersey general partnership ("Seaview"), in exchange for $3,805,000 in cash and the issuance of convertible promissory notes for $1,543,000, bearing interest at 5% and convertible into shares of Common Stock at a conversion rate of $8.75 on the unpaid principal amounts.

The aggregate consideration of $5,507,000, including transaction costs of $159,000, has been allocated as follows: $5,379,000 to Management Services Agreements and $128,000 to furniture, fixtures and equipment.

In April 1998, the Company entered into an Asset Purchase Agreement and a Management Services Agreement with Community Orthopedics and Pain Management, a Florida Corporation ("Community"), in exchange for $611,000 in cash and the issuance of a convertible promissory note for $604,000, bearing interest at 5% and convertible into shares of Common Stock at a conversion rate of $8.75 on the unpaid principal amount. The aggregate consideration of $1,275,000, including transaction costs of $60,000, has been allocated as follows: $1,267,000 to Management Services Agreement and $8,000 to furniture, fixtures and equipment.

In April 1998, the Company entered into an Asset Purchase Agreement and a Management Services Agreement with Steven P. Hirsch, D.P.M., P.A., a Florida professional association ("Hirsch"), in exchange for $160,000 in cash and the issuance of a convertible promissory note for $130,000, bearing interest at 5% and convertible into shares of Common Stock at a conversion rate of $8.75 on the

unpaid principal amount. The aggregate consideration of $301,000, including transaction costs of $11,000, has been allocated as follows: $230,000 to Management Services Agreement and $71,000 primarily to furniture, fixtures and equipment, and accounts receivable.

In April 1998, the Company entered into a Management Services Agreement with Douglas A. Bobb, D.O., in exchange for the issuance of 157,071 shares of Common Stock recorded at $7.38 per share, representing consideration of $1,159,000. The aggregate consideration of $1,208,000 including transaction costs of $49,000 has been allocated to the Management Services Agreement.

In April 1998, BMJ of Chandler, Inc., a wholly-owned subsidiary of the Company, purchased the assets of Warner Medical Park Outpatient Surgery, Inc., for $1,800,000. In April 1998, Surgical Associates of Bakersfield, Limited Partnership, a limited partnership controlled by the Company, acquired all of the assets of Kern Surgery Center, a California limited partnership, for $2,400,000. These transactions have been accounted for using the purchase method of accounting. Accordingly, the aggregate purchase price has been allocated as follows: accounts receivable- $177,000; furniture, fixtures and equipment-$261,000; goodwill and other intangibles-$3,531,000, with the remaining purchase price allocated primarily to other assets. The Company is depreciating the related assets acquired over their estimated useful lives, ranging from three to seven years. Goodwill is being amortized over its estimated remaining life of 25 years.

In June 1998, the Company entered into a Stock Purchase Agreement and a Management Services Agreement with the Boca Raton Orthopaedic Group Inc., a Florida corporation, in exchange for $3,517,000 in cash, an obligation to issue $2,427,000 of Convertible Preferred Stock and the assumption of $1,000,000 in liabilities. The aggregate consideration of $7,680,000 including transaction costs has been allocated as follows: $5,697,000 to Management Services Agreement, $1,000,000 to accounts receivable and $983,000 to furniture, fixtures and equipment.

In July and September 1998, the Company entered into two separate Asset Purchase Agreements and Management Services Agreements with Glen Miller, LTD., a Nevada Corporation ("Miller") and Community Foot Care, P.A. Mark Warren, D.D.M., a Florida Corporation ("Warren"), located in Reno, Nevada and Delray Beach, Florida, respectively. The Company paid consideration consisting of $1,660,000 in cash, the issuance of 2,323 shares of Convertible Preferred Stock with a fair value of $232,000 and the obligation to issue $140,000 of Convertible Preferred Stock, assumption of $269,000 of accrued liabilities and the issuance of 104,404 shares of Common Stock recorded at $2.22 per share. The aggregate consideration of $2,541,000 including transaction costs has been allocated as follows: $2,348,000 to Management Services Agreements and $193,000 to accounts receivable and furniture, fixtures and equipment. The total number of shares to be issued to Miller will depend on among other factors, the amount of collections for the twelve month period ended September 1999. The value of any subsequently issued shares will increase the cost of the Miller Management Services Agreement.

See Note 4 for a discussion of the Company's consideration of whether the long-lived assets associated with these transactions and prior affiliation transactions have been impaired and the anticipated consequences of such determination.

9. DEBT AND PREFERRED STOCK ISSUANCE

In April 1998, the Company issued in the aggregate, $2,300,000 of convertible promissory notes (the "Convertible Notes") in conjunction with three practice affiliation transactions that mature in four equal annual installments. The Convertible Notes bear interest at 5% and are convertible into shares of Common Stock at a conversion rate of $8.75 on unpaid principal amounts at the option of the holder on the maturity dates.

In June, July and September, 1998, the Company, in connection with three practice affiliation transactions, became obligated to issue a total $2,800,000 of Series B Convertible Preferred Stock ("Series B") par value, $.01 per share which is convertible into Common Stock. The Company has authorized the issuance of up to 500,000 Series B shares. There were 2,323 shares issued and outstanding as of December 31, 1998 and the Company has an obligation to issue an additional 25,664 Series B shares. The Series B carries a 7% cumulative dividend that is payable in additional shares of stock or cash. The Company is not obligated to issue any additional shares of Series B on account of these transactions until the first year anniversary of the practice affiliation. As a result of the Chapter 11 filing, no additional shares have been issued. The Series B conversion to Common Stock is based on, in part, the Market Price (as defined in

the Certificate of Designation for the Series B) of the Company's common stock and is mandatory on the first anniversary after issuance.

On June 30, 1998, the Company refinanced substantially all of its existing debt with its previous lenders with proceeds from a $60,000,000 credit facility which consisted of a $15,000,000 revolving line of credit ("Revolving Loan"), a $25,000,000 term note ("Tranche B Loan") and a $20,000,000 acquisition line of credit (collectively referred to as the "Credit Facility"). At December 17, 1998, $44,138,000 was outstanding under the Credit Facility.

The Company is also required to meet certain covenants, including (a) the maintenance of certain fixed charge, interest coverage, maximum funded indebtedness and leverage ratios, (b) the maintenance of a minimum level of EBITDA and Tangible Net Worth (as defined in the Credit Facility) and (c) limitation on capital expenditures. The Credit Facility also prohibits, with certain exceptions, the Company from paying cash dividends. Additionally, under the terms of the Credit Facility the Company is subject to certain restrictions with respect to issuing subordinated debt, sales of Company assets, and changes in control of the Company. The Credit Facility is secured by substantially all of the assets of the Company and is supported by guarantees of the subsidiaries of the Company. As a result of the voluntary petitions for relief under Chapter 11, the Company is in default with respect to the Credit Facility.

In connection with the Credit Facility, the Company issued pursuant to a Securities Purchase Agreement (the "Purchase Agreement") a new Series A Redeemable Convertible Preferred Stock, par value, $.01 per share (the "Series A"), to an affiliate of its agent bank in exchange for cash of $7,000,000. This Series A is convertible into 1,473,684 shares of Common Stock. The Series A carries a 6% cumulative dividend that is payable in cash. In addition, pursuant to the Purchase Agreement, the investor obtained the right to nominate one member to the Board of Directors of the Company and certain other rights.

In connection with the Credit Facility and the Purchase Agreement, the Company issued in June 1998, an aggregate of 446,451 warrants to purchase Common Stock with exercise prices ranging from $0.01-$9.00 per share with a weighted average exercise price of $3.53 per share. The fair values per warrant based on the Black-Scholes valuation method range from $3.26-$4.75 per share and the related debt discount for certain of the warrants will be amortized over the life of the Credit Facility.

Certain of the warrants contain put rights, which become effective upon the earlier of: (1) a change of control or (2) June 30, 2005. In addition, certain of the warrants are subject to anti-dilution provisions which may ultimately increase the number of shares of Common Stock issuable upon exercise of such warrants to 2% of the Company's fully-diluted Common Stock, resulting in additional financing expense.

In accordance with the provisions of the Purchase Agreement, the Company satisfied its obligation by issuing in November 1998, 959,000 warrants with an exercise price of $.01 to purchase Common Stock which had been recorded as a discount to the Series A Preferred Stock in the amount of $959,000 at September 30, 1998.

The total put liability on the Series A Preferred Stock warrant grants was adjusted to fair market value of $0.06 per share at December 31, 1998. This $1,400,000 adjustment was accounted for as an increase to paid in capital and a decrease to accrued liabilities and is reflected in the accompanying condensed consolidated balance sheet as of December 31, 1998. If the Company does not complete an effective registration statement to cover the underlying shares of its Common Stock issued pursuant to the Purchase Agreement by an agreed upon date (as defined in the Purchase Agreement) the Company will be required to issue additional nominally priced warrants to purchase Common Stock. The parties have agreed to indefinitely postpone this deadline.

The Series A are subject to redemption upon certain events including, but not limited to, a change in control of the Company or seven years from the date of the original issuance. However, as long as the Credit Facility is in place, the redemption by the holder of the Series A is prohibited. If the Series A has not been converted five years subsequent to the date of issuance, the holder will receive increased Board of Directors' participation, the dividend rate will increase to 12%, and the Company may be required to issue additional warrants to purchase Common Stock.

The Series A is subject to anti-dilution provisions, which may ultimately decrease the conversion price resulting in the issuance of additional shares of Common Stock upon the conversion of the Series A.

On January 23, 1999, the Bankruptcy Court gave final approval of the Company's debtor-in-possession financing agreement (the "DIP Facility") dated December 31, 1998. Under the DIP Facility, which expires on September 30, 1999, the Company may borrow up to $3,750,000 for working capital needs. The DIP Facility bears interest at a rate equal to the prime lending rate plus 2% (9.75% at December 31, 1998). The Company is obligated to pay a commitment fee of .5% on the unused balance plus a letter of credit fee of 2%. The DIP Facility is secured by substantially all of the assets of the Company and its subsidiaries. The DIP Facility contains restrictive covenants including, among other things, requiring the maintenance of minimum levels of cash balances, the maintenance of minimum levels of earnings before interest, taxes, depreciation and amortization (EBITDA), limiting additional indebtedness, liens, contingent obligations and capital expenditures and prohibiting dividend payments.

10. INCOME TAXES

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards SFAS No. 109 ("SFAS No. 109"). SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At December 31, 1998, net operating loss carryovers of approximately $23,000,000 were available to reduce future federal income taxes, subject to certain annual limitations.

SFAS No. 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that the deferred tax assets should be fully reserved and, accordingly, are carried at a zero value at both December 31, 1998 and March 31, 1998.

11. COMMITMENTS AND CONTINGENCIES

On February 18, 1999, the Bankruptcy Court approved an employee retention bonus program aggregating approximately $1,300,000. In summary, the retention bonus is payable upon the earliest to occur of: (a) the confirmation of a Chapter 11 plan under the Bankruptcy Code; (b) distribution of assets of the debtor's

estate under Chapter 7 of the Bankruptcy Code; (c) the sale of substantially all of the assets of the Company, or (d) the involuntary loss of employment without cause.

The Company is subject to legal proceedings in the ordinary course of its business including certain claims resulting from successor liability in connection with the assumption of certain liabilities of the physician practices. The Company does not believe that any of such legal proceedings except those described below, after consideration of professional and other liability insurance and amounts provided in the accompanying consolidated balance sheet as of December 31, 1998, could have a material adverse effect on the Company's financial position, results of operations or cash flows. The Company has determined that it is not possible to estimate the amount of damages, if any, that may ultimately be incurred. As a result, no provision has been made in the financial statements with respect to these contingent liabilities. Because of certain legal actions initiated against the Company and the subsequent Chapter 11 filing by the Company, management reevaluated the Company's long-lived assets for impairment. (See Note 4 for further discussion).

On October 20, 1998, a litigation action entitled Tri-City Orthopedic Surgery Medical Group, Inc. et al. V. BMJ Medical Management, Inc. Case No. 98-CV-1903-JM-LAB ("Tri-City") was filed. In this action, which was brought in the United States District Court for the Southern District of California, plaintiffs have asserted claims for breach of contract, common law fraud and securities fraud arising out of the MSA between plaintiffs and the Company. This action is currently stayed pursuant to the automatic stay provisions of Section 362 of the United States Bankruptcy Code. This litigation was settled subsequent to December 31, 1998. See Note 12.

On December 10, 1998, a litigation action entitled Lighthouse Orthopedic Associates, Inc. and Orthopaedic Surgery Associates, Inc. et al. v. BMJ Medical Management, Inc. was filed. In this action, which was brought in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida, plaintiffs have asserted claims for breach of contract, common law fraud and securities fraud arising out of the MSA between plaintiffs and the Company. This action is currently stayed pursuant to the automatic stay provisions of Section 362 of the United States Bankruptcy Code. The Company intends to defend against this action vigorously.

On December 11, 1998, a litigation entitled Gold Coast Orthopedics v. BMJ

Medical Management, Inc. was filed. In this action brought in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida, plaintiffs have asserted claims for breach of contract, common law fraud and securities fraud arising out of the MSA between plaintiffs and the Company. This action is currently stayed pursuant to the automatic stay

provisions of Section 362 of the United States Bankruptcy Code. The Company intends to defend against this action vigorously.

On December 17, 1998, an adversary action entitled BMJ Medical Management, Inc., v. Lighthouse Orthopaedic Associates, Inc. et al. Case No. A-98-611 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. On December 17, 1999 the court granted the Company's motion for temporary restraining order requiring defendants to transfer collections on the accounts receivable to the Company. On January 25, 1999, the court granted the Company's motion for preliminary injunction requiring defendants to transfer collections on the accounts receivable and comply with the provisions of the MSA. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On December 17, 1998, an adversary action entitled BMJ Medical Management, Inc. v. Orthopaedic Surgery Associates, Inc. et al. Case No. A-98-610 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. On December 17, 1998 the court granted BMJ's motion for temporary restraining order requiring defendants to transfer collections on the accounts receivable to the Company. On January 22, 1999, the court granted the Company's motion for preliminary injunction requiring defendants to transfer collections on the accounts receivable and comply with the provisions of the MSA. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On December 22, 1998, an adversary action entitled BMJ Medical Management, Inc. v. Broward Orthopedic Specialist, Inc. et al. Case No. A-98-613 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims for damages, injunctive

relief and turnover arising out of the MSA between the Company and defendants. The Company seeks temporary, preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. On December 23, 1998, the court granted the Company's motion for temporary restraining order requiring defendants to transfer collections on the accounts receivable to the Company. On February 17, 1999, the court entered an order granting a preliminary injunction requiring defendants to transfer collections on the accounts receivable and comply with the provisions of the MSA. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On December 22, 1998, an adversary action entitled BMJ Medical Management, Inc.v. Valley Sports and Arthritis Surgeons, P.C. et al. Case No. A-98-614 ("Valley Sports") was filed. In this action, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks temporary, preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. On December 23, 1998 the court granted the Company's motion for temporary restraining order requiring defendants to transfer collections on the accounts receivable to the Company. On January 22, 1999, the Court entered an order granting a preliminary injunction requiring defendants to transfer collections on the accounts receivable and comply with the provisions of the MSA. This litigation was settled subsequent to December 31, 1998. See Note 12.

On February 17, 1999, an adversary action entitled BMJ Medical Management, Inc. v. South Texas Spinal Clinic. P.A. et al. Case No. A-99-48 ("STSC") was filed. In this action, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. This litigation was settled subsequent to December 31, 1998. See Note 12.

On February 22, 1999, an adversary action entitled BMJ Medical Management, Inc. v. Terence J. Matthews, M.D. et al. Case No. A-99-50 was filed. In this action which is currently pending in the United States

Bankruptcy Court for the District of Delaware, the Company has asserted claims for breach of a non-competition agreement contained in the MSA between defendants and the Company. The Company's complaint also seeks compensatory and punitive damages for defendants breaches of the MSA including their failure to transfer collections on the accounts receivable to the Company. The complaint also seeks preliminary and permanent injunctive relief restraining and enjoining defendants from the continued violation of defendants non-competition agreement. The hearing on the Company's motion for preliminary injunction was set for April 22, 1999. On April 21, 1999, Dr. Matthews filed for protection under the Bankruptcy Code in Florida. As a result of Dr. Matthews' bankruptcy filing, the Company's action against Dr. Matthews is currently subject to the automatic stay.

On March 1, 1999, an adversary action entitled BMJ Medical Management, Inc. v. Lighthouse Orthopaedic Associates, Inc. and Beasley, Leacock & Hauser, P.A. et al. Case No. A-99-69 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has filed a complaint asserting claims against defendants for violation of the automatic stay arising out of the defendants' filing suit in state court against certain officers and directors of the Company and others asserting claims for common law fraud, violation of the Florida Investor Protection Act and federal securities fraud in connection with the offer and sale of the Company's stock. The Company's complaint sought enforcement of the automatic stay, and permanent injunctive relief against defendants. On April 7, 1999 the defendants filed a motion to dismiss the Company's complaint. On May 24, 1999, the Company amended its complaint and motion for enforcement of the automatic stay and permanent injunctive relief to add, as additional defendants, the Company's liability insurance carrier and the officers, directors and underwriters named as defendants in the state court suit. On June 4, 1999, certain of the defendants file a motion to dismiss the amended complaint. On June 29, 1999 the court entered an order granting the Company'y motion to enforce the automatic stay and enjoined the continuation of defendants' state court suit until August 20, 1999. The court also enjoined the Company's liability insurance carrier from making any payments on account of any claims made under the insurance policy until August 20, 1999.

On March 1, 1999, an adversary action entitled BMJ Medical Management, Inc. v. Brenda Sapir and Beasley, Leacock & Hauser, P.A. et al. Case No. A-99-68 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company filed a complaint asserting claims against defendants for violation of the automatic stay arising out of the defendants' filing a class action suit in federal court against certain officers and directors of the Company and others alleging federal securities fraud and negligent misrepresentation in connection with the offer and sale of the Company's stock. The Company's complaint sought enforcement of the automatic stay, sanctions, and permanent injunctive relief against defendants. On April 7, 1999, the defendants filed a motion to dismiss the Company's complaint. On May 24, 1999, the Company amended its complaint and motion for enforcement of the automatic stay and permanent injunctive relief to add, as additional defendants, the Company's libility insurance carrier and the officers, directors and underwriters named as defendants in the federal class action suit. On June 4, 1999, certain of the defendants filed a motion to dismiss the amended complaint. One June 29, 1999 the court entered an order granting the Company's motion to enforce the automatic stay and enjoined the continuation of defendants' federal court suit until August 20, 1999. The court also enjoined the Company's liability insurance carrier from making any payments on account of any claims made under the insurance policy until August 20, 1999.

On June 23, 1999, an adversary action entitled BMJ Medical Management, Inc. v. Douglas A. Bobb, D.O. Case No. A-99-197 was filed. In this action, which is currently pending in the United States Bankruptcy Court for

the District of Delaware, the Company has asserted claims against Dr. Bobb for damages, injunctive relief and turnover arising out of the MSA between the Company and defendant. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On June 23, 1999, an adversary action entitled BMJ Medical Management, Inc. v. H. Leon Brooks, M.D. et al Case No. A-99-196 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims against Dr. Brooks for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On March 25, 1999, an adversary action entitled Chaim Arlosoroff, M.D. v. BMJ Medical Management, Inc. Case No. A-99-93 was filed against BMJ. In this action, filed in the United States Bankruptcy Court for the District of Delaware, Dr. Arlosoroff sought a declaratory judgment that a non-competition agreement between the Company and Dr. Arlosoroff was unenforceable. The Company asserted counterclaims against Dr. Arlosoroff for breach of the non-competition agreement and for preliminary and permanent injunctive relief restraining and enjoining Dr. Arlosoroff from the continued violation of defendants non-competition agreement. The Company is in the process of settling the entire action, including Dr. Arlosoroff's claims, for a certain cash payment by Arlosoroff to buy-out his non-competition agreement.

On June 4, 1999, an adversary action entitled Seaview Orthopaedic and Medical Associates et al. V. BMJ Medical Management, Inc. Case No. A-99-159 was filed against BMJ. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, Seaview seeks a declaratory judgment that the MSA between the Company and Seaview has been terminated. Seaview also filed a motion for preliminary and permanent injunctive relief seeing to enjoin future payments of management fees under the agreement between the Company and Seaview. The court denied such motions on July 1, 1999. The Company intends to pursue this action vigorously.

12. SUBSEQUENT EVENTS

In June and July 1999, the Company closed on settlement transactions with five or its affiliated physician practices involving 52 physicians. Under terms of the settlements agreements, the Company received $17,903,000 in cash and 5,613,000 shares of its common stock from the physician practices and transferred ownership of the accounts receivable and furniture fixtures and equipment to the physician groups. Additionally, the MSA's with

the physician practices were terminated. As a result of these settlement transactions, the Tri-City litigation against the Company was terminated and the STSC and Valley Sports proceedings were also terminated. The Company used the proceeds of these transactions to repay a portion of its secured indebtedness. The loss related to these settelments amounted to approximately $9,900,000 of which approximately $8,000,000 was recognized and included in the three months ended December 31, 1998 as loss on impairment of long lived assets. The remaining $1,900,000 will be recognized in the month of settlement.(See Note 4).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the related Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Transition Report on Form 10-K for the period ended March 31, 1998 and the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q. On December 17, 1998, BMJ Medical Management, Inc. (the "Company") and five of its subsidiaries filed voluntary petitions for relief under Chapter 11 Title 11 of the United States Code ("the Bankruptcy Code") with the United States Bankruptcy Court ("Bankruptcy Court") for the District of Delaware, Wilmington, Delaware situated in the United States. The Company is currently operating its business as a debtor-in-possession, under Sections 1107 and 1108 of the Bankruptcy Code and the Company wishes to caution readers that various factors could cause the actual results of the Company to differ materially from those indicated by forward-looking statements included herein and made from time to time by representatives of the Company. Except for historical information, matters discussed below and in other oral and written communications such as press releases are forward-looking statements that involve risks and uncertainties. Whenever possible, the Company has identified these forward-looking statements by words such as "believes," "estimates," "expects," and similar expressions. The risks and uncertainties that these forward-looking statements are subject to include,

without limitation, the successful implementation of any Chapter 11 plan that the Company may adopt, a reduction of debt levels, any aspects of any Chapter 11 plan submitted in connection with its Chapter 11 proceedings which is subject to creditor and Bankruptcy Court approval, the potential inability of the Company to meet its short term and long term liquidity needs, the potential termination of contractual relationships, the potential inability of the Company to establish ancillary service facilities, fluctuations in the volume of procedures performed by the practices' physicians, changes in the reimbursement rates for those services, uncertainty about the ability to collect the appropriate fees for services provided or ordered by the practices' physicians, taxes, and governmental regulations and the factors described below under the caption "Impact of the Year 2000".

OVERVIEW AND RECENT DEVELOPMENTS

On December 17, 1998, ("Petition Date") BMJ Medical Management, Inc. and five of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under the Bankruptcy Code with the Bankruptcy Court. The Company is currently operating its business as a debtor-in-possession, under Sections 1107 and 1108 of the Bankruptcy Code. The Chapter 11 cases are being jointly administered for procedural purposes by the Bankruptcy Court under Case Nos.98-2799 to 98-2804, Caption In re: BMJ Medical Management, Inc. All court filings in connection with the Debtor's bankruptcy can be accessed on the internet at http:// www.deb.uscourts.gov. The following summary of the current status of the cases, is not purported to be complete and is qualified in its entirety by reference to the Bankruptcy Court filings. The Company recommends that all interested parties access the aforementioned website to obtain additional, potentially relevant information.

As a debtor-in-possession, the Company is authorized to operate its business, but may not engage in transactions outside of the ordinary course of business without approval, after notice and hearing, of the Bankruptcy Court. An unsecured creditors' committee was formed by the U.S. Trustee on January 7, 1999, which has the right to participate in the case as a party in interest.

The Company is principally a Physician Practice Management Company ("PPM") that provides management services to its affiliated practices and ancillary service facilities. The Company focuses on musculoskeletal care, which involves the medical and surgical treatment of conditions related to bones, muscles, joints and related connective tissues. The broad spectrum of musculoskeletal care offered by the Physician Practices ranges from acute procedures, such as spine or other complex surgeries, to the treatment of chronic conditions, such as arthritis and back pain. As of December 31, 1998, the Company had affiliated

with physician practices operating in Arizona, California, Florida, Pennsylvania, New Jersey, Nevada, and Texas by entering into Management Services Agreements ("MSA's"). The Company was incorporated in Delaware in January 1996 and affiliated with its first Practice in July 1996. As of December 31, 1998, the Company had entered into 36 MSA's with physician practices compromising 146 physicians. The Company had also acquired an independent physician association with 42 physicians. Additionally, the Company had assisted with several affiliated practices in adding new physicians to the existing practice and in facilitating the combination, where appropriate, of certain solo practices into larger existing practices.

On February 24, 1999, the Company's common stock was delisted from the Nasdaq National Market. ("Nasdaq"). Nasdaq had determined that the Company was not in compliance with the minimum bid price for continued listing of its common stock on the Nasdaq National Market. The delisting of the Company's common stock could have a material adverse effect on the market price of, and the efficiency of the trading market for, the Company's common stock.

On June 18, 1999, the Company filed a Form 15 with the Securities and Exchange Commission, certifying and notifying the SEC that the Company is no longer required to meet the filing requirements specified under Sections 13 and 15(d) of the Securities Exchange Act of 1934.

In December 1998, three affiliated physician practices in Florida withheld monies due to the Company related to the collection of the Company's accounts receivable and initiated legal actions against the Company alleging breach of contract, common law fraud and securities fraud. The Company filed for protection under Chapter 11 in the Bankruptcy Court. The Company also filed complaints and was granted temporary restraining orders and preliminary injunctions compelling compliance with the terms of the MSA's with respect to certain of the Company's affiliated physician practices. All acts to collect pre-petition indebtedness and/or exercise control over property of the Debtors is prohibited.

These events and circumstances triggered the re-evaluation by management of the Company's long-lived assets for impairment under Statement of Financial Accounting Standards (SFAS) No. 121 "Impairment of Long-lived Assets." Therefore, in accordance with SFAS No. 121, the Company estimated by asset groups the future cash flows expected to result from its long-lived assets. The Company's management grouped the long-lived assets associated with its ambulatory surgery centers and each individual MSA maintained by the Company with its

affiliated physician practices. The long-lived asset groups primarily include furniture, fixtures and equipment, and intangible assets consisting primarily of MSA costs and goodwill. Cash flow data by individual affiliated physician practice and individual ambulatory surgery center represents what management believes to be the lowest level of identifiable, historical cash flows which are independent of the historic cash flows of other asset groups.

Additionally, management reassessed the estimated remaining useful lives of the MSA's and reduced the periods over which the MSA's would be amortized from a range of 4 to 25 years to a range of 2 to 19 years. As a result of the Chapter 11 filing and the external factors influencing the physician practice management sector, management believes that such a downward revision to the estimated useful lives is appropriate. Management based its revised estimated useful lives on the remaining period of service to retirement age of the physicians comprising the affiliated physician practices because the Company believes that it will be unable to recruit new physicians who would be willing to become a party to the MSA's.

The Company estimated undiscounted cash flows for each affiliated physician practice and ambulatory surgery center using the most recent historical experience and the estimated remaining useful lives. For certain of the affiliated physician practices and the ambulatory surgery centers, the Company was engaged in substantive settlement/sale negotiations as of December 31, 1998. Accordingly, for those operations, the estimated cash flows were adjusted to include (a) cash flows only through the estimated date of disposal/settlement; (b) estimated cash proceeds from the sale/settlement and (c) decreases in cash flows for the ambulatory surgery centers resulting from decreased referrals from affiliated physicians.

As a result of comparing the estimated, undiscounted cash flows for each affiliated physician practice and each ambulatory surgery center to the net book value at December 31, 1998 of each group of long-lived assets associated with the respective entities, management identified certain assets for which an impairment charge would be required. Management then estimated the fair value of such assets using the present value of future cash flows or negotiated proceeds to be received upon settlement/disposal and compared this fair value to the carrying value of the assets to determine the amount of the impairment loss to be recorded.

Based on the analysis, the Company recorded a loss on impairment of long-lived assets of $22.6 million and $23.2 million which has been included in the accompanying condensed consolidated statement of operations for the three and nine months ended December 31, 1998, as follows:

<TABLE>
<CAPTION>

	Three months ended December 31, 1998	Nine months ended December 31, 1998
<S>	<C>	<C>
Management Services Agreements	$17,492,000	$18,042,000
Ambulatory surgery centers	3,350,000	3,350,000
Furniture, fixtures and equipment	1,765,000	1,765,000
	$22,607,000	$23,157,000

</TABLE>

Furthermore, management continues to conduct discussions with various affiliated physician groups. The Company is in the process of developing a Chapter 11 plan with the assistance of its professional advisors. Among the alternatives being considered is a restructuring of the Company's arrangements with its affiliated practices and physicians. This restructuring could include: (a) consummating a "buy out" transaction with affiliated physicians pursuant to which the MSA's would be terminated and the Company would receive cash consideration; (b) assumption of the MSA's and assignment to third parties; (c) terminating certain of the MSA's and enforcing rights and remedies offered under the MSA's and/or

applicable law and (d) any combination of the above. The Chapter 11 plan will be dependent on a number of factors including approval by the Company's Board of Directors, Senior Secured Lenders, unsecured creditors and the Bankruptcy Court. No assurances can be given that the Company will be able to negotiate these agreements or obtain these approvals.

Further development of the Company's Chapter 11 plan and discussions with affiliated physician groups subsequent to December 31, 1998 indicate that the remaining book value of the long-lived assets may be further impaired. The exact amount of such additional impairment loss cannot be determined at this time, but is estimated to range between $8.0 million and $12.0 million, and will be recognized, if necessary, in the period that the Chapter 11 plan or the terms of disposal are finalized. The recognition of any such impairment loss would be material and would have a material adverse effect on the Company's results of operations and financial condition.

In September 1998, the Company implemented a restructuring plan which included a total charge of approximately $2.1 million (of which $1.5 million is included in general and administrative expenses for the nine months ended December 31, 1998). This charge consisted primarily of severance costs of approximately $1.1 million relating to 24 positions that were eliminated, other asset write-offs of $400,000

and $550,000 related to the impairment of goodwill as a result of a loss of a significant payor contract for the Company's Independent Physician Association ("IPA") acquired in 1997.

During the three months ended December 31, 1998 the Company made severance payments of approximately $330,000 related to the 24 corporate positions that were eliminated. As a result of the Chapter 11 filing the Company revised certain aspects of its restructuring plan and accordingly, the Company adjusted approximately $570,000 of severance accrual at December 31, 1998 as a reduction of expense and has classified the remainder, (which are considered prepetition claims and amount to approximately $200,000), as Liabilities Subject to Compromise in the accompanying condensed consolidated balance sheet at December 31, 1998.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Under each Management Services Agreement, the Company assumes responsibility for the management of the non-medical operations of the affiliated practices, employs substantially all of the non-professional personnel utilized by the affiliated practices and may provide the affiliated practices with the facilities and equipment used in its medical practice. The Company's management fee revenue consists of four components: (i) percentage of the affiliated practices' net collected revenues (generally ranging from 10% to 15%), plus (ii) 100% of the non-physician affiliated practice expenses (generally expected to range from 45% to 55% of the affiliated practices' net collected revenue), plus (iii) 66 2/3% of the cost savings the Company is able to achieve through its purchasing power (generally related to medical malpractice insurance, property and liability insurance, group benefits and certain major medical supplies) plus (iv) a percentage of the profits from new ancillary services at the affiliated practices. The portion of the management fee revenue that represents a percentage of net collected revenue is dependent upon the affiliated practices' revenues which must be billed and collected.

The Company's operating expenses consist primarily of the expenses incurred in fulfilling its obligations under the MSA's. These expenses include medical support services (principally clinic overhead expenses

that would have been incurred by the affiliated practices, including non-professional employee salaries, employee benefits, medical supplies, malpractice insurance premiums, building and equipment rental and other expenses related to clinic operations) and general and administrative expenses (personnel and administrative expenses in connection with maintaining a corporate office function that provides management, contracting, administrative, marketing and development services to the affiliated practices).

Subject to the cash flow constraints and other considerations described below in "Liquidity and Capital Resources - Outlook," the Company believes that its

business model may continue to include operating ancillary service facilities such as ambulatory surgery centers, MRI diagnostic imaging centers and rehabilitative therapy units. Accordingly, the Company expects that the mix and relationship of revenues and operating expenses will differ from historical trends through December 31, 1998. The impact of these activities on the mix of revenues and expenses cannot be determined at this time.

To date, the Company's aggregate operating costs have exceeded management fee revenues received. The Company's ability to increase future management fee revenues, reduce operating costs and achieve profitability and positive cash flow will largely depend upon whether the Company is able to successfully implement a Chapter 11 plan that allows it to access additional capital resources. See "Liquidity and Capital Resources - Outlook."

The Emerging Issues Task Force ("EITF") of the FASB reached a consensus concerning certain matters relating to the physician practice management industry with respect to the requirements which must be met to consolidate a managed professional corporation and the accounting for business combinations involving professional corporations. In accordance with the EITF's guidance, the Company discontinued the use of the display method to report revenues from management contracts in financial statements for the three months ended December 31, 1998. Thus, fees from management contracts are reported as a single line item in the Company's consolidated financial statements and amounts for prior periods have been reclassified to conform to this presentation.

RESULTS OF OPERATIONS

Three Months Ended December 31, 1998 Compared to the Three Months Ended December 31, 1997

The following table sets forth the percentages of the total revenue represented by certain items reflected in the Company's condensed consolidated statements of operations.

As a result of the Company's limited period of existence and affiliation with the Practices, the Company does not believe that comparisons between periods and percentage relationships within the periods set forth below are meaningful.

<TABLE>
<CAPTION>

	Three Months Ended December 31,	
Revenues:	1998	1997
<S>	<C>	<C>
Management Fees	97.7%	100.0%
Other, net	2.3	--
	100.0%	100.0%
Operating expenses and other expenses:		
Medical support services	83.1	80.4
General and administrative	9.6	125.6
Loss on impairment of long-lived assets	130.3	--
Reorganization expenses:		
Professional fees	5.8	--
Deferred financing costs	15.7	--
Depreciation and amortization	11.0	21.7
Total operating expenses	255.5	227.7
Operating loss	(155.5)	(127.7)
Interest expense	5.4	9.9
Net loss	(160.9)%	(137.6)%

</TABLE>

Management Fee Revenue

For the three months ended December 31, 1998, management fee revenue was $17.0 million compared to $16.5 million for the three months ended December 31, 1997. The increase of $500,000 or 3.0 % occurred primarily as a result of additional practices (nine) and physicians (26) affiliated with the Company during the three months ended December 31, 1998 as compared to the three months ended December 31, 1997.

Disputes with certain of the practices arose in the three months ended December 31, 1998 which contributed to the factors resulting in the Company's filing the bankruptcy petition. Consequently, the Company has not reflected management fees

as earned for these practices in the three months ended December 31, 1998.

Other Revenues, Net

Other revenues in the three months ended December 31, 1998 were $400,000. There were no such revenues in the three months ended December 31, 1997. These revenues and the entire increase are attributable to the

Company's ambulatory surgery centers which the Company either owns or is the managing general partner. These activities are consolidated for financial reporting purposes.

Medical Support Services

For the three months ended December 31, 1998 medical support services, principally clinic overhead and surgery center operating expenses, was $14.4 million compared to $13.3 million for the three months ended December 31, 1997. The $1.1 million, or 8.3% increase was attributable to the increased number of affiliated practices and physicians in 1998 as compared to 1997 and the addition of the four ambulatory surgery centers which the Company either owns or serves as the managing general partner.

General Administrative Expenses

For the three months ended December 31, 1998 general and administrative expenses were $1.7 million compared to $20.8 million for the three months ended December 31, 1997. The decrease of $19.1 million or 91.8% is primarily attributable to one-time equity-based compensation expense incurred in 1997 related to certain physicians and employees. The costs related to the increased development of corporate infrastructure to support the additional practice affiliation transactions were largely offset by the inclusion in general and administrative expenses of the minority interests in the ambulatory surgery center partnerships and the adjustment of the severance accrual at December 31, 1998.

Depreciation and Amortization

Depreciation and amortization for the three months ended December 31, 1998 was $1.9 million, as compared to $3.6 million for the three months ended December 31, 1997. The depreciation expense related to acquired furniture, fixtures and equipment and the amortization expense related primarily to Management Services Agreements and goodwill. The decrease related primarily to the lengthened amortization period related to the Management Service Agreements. As a result of the Impairment Loss on Long-lived Assets recognized in the three months ended December 31, 1998, it is anticipated that there will be a further reduction in amortization expense beginning with the three months ended March 31, 1999. The intangible assets related to the Management Services Agreements were being amortized over 4 years during the three months ended December 31, 1997 as a result of the vesting provisions contained in the restricted stock agreements relating to Common Stock which was issued by the Company to physicians in connection with the practice affiliation transactions. As of April 1, 1998, the Company amended and restated substantially all of its restricted stock agreements to eliminate the vesting provisions related to these shares of Common Stock. Accordingly, in April 1998 the

Company revised the estimated useful lives of its assets related to the Management Services Agreements and is amortizing the remaining balances over periods ranging from 4 to 25 years. Consequently, the monthly per practice amortization expense related to the practice affiliation transactions decreased beginning April 1998.

Loss on Impairment of Long-lived Assets

The Company recognized an impairment loss related to long-lived assets of $22.6 million in the three months ended December 31, 1998. See " Overview and Recent Developments" for a more detailed discussion. The Company is in the process of developing a Chapter 11 plan as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Recent Developments". The Company anticipates that a Chapter 11 plan as described above, could result in the determination that the intangible assets related to Management Services Agreements as well as other long-lived assets have been further impaired and would result in the write-off of the impaired portion of those assets. The exact amount of such additional impairment loss, which cannot be determined at this time, but is estimated to range between $8.0 million and $12.0 million and will be recognized in the period that the Chapter 11 plan or the terms of disposal are finalized. The recognition of any such additional impairment loss would be material and would have a material adverse effect on the Company's business, results of operations and financial condition.

In June and July 1999, the Company closed on settlement transactions with five of its affiliated physician practices involving 52 physicians. Under terms of the settlement agreements, the Company received $17.8 million in cash and 5.6 million shares of its common stock from the physician practices and transferred ownership of the accounts receivable and furniture fixtures and equipment to the physician groups. Additionally, the MSA's with the physician practices were terminated. As a result of these settlement transactions, the Tri-City litigation against the Company was terminated and the STSC and Valley Sports proceedings were also terminated. The Company used the proceeds of these transactions to repay a portion of its secured indebtedness. The loss related to these settlements amounted to approximately $9.9 million of which approximately $8.0 million was recognized and included in the three months ended December 31, 1998 as loss on impairment of long lived assets. The remaining $1.9 million will be recognized in the month of settlement.

Reorganization Expense

Reorganization expenses for the three months ended December 31, 1998 were $3.7 million consisting primarily of the write-off of deferred financing costs relating to the secured debt and professional fees incurred by the Company relating to the bankruptcy and related litigation and professional fees incurred by the Company's secured lenders which the Company is obligated to pay. No such expenses were incurred in 1997.

Interest Expense

Interest expense for the three months ended December 31, 1998 was $930,000 compared to $1.6 million for the three months ended December 31, 1997. The decrease of $.7 million primarily related to lower interest rates despite increased amounts of outstanding indebtedness.

Net Loss

The net loss for the three months ended December 31, 1998 was $27.9 million or $1.59 per share of Common Stock, as a result of the factors set forth above. The net loss for the three months ended December 31, 1997 was $22.7 million, or $2.78 per share of Common Stock, as a result of the factors set forth above.

Results of Operations

Nine months ended December 31, 1998 compared to the nine months ended December 31, 1997

The following table sets forth the percentages of the Practices' revenue represented by certain items reflected in the Company's condensed consolidated statements of operations.

As a result of the Company's limited period of existence and affiliation with the Practices, the Company does not believe that comparisons between periods and percentage relationships within the periods set forth below are meaningful.

<TABLE>
<CAPTION>

	Nine Months Ended December 31,	
Revenues:	1998	1997
<S>	<C>	<C>
Management Fees	93.2%	100.0%
Other, net	6.8	--
	100.0%	100.0%
Operating expenses and other expenses:		
Medical support services	78.7	85.7
General and administrative	13.0	77.6
Loss on impairment of long-lived assets	41.8	--
Reorganization expenses:		
Professional fees	1.8	--
Deferred financing costs	4.9	--
Depreciation and amortization	8.4	22.3
Total operating expenses	148.6	185.6
Operating loss	(48.6)	(85.6)
Interest expense	5.3	7.8
Loss before extraordinary item	(53.9)	(93.4)
Extraordinary item	(5.5)	--
Net loss	(59.4)%	(93.4)%

</TABLE>

Management Fee Revenue

For the nine months ended December 31, 1998, management fee revenue was $51.7 million compared to $32.5 million for the nine months ended December 31, 1997. The increase of $19.2 million or 59.1 % was the result of Company's increased number of affiliated practices and physicians in 1998 and the effect of including

management fees for those practices which affiliated in 1997 for the entire nine month period ending December 31, 1998.

Other Revenues, Net

Other revenues in the nine months ended December 31, 1998 were $3.7 million. There were no such revenues in the nine months ended December 31, 1997. These revenues and the entire increase are attributable to the Company's ambulatory surgery centers which the Company either owns or is the managing general partner. These activities are consolidated for financial reporting purposes.

Medical Support Services

For the nine months ended December 31, 1998 medical support services, principally clinic overhead and surgery center operating expenses, was $ 43.6 million compared to $27.9 million for the nine months ended December 31, 1997. The $15.7 million, or 56.3% increase was attributable to the increased number of affiliated practices and physicians in 1998 as compared to 1997 and the addition of the four ambulatory surgery centers which the Company either owns or serves as the managing general partner.

General and Administrative Expenses

For the nine months ended December 31, 1998 general and administrative expenses were $7.2 million compared to $25.2 million for the three months ended December 31, 1997. The decrease of $18.0 million or 71.4% is primarily attributable to one-time equity-based and other compensation expense incurred in 1997 related to certain physicians and employees ($19.8 million) offset by approximately $1.0 million of restructuring costs primarily related to severance and other write offs. The costs related to the increased development of corporate infrastructure to support the additional practice affiliation transactions were largely offset by the inclusion in general and administrative expenses of the minority interests in the Ambulatory Surgery Center partnerships.

Depreciation and Amortization

Depreciation and amortization for the nine months ended December 31, 1998 was $4.7 million, as compared to $7.2 million for the nine months ended December 31, 1997. The decrease related primarily to the lengthened amortization period related to the Management Service Agreements. As a result of the Impairment Loss on Long-lived Assets recognized in the three months ended December 31, 1998, it is anticipated that there will be a further reduction in amortization expense beginning with the three months ended March 31, 1999. The

depreciation expense related to acquired furniture, fixtures and equipment and the amortization expense related primarily to Management Services Agreements. The increase related primarily to the additional practice affiliation transactions entered into since June 30, 1997. The intangible assets related to the Management Services Agreements were being amortized over 4 years during the nine months ended December 31, 1997 as a result of the vesting provisions contained in the restricted stock agreements relating to Common Stock which was issued by the Company to physicians in connection with the practice affiliation transactions. As of April 1, 1998, the Company amended and restated substantially all of its restricted stock agreements to eliminate the vesting provisions related to these shares of Common Stock. Accordingly, in April 1998 the Company revised the estimated useful lives of its assets related to the Management Services Agreements and is amortizing the remaining balances over periods ranging from 4 to 25 years.

Loss on Impairment of Long-lived Assets

The Company recognized an impairment loss related to long-lived assets of $23.2 million of which $550,000 was incurred in September 1998 and related to the impairment of goodwill for the Company's IPA as the result of the bankruptcy of a significant payor. The Company's IPA has not pursued any other payor contracts and is currently not generating any revenues. See " Overview and Recent

Developments" for a more detailed discussion. The Company is in the process of developing a Chapter 11 plan as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Recent Developments". The Company anticipates that a Chapter 11 plan as described above, could result in the determination that the intangible assets related to Management Services Agreements as well as other long-lived assets have been impaired and would result in the write-off of the impaired portion of those assets. The exact amount of such additional impairment loss, which cannot be determined at this time, but is estimated to range between $8.0 million and $12.0 million and will be recognized in the period that the Chapter 11 plan or the terms of disposal are finalized. The recognition of any such additional impairment loss could be material and could have a material adverse effect on the Company's business, results of operations and financial condition.

In June and July 1999, the Company closed on settlement transactions with five of its affiliated physician practices involving 52 physicians. Under terms of the settlement agreements, the Company received $17.8 million in cash and 5.6 million shares of its common stock from the physician practices and transferred ownership of the accounts receivable and furniture fixtures and equipment to the physician groups. Additionally, the MSA's with the physician practices were terminated. As a result of these settlement transactions, the Tri-City litigation against the Company was terminated and the STSC and Valley Sports proceedings were also terminated. The Company used the proceeds of these transactions to repay a portion of its secured indebtedness. The loss related to these settlements amounted to approximately $9.9 million of which approximately $8.0 million was recognized and included in the three months ended December 31, 1998 as loss on impairment of long lived assets. The remaining $1.9 million will be recognized in the month of settlement.

Reorganization Expense

Reorganization expenses for the nine months ended December 31, 1998 were $3.7 million consisting primarily of the write-off of deferred financing costs relating to the secured debt and entirely of professional fees incurred by the Company relating to the bankruptcy and related litigation and professional fees incurred by the Company's secured lenders which the Company is obligated to pay. No such expenses were incurred in 1997.

Interest Expense

Interest expense for the nine months ended December 31, 1998 was $2.9 million compared to $2.6 million for the nine months ended December 31, 1997. The increase of $300,000 primarily related to higher levels of indebtedness.

Extraordinary Item

The Company incurred an extraordinary loss of $3.0 million related to the write-off of deferred financing costs as a result of refinancing its existing debt in June 1998. See "Liquidity and Capital Resources" for further discussion.

Net Loss

The net loss for the nine months ended December 31, 1998 was $33.0 million or $1.89 per share of Common Stock, as a result of the factors set forth above. The net loss for the nine months ended December 31, 1997 was $30.4 million, or $4.43 per share of Common Stock, as a result of the factors set forth above.

Liquidity and Capital Resources

At December 31, 1998 and March 31, 1998, the Company had $34.2 million and $26.6 million, respectively, in working capital and $1.5 and $9.5 million, respectively, in cash and cash equivalents. Such amounts are exclusive of pre-petition liabilities which are classified as long-term liabilities. The Company's principal sources of liquidity as of December 31, 1998 and March 31, 1998 consisted of cash and cash equivalents of $1.5 and $9.5 million, respectively, and $29.5 and $25.8 million of accounts receivable, respectively.

Cash used in operating activities for the nine months ended December 31, 1998 and 1997 was $14.6 million and $927,000, respectively. The increase in cash used in operating activities was primarily related to the increase in receivables, including due from physician groups, and the decrease in accrued expenses.

Cash used in investing activities for the nine months ended December 31, 1998 and 1997 was $21.6 million and $28.2 million, respectively, a decrease of $7.0 million, primarily related to, the reduced number of practice

affiliations and absence of deferred offering costs in the nine months ended December 31, 1998 offset by the surgery center acquisitions.

Cash provided by financing activities for the nine months ended December 31, 1998 and 1997 was $28.2 million and $31.3 million, respectively. The decrease was directly related to the reduced practice affiliation activity in 1998.

In April 1998, the Company issued in the aggregate, $2.3 million of convertible promissory notes (the "Convertible Notes") in conjunction with three practice affiliation transactions that mature in four equal annual installments. The Convertible Notes bear interest at 5% and are convertible into shares of Common Stock at a conversion rate of $8.75 on unpaid principal amounts at the option of the holder on the maturity dates.

In June, July and September, 1998, the Company, in connection with three practice affiliation transactions, became obligated to issue a total $2.8 million of Series B Convertible Preferred Stock ("Series B") par value, $.01 per share which is convertible into Common Stock. The Company has authorized the issuance of up to 500,000 Series B shares. There were 2,323 shares issued and outstanding as of December 31, 1998 and the Company has an obligation to issue an additional 25,664 Series B shares. The Series B carries a 7% cumulative dividend that is payable in additional shares of stock or cash. The Company is not obligated to issue any additional shares of Series B on account of these transactions until the first year anniversary of the practice affiliation. As a result of the Chapter 11 filing, no additional shares have been issued. The Series B conversion to Common Stock is based on, in part, the Market Price (as defined in the Certificate of Designation for the Series B) of the Company's common stock and is mandatory on the first anniversary after issuance.

On June 30, 1998, the Company refinanced substantially all of its existing debt with its previous lenders with proceeds from a $60.0 million credit facility which consisted of a $15.0 million revolving line of credit ("Revolving Loan"), a $25.0 million term note ("Tranche B Loan") and a $20.0 million acquisition line of credit (collectively referred to as the "Credit Facility"). At December 17, 1998, $44.1 million was outstanding under the Credit Facility.

The Company is also required to meet certain covenants, including (a) the maintenance of certain fixed charge, interest coverage, maximum funded indebtedness and leverage ratios, (b) the maintenance of a minimum level of EBITDA and Tangible Net Worth (as defined in the Credit Facility) and (c) limitation on capital

expenditures. The Credit Facility also prohibits, with certain exceptions, the Company from paying cash dividends. Additionally, under the terms of the Credit Facility the Company is subject to certain restrictions with respect to issuing subordinated debt, sales of Company assets, and changes in control of the Company. The Credit Facility is secured by substantially all of the assets of the Company and is supported by guarantees of the subsidiaries of the Company. As a result of the voluntary petitions for relief under Chapter 11, the Company is in default with respect to the Credit Facility.

In connection with the Credit Facility, the Company issued pursuant to a Securities Purchase Agreement (the "Purchase Agreement") a new Series A Redeemable Convertible Preferred Stock, par value, $.01 per share (the "Series A"), to an affiliate of its agent bank in exchange for cash of $7.0 million. This Series A is convertible into 1,473,684 shares of Common Stock. The Series A carries a 6% cumulative dividend that is payable in cash. In addition, pursuant to the Purchase Agreement, the investor obtained the right to nominate one member to the Board of Directors of the Company and certain other rights.

In connection with the Credit Facility and the Purchase Agreement, the Company issued in June 1998, an aggregate of 446,451 warrants to purchase Common Stock with exercise prices ranging from $0.01-$9.00 per share with a weighted average exercise price of $3.53 per share. The fair values per warrant based on the Black-Scholes valuation method range from $3.26-$4.75 per share and the related debt discount for certain of the warrants will be amortized over the life of the Credit Facility.

Certain of the warrants contain put rights, which become effective upon the earlier of: (1) a change of control or (2) June 30, 2005. In addition, certain of the warrants are subject to anti-dilution provisions which may ultimately increase the number of shares of Common Stock issuable upon exercise of such warrants to 2% of the Company's fully-diluted Common Stock, resulting in additional financing expense.

In accordance with the provisions of the Purchase Agreement, the Company satisfied its obligation by issuing in November 1998, 959,000 warrants with an exercise price of $.01 to purchase Common Stock which had been recorded as a discount to the Series A Preferred Stock in the amount of $959,000 at September 30, 1998.

The total put liability on the Series A Preferred Stock warrant grants was adjusted to fair market value of $0.06 per share at December 31, 1998. This $1.4 million adjustment was accounted for as an increase to paid in capital and a decrease to accrued liabilities and is reflected in the accompanying condensed consolidated balance sheet as of December 31, 1998. If the Company does not complete an effective registration statement to

cover the underlying shares of its Common Stock issued pursuant to the Purchase Agreement by an agreed upon date (as defined in the Purchase Agreement) the Company will be required to issue additional nominally priced warrants to purchase Common Stock. The parties have agreed to indefinitely postpone this deadline.

The Series A are subject to redemption upon certain events including, but not limited to, a change in control of the Company or seven years from the date of the original issuance. However, as long as the Credit Facility is in place, the redemption by the holder of the Series A is prohibited. If the Series A has not been converted five years subsequent to the date of issuance, the holder will receive increased Board of Directors' participation, the dividend rate will increase to 12%, and the Company may be required to issue additional warrants to purchase Common Stock.

The Series A is subject to anti-dilution provisions, which may ultimately decrease the conversion price resulting in the issuance of additional shares of Common Stock upon the conversion of the Series A.

On January 23, 1999, the Bankruptcy Court gave final approval of the Company's debtor-in-possession financing agreement (the "DIP Facility") dated December 31, 1998. Under the DIP Facility, which expires on September 30, 1999, the Company may borrow up to $3.8 million for working capital needs. The DIP Facility bears interest at a rate equal to the prime lending rate plus 2% (9.75% at December 31, 1998). The Company is obligated to pay a commitment fee of .5% on the unused balance plus a letter of credit fee of 2%. The DIP Facility is secured by substantially all of the assets of the Company and its subsidiaries. The DIP Facility contains restrictive covenants including, among other things, requiring the maintenance of minimum levels of cash balances, the maintenance of minimum levels of earnings before interest, taxes, depreciation and amortization (EBITDA), limiting additional indebtedness, liens, contingent obligations and capital expenditures and prohibiting dividend payments.

The Company is exploring opportunities to obtain long-term financing to support the Company's business plan after it emerges from Chapter 11; however, there can be no assurance that the Company will be able to obtain such financing on satisfactory terms, if at all.

Outlook

Historically, available cash has been generated from cash flow from operations, borrowings under the Credit Facility and other debt, and the proceeds of equity securities. Additionally, the Company's short-term liquidity

is affected by the amounts and timing of collections received on accounts receivable balances. No assurance can be given that the collections will be received on a timely basis or in amounts sufficient to meet the short-term liquidity needs of the Company. The financing of ongoing operations and certain business expansion is anticipated to be provided by a combination of cash flows from operations and the DIP Facility. The Company believes that the combination of these sources will be sufficient to meet its currently anticipated operating and capital expenditure requirements and working capital needs through September 30, 1999. The Company is actively negotiating extensions of the DIP Facility.

As of the petition date, any act by any creditor or other person to collect pre-petition indebtedness or to exercise control over property of the Debtors is prohibited, unless specifically allowed by Court Order. As part of its "first day orders", the Bankruptcy Court approved the Company's payment of pre-petition employee compensation, benefits and reimbursements and withholding taxes and the continued payment of these items. The Bankruptcy Court has also approved the payment of certain essential pre-petition trade payables. Through June 15, 1999, the Company has paid $1.9 million of pre-petition debt pursuant to such Court authorization.

The Company is in the process of developing a Chapter 11 plan with the assistance of its professionals. Among the alternatives being considered in connection with the development of a Chapter 11 plan is a restructuring of the Company's arrangements with its affiliated practices and physicians. This restructuring could include: (a) consummating "buy out" transactions with

affiliated physicians pursuant to which the MSA's would be terminated and the Company would receive cash consideration; (b) assumption of the MSA's and assignment to third parties; (c) terminating certain of the MSA's and enforcing rights and remedies offered under the MSA's and/or applicable law and (d) any combination of the above. The Company is also negotiating with its secured lenders to convert any unpaid balance of the secured debt to a term loan as part of a Chapter 11 plan. The Chapter 11 plan will be dependent on a number of factors including approval by the Company's Board of Directors, Senior Secured Lenders, unsecured creditors and the Bankruptcy Court.

No assurances can be given that the Company will be able to obtain these approvals or negotiate these agreements in a timely manner, if at all. If the Company is not able to timely and successfully implement such a plan as well as satisfactorily resolve certain disputes with its physician groups, its operating business, financial condition, cash flows and results of operations will be further materially and adversely affected.

Impact of the Year 2000

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any computer programs having time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in miscalculations causing disruptions of operations, including among other things, a temporary inability to process transactions in a timely manner. As part of the Company's organization and development, the software purchased and installed to date, as well as the software under evaluation for future purchase and installation, has been represented as Year 2000 compliant. Consequently, the Company does not expect to incur any significant additional costs related to Year 2000 compliance. The Company is in the process of initiating formal communication with all of the significant payors, affiliated physicians and third-party insurers of its affiliated practices and ancillary service facilities to determine the extent to which the interface systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. It is the Company's belief that a significant number of its affiliated practices currently are not Year 2000 compliant. There is no assurance the systems of other companies, or the Company's affiliated practices on which the Company's systems rely or interface, will be timely converted. Consequently, there is no assurance that a material adverse effect on the Company's operations and cash flows will not occur.

Reimbursement Rates

The health care industry is experiencing a trend toward cost containment as payors seek to improve lower reimbursement and utilization rates with providers. Further reductions in payments to health care providers or other changes in reimbursement for health care services could adversely affect the practices with which the Company is affiliated and adversely affect the Company's results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk
Not Applicable.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

On October 20, 1998, a litigation action entitled Tri-City Orthopedic Surgery Medical Group, Inc. et al. V. BMJ Medical Management, Inc. Case No. 98-CV-1903-JM-LAB ("Tri-City") was filed. In this action, which was brought in the United States District Court for the Southern District of California, plaintiffs have asserted claims

for breach of contract, common law fraud and securities fraud arising out of the MSA between plaintiffs and the Company. This action is currently stayed pursuant to the automatic stay provisions of Section 362 of the United States Bankruptcy Code. This litigation was settled subsequent to December 31, 1998.

On December 10, 1998, a litigation action entitled Lighthouse Orthopedic Associates, Inc. and Orthopaedic Surgery Associates, Inc. et al. v. BMJ Medical Management, Inc. was filed. In this action, which was brought in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida, plaintiffs have asserted claims for breach of contract, common law fraud and securities fraud arising out of the MSA between plaintiffs and the Company. This action is currently stayed pursuant to the automatic stay provisions of Section

362 of the United States Bankruptcy Code. The Company intends to defend against this action vigorously.

On December 11, 1998, a litigation entitled Gold Coast Orthopedics v. BMJ Medical Management, Inc. was filed. In this action brought in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida, plaintiffs have asserted claims for breach of contract, common law fraud and securities fraud arising out of the MSA between plaintiffs and the Company. This action is currently stayed pursuant to the automatic stay provisions of Section 362 of the United States Bankruptcy Code. The Company intends to defend against this action vigorously.

On December 17, 1998, an adversary action entitled BMJ Medical Management, Inc., v. Lighthouse Orthopaedic Associates, Inc. et al. Case No. A-98-611 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. On December 17, 1999 the court granted the Company's motion for temporary restraining order requiring defendants to transfer collections on the accounts receivable to the Company. On January 25, 1999, the court granted the Company's motion for preliminary injunction requiring defendants transfer collections on the accounts receivable and comply with the provisions of the MSA. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On December 17, 1998, an adversary action entitled BMJ Medical Management, Inc. v. Orthopaedic Surgery

Associates, Inc. et al. Case No. A-98-610 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. On December 17, 1998 the court granted BMJ's motion for temporary restraining order requiring defendants to transfer collections on the accounts receivable to the Company. On January 22, 1999, the court granted the Company's motion for preliminary injunction requiring defendants to transfer collections on the accounts receivable and comply with the provisions of the MSA. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On December 22, 1998, an adversary action entitled BMJ Medical Management, Inc. v. Broward Orthopedic Specialist, Inc. et al. Case No. A-98-613 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks temporary, preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. On December 23, 1998, the court granted the Company's motion for temporary restraining order requiring defendants to transfer collections on the accounts receivable to the Company. On February 17, 1999, the court entered an order granting a preliminary injunction requiring defendants to transfer collections on the accounts receivable and comply with the provisions of the MSA. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On December 22, 1998, an adversary action entitled BMJ Medical Management, Inc. v. Valley Sports and Arthritis Surgeons, P.C. et al. Case No. A-98-614 ("Valley Sports") was filed. In this action, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks temporary, preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. On December 23, 1998 the court granted the Company's motion for

temporary restraining order requiring defendants to transfer collections on the

accounts receivable to the Company. On January 22, 1999, the Court entered an order granting a preliminary injunction requiring defendants to transfer collections on the accounts receivable and comply with the provisions of the MSA. This litigation was settled subsequent to December 31, 1998.

On February 17, 1999, an adversary action entitled BMJ Medical Management, Inc. v. South Texas Spinal Clinic. P.A. et al. Case No. A-99-48 ("STSC") was filed. In this action, the Company has asserted claims for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company seeks preliminary and permanent injunctive relief against defendants compelling defendants to turn over all of the Company's property in their custody, possession, and control and restraining and enjoining defendants from withholding the proceeds of certain accounts receivable owed to the Company by defendants under the MSA. This litigation was settled subsequent to December 31, 1998.

On February 22, 1999, an adversary action entitled BMJ Medical Management, Inc. v. Terence J. Matthews, M.D. et al. Case No. A-99-50 was filed. In this action which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims for breach of a non-competition agreement contained in the MSA between defendants and the Company. The Company's complaint also seeks compensatory and punitive damages for defendants breaches of the MSA including their failure to transfer collections on the accounts receivable to the Company. The complaint also seeks preliminary and permanent injunctive relief restraining and enjoining defendants from the continued violation of defendants non-competition agreement. The hearing on the Company's motion for preliminary injunction was set for April 22, 1999. On April 21, 1999, Dr. Matthews filed for protection under the Bankruptcy Code in Florida. As a result of Dr. Matthews' bankruptcy filing, the Company's action against Dr. Matthews is currently subject to the automatic stay.

On March 1, 1999, an adversary action entitled BMJ Medical Management, Inc. v. Lighthouse Orthopaedic Associates, Inc. and Beasley, Leacock & Hauser, P.A. et al. Case No. A-99-69 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has filed a complaint asserting claims against defendants for violation of the automatic stay arising out of the defendants' filing suit in state court against certain officers and directors of the Company and others asserting claims for common law fraud, violation of the Florida Investor Protection Act and federal securities fraud in connection with the offer and sale of the Company's stock. The Company's complaint sought enforcement of the automatic stay, and permanent injunctive relief against defendants. On April 7, 1999 the defendants filed a motion to dismiss the Company's complaint. On May 24, 1999, the Company amended its complaint and motion for enforcement of the automatic stay and permanent injunctive relief to add, as additional defendants, the Company's liability insurance carrier and the officers, directors and underwriters named as defendants in the state court suit. On June 4, 1999, certain of the defendants file a motion to dismiss the amended complaint. On June 29, 1999 the court entered an order granting the Company'y motion to enforce the automatic stay and enjoined the continuation of defendant's state court suit until August 20, 1999. The court also enjoined the Company's liability insurance carrier from making any payments on account of any claims made under the insurance policy until August 20, 1999.

On March 1, 1999, an adversary action entitled BMJ Medical Management, Inc. v. Brenda Sapir and Beasley, Leacock & Hauser, P.A. et al. Case No. A-99-68 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company filed a complaint asserting claims against defendants for violation of the automatic stay arising out of the defendants' filing a class action suit in federal court against certain officers and directors of the Company and others alleging federal securities fraud and negligent misrepresentation in connection with the offer and sale of the Company's stock. The Company's complaint sought enforcement of the automatic stay, sanctions, and permanent injunctive relief against defendants. On April 7, 1999, the defendants filed a motion to dismiss the Company's complaint. On May 24, 1999, the Company amended its complaint and motion for enforcement of the automatic stay and permanent injunctive relief to add, as additional defendants, the Company's libility insurance carrier and the officers, directors and underwriters named as defendants in the federal class action suit. On June 4, 1999, certain of the defendants filed a motion to dismiss the amended complaint. One June 29, 1999 the court entered an order granting the Company's motion to enforce the automatic stay and enjoined the continuation of defendants' federal court suit until August 20, 1999. The court also enjoined the Company's liability insurance carrier from making any payments on account of any claims made under the insurance policy until August 20, 1999.

On June 23, 1999, an adversary action entitled BMJ Medical Management, Inc. v. Douglas A.Bobb, D.O. Case No. A-99-197 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims against Dr. Bobb for damages, injunctive relief and turnover arising out of the MSA between the Company and defendant. The Company intends to pursue this action vigorously. No

counterclaims have been asserted.

On June 23, 1999, an adversary action entitled BMJ Medical Management, Inc. v. H. Leon Brooks, M.D. et al Case No. A-99-196 was filed. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, the Company has asserted claims against Dr. Brooks for damages, injunctive relief and turnover arising out of the MSA between the Company and defendants. The Company intends to pursue this action vigorously. No counterclaims have been asserted.

On March 25, 1999, an adversary action entitled Chaim Arlosoroff, M.D. v. BMJ Medical Management, Inc. Case No. A-99-93 was filed against BMJ. In this action, filed in the United States Bankruptcy Court for the District of Delaware, Dr. Arlosoroff sought a declaratory judgment that a non-competition agreement between the Company and Dr. Arlosoroff was unenforceable. The Company asserted counterclaims against Dr. Arlosoroff for breach of the non-competition agreement and for preliminary and permanent injunctive relief restraining and enjoining Dr. Arlosoroff from the continued violation of defendants non-competition agreement. The Company is in the process of settling the entire action, including Dr. Arlosoroff's claims, for a certain cash payment by Arlosoroff

to buy-out his non-competition agreement.

On June 4, 1999, an adversary action entitled Seaview Orthopaedic and Medical Associates et al. V. BMJ Medical Management, Inc. Case No. A-99-159 was filed against BMJ. In this action, which is currently pending in the United States Bankruptcy Court for the District of Delaware, Seaview seeks a declaratory judgment that the MSA between the Company and Seaview has been terminated. Seaview also filed a motion for preliminary and permanent injunctive relief seeing to enjoin future payments of management fees under the agreement between the Company and Seaview. The court denied such motions on July 1, 1999. The Company intends to pursue this action vigorously.

The Company is subject to legal proceedings in the ordinary course of its business including certain claims resulting from successor liability in connection with the assumption of certain liabilities of the physician practices. The Company does not believe that any such legal proceedings, except those described above, after consideration of professional and other liability insurance and amounts provided in the accompanying consolidated balance sheet as of December 31, 1998 could have a material adverse effect on the Company's financial position, results of operations or cash flows. The Company has determined that it is not possible to estimate the amount of damages, if any, that may ultimately be incurred from the legal proceedings described above. As a result, no provision has been made in the financial statements with respect to these contingent liabilities. Because of certain Legal actions initiated against the Company and the subsequent Chapter 11 filing by the Company, management reevaluted the company's long-lived assets for impairment.

Item 2. Changes in Securities

The Company has issued certain of its securities in transactions exempt from registration under the Securities Act of 1933 (the "Act") as follows:

In reliance upon section 4(2) of the Act, on November 1, 1998 the Company issued, in connection with the Purchase Agreement to the holder of the Series A Preferred Stock an aggregate of 959,038 warrants to purchase Common Stock, with an exercise price of $0.01 per share.

Item 3. Defaults upon Senior Securities

The Company is in default with respect to its Senior Credit Facility as a result of filing a voluntary petition for relief under Chapter 11 Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Delaware situated in the United States.

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8K
(a) Exhibit

1. Debtor In Possession Credit Facility

(b) Reports on Form 8-K

1. On December 17,1998 the Company filed with the Securities and Exchange Commission a current report on Form 8-K dated December 17, 1998 which Form 8-K reported the filing by the Company of a voluntary petition for relief under Chapter 11 of the United States Code of the District of Delaware situated in the United States, under item 3.
2. On April 6, 1999, the Company filed with the Securities and Exchange Commission a current report on Form 8-K dated April 6, 1999 which Form 8-K reported a change in Registrant's Certifying Accountant under Item 4.
3. On May 26, 1999, the Company filed with the Securities and Exchange Commission a current report on Form 8-K dated May 26, 1999 which Form 8-K reported the engagement of PricewaterhouseCoopers LLP as the Company's principal independent public accountant.

SIGNATURES

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

Date: July 27, 1999

BMJ MEDICAL MANAGEMENT, INC.

By: /s/ Charles E. Sweet

President and Chief Executive Officer

By: /s/ David H. Fater

David H. Fater
Executive Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

DEBTOR IN POSSESSION REVOLVING

CREDIT AND GUARANTY AGREEMENT

among

BMJ MEDICAL MANAGEMENT, INC.

as Borrower,

BMJ OF CHANDLER, INC.

ORTHOPAEDIC MANAGEMENT NETWORK, INC.,
VALLEY SPORTS SURGEONS, INC.,
BMJ BROG, INC.,

and

BMJ OF NEVADA, INC.,

as Guarantors

THE LENDERS PARTY HERETO
FROM TIME TO TIME

and

PARIBAS

as Agent

Dated as of December 31, 1998

DEBTOR-IN-POSSESSION REVOLVING CREDIT AND GUARANTY AGREEMENT, dated as of December 31, 1998, among BMJ Medical Management, Inc., a Delaware corporation, as debtor and debtor-in-possession in a case under chapter 11 of the Bankruptcy Code (the "Borrower"), BMJ of Chandler, Inc., a Delaware corporation, Orthopaedic Management Network, Inc., an Arizona corporation, Valley Sports Surgeons, Inc., a Pennsylvania corporation, BMJ BROG, Inc., a Florida corporation, and BMJ of Nevada, Inc., a Delaware corporation (each a "Guarantor" and, collectively, the "Guarantors"), each of which Guarantors is a wholly-owned Subsidiary of the Borrower and a debtor-in-possession in a case pending under chapter 11 of the Bankruptcy Code, Paribas, for itself, as a Lender (as hereinafter defined), and acting in its capacity as agent for the Lenders, and the other Lenders party hereto from time to time.

W I T N E S S E T H

WHEREAS, on December 17, 1998 (the "Petition Date"), the Borrower and the Guarantors each filed voluntary petitions for relief commencing a reorganization case under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware;

WHEREAS, the Borrower and the Guarantors are continuing to operate their respective businesses and manage their respective properties as debtors and debtors-in-possession under sections 1107 and 1108 of the Bankruptcy Code;

WHEREAS, an immediate and ongoing need exists for the Borrower to obtain additional funds in order to continue the operation of its business as debtor-in-possession under the Bankruptcy Code and the businesses of the Guarantors and, accordingly, the Borrower has requested that the Lenders extend post-petition financing;

WHEREAS, the Lenders are willing to make funds available to the Borrower pursuant to sections 364 of the Bankruptcy Code, but only for the purposes and upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, each of the Borrower and the Guarantors has agreed to secure its obligations to the Lenders in connection with such financing with, inter alia, security interests in, and liens on, all of its property and assets, whether real or personal, tangible or intangible, now owned or hereafter acquired, as provided herein and in the Security Agreement;

WHEREAS, each Guarantor is engaged in a business related to the business of the Borrower and each of the Guarantors will derive direct and indirect economic benefits therefrom and from the financing provided hereunder; and

WHEREAS, the Guarantors have agreed to guarantee all of the obligations of the Borrower under this Agreement;

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

SECTION 1. DEFINITIONS.

Section 1.1 Definitions. As used herein, the following terms shall have the meanings herein specified unless the context otherwise requires. Defined terms in this Agreement shall include in the singular number the plural and in the plural number the singular. All references to words such as "herein", "hereof" and the like shall refer to this Agreement, unless otherwise specified, as a whole and not to any particular article or section within this Agreement and the term "include" and all variations thereon shall mean "include, without limitation".

"Account" shall mean, with respect to any Person, any "account" as such term is defined in the UCC, now or hereafter owned by such Person and any proceeds arising therefrom, including, of such Person's rights to payment for goods sold or leased or services performed by such Person, whether due or to become due, whether now in existence or arising from time to time hereafter, including, rights evidenced by an account, note, contract, security agreement, chattel paper, instrument, document or other evidence of indebtedness or security, together with (a) all security pledged, assigned, hypothecated or granted to or held by such Person to secure the foregoing, (b) all of such Person's right, title and interest in and to any goods, the sale of which gave rise thereto, (c) all guarantees, endorsements and indemnifications on, or of, any of the foregoing, (d) all powers of attorney for the execution of any evidence of indebtedness or security or other writing in connection therewith, (e) all books, records, ledger cards, customer lists and invoices relating thereto, (f) all evidences of the filing of financing statements and other statements and the registration of other instruments in connection therewith and amendments thereto, notices to other creditors or secured parties, and certificates from filing or other registration officers, (g) all credit information, reports and memoranda relating thereto, and (h) all other writings related in any way to the foregoing.

"Account Debtor" shall mean any Person who is or may become obligated to any Loan Party under, with respect to, or on account of, an Account, including, any Insurer and any Medicaid/Medicare Account Debtor.

"Acquisition" shall mean any transaction pursuant to which the Borrower or any of its Subsidiaries acquired or otherwise affiliated with (i) a Medical Group or (ii) an independent physician association or (iii) an Ancillary Service Facility, in each case by purchase in cash, exchange of property or securities, or by any other method, pursuant to a Management Services Agreement and any asset purchase agreement, restricted stock agreement, stockholder noncompetition agreement and any other agreements, instruments, schedules, exhibits, opinions and documents executed and delivered in connection therewith prior to the Closing Date.

"Adjusted Cash Balance" shall mean, at any time, the cash and Cash Equivalents held by the Borrower and the Guarantors at such time, including amounts on deposit in the Concentration Account and the Collateral Account (Collections), but excluding any Asset Sales Proceeds and Amounts Due From Affiliated Physicians on deposit (or required to be on deposit) in the Collateral Account (Extraordinary Proceeds) pursuant to Section 5.9(c).

"Affiliate" shall mean, with respect to any Person, any other Person directly or indirectly controlling (including but not limited to all directors and officers of such Person), controlled by, or under direct or indirect common control with, such Person. A Person shall be deemed to control a corporation if

such Person possesses, directly or indirectly, the power to (i) vote 5% or more of the securities having ordinary voting power for the election of directors of such corporation or (ii) direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

"Affiliated Medical Entity" shall mean any Affiliated Medical Group and any Ancillary Service Facility or independent physician association that has become affiliated with the Borrower or any of its Subsidiaries pursuant to a Management Services Agreement and any asset purchase agreement, restricted stock agreement, stockholder noncompetition agreement and any other agreements, instruments, schedules, exhibits, opinions and documents executed and delivered in connection with any Acquisition prior to the Closing Date.

"Affiliated Medical Group" shall mean any Medical Group that has become affiliated with the Borrower or any of its Subsidiaries pursuant to a Management Services Agreement and any asset purchase agreement, restricted stock agreement, stockholder noncompetition agreement and any other agreements, instruments, schedules, exhibits, opinions and documents executed and delivered in connection with any Acquisition prior to the Closing Date.

"Agent" shall mean Paribas acting in its capacity as sole agent for the Lenders and any successor agent appointed in accordance with Section 10.9.

"Agent's Office" shall mean the office of the Agent located at 2029 Century Park East, Suite 3900, Los Angeles, CA 90067, or such other office as the Agent may hereafter designate in writing as such to the other parties hereto.

"Agreement" shall mean this Credit Agreement as the same may from time to time hereafter be modified, supplemented or amended.

"Amounts Due From Affiliated Physicians" shall mean any amounts overpaid to physicians in the monthly or bimonthly draw by the relevant Affiliated Medical Group and owing by such physicians.

"Ancillary Service Facility" shall mean an ancillary musculoskeletal facility such as ambulatory surgery, physical therapy or magnetic resonance imaging center or mobile unit.

"Applicable Margin" shall mean 2% per annum.

"Asset Sale Proceeds" shall mean all cash proceeds of each sale or other disposition of assets by any Loan Party (other than sales of inventory in the ordinary course of business) in respect of any transaction or series of related transactions, in each case net of (i) reasonable expenses incurred or reasonably expected to be incurred in connection with such sale or disposition, (ii) any income, franchise, transfer or other tax payable by such Loan Party in connection with such sale or disposition and (iii) the Disposition Incentive Fee.

"Assignee" shall have the meaning provided in Section 11.4(c).

"Assignment and Acceptance" shall have the meaning provided in Section 11.4(c).

"Auditors" shall mean Ernst & Young LLP or other independent certified public accountants of recognized national standing reasonably acceptable to the Required Lenders.

"Available Credit" shall mean, at any time, (i) the Maximum Revolving Credit Amount less (ii) the sum of (x) the aggregate outstanding principal amount of all Loans and (y) the aggregate Letter of Credit Liability at such time.

"Bankruptcy Code" shall mean Title 11 of the United States Code entitled "Bankruptcy", as amended from time to time, and any successor statute or statutes.

"Bankruptcy Court" shall mean the United States Bankruptcy Court for the District of Delaware.

"Base Rate" shall mean, at any particular date, the higher of (x) the rate which is ? of 1% plus the Federal Funds Effective Rate and (y) the Prime Rate in effect from time to time.

"Blocked Account Agreement" shall mean the agreement, dated as of a

date prior to the date of entry of the Final Order, among First Union National Bank, the Loan Parties and the Agent, substantially in the form of Exhibit D or otherwise satisfactory to the Agent as such agreement may be modified, supplemented or amended from time to time in accordance with the terms thereof.

"Blocking Notice" shall mean a notice from the Agent to the Borrower pursuant

to Section 5.9(e) notifying the Borrower that it is no longer authorized to withdraw funds from the Collateral Accounts.

"Borrower" shall have the meaning provided in the first paragraph of this Agreement.

"Borrowing" shall mean the incurrence of a Loan from all the Lenders on a given date.

"Budget" shall mean the cash receipts and disbursements projections of the Borrower and its Subsidiaries attached hereto as Exhibit A.

"Business Day" shall mean any day excluding Saturday, Sunday and any day which shall be in California, New York or Florida a legal holiday or a day on which banking institutions are authorized or required by law or other government actions to close.

"Capital Expenditures" shall mean, for any Person for any period, without duplication, the aggregate of (i) all expenditures by such Person, except interest capitalized during construction, during such period for property, plant or equipment, including, renewals, improvements, replacements, and capitalized repairs, that would be reflected as additions to property, plant or equipment on a balance sheet of such Person prepared in conformity with GAAP and (ii) the principal amount of all Indebtedness incurred or assumed in connection with any such additions to property, plant and equipment. For the purpose of this definition, the purchase price of equipment which is acquired simultaneously with the trade-in of existing equipment owned by such person or with insurance proceeds shall be included in Capital Expenditures only to the extent of the gross amount for such purchase price less the credit granted by the seller of such equipment being traded in at such time or the amount of such proceeds, as the case may be.

"Capitalized Lease" shall mean (i) any lease of property, real or personal, the obligations under which are capitalized on the consolidated balance sheet of the Loan Parties, and (ii) any other such lease to the extent that the then present value of the minimum rental commitment thereunder should, in accordance with GAAP, be capitalized on a balance sheet of the lessee.

"Capitalized Lease Obligations" shall mean all obligations of the Loan Parties under or in respect of Capitalized Leases.

"Carve-Out" shall have the meaning set forth in Section 2.16(b).

"Case" shall mean the chapter 11 case concerning the Borrower or a Guarantor commenced on the Petition Date and pending in the Bankruptcy Court.

"Cash Collateral" shall have the meaning set forth in section 363(a) of the Bankruptcy Code.

"Cash Equivalents" shall mean (i) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) having maturities of not more than 90 days from the date of acquisition, (ii) time deposits and certificates of deposit of any Lender or any domestic commercial bank of recognized standing having capital and surplus in excess of $500,000,000 with maturities of not more than 90 days from the date of acquisition, (iii) fully secured repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (i) entered into with any bank meeting the qualifications specified in clause (ii) above, (iv) commercial paper issued by the parent corporation of any Lender or any domestic commercial bank of recognized standing having capital and surplus in excess of $500,000,000 and commercial paper rated at least A-2 or the equivalent thereof by Standard & Poor's Corporation or at least P-2 or the equivalent thereof by Moody's Investors Service, Inc. and in each case maturing within 90 days after the date of acquisition and (v) money market accounts or funds with or issued by a

commercial bank meeting the standards set forth in clause (iv) that invest substantially in investments described in clauses (i) through (iv).

"Change of Control" shall be deemed to have occurred (i) with respect to the Borrower, at such time as a "person" or "group" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 25% of the total voting power of all classes of stock then outstanding of such Loan Party or its Subsidiaries entitled to vote in the election of directors or (ii) with respect to any Guarantor, at such time as the Borrower shall cease to own and control, directly or indirectly, 100% of all classes of stock then outstanding of such Guarantor.

"Closing Date" shall mean the date on which the initial Loans are advanced hereunder.

"Collateral" shall mean all properties, interests in properties and assets of each of the Loan Parties and their estates of every kind or type whatsoever, tangible, intangible, real, personal and mixed, whether now owned or hereafter acquired or arising and regardless of where located, and all products and proceeds of all of the foregoing.

"Collateral Account (Extraordinary Proceeds)" shall mean the account (which may be a securities account) established and maintained pursuant to this Agreement by and in the name of the Agent, entitled "BMJ Medical Management, Inc., Collateral Account (Extraordinary Proceeds), Paribas, secured party", and all funds and instruments or other items from time to time credited to such account and all interest thereon.

"Collateral Account (Collections)" shall mean the account (which may be a securities account) established by the Borrower and maintained pursuant to this Agreement by and in the name of the Agent, entitled "BMJ Medical Management, Inc., Collateral Account (Collections), Paribas, secured party", and all funds and instruments or other items from time to time credited to such account and all interest thereon.

"Collateral Accounts" shall mean the Collateral Account (Collections) and the Collateral Account (Extraordinary Proceeds).

"Commitment Fee" shall have the meaning set forth in Section 2.10(b).

"Compliance Certificate" shall mean a certificate signed by the chief financial officer of the Borrower setting forth a reasonably detailed calculation of the covenants set forth in Section 6.1 and attesting to the compliance of the Borrower with the requirements of the Agreement in respect of such ratios, substantially in the form of Exhibit B.

"Concentration Account" shall mean that certain concentration account maintained in the name of the Borrower at First Union National Bank in Charlotte, North Carolina, Account No. 2090002757000.

"Confirmation Order" shall mean an order entered by the Bankruptcy Court under section 1129 of the Bankruptcy Code confirming a Plan of Reorganization in a Case.

"Consolidated EBITDA" shall mean, with respect to any Person, for any period, the Consolidated Net Income of such Person and its Subsidiaries for such period adjusted to add thereto (to the extent deducted from revenues in determining Consolidated Net Income) (i) consolidated tax expense, (ii) depreciation and amortization expense, (iii) Consolidated Interest Expense, (iv) any extraordinary or non-recurring cash expenses (including, the cash expense portion of Transaction Costs), and (v) any non-cash charges (including, charges associated with compensation and stock options), in each case determined for such period on a consolidated basis for such Person and its Subsidiaries in accordance with GAAP, and net of the greater of minority interests (as defined by GAAP) and cash distributions paid by Partnership Subsidiaries.

"Consolidated Interest Expense" shall mean, for any fiscal period of the Borrower, the total interest expense (including, interest expense attributable to Capitalized Leases in accordance with GAAP, amortization or write-off of debt discount and debt issuance costs and commissions, other discounts and other fees associated with Indebtedness (including the Loans) and the net amount payable (or plus the net amount receivable) under interest rate protection agreements) of the Borrower and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP.

"Consolidated Net Income" shall mean, for any period, the net income (or loss)

of the Borrower and its Subsidiaries on a consolidated basis for such period (taken as a single accounting period) determined in accordance with GAAP.

"Consummation Date" shall mean the date of the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes of this Agreement shall be no later than the effective date) of a Reorganization Plan of the Borrower or any of the Guarantors which is confirmed pursuant to an order of the Bankruptcy Court.

"Contingent Obligation" as to any Person shall mean any obligation of such Person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations ("Primary Obligations") of any other Person (the "Primary Obligor") (but excluding any Subsidiary of the first Person) in any manner, whether directly or indirectly, including, any obligation of such Person, whether or not contingent, (i) to purchase any such Primary Obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (x) for the purchase or payment of any such Primary Obligation or (y) to maintain working capital or equity capital of the Primary Obligor or otherwise to maintain the net worth or solvency of the Primary Obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such Primary Obligation of the ability of the Primary Obligor to make payment of such Primary Obligation or (iv) otherwise to assure or hold harmless the owner of such Primary Obligation against loss in respect thereof; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the Primary Obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

"Credit Exposure" shall have the meaning provided in Section 11.4(b).

"Default" shall mean any event, act or condition which, with notice or lapse of time, or both, would constitute an Event of Default.

"Default Rate" shall have the meaning provided in Section 2.6(b).

"Disposition Incentive Fee" means the fee payable by the Borrower to Casas, Ellen & White LLC in connection with any disposition of assets by any Loan Party (other than sales of inventory in the ordinary course of business) which is equal to 1% of (x) the cash and Indebtedness received by such Loan Party, (y) the value of the Indebtedness for borrowed money of such Loan Party reduced as a result of such disposition and (z) the stock redeemed, as applicable and, in each case prior to deducting any non-cash adjustments.

"Domestic Lending Office" shall mean, as to any Lender, the office of such

Lender designated as such on Schedule 1, or such other office designated by such Lender from time to time by written notice to the Agent and the Borrower.

"Environmental Affiliate" shall mean, with respect to any Person, any other Person whose liability for any Environmental Claim such Person has or may have retained, assumed or otherwise become liable for (contingently or otherwise), either contractually or by operation of law.

"Environmental Approvals" shall mean any permit, license, approval, ruling, variance, exemption or other authorization required under applicable Environmental Laws.

"Environmental Claim" shall mean, with respect to any Person, any notice, claim, demand or similar communication (written or oral) by any other Person alleging potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, fines or penalties arising out of, based on or resulting from (i) the presence, or release into the environment, of any Material of Environmental Concern at any location, whether or not owned by such Person or (ii) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

"Environmental Laws" shall mean all federal, state, local and foreign

laws and regulations relating to pollution or protection of human health or the environment (including, ambient air, surface water, ground water, land surface or subsurface strata), including laws and regulations relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Materials of Environmental Concern.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time. Section references to ERISA are to ERISA, as in effect at the date of this Agreement and any subsequent provisions of ERISA, amendatory thereof, supplemental thereto or substituted therefor.

"ERISA Controlled Group" shall mean a group consisting of any ERISA Person and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control with such Person that, together with such Person, are treated as a single employer under regulations of the PBGC.

"ERISA Person" shall have the meaning set forth in Section 3(9) of ERISA for the term "person."

"ERISA Plan" shall mean (i) any Plan that (x) is not a Multiemployer Plan and (y) has Unfunded Benefit Liabilities in excess of $50,000 and (ii) any Plan that is a Multiemployer Plan.

"Event of Default" shall have the meaning provided in Section 9.1.

"Existing Indebtedness" shall mean Indebtedness outstanding on the Petition Date and described (which description shall include the maturity date of such Indebtedness and its nature as senior or subordinated, and such other information as the Agent shall require) on Schedule 6.2 delivered in accordance with Section 3.4(a).

"Federal Funds Effective Rate" shall mean for any period, a fluctuating interest rate equal for each day during such period to the weighted average of the rates on overnight Federal Funds transactions with members of the Federal Reserve System arranged by Federal Funds brokers as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal Funds brokers of recognized standing selected by the Agent.

"Federal Reserve Board" shall mean the Board of Governors of the Federal Reserve System as constituted from time to time.

"Fees" shall mean all amounts payable pursuant to Section 2.10.

"Final Order" shall mean an order of the Bankruptcy Court entered in each of the Cases by the clerk of the Bankruptcy Court after a final hearing under Bankruptcy Rule 4001(c)(2) granting final approval of this Agreement and the Loan Documents and granting the Liens and Super-Priority Claims described in this Agreement in favor of the Agent and the Lenders, substantially in the form of, and containing substantially similar provisions to, the Interim Order and otherwise in form and substance reasonably satisfactory to the Agent.

"First Day Orders" shall mean those orders entered by the Bankruptcy Court in connection with motions filed by the Loan Parties with the Bankruptcy Court on the Petition Date.

"GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be in general use by significant segments of the United States accounting profession, which are applicable to the circumstances of the Borrower as of the date of determination, except that for the purposes of Section 6.1 (including the accounting terms used therein and defined herein) GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the

preparation of the audited financial statements of the Borrower in respect of

the fiscal year ended December 31, 1997. In the event that any "Accounting Change" (as defined below) shall occur and such change results in a change in the method of calculation of financial covenants, standards or terms in this Agreement, then the Borrower and the Agent agree to enter into negotiations in order to amend such provisions of this Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating the Borrower's financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an amendment shall have been executed and delivered by the Borrower, the Agent and the Required Lenders, all financial covenants, standards and terms in this Agreement shall continue to be calculated or constructed as if such Accounting Changes had not occurred. "Accounting Changes" refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants (or successor thereto or agencies with similar functions), the Securities and Exchange Commission or any other qualified, authoritative agency or organization.

"Governmental Authority" shall mean any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, or any court, in each case whether of the United States or foreign.

"Guarantor or "Guarantors" shall have the meaning set forth in the Preamble.

"Indebtedness" of any Person shall mean, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business of such Person), (ii) all indebtedness of such Person evidenced by a note, bond, debenture or similar instrument, (iii) the principal component of all Capitalized Lease Obligations of such Person, (iv) the face amount of all letters of credit issued for the account of such Person and, without duplication, all unreimbursed amounts drawn thereunder, (v) all indebtedness of any other Person secured by any Lien on any property owned by such Person, whether or not such indebtedness has been assumed, to the extent secured by such Lien, (vi) all Contingent Obligations of such Person, and (vii) all payment obligations of such Person under any interest rate protection agreement (including, any interest rate swaps, caps, floors, collars and similar agreements) and currency swaps and similar agreements.

"Indemnitee" shall have the meaning provided in Section 11.1(c).

"Insurer" shall mean any Person that insures a Patient against certain of the costs incurred in the receipt by such Patient of Medical Services, or that has an agreement with an Affiliated Medical Group to compensate such Affiliated Medical Group for providing services to a Patient.

"Interim Order" shall mean the order of the Bankruptcy Court, dated December 18, 1998, issued after notice and a hearing conducted in accordance with Bankruptcy Rule 4001(c), and entered by the clerk of the Bankruptcy Court, authorizing and approving the transactions contemplated by this Agreement and the other Loan Documents and granting the Liens and Super-Priority Claims described in this Agreement in favor of the Agent and the Lenders, a copy of which is attached as Exhibit C hereto.

"IRC" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

"Issuing Lender" shall mean Paribas or any other Lender which shall be designated in writing from time to time by the Agent as the issuing bank hereunder and shall consent in writing to such designation.

"Lenders" shall mean , collectively, (i) the Persons listed on Schedule 1 hereto, (ii) the persons which from time to time become a party hereto in accordance with Sections 11.4(c) or 11.4(f) and (iii) each Issuing Lender.

"Letter of Credit" shall mean any standby letter of credit issued pursuant hereto by the Issuing Lender for the account of the Borrower.

"Letter of Credit Liability" shall mean, as of any date of determination, the aggregate face amount of all drafts which may then or thereafter be presented by beneficiaries under all Letters of Credit then outstanding plus, without duplication, the face amount of all drafts which have been presented under Letters of Credit but have not yet been honored.

"Letter of Credit Request" shall have the meaning provided in Section

2.2(b).

"Lien" shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement of any kind or nature whatsoever, including, any conditional sale or other title retention agreement, any financing lease having substantially the same effect as any of the foregoing and the filing of any financing statement or similar instrument under the UCC or comparable law of any jurisdiction, domestic or foreign.

"Loan Commitment" shall mean at any time, with respect to any Lender, the obligation of such Lender to make Loans and to participate in Letters of Credit pursuant to the terms and conditions hereof, and which shall not exceed the principal amount set forth opposite such Lender's name under the heading "Commitment" on Schedule 1 hereto, as such schedule may be amended, supplemented or modified from time to time pursuant to the terms hereof or to give effect to any applicable Assignment and Acceptance, in each case, as such amount may be reduced from time to time pursuant to Section 2.7 or 11.4(c).

"Loan Documents" shall mean this Agreement, the Notes, Security Agreement, the Blocked Account Agreement, each Letter of Credit, each Letter of Credit Request, each Compliance Certificate, each Notice of Borrowing and any other document executed and delivered in connection herewith.

"Loan Party" shall mean the Borrower and each of the Guarantors.

"Loan Period" shall mean the period from the Closing Date to the Maturity Date.

"Loans" shall have the meaning assigned in Section 2.1.

"Management Services Agreement" shall mean any management services agreement entered into between any Loan Party and a Medical Group or Ancillary Service Facility, as the same may from time to time hereafter be modified, supplemented or amended in accordance with the terms thereof.

"Margin Stock" shall have the meaning provided such term in Regulation U of the Federal Reserve Board.

"Material Adverse Effect" shall mean a material adverse effect upon (i) the rights or remedies of the Lenders under any of the Loan Documents, (ii) the ability of any Loan Party to perform its respective obligations under any Loan Document to the Lenders or (iii) the performance, business, properties, prospects, operations or condition (financial or otherwise) of the Borrower or of the Loan Parties taken as a whole.

"Materials of Environmental Concern" shall mean and include chemicals, pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products.

"Maturity Date" shall mean the earliest of (i) 30 days after the entry of the Interim Order in the event the Final Order has not been entered by the Bankruptcy Court or, if it has been entered, the date on which it is stayed, reversed, modified, amended or vacated, in whole or in part, (ii) the Scheduled Maturity Date, (iii) the Consummation Date, and (v) the date of termination in whole of the Loan Commitments pursuant to Section 2.7 or 9.2. The parties acknowledge that the foregoing shall not preclude the entry of any order of the Bankruptcy Court approving or authorizing an amendment or modification of this Agreement or the other Loan Documents or the Interim Order or the Final Order permitted by Section 11.5 which order shall be acceptable to the Lenders whose consent is required to approve such amendment or modification under Section 11.5.

"Maximum Revolving Credit Amount" shall mean, at any time (i) prior to the entry of the Final Order, $2,000,000 and (ii) after the entry of the Final Order, the Total Commitment.

"Medical Group" shall mean a physician practice the primary business of which is to provide Medical Services focusing on musculoskeletal care.

"Medicaid/Medicare Account Debtor" shall mean any Account Debtor which is (i) the United States of America acting under the Medicaid/Medicare program established pursuant to the Social Security Act, (ii) any state or the District of Columbia acting pursuant to Title XIX of the Social Security Act or

(iii) any agent, carrier, administrator or intermediary for any of the foregoing.

"Medical Services" shall mean medical and health care services provided to a Patient, including, medical and health care services provided to a patient and performed by an Affiliated Medical Group which are covered by a policy of insurance issued by an Insurer, and includes physician services, nurse and therapist services, hospital services, skilled nursing facility services, comprehensive outpatient rehabilitation services, home health care services, residential and out-patient behavioral healthcare services, and medicine or health care equipment provided by an Affiliated Medical Group to a Patient for a necessary or specifically requested valid and proper health or medical purpose.

"Multiemployer Plan" shall mean a Plan which is a "Multiemployer plan" as defined in Section 4001(a)(3) of ERISA.

"Nagpal Note" shall mean the Amended and Restated Promissory Note due December 31, 2000, issued by the Borrower in favor of Dr. Naresh Nagpal, as the same may be amended, supplemented or otherwise modified from time to time.

"Notes" shall mean have the meaning assigned in Section 2.5.

"Notice of Borrowing" shall have the meaning provided in Section 2.3.

"Obligations" shall mean all obligations, liabilities and indebtedness of every nature of each Loan Party from time to time owing to the Agent or any Lender under or in connection with this Agreement or any other Loan Document, together with the Loans, the Letter of Credit Liability and all other advances, debts, liabilities, obligations, covenants and duties owing by any Loan Party to the Agent, any Lender, any Issuing Lender, any Affiliate of any of them or any Indemnitee, of every type and description, present or future, whether or not evidenced by any note, guaranty or other instrument, arising under this Agreement or under any other Loan Document, whether or not for the payment of money, whether arising by reason of an extension of credit, opening or amendment of a Letter of Credit or payment of any draft drawn thereunder, loan, guaranty, indemnification, or interest rate swap or hedging contract between any Loan Party and any Lender or any Affiliate of a Lender or in any other manner, whether direct or indirect (including, those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired.

The term "Obligations" includes, all interest, charges, expenses, fees, attorneys' fees and disbursements and any other sum payable by any Loan Party under this Agreement or any other Loan Document and all obligations of the Borrower hereunder to cash collateralize Letter of Credit Liability.

"Orders" shall mean the Interim Order and the Final Order.

"Participant" shall have the meaning provided in Section 11.4(b).

"Patient" shall mean any Person receiving Medical Services from an Affiliated Medical Group and all Persons legally liable to pay such Affiliated Medical Group for such Medical Services other than Insurers.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established under ERISA, or any successor thereto.

"Person" shall mean and include any individual, partnership, joint venture, firm, corporation, association, limited liability company, trust or other enterprise or any government or political subdivision or agency, department or instrumentality thereof.

"Petition Date" shall have the meaning set forth in the Recitals hereto.

"Plan" shall mean any employee benefit plan subject to Title IV of ERISA, the funding requirements of which, in whole or in part:

(i) were the responsibility of the Borrower or a member of its ERISA Controlled Group at any time within the five years immediately preceding the date hereof,

(ii) are currently the responsibility of the Borrower or a member of its ERISA Controlled Group, or

(iii) hereafter become the responsibility of the Borrower or a member of its ERISA Controlled Group,

including any such plans as may have been, or may hereafter be, terminated for whatever reason.

"Plan of Reorganization" shall mean a proposed plan of reorganization for the Borrower or any Guarantor whether filed with or confirmed by order of the Bankruptcy Court.

"Prepetition Agent" shall mean Paribas, in its capacity as Agent for the Prepetition Lenders under the Prepetition Credit Agreement.

"Prepetition Credit Agreement" shall mean the Credit Agreement dated as of June 30, 1998, among Borrower, the Prepetition Lenders, and the Prepetition Agent, as amended, supplemented or otherwise modified before the Petition Date.

"Prepetition Collateral" shall mean all property of Borrower and its Subsidiaries securing the Prepetition Obligations.

"Prepetition Lenders" shall mean the several banks, financial institutions, and other entities from time to time parties to the Prepetition Credit Agreement.

"Prepetition Loan Documents" shall mean the Prepetition Credit Agreement and the other Loan Documents (as defined in the Prepetition Credit Agreement).

"Prepetition Obligations" shall mean the "Obligations" as such term is defined in the Prepetition Credit Agreement.

"Prime Rate" shall mean the rate of interest from time to time announced by the Agent at the Agent's Office as its prime commercial lending rate.

"Professional Fees" shall mean fees and expenses of professionals, including attorneys, accountants, and financial advisors, approved by the Bankruptcy Court for payment under section 330 or 331 of the Bankruptcy Code.

"Pro Rata Share" as to any Lender shall mean a fraction (expressed as a percentage), the numerator of which shall be the aggregate amount of such Lender's Loan Commitment and the denominator of which shall be the Total Commitment.

"Regulation D" shall mean Regulation D of the Federal Reserve Board as from time to time in effect and any successor to all or any portion thereof.

"Reportable Event" shall have the meaning set forth in Section 4043(b) of ERISA (other than a Reportable Event as to which the provision of 30 days notice to the PBGC is waived under applicable regulations), or is the occurrence of any of the events described in Section 4068(a) or 4063(a) of ERISA.

"Required Lenders" shall mean Lenders holding more than (i) at any time when any Loan Commitment is outstanding, 50% of the sum of all such Loan Commitments and (ii) at any time when no Loan Commitment is outstanding, 50% of the principal amount of the outstanding Loans and Letter of Credit Liability; provided, however, if there are only two Lenders, the "Required Lenders" shall mean both such Lenders.

"Requirement of Law" shall mean, as to any Person, the certificate of

incorporation and by-laws or other organizational or governing documents of such Person, and all federal, state and local laws, rules and regulations, and all orders, judgments, decrees or other determinations of any Governmental Authority or arbitrator, applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Scheduled Maturity Date" shall mean September 30, 1999.

"Security Agreement" shall mean the security agreement, dated as of the Closing Date, among the Borrower, the Guarantors and the Agent, substantially in the form attached hereto as Exhibit E, as the same may from time to time hereafter be modified, supplemented or amended in accordance with the terms thereof.

"Subsidiary" of any Person shall mean and include (i) any corporation 50% or more of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned or controlled by such Person directly or indirectly through Subsidiaries and (ii) any partnership, association, joint venture or other entity in which such Person, directly or indirectly through Subsidiaries, is either a general partner, manager of a limited liability company or has a 50% or more equity interest at the time.

"Super-Priority Claim" shall mean an allowed claim against Borrower and each of the Guarantors in each of the Cases, which is an administrative expense claim having priority over all administrative expenses of the kinds specified in sections 503(b) or 507(b) of the Bankruptcy Code.

"Termination Event" shall mean (i) a Reportable Event, or (ii) the initiation of any action by any Loan Party, any member of any Loan Party's ERISA Controlled Group or any ERISA Plan fiduciary to terminate an ERISA Plan or the treatment of an amendment to an ERISA Plan as a termination under ERISA, or (iii) the institution of proceedings by the PBGC under Section 4042 of ERISA to terminate an ERISA Plan or to appoint a trustee to administer any ERISA Plan.

"Total Commitment" shall mean the aggregate amount of all Lenders' Loan Commitments.

"Transaction Costs" shall mean all costs and expenses paid or payable by the Borrower relating to the Transactions including, investment banking fees, financing fees, advisory fees, appraisal fees, legal fees, accounting fees and other professional fees.

"Transactions" shall mean each of the transactions contemplated by the Loan Documents.

"UCC" shall mean the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of the Agent's and the Secured Parties' security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of limitation.

"Unfunded Benefit Liabilities" shall mean with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefit liabilities under such Plan as defined in Section 4001(a)(16) of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan (on the basis of assumptions prescribed by the PBGC for the purpose of Section 4044 of ERISA).

SECTION 2. AMOUNT AND TERMS OF CREDIT FACILITIES.

Section 2.1 Loans. (a) Subject to and upon the terms and conditions herein set forth, each Lender individually but not jointly agrees at any time and from time to time during the Loan Period to make loans (collectively, "Loans") to the Borrower, which Loans shall not exceed in aggregate principal amount at any time outstanding (x) with respect to Loans outstanding from all Lenders, the Total Commitment, as such amount may be reduced from time to time in accordance with Sections 2.7 and 11.4(c) and (y) with respect to Loans outstanding from any Lender, such Lender's Loan Commitment; provided that (i) at no time shall any Lender be obligated to make a Loan in excess of such Lender's Pro Rata Share of the Available Credit at such time and (ii) no Loan shall be made hereunder to the Borrower if, after giving effect thereto and to the application of proceeds thereof and to any other actual or planned disbursement by the Borrower on the date of such Loan (or within the next 2 Business Days, the Borrower would have available to it in the Collateral Account (Collections) and the Concentration Account, cash and Cash Equivalents in an aggregate amount in excess of $100,000.

(b) Each Borrowing shall be in the aggregate minimum amount of $100,000 or any integral multiple of $50,000 in excess thereof.

Section 2.2 Letters of Credit. (a) Provided that the Borrower is in compliance with all of the terms and conditions for the making of Loans by the Lenders, and subject to the terms and conditions herein set forth, the Borrower shall have the right to request, through a Letter of Credit Request pursuant to Section 2.2(b), the Issuing Lender to deliver from time to time Letters of

Credit, and the Issuing Lender shall promptly upon such request issue the requested Letter of Credit, each of which shall be in a form approved by the

Issuing Lender; provided that (i) the maximum Letter of Credit Liability at any one time outstanding shall not exceed $100,000, (ii) such Letter of Credit shall have a maturity not greater than the Scheduled Maturity Date and (iii) such Letter of Credit shall not contain automatic renewal or "evergreen" provisions. Each drawing under a Letter of Credit shall be payable in full upon the date thereof by the Borrower, without notice or demand of any kind. Subject to the terms and conditions otherwise applicable to advances of the Loans hereunder, the Borrower may request a Loan hereunder to be used to reimburse the Issuing Lender for the amount so drawn. The liability of the Borrower to reimburse the Issuing Lender for the amounts drawn under Letters of Credit shall be included within the term "Loan" for all purposes of this Agreement, and any amounts so drawn shall bear interest until paid in full (whether out of the proceeds of a Loan otherwise permitted hereunder or otherwise) at the Base Rate, subject to Section 2.6(b). The Borrower's obligation to reimburse the Issuing Lender for any and all amounts drawn under any Letter of Credit and all interest thereon shall be secured by the Collateral. The Borrower's obligations to repay any and all drawings under any Letter of Credit and any and all other amounts payable to the Issuing Lender, the Agent or any other Lender hereunder shall be absolute, irrevocable and unconditional under any and all circumstances whatsoever and irrespective of any set-off, counterclaim or defense to payment which the Borrower may have or have had against the Issuing Lender, the Agent or any other Lender (except such as may arise out of the Issuing Lender's, the Agent's or any other Lender's gross negligence or willful misconduct hereunder) or any other Person, including, any setoff, counterclaim or defense based upon or arising out of:

(A) Any lack of validity or enforceability of this Agreement or any of the other Loan Documents or such Letter of Credit;

(B) Any amendment or waiver of or any consent to or departure from the terms of the Loan Documents or such Letter of Credit;

(C) The existence of any claim, setoff, defense or other right which the Borrower or any other Person may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Issuing Lender, the Agent or any other Lender or any other Person, whether in connection with such Letter of Credit, the Loan Documents or any unrelated transaction;

(D) Any demand, statement or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect, or any statement therein being untrue or inaccurate in any respect whatsoever or any variations in punctuation, capitalization, spelling or format of the drafts or any statements presented in connection with any drawing under such Letter of Credit;

(E) The surrender or impairment of any security for the performance or observance of any of the terms of such Letter of Credit or the Loan Documents; and

(F) The failure, for any reason, of any Lender to fund advances to the Borrower hereunder for any purpose.

Nothing contained herein shall constitute a waiver of any rights or remedies of the Borrower against the Issuing Lender, the Agent or any other Lender arising out of the gross negligence or willful misconduct of the Issuing Lender, the Agent or any such other Lender.

(b) Whenever the Borrower desires the issuance of a Letter of Credit, it shall deliver to the Agent and the Issuing Lender a written notice in substantially the form attached hereto as Exhibit H (a "Letter of Credit Request") no later than 10:00 A.M. California time at least three Business Days prior to the proposed date of issuance. Such Letter of Credit Request shall specify (i) the proposed date of issuance (which shall be a Business Day under the laws of the jurisdiction of the Issuing Lender), (ii) the face amount of the Letter of Credit, which shall not be less than $50,000, (iii) the expiration date of the Letter of Credit, which shall not exceed the Business Day prior to the Scheduled Maturity Date, (iv) the name and address of the beneficiary of the Letter of Credit, and (v) a precise description of the documents and the verbatim text of any certificate to be presented by the beneficiary of such Letter of Credit which, if presented by such beneficiary prior to the expiration

date of such Letter of Credit, would require the Issuing Lender to make payments under the Letter of Credit (provided that the Issuing Lender, in its sole discretion, may require changes in any such documents and certificates). The Issuing Lender shall notify the Agent of the issuance of each Letter of Credit promptly following the issuance thereof. Promptly after receipt of notice of the issuance of a Letter of Credit, the Agent shall notify each Lender and the Borrower of the issuance thereof and the amount of each Lender's respective participation therein.

(c) The payment of drafts under any Letter of Credit shall be made in accordance with the terms of such Letter of Credit and, in that connection, the Issuing Lender shall be entitled to honor any drafts and accept any documents presented to it by the beneficiary of such Letter of Credit in accordance with the terms of such Letter of Credit and believed by the Issuing Lender to be genuine. The Issuing Lender shall not have any duty to the Borrower or any Lender to inquire as to the accuracy or authenticity of any draft or other drawing documents which may be presented to it, but shall be responsible only to determine that the documents which are required to be presented before payment or acceptance of a draft under any Letter of Credit have been delivered and that they comply on their face with the requirements of that Letter of Credit.

(d) The Borrower, the Lenders, each Issuing Lender and the Agent agree that, in the event that an Issuing Lender and the Borrower enter into any letter of credit application or agreement in relation to any Letter of Credit which contains provisions that are inconsistent with the express provisions of this Section 2.2, then the provisions of this Section 2.2 shall be controlling.

Section 2.3 Notice of Borrowing. (a) Whenever the Borrower desires to borrow Loans hereunder, it shall give the Agent at the Agent's Office prior to 10:00 A.M., California time, at least one Business Day's prior written notice of each Loan in substantially the form attached hereto as Exhibit I (a "Notice of Borrowing") or telephonic notice (promptly confirmed by delivery of a Notice of Borrowing) of each Loan. Each Notice of Borrowing shall be irrevocable and shall specify (i) the aggregate principal amount of the requested Loans, and (ii) the date of Borrowing (which shall be a Business Day).

(b) Promptly after receipt of a Notice of Borrowing, the Agent shall provide each Lender with a copy thereof and inform each Lender as to its Pro Rata Share of the Loans requested thereunder.

Section 2.4 Disbursement of Funds. (a) No later than 1:00 P.M., California time, on the date specified in each Notice of Borrowing, each Lender will make available its Pro Rata Share of the Loans requested to be made on such date, in U.S. dollars and immediately available funds, at the Agent's Office. After the Agent's receipt of the proceeds of such Loans, the Agent will make available to the Borrower by depositing (in the Concentration Account or such other account of the Borrower covered by the Blocked Account Agreement as the Agent shall be instructed from time to time by the Borrower) the aggregate of the amounts so made available in the type of funds actually received.

(b) Unless the Agent shall have been notified by any Lender prior to the date of a Borrowing that such Lender does not intend to make available to the Agent its portion of the Loans to be made on such date, the Agent may assume that such Lender has made such amount available to the Agent on such date and the Agent in its sole discretion may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Agent by such Lender and the Agent has made such amount available to the Borrower, the Agent shall be entitled to recover such corresponding amount on demand from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Agent's demand therefor, the Agent shall promptly notify the Borrower and the Borrower shall immediately repay such corresponding amount to the Agent. The Agent shall also be entitled to recover from such Lender or the Borrower, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Agent to the Borrower to the date such corresponding amount is recovered by the Agent, at a rate per annum equal to the then applicable rate of interest, calculated in accordance with Section 2.6, for the respective Loans. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its commitments hereunder or to prejudice any rights which the Borrower may have against any Lender as a result of any default by such Lender hereunder. Notwithstanding anything contained herein or in any other Loan Document to the contrary, the Agent may apply all funds and proceeds of Collateral available for the payment of any Obligations first to repay any amount owing by any Lender to the Agent as a result of such Lender's failure to fund its Loans hereunder.

Section 2.5 Notes. (a) The Borrower's obligation to pay the principal of, and interest on, each Lender's Loans (including Loans made pursuant to Section 2.2(a)) shall be evidenced in the case of such Lender's Loans, by a promissory note (a "Note") duly executed and delivered by the Borrower substantially in the form of Exhibit F hereto in a principal amount equal to such Lender's Loan Commitment, with blanks appropriately completed in conformity herewith. Each Note issued to a Lender shall (x) be payable to the order of such Lender, (y) be dated the Closing Date, and (z) mature on the Scheduled Maturity Date.

(b) Each Lender is hereby authorized, at its option, either (i) to endorse on the schedule attached to its Note (or on a continuation of such schedule attached to such Note and made a part thereof) an appropriate notation evidencing the date and amount of each Loan evidenced thereby and the date and amount of each principal and interest payment in respect thereof, or (ii) to record such Loans and such payments in its books and records. Such schedule or such books and records, as the case may be, shall constitute prima facie evidence of the accuracy of the information contained therein.

Section 2.6 Interest. (a) The Borrower agrees to pay interest in respect of the unpaid principal amount of each Loan from the date of the making of such Loan to but excluding the date that such Loan is paid in full, at a rate per annum which shall be equal to the sum of the Base Rate in effect from time to time plus the Applicable Margin, such rate to change as and when the Base Rate changes, such interest to be computed on the basis of the actual number of days elapsed over a year of 360 days.

(b) In the event that, and for so long as, any Event of Default shall have occurred and be continuing, the outstanding principal amount of all Loans and, to the extent permitted by law, overdue interest in respect of all Loans, shall be payable on demand and bear interest at a rate per annum (the "Default Rate") equal to the sum of two percent (2%) plus the interest rate otherwise applicable hereunder to such principal amount in effect from time to time.

(c) Interest on each Loan shall accrue from and including the date of the Borrowing thereof to but excluding the date of any repayment thereof (provided that any Loan borrowed and repaid on the same day shall accrue one day's interest) and shall be payable monthly in arrears on the last day of each month, and, on any prepayment (on the amount prepaid), at maturity (whether by acceleration or otherwise) and, after such maturity, on demand.

Section 2.7 Voluntary Reduction of Commitments. Upon at least three Business Day's prior irrevocable written notice (or telephonic notice promptly confirmed in writing) to the Agent (which notice the Agent shall promptly transmit to each of the Lenders), the Borrower shall have the right, without premium or penalty, to permanently reduce each

Lender's Pro Rata Share of all or part of the Total Commitment, but such partial reduction shall be in the minimum aggregate amount of $500,000 or any integral multiple of $100,000 in excess thereof.

Section 2.8 Prepayments; Payments. (a) The Borrower shall have the right to prepay (without premium or penalty) the Loans in whole or in part from time to time on the following terms and conditions: (i) the Borrower shall give the Agent written notice (or telephonic notice promptly confirmed in writing), which notice shall be irrevocable, of its intent to prepay the Loans, at least one Business Day prior to a prepayment, which notice shall specify the amount of such prepayment, and (ii) each prepayment shall be in an aggregate principal amount of $100,000 or any integral multiple of $50,000 in excess thereof. The Agent shall promptly transmit any such notice to each of the Lenders.

(b) If at any time the aggregate principal amount of the outstanding Loans plus the aggregate Letter of Credit Liability exceeds the Maximum Revolving Credit Amount, the Borrower will within three Business days (i) prepay the Loans in an amount necessary to cause the aggregate principal amount of the outstanding Loans plus the aggregate Letter of Credit Liability to be equal to or less than the Maximum Revolving Credit Amount, and (ii) if, after giving effect to the prepayment in full of the Loans the aggregate Letter of Credit Liability exceeds the Maximum Revolving Credit Amount, deposit into the Collateral Account (Extraordinary Proceeds) an amount equal to 105% of the amount by which the aggregate Letter of Credit Liability exceeds the Maximum Revolving Credit Amount.

(c) Upon the Maturity Date, the Total Commitment shall be terminated in full and the Borrower shall pay the Loans in full and, except as the Agent may otherwise agree in writing, if any Letter of Credit remains outstanding, deposit into the Collateral Account (Collections) an amount equal to 105% of the amount by which the sum of the aggregate Letter of Credit Liability exceeds the amount of cash held in the Collateral Account (Collections), such cash to be remitted to the Borrower only upon the expiration, cancellation, satisfaction or other termination of such reimbursement obligations.

Section 2.9 Method and Place of Payment. (a) Except as otherwise specifically provided herein, all payments and prepayments under this Agreement and the Notes shall be made to the Agent for the account of the Lenders entitled thereto not later than 12:00 noon, California time, on the date when due and shall be made in lawful money of the United States of America in immediately available funds at the Agent's Office, and any funds received by the Agent after such time shall, for all purposes hereof (including the following sentence), be deemed to have been paid on the next succeeding Business Day. Except as otherwise specifically provided herein, the Agent shall thereafter cause to be distributed on the date of receipt thereof to each Lender in like funds its Pro Rata Share of payments so received.

(b) Whenever any payment to be made hereunder or under any Note shall be

stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest shall be payable at the applicable rate during such extension.

(c) All payments made by the Borrower hereunder and under the other Loan Documents shall be made irrespective of, and without any reduction for, any setoff or counterclaims.

Section 2.10 Fees. (a) The Borrower agrees to pay on the Closing Date to the Agent, for the ratable benefit of each Lender, a closing fee equal to $50,000.

(b) The Borrower agrees to pay to the Agent, for the ratable benefit of each Lender, a commitment fee (the "Commitment Fee"), computed at the per annum rate of ? of 1% on the average daily unused portion (minus any undrawn amounts on outstanding Letters of Credit) of the Total Commitment, from and including the Closing Date to the Maturity Date, payable monthly in arrears on the last day of each month and on the Maturity Date or such earlier date, if any, on which the Total Commitment shall terminate in accordance with the terms hereof.

(c) The Borrower agrees to pay to the Agent, for the ratable benefit of each Lender, with respect to each Letter of Credit, a letter of credit commitment computed at the per annum rate of 2% of the maximum amount available from time to time to be drawn under such Letter of Credit, payable in arrears monthly on the last day of each month, on the Maturity Date, and on any other date on which the Loans are paid in full and the Total Commitment permanently terminated; provided, however, that during the continuance of an Event of Default, such fee shall be increased by 2% per annum and shall be payable on demand.

(d) The Borrower agrees to pay to the Issuing Lender, with respect to each Letter of Credit issued by such Issuing Lender, solely for its account, an administrative fee computed at the per annum rate of 1/4 of 1% of the maximum amount available from time to time to be drawn under such Letter of Credit, payable monthly in arrears on the last day of each month, on the Maturity Date, and on any other date on which the Loans are paid in full and the Total Commitment permanently terminated. In addition, the Borrower shall pay to the Issuing Lender, with respect to the issuance, amendment or transfer of each Letter of Credit and each drawing made thereunder, documentary and premium charges in accordance with such Issuing Lender's standard schedule for such charges in effect at the time of such issuance, amendment, transfer or drawing, as the case may be.

(e) The fees described in clauses (b), (c) and (d) above shall be computed on the basis of the actual number of days elapsed over a year of 360 days.

Section 2.11 Increased Capital. If any Lender shall have determined at any time that such Lender shall incur increased costs or reductions in the amounts received or

receivable hereunder with respect to any Loan because of any change since the date of this Agreement in any applicable law or governmental rule, regulation, order or request (whether or not having the force of law) (or in the interpretation or administration thereof and including the introduction of any new law or governmental rule, regulation, order or request), then from time to time, upon such Lender's delivering a written demand therefor to the Agent and the Borrower (with a copy to the Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or Person for such increased costs or reduction.

Section 2.12 Taxes. (a) All payments made by the Borrower under this Agreement shall be made free and clear of, and without reduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any governmental authority excluding, in the case of the Agent and each Lender, net income and franchise taxes imposed on the Agent or such Lender by the jurisdiction under the laws of which the Agent or such Lender is organized or any political subdivision or taxing authority thereof or therein, or by any jurisdiction in which such Lender's Domestic Lending Office is located or any political subdivision or taxing authority thereof or therein (all such non-excluded taxes, levies, imposts, deductions, charges or withholdings being hereinafter called "Taxes"). If any Taxes are required to be withheld from any amounts payable to the Agent or any Lender hereunder or under the Notes, the amounts so payable to the Agent or such Lender shall be increased to the extent necessary to yield to the Agent or such Lender (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes. Whenever any Taxes are payable by the Borrower, as promptly as possible thereafter, the Borrower shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Agent or any Lender as a result of any such failure. The agreements in this Section 2.12 shall survive the termination of this Agreement and the payment of the Notes and all other Obligations.

(b) Each Lender that is not incorporated under the laws of the United States of America or a state thereof (including each Assignee that becomes a party to this Agreement pursuant to Section 9.4) agrees that, prior to the first date on which any payment is due to it hereunder, it will deliver to the Borrower and the Agent two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 or successor or other applicable form, as the case may be, certifying in each case that such Lender is entitled to receive payments under this Agreement and the Notes payable to it, without deduction or withholding of any United States federal income taxes. Each Lender which delivers to the Borrower and the Agent a Form 1001 or 4224 or other applicable form pursuant to the preceding sentence

further undertakes to deliver to the Borrower and the Agent two further copies of such letter and Form 1001 or 4224, or successor or other applicable forms, or other manner of certification, as the case may be, on or before the date that any such letter or form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent letter and form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower, certifying in the case of a Form 1001 or 4224 or other applicable form that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless in any such case an event (including 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 Lender from duly completing and delivering any such letter or form with respect to it and such Lender advises the Borrower that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

Section 2.13 Change of Lending Office. Each Lender agrees that, upon the occurrence of any event giving rise to the operation of Section 2.11 or 2.12(a) with respect to such Lender, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of the Lender) to designate another lending office for any Loans affected by such event with the object of avoiding the consequences of such event; provided, that such

designation is made on terms that, in the sole judgment of the Lender, cause such Lender or its lending office(s) to suffer no economic, legal or regulatory disadvantage, and provided, further, that nothing in this Section 2.13 shall affect or postpone any of the obligations of the Borrower or any of the rights of any Lender pursuant to Section 2.11 or 2.12(a).

Section 2.14 Participation Purchased by Lenders in the Letter of Credit Liability. (a) On the date of the issuance of each Letter of Credit, the Issuing Lender shall be deemed irrevocably and unconditionally to have sold and transferred to each Lender (other than the Issuing Lender) and each Lender shall be deemed to have irrevocably and unconditionally purchased and received from the Issuing Lender, an undivided interest and participation, to the extent of such Lender's Pro Rata Share in effect from time to time, in such Letter of Credit and all Letter of Credit Liability with respect thereto. The Loan Commitment of each Lender hereunder shall include that Lender's share of the Letter of Credit Liability.

(b) In the event that any reimbursement obligation under this Agreement is not paid when due to the Issuing Lender with respect to any Letter of Credit, the Issuing Lender shall promptly notify the Agent to that effect, and the Agent shall promptly notify each Lender (other than the Issuing Lender) of the amount of such reimbursement obligation and each Lender other than the Issuing Lender shall immediately pay to the Agent for distribution to the Issuing Lender, in lawful money of the United States and in same day funds, an amount equal to such Lender's Pro Rata Share then in effect of the amount of such unpaid reimbursement obligation.

(c) The obligation of each Lender other than the Issuing Lender to make payments under subsection (b) above shall be unconditional and irrevocable and shall be made under all circumstances, including, following the occurrence of any Default or any Event of Default or any of the circumstances referred to in Section 2.2.

(d) Prior to the occurrence of any Event of Default, the Agent shall promptly distribute to each Lender its Pro Rata Share (or other applicable share as expressly provided herein) of all amounts received on account of the obligations of the Borrower to repay amounts drawn under any Letter of Credit (in like funds as received). Following the occurrence of an Event of Default, all amounts received by the Agent on account of such obligations shall be disbursed by the Agent as follows:

(i) First, to the payment of expenses incurred by the Agent in the performance of its duties and enforcement of its rights under the Loan Documents, including, all costs and expenses of collection, reasonable attorneys' fees, court costs and foreclosure expenses;

(ii) Then, to the Lenders, pro rata in accordance with their respective Pro Rata Share until all outstanding reimbursement obligations for drawing on such Letter of Credit and interest accrued thereon have been paid in full; and

(iii) Then, and if but only if there remains any available amount which has not been drawn under such Letter of Credit, to the Agent to hold as cash collateral in the Collateral Account (Collections) for the obligation of the Borrower to reimburse any future drawings on such Letter of Credit, the Borrower hereby granting to the Agent, for the pro rata, pari passu benefit of the Lenders, a first perfected security interest therein and hereby irrevocably agreeing that amounts so held may be applied from time to time in reimbursement of drawings on such Letter of Credit as the same may occur, until the expiration of such Letter of Credit and payment in full of all amounts due with respect to any drawing thereon.

(e) If any payment received from the Borrower on account of any reimbursement obligation with respect to any Letter of Credit and distributed to a Lender under Section 2.14(d) hereof is thereafter recovered from the Issuing Lender, each Lender which received such distribution shall, upon demand by the Agent, repay to the Issuing Lender such Lender's ratable share of the amount so recovered together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered) of any interest or other amount paid or payable by the Issuing Lender in respect of the total amount so recovered.

Section 2.15 Priority and Liens. (a) The Borrower and each of the Guarantors hereby covenants, represents and warrants that, upon entry of the Interim Order (and the Final Order, as applicable), the Obligations of the Borrower and of the Guarantors

hereunder and under the other Loan Documents, shall at all times (i) constitute allowed Super-Priority Claims under section 364(c)(1) of the Bankruptcy Code and (ii) be secured by a perfected first priority Lien on all Collateral pursuant to Section 364(d) of the Bankruptcy Code, subject only to (x) the Carve-Out and (y) valid, perfected, enforceable and nonavoidable Liens of record existing immediately prior to the Petition Date, but not subject to the Liens under the Prepetition Loan Documents.

(b) As to all Collateral, including all real property the title to which is held by the Borrower or any Guarantor, or the possession of which is held by the Borrower or any Guarantor under a lease, each of the Borrower and the Guarantors hereby assigns and conveys as security, grants a security interest in, hypothecates, mortgages, pledges and sets over unto the Agent for the benefit of the Lenders all of the right, title and interest of the Borrower and such Guarantor in all of such Collateral, including all owned real property and in all leasehold interests held under such leases, together in each case with all of the right, title and interest of the Borrower and each Guarantor in and to all buildings, improvements, and fixtures related thereto, any lease or sublease thereof, all general intangibles relating thereto and all proceeds thereof, to secure all of the Borrower's and such Guarantor's Obligations to the Agent and the Lenders under this Agreement, the Orders and under the Bankruptcy Code. Each of the Borrower and each Guarantor acknowledges that, under the Orders, the Liens granted in favor of the Agent (on behalf of the Lenders) in all of the Collateral shall be perfected without the recordation of any UCC financing statements, notices of Lien or other instruments of mortgage or assignment. Each of the Borrower and each of the Guarantors further agrees that (i) the Agent shall have all of the rights and remedies set forth in the Security Agreement and the Orders in respect of the Collateral and (ii) if requested by the Agent, each of the Borrower and the Guarantors shall enter into additional security documentation (including, pledge agreements and fee mortgages) with respect to such Collateral on terms reasonably satisfactory to the Agent.

(c) The Borrower and the Guarantors acknowledge and agree that, as adequate protection for the use of the Prepetition Lenders' Cash Collateral, the use, sale or lease of the Prepetition Collateral (other than such Cash Collateral), the diminution in value of the Prepetition Lenders' interests in the Prepetition Collateral and as adequate protection for the priming that is being effected as set forth in Section 2.15(a) and the imposition of the automatic stay pursuant to Section 362(a) of the Bankruptcy Code, the Prepetition Lenders shall, pursuant to the Interim Order (and the Final Order, as applicable), receive (i) a Super-Priority Claim junior only to the Super-Priority Claim granted to the Agent and the Lenders, and (ii) a Lien on the Collateral having a priority immediately junior to the priming and other Liens granted in favor of the Agent and the Lenders hereunder and under the other Loan Documents and the Orders. The Liens provided under this Section 2.15(c) shall be subject and subordinate only to the Carve-Out, to the priming and other Liens granted in favor of the Agent and the Lenders hereunder and under the other Loan Documents and the Orders and to valid, perfected, enforceable and nonavoidable Liens of record existing immediately prior to the Petition Date.

Section 2.16 Professional Fees. (a) The Lenders agree that so long as the Maturity Date shall not have occurred and the Agent or the Lenders have not exercised any remedies under the Loan Documents, the Borrower and the Guarantors shall be permitted to pay Professional Fees, and the amounts so paid shall not reduce the Carve-Out provided under Section 2.16(b).

(b) The Liens of the Agent and the Lenders described in Section 2.15(a) shall be subject and subordinate only to (x) following the exercise of any remedies by the Agent or the Lenders under the Loan Documents or from and after the Maturity Date, the payment of (as the same may be due and payable) Professional Fees in the Cases in an aggregate amount not to exceed $500,000 (plus any unpaid Professional Fees previously incurred, accrued or invoiced before the exercise of such remedies or the Maturity Date, to the extent subsequently awarded), (y) the payment of unpaid fees pursuant to 28 U.S.C. ? 1930 and any fees payable to the Clerk of the Bankruptcy Court and (z) any amounts approved by the Bankruptcy Court for payment of retention or stay bonuses to the Loan Parties' employees up to an aggregate maximum amount of $1,800,000 (collectively, the "Carve-Out"); provided, however, that the Carve-Out shall not include, apply or be available for any fees or expenses incurred by any party, including the Loan Parties or any statutory committee appointed in any Case, in connection with the initiation or prosecution of any claims, causes of action, adversary proceedings or other litigation against the Agent or the Lenders or the Prepetition Lenders, including, challenging the

amount, validity, priority, perfection or enforceability of, or asserting any defense, counterclaim or offset to the Prepetition Obligations or the Obligations or the Liens securing such Prepetition Obligations or Obligations.

Section 2.17 Payment of Obligations. Upon the maturity (whether by acceleration or otherwise) of any of the Obligations under this Agreement or any of the other Loan Documents, the Lenders shall be entitled to immediate payment of such Obligations without further application to or order of the Bankruptcy Court.

Section 2.18 No Discharge; Survival of Claims. Each of the Borrower and the Guarantors agrees that to the extent the Obligations hereunder are not satisfied in full, (a) the Obligations arising hereunder shall not be discharged by the entry of a Confirmation Order (and each of the Borrower and the Guarantors hereby waives any such discharge under Section 1141(d)(4) of the Bankruptcy Code), (b) the Obligations shall bind each reorganized debtor after the Case, and (c) the Super-Priority Claims granted to the Agent and the Lenders under the Interim Order and the Final Order and described in Section 2.15 and the Liens granted to the Agent under the Interim Order and the Final Order and described in Section 2.15 shall not be affected in any manner by the entry of a Confirmation Order.

SECTION 3. CONDITIONS PRECEDENT AND CONDITIONS SUBSEQUENT.

Section 3.1 Conditions Precedent to Initial Loans and Effectiveness of this Agreement. The effectiveness of this Agreement and the obligation of each Lender to make its initial Loans is subject to the satisfaction on the Closing Date of the following conditions precedent:

(a) Loan Documents.

(i) Credit Agreement. Each of the Loan Parties shall have executed and delivered this Agreement to the Agent.

(ii) Notes. The Borrower shall have executed and delivered to each of the Lenders the appropriate Notes in the amount, maturity and as otherwise provided herein.

(iii) Security Agreement. Each of the Loan Parties shall have executed and delivered to the Agent the Security Agreement.

(iv) Other Documents. Each of the Loan Parties shall have executed and delivered to the Agent all other Loan Documents to be entered into by each Loan Party in connection with the Transactions.

(v) Accounts. The Agent shall have established the Collateral Account (Collections) and the Collateral Account (Extraordinary Proceeds).

(b) Opinions of Counsel. The Agent shall have received legal opinion, dated the Closing Date, from Katten, Muchin & Zavis, counsel to the Loan Parties in form and substance satisfactory to the Agent.

(c) Corporate Documents. The Agent shall have received the Articles of Incorporation of each Loan Party as amended, modified or supplemented through June 30, 1998, certified to be true, correct and complete by the Secretary of State of the appropriate jurisdiction as of such date, together with a good standing certificate from such Secretary of State dated on or about June 30, 1998.

(d) Secretary's Certificate. The Agent shall have received a certificate of the Secretary or Assistant Secretary of each Loan Party, dated the Closing Date, certifying (i) the names and true signatures of the incumbent officers of such Loan Party authorized to sign the applicable Loan Documents, (ii) the By-Laws of such Loan Party as in effect on the Closing Date, (iii) the resolutions of such Loan Party's Board of Directors approving and authorizing the commencement of the Case and the execution, delivery and performance of all Loan Documents executed by such Loan Party, (iv) that there have been no changes in the Articles of Incorporation of such Loan Party since June 30, 1998 and (v) that such Loan Party is in good standing in its jurisdiction of incorporation as of the Closing Date.

(e) Interim Order. At the time of the making of the initial Loan, the Interim Order (i) shall be in full force and effect and (ii) shall not have been stayed, reversed, vacated, rescinded, modified or amended in any respect and, if the Interim Order is the subject of a pending appeal in any respect, neither the making of such extension of credit nor the performance by

the Borrower or any of the Guarantors of any of their respective obligations hereunder or under the other Loan Documents or under any other instrument or agreement referred to herein or therein shall be the subject of a presently effective stay pending appeal.

(f) First Day Orders. All orders submitted to the Bankruptcy Court on or about the Filing Date shall be in form and substance reasonably satisfactory to the Agent.

(g) Budget. The Agent and the Lenders shall have received the Budget, in form and substance reasonably satisfactory to the Agent.

(h) Insurance. Evidence satisfactory to the Agent that the insurance required by the terms of this Agreement and the other Loan Documents is in full force and effect.

(i) Fees and Expenses. The Agent shall have received, for its account and for the account of each Lender, as applicable, all Fees and other fees and expenses due and payable hereunder on or before the Closing Date, including, the reasonable fees and expenses accrued through the Closing Date of Weil, Gotshal & Manges LLP and any other counsel retained by the Agent.

(j) No Litigation. Except as set forth on Schedule 4.4 delivered in accordance with Section 3.4(a), no law or regulation shall have been adopted, no order, judgment or decree of any Governmental Authority shall have been issued, and no litigation (other than the Case) shall be pending or threatened (i) with respect to the Transactions or the Loan Documents or (ii) which the Borrower or any Lender shall determine is reasonably likely to have a Material Adverse Effect.

(k) Additional Matters. The Agent shall have received such other certificates, opinions, documents and instruments relating to the Transactions, and such information relating to the Accounts, as may have been reasonably requested by the Agent or any Lender, and all corporate and other proceedings and all other related documents (including, all documents referred to herein and not appearing as exhibits hereto) and all legal matters in connection with the Transactions shall be satisfactory in form and substance to the Lenders.

(l) No Violations. The making of the Loans or the issuance of the Letter of Credit on such date does not violate any Requirement of Law and is not stayed or enjoined, temporarily, preliminarily or permanently.

Section 3.2 Conditions Precedent to All Loans and Letters of Credit. The obligation of each Lender to make any Loan (including the initial Loans made on the Closing Date) and of the Issuing Lender to issue any Letter of Credit is subject to the satisfaction on the date such Loan is made or such Letter of Credit is issued of the following conditions precedent:

(a) Bankruptcy Court Approval. The Interim Order shall be in full force and effect and shall not have been stayed, reversed, vacated, rescinded, modified (other than by the Final Order) or amended in any respect or, if the date of such requested Loan or Letter of Credit is more than 30 days after the Closing Date or if the amount of such requested Loan or Letter of Credit, when added to the amount of all outstanding Loans and Letters of Credit Liability would exceed $2,000,000, or if less, the maximum amount authorized under the Interim Order, the Final Order shall have been entered, which Final Order shall be in full force and effect and shall not have been stayed, reversed, vacated, rescinded or, without the consent of the Required Lenders, modified or amended in any respect and, if the Interim Order or the Final Order, as the case may be, is the subject of a pending appeal in any respect, neither the making of such Loan, the issuance of such Letter of Credit nor the performance by any of the Loan Parties of any of their respective obligations hereunder or under the Loan Documents or under any other instrument or agreement referred to herein or therein shall be the subject of a then effective stay pending appeal.

(b) Representations and Warranties. The representations and warranties contained herein and in the other Loan Documents (other than representations and warranties which expressly speak only as of a different date) shall be true and correct in all material respects on such date both before and after giving effect to the making of such Loan and the issuance of such Letter of Credit.

(c) No Default or Event of Default. No Default or Event of Default shall have occurred and be continuing on such date either before or after giving effect to the making of such Loan or the issuance of such Letter of Credit.

(d) Notice of Borrowing; Letter of Credit Request. The Agent shall have received a fully executed Notice of Borrowing or Letter of Credit Request, as applicable, in respect of the Loans to be made or Letters of Credit to be issued on such date.

(e) No Litigation. Except as set forth on Schedule 4.4 delivered in accordance with Section 3.4(a), no law or regulation shall have been adopted, no order, judgment or decree of any Governmental Authority shall have been issued, and no litigation (other than the Case) shall be pending or threatened, which the Borrower or the Required Lenders shall determine is reasonably likely to have a Material Adverse Effect.

(f) Material Adverse Change. Since the Closing Date there shall not have occurred any event, act or condition with respect to the assets, liabilities, operations, business or financial condition of any Loan Party which has had, or could have, a Material Adverse Effect.

(g) Budget. The most recent cash receipts and disbursement budget delivered to the Agent pursuant to Section 5.1(e)(i) shall be satisfactory to the Lenders.

(h) Other Documentation. The Agent and the Lenders shall have received such other certificates, opinions and other documentation as each shall reasonably request.

Section 3.3 Representation; Delivery of Documents. The acceptance of the proceeds of each Loan and the issuance of each Letter of Credit shall constitute a representation and warranty by the Borrower to each of the Lenders that all of the conditions required to be satisfied under this Section 3 in connection with the making of such Loan or the issuance of such Letter of Credit have been satisfied. All of the Notes, certificates, agreements, legal opinions and other documents and papers referred to in this Section 3, unless otherwise specified, shall be delivered to the Agent for the account of each of the Lenders and, except for the Notes, in sufficient counterparts for each of the Lenders.

Section 3.4 Conditions Subsequent. Each of the Loan Parties covenants and agrees to satisfy each of the following conditions prior to the entry of the Final Order by the Bankruptcy Court:

(a) Each of the Loan Parties shall have delivered to the Agent final Schedules to each of the Loan Documents, in each case certified to be true, complete and correct by an officer of such Loan Party as of the date of such delivery, and each of such Schedules shall be in form and substance satisfactory to the Lenders.

(b) Each of the Loan Parties shall have delivered to the Agent the Articles of Incorporation of such Loan Party as amended, modified or supplemented through such date of delivery, in each case certified to be true, correct and complete by the Secretary of State of the appropriate jurisdiction as of the date of such delivery, together with a good standing certificate from such Secretary of State dated as of such date.

SECTION 4. REPRESENTATIONS AND WARRANTIES

In order to induce the Lenders to enter into this Agreement and to make the Loans, each of the Credit Parties makes the following representations and warranties, which shall survive the execution and delivery of this Agreement and the Notes and the making of the Loans:

Section 4.1 Corporate Status. Each Loan Party (i) is a corporation duly organized and validly existing in good standing under the laws of the jurisdiction of its incorporation or organization, (ii) subject to entry of the Final Order (when applicable), has the corporate power and authority to own its property and assets and to transact the business in which it is engaged or presently proposes to engage and (iii) has duly qualified and is authorized to do business and is in good standing as a foreign corporation in every jurisdiction in which it owns or leases real property or in which the nature of its business requires it to be so qualified, except where the failure to be so qualified would not result in a Material Adverse Effect.

Section 4.2 Corporate Power and Authority. Subject to the entry of the Final Order (when applicable), each Loan Party has the corporate (or other) power and authority to execute, deliver and carry out the terms and provisions

of each of the Loan Documents to which it is a party and has taken all necessary corporate (or other) action to authorize the execution, delivery and performance by it of such Loan Documents. Each Loan Party has duly executed and delivered each such Loan Document, and each such Loan Document constitutes its legal, valid and binding obligation, enforceable in accordance with its terms and with the Interim Order (or the Final Order, when applicable).

Section 4.3 No Violation. Neither the execution, delivery or performance by any Loan Party of the Loan Documents to which it is a party, nor compliance by it with the terms and provisions thereof nor the consummation of the Transactions, (i) will contravene any applicable provision of any law, statute, rule, regulation, order, writ, injunction or decree of any court or Governmental Authority (including the Bankruptcy Court), (ii) will conflict or be inconsistent with or result in any breach of, any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any Lien (except pursuant to this Agreement) upon any of the property or assets of such Loan Party pursuant to the terms of any indenture, mortgage, deed of trust, agreement or other instrument to which such Loan Party is a party or by which it or any of its property or assets is bound or to which it may be subject, or (iii) will violate any provision of the Articles of Incorporation or By-Laws of such Loan Party.

Section 4.4 Litigation. Except as set forth on Schedule 4.4 delivered in accordance with Section 3.4(a), there are no actions, suits or proceedings pending or, to the knowledge of any Loan Party after due inquiry, threatened (i) with respect to any of the

Transactions or the Loan Documents or (ii) that could, individually or in the aggregate, result in a Material Adverse Effect.

Section 4.5 Financial Statements; Financial Condition; Budget. The (i) audited consolidated balance sheets of the Borrower and its subsidiaries as at March 31, 1998, and the related audited consolidated statements of income and of cash flows for the period then ended and (ii) unaudited consolidated balance sheet of the Borrower and its Subsidiaries as at September 30, 1998 and the related consolidated statements of income and cash flows for the periods then ended, are complete and correct in all material respects, have been prepared in accordance with GAAP, and present fairly the consolidated financial position, results of operations and cash flows of the Borrower and its Subsidiaries as at the dates and for the periods indicated, except as disclosed in the notes thereto and, with respect to interim financial statements, subject to normal year-end adjustments. The Loan Parties have no material liability (contingent or otherwise) not reflected in such financial statements or in the notes thereto. The Budget, any cash receipts and disbursement budgets delivered pursuant to Section 5.1(e)(i) and all other financial projections and related materials and documents delivered to the Lenders pursuant hereto were prepared in good faith based upon the facts and assumptions that were reasonable in light of the then current and foreseeable business conditions and prospects of the Borrower and represented management's opinion of the Borrower's projected financial performance based on the information available to the Borrower at the time so furnished.

Section 4.6 Material Adverse Change. Since the Petition Date, there has occurred no event, act or condition which has had, or could have, a Material Adverse Effect.

Section 4.7 Use of Proceeds; Margin Regulations. All proceeds of each Loan will be used by the Loan Parties only in accordance with the provisions of Section 5.13. No part of the proceeds of any Loan will be used by any Loan Party to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock. Neither the making of any Loan nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulations T, U or X of the Federal Reserve Board.

Section 4.8 Governmental Approvals. Except for the Interim Order and the Final Order, no order, consent, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, any Governmental Authority, or any subdivision thereof, is required on the part of any Loan Party to authorize, or is required on the part of any Loan Party in connection with (i) the execution, delivery and performance of any Loan Document or the consummation of any of the Transactions or (ii) the legality, validity, binding effect or enforceability of any Loan Document, except those that have already been duly made or obtained and remain in full force and effect.

Section 4.9 Security Interests and Liens. This Agreement, together with the Security Agreement and the Orders, creates, as security for the Obligations, valid and

enforceable security interests in and Liens on all of the Collateral, in favor of the Agent for the ratable benefit of the Lenders having the priorities set forth herein. There are no Liens of any nature whatsoever on any assets of the Borrower or the Guarantors other than (A) Liens (including pledges) in favor of the Prepetition Agent and the Prepetition Lenders (i) under or in connection with the Prepetition Credit Agreement, (ii) granted under the Interim Order or the Final Order and this Agreement, and (B) other Liens in existence on the Petition Date as listed on Schedule 6.3 delivered in accordance with Section 3.4(a) or permitted by Section 6.3. Schedule 6.3 to this Agreement is a complete and correct list, as of the date of this Agreement of each Lien securing Indebtedness of any Person (other than the Liens securing the Prepetition Obligations) and covering any property of any Loan Party, and the aggregate Indebtedness secured (or that may be secured) by each such Lien and the property covered by each such Lien is correctly described in Schedule 6.3 delivered in accordance with Section 3.4(a).

Section 4.10 Tax Returns and Payments. Each Loan Party has filed all tax returns required to be filed by it and has paid all known taxes and assessments payable by it which have become due, other than those not yet delinquent or those that are reserved against in accordance with GAAP which are being diligently contested in good faith by appropriate proceedings.

Section 4.11 ERISA. Except as set forth on Schedule 4.11 delivered in accordance with Section 3.4(a), no Loan Party has or has had any Plans. To the best knowledge of each Loan Party and the members of each ERISA Controlled Group, (i) no accumulated funding deficiency (as defined in Section 412 of the IRC or Section 302 of ERISA) or Reportable Event has occurred with respect to any Plan, (ii) there are no Unfunded Benefit Liabilities under any Plan, (iii) each Loan Party and each member of its ERISA Controlled Group has complied with the requirements of Section 515 of ERISA with respect to each Multiemployer Plan and is not in "default" (as defined in Section 4219(c)(5) of ERISA) with respect to payments to any Multiemployer Plan, (iv) the aggregate potential total withdrawal liability and the aggregate potential annual withdrawal liability payments of such Loan Party and the members of its ERISA Controlled Group as determined in accordance with Title IV of ERISA as if each Loan Party and the members of its ERISA Controlled Group had completely withdrawn from all Multiemployer Plans is not greater than $50,000 and $50,000, respectively, (v) no Multiemployer Plan is or is likely to be in reorganization (as defined in Section 4241 of ERISA or Section 418 of the IRC) or is insolvent (as defined in Section 4245 of ERISA) and (vi) each Plan is in compliance in all material respects with the applicable provisions of ERISA, the IRC and other federal or state law. No material liability to the PBGC (other than required premium payments), the Internal Revenue Service, any Plan or any trust established under Title IV of ERISA has been, or is expected by any Loan Party or any member of its ERISA Controlled Group to be, incurred by such Loan Party or any member of its ERISA Controlled Group. Except as otherwise disclosed on Schedule 4.11 delivered in accordance with Section 3.4(a), neither any Loan Party nor any member of its ERISA Controlled Group has any contingent liability with respect to any post-retirement benefit under

any "welfare plan" (as defined in Section 3(1) of ERISA), other than liability for continuation coverage under Part 6 of Title I of ERISA. No lien under Section 412(n) of the IRC or 302(f) of ERISA or requirement to provide security under Section 401(a)(29) of the IRC or Section 307 of ERISA has been or is reasonably expected by any Loan Party or any member of its ERISA Controlled Group to be imposed on the assets of such Loan Party or any member of its ERISA Controlled Group. There has been no prohibited transaction (for purposes of Section 406 of ERISA and Section 4975 of the IRC) or violation of the fiduciary responsibility rules of ERISA with respect to any Plan.

Section 4.12 Investment Company Act; Public Utility Holding Company Act. No Loan Party is (x) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, (y) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (z) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

Section 4.13 True and Complete Disclosure. All factual information (taken as a whole) furnished by or on behalf of any Loan Party in writing to the Agent or any Lender on or prior to the Closing Date, for purposes of or in connection with this Agreement, the other Loan Documents or the Transactions is,

and all other such factual information (taken as a whole) hereafter furnished by or on behalf of any Loan Party in writing to the Agent or any Lender will be, true and accurate in all material respects on the date as of which such information is dated or furnished and not incomplete by omitting to state any material fact necessary to make such information (taken as a whole) not misleading at such time. As of the Closing Date, there are no facts, events or conditions known to any Loan Party which, individually or in the aggregate, have or reasonably could be expected to have a Material Adverse Effect. The projections and pro forma financial information included in such information are based on good faith estimates and assumptions believed by the Persons furnishing such projections and information to be reasonable at the time made, it being recognized by the Lenders that such projections as to future events are not to be viewed as facts and that any actual results during the period or periods covered by any such projections may differ from the projected results. Except as expressed herein, the Borrower makes no representations or warranties with respect to such projections and pro forma financial information.

Section 4.14 Corporate Structure; Capitalization. Schedule 4.14 delivered in accordance with Section 3.4(a) sets forth the number of authorized and issued shares of capital stock or other ownership interest of each Loan Party and the registered owner(s) of each Subsidiary of the Borrower. All of such stock and interests have been duly and validly issued and are fully paid and non-assessable. Except as set forth on Schedule 4.14 delivered in accordance with Section 3.4(a), no Loan Party has outstanding any securities convertible into or exchangeable for its capital stock or other ownership interests nor does any Loan Party

have outstanding any rights to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, its capital stock or other ownership interest.

Section 4.15 Ownership of the Borrower; Subsidiaries; Collateral. Set forth on Schedule 4.15 delivered in accordance with Section 3.4(a) is a complete and accurate list showing, as of the date hereof, all Subsidiaries of the Borrower and, as to each such Subsidiary, the jurisdiction of its incorporation, the number of shares of each class of Stock authorized, the number outstanding on the date hereof and the percentage of the outstanding shares of each such class owned (directly or indirectly) by the Borrower. No Stock of any Subsidiary of the Borrower is subject to any outstanding option, warrant, right of conversion or purchase or any similar right. Except as set forth on Schedule 4.15 delivered in accordance with Section 3.4(a), (i) all of the outstanding capital stock of each such Subsidiary has been validly issued, is fully paid and non-assessable and is owned by the Borrower, free and clear of all Liens, (ii) neither the Borrower nor any such Subsidiary is a party to, or has knowledge of, any agreement restricting the transfer or hypothecation of any shares of Stock of any such Subsidiary, other than the Loan Documents and the Prepetition Credit Agreement and (iii) the Borrower does not own or hold, directly or indirectly, any capital stock or equity security of, or any equity interest in, any Person other than such Subsidiaries. The Subsidiaries of the Borrowers identified as "Inactive" on Schedule 4.15 delivered in accordance with Section 3.4(a) do not own any material assets and do not conduct any business. Each of the Borrower and the Guarantors is the sole owner of each item of the Collateral in which it purports to grant a security interest pursuant to the Security Agreement, having good title thereto, subject only to Permitted Liens.

Section 4.16 Environmental Matters. (a) (i) Each of the Loan Parties and its Environmental Affiliates is in compliance in all material respects with all applicable Environmental Laws, (ii) each of the Loan Parties and its Environmental Affiliates has all Environmental Approvals required to operate its business as presently conducted or as reasonably anticipated to be conducted, (iii) none of the Loan Parties nor any of their Environmental Affiliates has received any material communication (written or oral), whether from a Governmental Authority, citizens group, employee or otherwise, that alleges that such Loan Party or Environmental Affiliate is not in full compliance with all Environmental Laws, and (iv) to the Borrower's best knowledge after due inquiry, there are no circumstances that may prevent or interfere with such full compliance in the future.

(b) There is no Environmental Claim pending or threatened against any Loan Party or its Environmental Affiliates.

(c) There are no past or present actions, activities, circumstances, conditions, events or incidents, including, the release, emission, discharge or disposal of any Material of Environmental Concern, that could form the basis of any Environmental Claims against any Loan Party or any of its Environmental Affiliates.

(d) Without in any way limiting the generality of the foregoing, (i) there are no on-site or (except for properly permitted off-site disposal sites) off-site locations in which any Loan Party or its Environmental Affiliate has stored, disposed or arranged for the disposal of Materials of Environmental Concern, (ii) there are no underground storage tanks located on property owned or leased by any Loan Party or its Environmental Affiliates, (iii) there is no friable asbestos in any building, building component, structure or office space owned or leased by any Loan Party or its Environmental Affiliates, and (iv) no polychlorinated biphenyls (PCB's) are used or stored at any property owned or leased by any Loan Party or its Environmental Affiliates.

Section 4.17 Patents, Trademarks, etc. None of the Loan Parties owns, holds or has obtained any patents, trademarks, servicemarks, trade names, copyrights or similar rights. No material product, process, method, substance, part or other material presently sold by or employed by any Loan Party in connection with such business infringes any patent, trademark, service mark, trade name, copyright, license or other right owned by any other Person. There is not pending or, to the knowledge of any Loan Party, threatened any claim or litigation against or affecting any Loan Party contesting its right to sell or use any such product, process, method, substance, part or other material.

Section 4.18 Ownership of Property. Schedule 4.18 delivered in accordance with Section 3.4(a) sets forth all the real property owned or leased by each Loan Party and identifies the street address, the current owner (and current record owner, if different) and whether such property is leased or owned, and if such property is leased, the length of the lease term. Each Loan Party has good and marketable fee simple title to or valid leasehold interests in all of such real property and good title to all of its personal property subject to no Lien of any kind except Liens permitted hereby. Each Loan Party enjoys peaceful and undisturbed possession under all of its respective leases.

Section 4.19 Licenses, etc. Each Loan Party has obtained and holds in full force and effect, all franchises, licenses, permits, certificates, authorizations, qualifications, accreditations, easements, rights of way and other rights, consents and approvals which are necessary for the operation of their respective businesses as presently conducted.

Section 4.20 Compliance With Law and Licensing Requirements; Patient Trust Funds. Each Loan Party is in compliance with all material laws, rules, regulations, orders, judgments, writs and decrees relevant to its business. All state licenses, permits and Medicaid/Medicare provider/billing agreements necessary to operate the Affiliated Medical Entities' businesses have been obtained by the Affiliated Medical Entities, are in full force and effect and are not the subject of any revocation or termination action by the issuing agencies, except where the failure to obtain such licenses, permits and Medicaid/Medicare provider/billing agreements has not had, and could not be expected to have, a Material

Adverse Effect. To the best of each Loan Party's knowledge, each Affiliated Medical Entity has maintained all patient trust funds in separate accounts and have accounted for such funds at least annually in accordance with all applicable laws, rules and regulations.

Section 4.21 No Burdensome Restriction; No Defaults. (a) Neither the Borrower nor any of its Subsidiaries (i) is bound by any contractual obligation the compliance with which would have a Material Adverse Effect or the performance of which by the Borrower, either unconditionally or upon the happening of an event, will result in the creation of a Lien (other than a Lien granted pursuant to a Loan Document) on the property or assets of any thereof, or (ii) is subject to any charter or corporate restriction which has a Material Adverse Effect.

(b) Except as set forth on Schedule 4.21(b) delivered in accordance with Section 3.4(a), neither the Borrower nor any of its Subsidiaries is in default under or with respect to any contractual obligation owed by it and, to the knowledge of the Loan Parties, no other party is in default under or with respect to any contractual obligation owed to the Borrower or to any of its Subsidiaries, other than those defaults which in the aggregate would not be reasonably likely to have a Material Adverse Effect.

(c) No Event of Default or Default has occurred and is continuing.

(d) There is no Requirement of Law the compliance with which by

any Loan Party would be reasonably likely to have a Material Adverse Effect.

(e) Except for the Prepetition Credit Agreement, no Subsidiary of the Borrower is subject to any contractual obligation restricting or limiting its ability to declare or make any dividend payment or other distribution on account of any shares of any class of its stock or its ability to purchase, redeem, or otherwise acquire for value or make any payment in respect of any such shares or any shareholder rights.

Section 4.22 The Interim Order and the Final Order. As of the date of the making of the initial extension of credit under this Agreement, the Interim Order has been entered and has not been stayed, amended, vacated, reversed, rescinded or otherwise modified in any respect. As of the date of the making of any subsequent extension of credit under this Agreement, the Interim Order or the Final Order, as the case may be, has been entered and has not been stayed, amended (except in accordance with the terms of this Agreement), vacated, reversed, rescinded or otherwise modified (except in accordance with the terms of this Agreement) in any respect.

SECTION 5. AFFIRMATIVE COVENANTS.

Each of the Loan Parties covenants and agrees that until the Total Commitment has terminated, and the Obligations are paid in full:

Section 5.1 Information Covenants. The Borrower will furnish to each Lender:

(a) Monthly Financial Statements. Within 45 days after the close of each month, the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such month and the related consolidated statements of income, cash flow and retained earnings for such month and for the elapsed portion of the fiscal year ended with the last day of such month, and in each case setting forth comparative figures for the related periods in the prior fiscal year occurring after April 1, 1998.

(b) Quarterly Financial Statements. Within 45 days after the close of each of the first three quarterly accounting periods in each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such quarterly period and the related consolidated statements of income, cash flow and retained earnings for such quarterly period and for the elapsed portion of the fiscal year ended with the last day of such quarterly period, and in each case setting forth comparative figures for the related periods in the prior fiscal year.

(c) Annual Financial Statements. Within 90 days after the close of each fiscal year of the Borrower, the consolidated and consolidating balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income, cash flow and retained earnings for such fiscal year, setting forth comparative figures for the preceding fiscal year and, with respect to such consolidated financial statements, certified without qualification by the Auditors, in each case together with a report stating that in the course of its regular audit of the consolidated financial statements of the Borrower, which audit was conducted in accordance with GAAP, the Auditors have obtained no knowledge of any Default or Event of Default, or if in the opinion of the Auditors such a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof.

(d) Compliance Certificates. At the time of the delivery of the financial statements under clauses (a), (b) and (c) above, a certificate of the chief financial officer of the Borrower (each a "Compliance Certificate") which certifies (x) that such financial statements fairly present in all material respects the financial condition and the results of operations of the Borrower and its Subsidiaries as at the dates and for the periods indicated, subject, in the case of interim financial statements, to normal year-end adjustments and (y) that such officer has reviewed the terms of the Loan Documents and has made, or caused to be made under his or her supervision, a review in reasonable detail of the business and condition of the Borrower and its Subsidiaries during the accounting period covered by such financial statements, and that as a result of such review such officer has concluded that no Default or Event of Default has occurred during the period commencing at the beginning of the accounting period covered

by the financial statements accompanied by such certificate and ending on the

date of the related accounting period or, if any Default or Event of Default has occurred, specifying the nature and extent thereof and, if continuing, the action the Borrower proposes to take in respect thereof. Such certificate shall set forth the calculations required to establish (i) whether the Borrower was in compliance with the provisions of Section 6.1 during and as at the end of the accounting period covered by the financial statements accompanied by such certificate, and (ii) in the case of the financial statements delivered pursuant to clause (b) above, the amount of Excess Cash Flow for the respective fiscal quarter.

(e) Cash Flow Budgets. (i) On the Closing Date and thereafter no later than the beginning of every other week, a cash receipts and disbursements budget for the next succeeding two-week period, a revised weekly cash receipts and disbursements budget through the end of the succeeding calendar month, and a comparison of actual cash receipts and disbursements to the most recent prior budget for the two-week period that ended two weeks before the current week.

(ii) No later than 10 days before the end of each fiscal month beginning January 1999, an update to the monthly cash receipts and disbursements Budget provided under Exhibit A for the two succeeding months and for the next succeeding fiscal quarter.

(f) Notice of Default or Litigation. Promptly and in any event within three Business Days after any Loan Party obtains knowledge thereof, notice of (i) the occurrence of any Default or Event of Default, (ii) any post-Petition Date litigation or governmental proceeding pending or, to the knowledge of any Loan Party, threatened against any Loan Party which reasonably could be expected to have a Material Adverse Effect and (iii) any other post-Petition Date event, act or condition known to any Loan Party which reasonably could be expected to have a Material Adverse Effect.

(g) ERISA.

(i) As soon as possible and in any event within 10 days after any Loan Party or any member of its ERISA Controlled Group knows, or has reason to know, that:

(A) any Termination Event with respect to a Plan has occurred or will occur, or

(B) any condition exists with respect to a Plan which presents a material risk of termination of the Plan or imposition of an excise tax or other liability on any Loan Party or any member of its ERISA Controlled Group, or

(C) any Loan Party or any member of its ERISA Controlled Group has applied for a waiver of the minimum funding standard under Section 412 of the IRC or Section 302 of ERISA, or

(D) any Loan Party or any member of its ERISA Controlled Group has engaged in a "prohibited transaction," as defined in Section 4975 of the IRC or as described in Section 406 of ERISA, that is not exempt under Section 4975 of the IRC and Section 408 of ERISA, or

(E) the aggregate present value of the Unfunded Benefit Liabilities under all Plans has in any year increased by $50,000 or to an amount in excess of $50,000, or

(F) any condition exists with respect to a Multiemployer Plan which presents a material risk of a partial or complete withdrawal (as described in Section 4203 or 4205 of ERISA) by any Loan Party or any member of its ERISA Controlled Group from a Multiemployer Plan, or

(G) any Loan Party or any member of its ERISA Controlled Group is in "default" (as defined in Section 4219(c)(5) of ERISA) with respect to payments to a Multiemployer Plan, or

(H) a Multiemployer Plan is in "reorganization" (as defined in Section 418 of the IRC or Section 4241 of ERISA) or is "insolvent" (as defined in Section 4245 of ERISA), or

(I) the potential withdrawal liability (as determined in accordance with Title IV of ERISA) of any Loan Party and the members of its ERISA Controlled Group with respect to all Multiemployer Plans has in any year increased by $50,000 or to an amount in excess of $100,000, or

(J) there is an action brought against any Loan Party or any member of its ERISA Controlled Group under Section 502 of ERISA with respect to its failure to comply with Section 515 of ERISA,

a certificate of the president or chief financial officer of the relevant Loan Party setting forth the details of each of the events described in clauses (A) through (J) above as applicable and the action which the relevant Loan Party or the applicable member of its ERISA Controlled Group proposes to take with respect thereto, together with a copy of any notice or filing from the PBGC or which may be required by the PBGC or other agency of the United States government with respect to each of the events described in clauses (A) through (J) above, as applicable.

(ii) As soon as possible and in any event within two Business Days after the receipt by any Loan Party or any member of its ERISA Controlled Group of a

demand letter from the PBGC notifying such Loan Party or such member of its ERISA Controlled Group of its final decision finding liability and the date by which such liability must be paid, a copy of such letter, together with a certificate of the president or chief financial officer of such Loan Party setting forth the action which such Loan Party or such member of its ERISA Controlled Group proposes to take with respect thereto.

(h) SEC Filings. Promptly upon transmission thereof, copies of all regular and periodic financial information, proxy materials and other information and reports, if any, which any Loan Party shall file with the Securities and Exchange Commission or any governmental agencies substituted therefor or which any Loan Party shall send to its stockholders.

(i) Bankruptcy Court and Other Filings. Promptly after they are available, to counsel for the Agent, a copy of each pleading, motion, application, or statement of information filed by or on behalf of any Loan Party with the Bankruptcy Court or the United States Trustee in any Case or distributed by or on behalf of any Loan Party to any committee appointed in any Case under section 1102 of the Bankruptcy Code, and the Loan Parties shall include counsel for the Agent on any "Special Notice List" or other similar list of parties to be served with papers in the Cases.

(j) Environmental. Promptly and in any event within five Business Days after the existence of any of the following conditions, a certificate of the chief executive officer or chief financial officer of any Loan Party specifying in detail the nature of such condition and such Loan Party's or Environmental Affiliate's proposed response thereto: (i) the receipt by such Loan Party or any of its Environmental Affiliates of any communication (written or oral), whether from a Governmental Authority, citizens group, employee or otherwise, that alleges that such Loan Party or Environmental Affiliate is not in compliance in any material respect with applicable Environmental Laws, (ii) any Loan Party or any of its Environmental Affiliates shall obtain actual knowledge that there exists any Environmental Claim pending or threatened against any Loan Party or such Environmental Affiliate that could reasonably be expected to have a Material Adverse Effect, or (iii) any release, emission, discharge or disposal of any Material of Environmental Concern that could form the basis of any Environmental Claim against any Loan Party or any of its Environmental Affiliates that could reasonably be expected to have a Material Adverse Effect.

(k) Other Information. From time to time, such other information or documents (financial or otherwise) as any Lender may reasonably request.

Section 5.2 Books, Records, Inspections and Collateral Audits. The Loan Parties shall, and shall cause each of their respective Subsidiaries to, keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law shall be made of all dealings and transactions in relation to its business and activities. The Loan Parties shall, and shall cause each of their respective Subsidiaries to,

permit officers and designated representatives of any Lender to visit and inspect any of the properties of the Borrower or any of its Subsidiaries, and examine the books of record and account of the Borrower or any of its Subsidiaries, and discuss the affairs, finances and accounts of the Borrower or any of its Subsidiaries with, and be advised as to the same by, its and their officers and independent accountants, all upon reasonable notice and at such

reasonable times as such Lender may desire. The Loan Parties shall, and shall cause each of their respective Subsidiaries to, permit the Agent (at the instruction of the Required Lenders) or its representatives or agents, at the expense of the Borrower, to conduct audits to inspect, review and evaluate the Collateral.

Section 5.3 Maintenance of Insurance. The Loan Parties shall, and shall cause each of their respective Subsidiaries to, (a) maintain with financially sound and reputable insurance companies insurance on itself and its properties in at least such amounts and against at least such risks as are customarily insured against in the same general area by companies engaged in the same or a similar business, which insurance shall in any event not provide for materially less coverage than the insurance in effect on the Closing Date, and (b) furnish to the Agent from time to time, upon written request, the policies under which such insurance is issued, certificates of insurance and such other information relating to such insurance as the Agent may reasonably request.

Section 5.4 Taxes. (a) Except as required by the Bankruptcy Code or by an order of the Bankruptcy Court, the Loan Parties shall pay or cause to be paid, and shall cause each of their respective Subsidiaries to pay or cause to be paid, when due, all taxes, charges and assessments and all other lawful claims required to be paid by the Loan Parties or such Subsidiaries, except (i) as contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves have been established with respect thereto in accordance with GAAP, and (ii) where non-payment involves the danger of the sale, forfeiture or loss of any property covered thereby.

(b) The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, file or consent to the filing of any consolidated tax return with any Person (other than the Borrower and its Subsidiaries).

Section 5.5 Conduct of Business. Each of the Loan Parties shall (a) conduct its business in the ordinary course and consistent with past practice; (b) use, its reasonable efforts, in the ordinary course and consistent with past practice, to (i) subject to Section 6.4, preserve its business and the goodwill and business of the customers, advertisers, suppliers and others having business relations with such Loan Party to the extent not inconsistent with this Agreement, and (ii) keep available the services and goodwill of its present employees; (c) preserve, all registered patents, trademarks, trade names, copyrights and service marks with respect to its business; and (d) perform and observe all the terms, covenants and conditions required to be performed and observed by it under its contractual obligations (including, to pay all rent and other charges payable under any lease and all debts and other obligations as

the same become due), and do all things necessary to preserve and to keep unimpaired its rights under such contractual obligations; provided, however, that, in the case of each of clauses (a) through (d), such Loan Party shall not be deemed in default of this Section 5.5 if it fails to take any action required hereby and if all such failures in the aggregate would not be reasonably likely to have a Material Adverse Effect; provided, further, that such Loan Party will comply with all orders of the Bankruptcy Court.

Section 5.6 Compliance with Law. The Loan Parties shall, and shall cause each of their respective Subsidiaries to, comply in all material respects with all applicable laws, rules, statutes, regulations, decrees and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property, including, ERISA and all Environmental Laws.

Section 5.7 Performance of Obligations. Except as required by the Bankruptcy Code or by an order of the Bankruptcy Court, the Loan Parties shall, and shall cause each of their respective Subsidiaries to, perform all of its obligations under the terms of each mortgage, indenture, security agreement, debt instrument, lease, undertaking and contract by which it or any of its properties is bound or to which it is a party.

Section 5.8 Maintenance of Properties. The Loan Parties shall, and shall cause each of their respective Subsidiaries to, ensure that its properties used or useful in its business are kept in good repair, working order and condition, normal wear and tear and obsolescence excepted.

Section 5.9 Collateral Accounts and Cash Management System. (a) The Agent shall possess sole dominion and control over the Collateral Accounts. As long as any of the Obligations remain unpaid or any of the Loan Commitments are outstanding, neither the Borrower, the Guarantors nor any Person or entity claiming by, through or under the Borrower or the Guarantors shall have any control over the use of, or any right to effect a withdrawal from, any of the Collateral Accounts. All amounts in the Collateral Accounts shall be applied by

the Agent as specified in Section 5.9(e).

(b) The Loan Parties shall maintain a cash management system acceptable to the Agent, which cash management system shall provide (i) for all proceeds of Accounts (excluding Amounts Due From Affiliated Physicians) received by any Loan Party to be deposited in the Concentration Account. The Loan Parties shall enter into a Blocked Account Agreement covering the Concentration Account within 30 days after the Closing Date.

(c) Upon receipt by any Loan Party of Asset Sales Proceeds or Amounts Due From Affiliated Physicians, such Loan Party shall promptly deposit such proceeds or amounts in the Collateral Account (Extraordinary Proceeds).

(d) Upon the occurrence and during the continuance of any Default or Event of Default, the Agent may (and shall at the request of the Required Lenders) deliver written notice pursuant to the Blocked Account Agreement instructing the applicable bank party to such Blocked Account Agreement to wire on a daily basis all available funds in the Concentration Account to the Collateral Account (Collections). All funds on deposit in the Collateral Accounts shall be applied or held in the manner specified in Section 5.9(e).

(e) The Loan Parties agree that all available funds in the Collateral Account (Collections) may be applied first, pro rata, to the outstanding principal amount of the Loans then outstanding, and second to any other Obligations then due and payable. If there are no Loans outstanding and no other Obligations then due and payable, then the funds in the Collateral Account (Collections) shall be retained in the Collateral Account (Collections) to the extent necessary to collateralize the Letter of Credit Liability then outstanding and the Prepetition Obligations; provided, however, on any Business Day that any funds are on deposit in the Collateral Account (Collections) and no Default or Event of Default shall have occurred and be continuing or, if a Default or Event of Default shall have occurred and is continuing, the Agent shall not have either (i) delivered a Blocking Notice to the Borrower or (ii) exercised any of the rights or remedies provided in Section 9.2, the Borrower may direct the Agent to (and the Agent shall) disburse such funds in the Collateral Account (Collections) to the Concentration Account. After the occurrence and during the continuance of an Event of Default, all available funds in the Collateral Account (Extraordinary Proceeds) may be (and shall be at the direction of the Required Lenders) applied to the Obligations then due and payable. All amounts held in the Collateral Account (Extraordinary Proceeds), to the extent not applied to the Obligations, shall be held as Collateral for the Obligations and the Prepetition Obligations, and may not be utilized by any of the Loan Parties.

Section 5.10 Licensure; Medicaid/Medicare Cost Reports. The Borrower shall cause each relevant Loan Party to maintain all necessary provider numbers and licenses and take any steps necessary to comply with any such new or additional requirements that may be imposed on providers of medical products and services. If required, all Medicaid/Medicare cost reports will be properly filed by each relevant Loan Party.

Section 5.11 Year 2000. Each Loan Party shall take all action necessary to ensure that computer hardware and software used in its business and operations will, in the case of dates or time periods occurring after December 31, 1999, function at least as effectively as in the case of dates or time periods prior to January 1, 2000. At the request of the Agent or any Lender, the Borrower shall provide the Agent or such Lender, as the case may be, with assurance reasonably acceptable to the Agent or such Lender, as the case may be, of such Loan Party's year 2000 capability.

SECTION 6. NEGATIVE COVENANTS.

Each of the Loan Parties covenants and agrees that unless otherwise consented to in writing by the Required Lenders, until the Total Commitment has terminated, and the Obligations are paid in full:

Section 6.1 Financial Covenants. (a) The Borrower shall not permit its Consolidated EBITDA for any fiscal month set forth below to be less than the amount set forth opposite such month:

Month	Amount
January, 1999	$575,655

February, 1999	$528,020
March, 1999	$462,922
April, 1999	$562,136
May, 1999	$562,136
June, 1999	$562,136
July, 1999	$638,636
August, 1999	$562,136
September, 1999	$562,136

(b) Adjusted Cash Balance. The Borrower shall not permit its Adjusted Cash Balance on the last day of any fiscal month set forth below to be less than the amount set forth opposite such month:

Month	Amount
January, 1999	$1,117,685
February, 1999	$ 841,286
March, 1999	$ 353,848
April, 1999	$ 330,598
May, 1999	$ 560,514
June, 1999	$ 768,895
July, 1999	$ 1,091,856
August, 1999	$ 1,459,815
September, 1999	$ 1,742,275

Section 6.2 Indebtedness. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, create, incur, assume, suffer to exist or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, other than:

(a) Indebtedness hereunder and under the other Loan Documents;

(b) Existing Indebtedness;

(c) Indebtedness permitted under Section 6.6;

(d) Indebtedness of (i) the Borrower owing to any Guarantor and (ii) any Guarantor owing to the Borrower or any other Guarantor.

Section 6.3 Liens. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, create, incur, assume or suffer to exist, directly or indirectly, any Lien on any of its property or assets (whether tangible or intangible and including, any document or instrument in respect of goods or Accounts) now owned or hereafter acquired, other than:

(a) Liens existing on the Petition Date and set forth on Schedule 6.3 delivered in accordance with Section 3.4(a);

(b) Liens securing taxes, assessments or governmental charges or levies; provided, however, that (i) neither the Loan Parties nor any of their Subsidiaries are in default in respect of any payment or other obligation with respect thereto or (ii) (x) the Loan Parties and their Subsidiaries are in good faith and by appropriate proceedings diligently contesting such obligation and adequate reserves therefor have been established on the books of the Loan Parties or such Subsidiaries in conformity with GAAP and (y) such nonpayment does not involve any danger of the sale, forfeiture or loss of any property covered thereby;

(c) Liens arising by operation of law in favor of materialmen, mechanics, warehousemen, carriers, lessors or other similar Persons incurred by any of the Loan Parties or any of their Subsidiaries in the ordinary course of business which secure its obligations to such Person; provided, however, that (i) the Loan Parties or their Subsidiaries, as the case may be, are not in default with respect to such payment obligation to such Person, or (ii) (x) the Loan Parties or Subsidiaries, as the case may be, are in good faith and by appropriate proceedings diligently contesting such obligation and adequate reserves therefor have been established on the books of such Loan Party or such Subsidiary in conformity with GAAP and (y) such nonpayment does not involve any danger of the sale, forfeiture or loss of any property covered thereby;

(d) Liens (other than any Lien imposed by ERISA or pursuant to any Environmental Law) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social

security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases (solely with respect to tangible assets located on the premises, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money)); provided, however, that all such Liens in the aggregate have no Material Adverse Effect.

(e) Easements, rights-of-way, zoning and similar restrictions and other similar charges or encumbrances not interfering with the ordinary conduct of the business of any Loan Party and which do not detract materially from the value of the property to which they attach or impair materially the use thereof by any Loan Party or materially adversely affect the security interests of the Agent or the Lenders therein;

(f) Liens granted to the Agent for the benefit of the Lenders pursuant to the Loan Documents; and

(g) Leases or subleases of real estate granted to others not interfering in any material respect with the business of the Loan Parties or any of their Subsidiaries and any interest or title of a lessor under any lease not in violation of this Agreement.

Section 6.4 Restriction on Fundamental Changes.

(a) The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to (or apply to the Bankruptcy Court for authority to do so, except in connection with the Plan of Reorganization), directly or indirectly, by operation of law or otherwise, merge or consolidate with any Person, or liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), discontinue its business or convey, lease, sell, transfer or otherwise dispose of, in one transaction or series of transactions, all or any substantial part of its business or property, whether now or hereafter acquired, except as otherwise permitted under Section 6.5.

(b) The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to (or apply to the Bankruptcy Court for authority to do so, except in connection with the Plan of Reorganization), (i) acquire by purchase or otherwise any property or assets of, or stock or other evidence of beneficial ownership of, any Person, except purchases of intellectual property, inventory, equipment, materials and supplies in the ordinary course of the Loan Parties' or such Subsidiary's business, (ii) create any Subsidiary, or (iii) enter into any partnership or joint venture.

(c) The Loan Parties shall not and shall not permit any of their respective Subsidiaries to (or apply to the Bankruptcy Court for authority to do so, except in connection with the Plan of Reorganization), amend its articles of incorporation (or other formation document) or by-laws, in any manner.

Section 6.5 Sale of Assets. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, convey, lease, sell, transfer or otherwise dispose of (or agree to do so at any future time) all or any part of their respective property or assets, except sales of inventory in the ordinary course of business.

Section 6.6 Contingent Obligations. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, create or become or be liable with respect to any Contingent Obligation, except:

(a) pursuant to the Loan Documents; and

(b) Contingent Obligations which are in existence on the Petition Date and which are set forth on Schedule 6.6 delivered in accordance with Section 3.4(a).

Section 6.7 Capital Expenditures. None of the Loan Parties shall make or incur (or commit to make or incur) and shall permit any of their respective Subsidiaries to make or incur (or commit to make or incur) Capital Expenditures in fiscal year 1999 which exceed, in the aggregate, (i) $25,000 or (ii) to the extent the Borrower delivers a certificate to the Agent certifying that such Capital Expenditures are expressly required under a Management Services Agreement and setting forth a detailed written summary of the nature and amount of such expenditures, $600,000.

Section 6.8 Advances, Investments and Loans. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, lend money or credit or make advances to any Person, or directly or indirectly purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to any Person, except that the following shall be permitted:

(a) accounts receivable owned by any Loan Party, if created in the ordinary course of the business of such Loan Party and payable or dischargeable in accordance with customary trade terms;

(b) loans and advances among the Borrower and the Guarantors in the ordinary course of business;

(c) advances to Affiliated Medical Entities under the relevant Management Services Agreements;

(d) Cash Equivalents;

(e) existing investments and Contingent Obligations outstanding on the Petition Date described on Schedule 6.6 delivered in accordance with Section 3.4(a); and

(f) any endorsement of a check or other medium of payment for deposit or collection, or any similar transaction in the normal course of business.

Section 6.9 Transactions with Affiliates. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, enter into any transaction or series of related transactions, whether or not in the ordinary course of business, with any Affiliate, other than on terms and conditions substantially as favorable to the Loan Party or such Subsidiary as would be obtainable at the time in a comparable arm's-length transaction with a Person other than an Affiliate.

Section 6.10 Limitation on Voluntary Payments; Management Services Agreements. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, (a) enter into any Management Services Agreement or (b) amend, modify or waive, or permit the amendment, modification or waiver of, any provision of any Management Services Agreement.

Section 6.11 Changes in Business. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, enter into any business which is substantially different from that conducted by the Loan Parties or any such Subsidiary on the Petition Date.

Section 6.12 Certain Restrictions. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to, enter into any agreement which restricts the ability of the Loan Parties or any of their Subsidiaries to (a) enter into amendments, modifications or waivers of the Loan Documents, (b) create, incur, assume, suffer to exist or otherwise become liable with respect to any Indebtedness, or (c) pay any dividend or other distribution.

Section 6.13 Sale and Leasebacks. The Loan Parties shall not, and shall not permit any of their Subsidiaries to, become liable, directly or indirectly, with respect to any lease, whether an operating lease or a Capitalized Lease, of any property (whether real or personal or mixed) whether now owned or hereafter acquired, (i) which the Loan Party or such Subsidiary has sold or transferred or is to sell or transfer to any other Person, or (ii) which the Loan Party or such Subsidiary intends to use for substantially the same purposes as any other property which has been or is to be sold or transferred by the Loan Party or such Subsidiary to any other Person in connection with such Lease.

Section 6.14 Sale of Accounts. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries or any Affiliated Medical Entity to, sell, with or without recourse, or discount or otherwise sell for less than the face value therefor, any of their notes or Accounts (or any portion thereof), except for compromises made in the ordinary course of business.

Section 6.15 Use of Proceeds. The Borrower and the other Loan Parties shall not, and shall not permit any of their Subsidiaries, to use the proceeds of the Loans for purposes other than working capital purposes and other general corporate purposes of the Loan Parties as detailed in the Budget. Notwithstanding anything in this Agreement to the contrary, no Loans, no

proceeds of the Prepetition Collateral or the Collateral and no Cash Collateral may be used by the Loan Parties or any other Person (including any statutory committee appointed in any Case) to object to or contest in any manner, or raise any defenses to, the validity, extent, perfection, priority or enforceability of the Prepetition Obligations or the Obligations or any Liens with respect thereto, or any other rights or interests of the Agent or the Lenders, or the Prepetition Lenders, or to assert any claims or causes of action, including any actions under chapter 5 of the Bankruptcy Code, against the Agent or the Lenders or the Prepetition Lenders.

Section 6.16 Chapter 11 Claims. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to incur, create, assume, suffer to exist or permit any other Super-Priority Claim which is pari passu with or senior to the claims of the Agent and the Lenders against the Borrower and the Guarantors hereunder, except for the Carve-Out.

Section 6.17 Dividends; Capital Stock. The Loan Parties shall not, and shall not permit any of their respective Subsidiaries to declare or pay, directly or indirectly, any dividends or make any other distribution or payment, whether in cash, property, securities or a combination thereof, with respect to (whether by reduction of capital or otherwise) any shares of capital stock (or any options, warrants, rights or other equity securities or agreements relating to any capital stock), or set apart any sum for the aforesaid purposes, provided that any Guarantor may pay dividends to the Borrower or to any other Guarantor.

Section 6.18 No Speculative Transactions. The Loan Parties shall not and shall not permit any of their respective Subsidiaries to engage in any speculative transaction or in any transaction involving commodity options or futures contracts except for the sole purpose of hedging in the normal course of business and consistent with industry practices.

Section 6.19 Maintenance of Ownership of Subsidiaries. The Loan Parties shall not sell or otherwise dispose of any shares of stock or any stock equivalents of any Subsidiary or permit any Subsidiary to issue, sell or otherwise dispose of any shares of its stock or any stock equivalent or the stock or any stock equivalent of any other Subsidiary.

Section 6.20 Accounting Changes. The Loan Parties shall not make, nor shall they permit any of their Subsidiaries to make, any change in accounting treatment or reporting practices or tax reporting treatment, except as required by GAAP or applicable law and disclosed to the Lenders and the Agent.

SECTION 7. GUARANTY

Section 7.1 Guaranty. (a) Each of the Guarantors unconditionally and irrevocably guarantees the due and punctual payment and performance by the Borrower of the Borrower's Obligations. Each of the Guarantors further agrees that such Obligations may be extended or renewed, in whole or in part, without notice to or further assent from it, and it will remain bound upon this guaranty notwithstanding any extension or renewal of any of such Obligations. The Obligations of the Guarantors shall be joint and several.

(b) Each of the Guarantors waives presentation to, demand for payment from and protest to the Borrower or any other Guarantor, and also waives notice of protest for nonpayment. The Obligations of the Guarantors hereunder shall not be affected by (i) the failure of the Agent or any Lender to assert any claim or demand or to enforce any right or remedy against the Borrower or any other Guarantor under the provisions of this Agreement or any other Loan Document or otherwise; (ii) any extension or renewal of any provision hereof or thereof, (iii) any rescission, waiver, compromise, acceleration, amendment or modification of any of the terms or provisions of any of the Loan Documents; (iv) the release, exchange, waiver or foreclosure of any security held by the Agent for the Obligations or any of them; (v) the failure of the Agent or any Lender to exercise any right or remedy against any other Guarantor; or (vi) the release or substitution of any Guarantor or any other Guarantor.

(c) Each of the Guarantors further agrees that this guaranty constitutes a guaranty of performance and of payment when due and not just of collection, and waives any right to require that any resort be had by the Agent or any Lender to any security held for payment of the Obligations or to any balance of any deposit, account or credit on the books of the Agent or any Lender in favor of the Borrower or any other Guarantor, or to any other Person.

(d) Each of the Guarantors hereby waives any defense that it might have based on a failure to remain informed of the financial condition of the Borrower and of any other Guarantor and any circumstances affecting the ability of the Borrower to perform under this Agreement.

(e) Each Guarantor's guaranty shall not be affected by the genuineness, validity, regularity or enforceability of the Obligations or any other instrument evidencing any Obligations, or by the existence, validity, enforceability, perfection, or extent of any collateral therefor or by any other circumstance relating to the Obligations which might otherwise constitute a defense to this Guaranty. Neither of the Agent, nor any of the Lenders makes any representation or warranty in respect to any such circumstances or shall have any duty or responsibility whatsoever to any Guarantor in respect of the management and maintenance of the Obligations.

(f) Subject to the provisions of Section 9.1, upon the Obligations becoming due and payable (by acceleration or otherwise), the Lenders shall be entitled to immediate payment of such Obligations by each Guarantor upon written demand by the Agent, without further application to or order of the Bankruptcy Court.

Section 7.2 No Impairment of Guaranty. The obligations of the Guarantors hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including, any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or set-off, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations. Without limiting the generality of the foregoing, the obligations of the Guarantors hereunder shall not be discharged or impaired or otherwise affected by the failure of the Agent or any Lender to assert any claim or demand or to enforce any remedy under this Agreement or any other agreement, by any waiver or modification of any provision thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of the Guarantors or would otherwise operate as a discharge of the Guarantors as a matter of law, unless and until the Obligations are paid in full.

Section 7.3 Subrogation. Upon payment by any Guarantor of any sums to the Agent or any Lender hereunder, all rights of such Guarantor against the Borrower arising as a result thereof by way of right of subrogation or otherwise, shall in all respects be subordinate and junior in right of payment to the prior final and indefeasible payment in full of all the Obligations. If any amount shall be paid to such Guarantor for the account of the Borrower, such amount shall be held in trust for the benefit of the Agent and the Lenders and shall forthwith be paid to the Agent and the Lenders to be credited and applied to the Obligations, whether matured or unmatured.

SECTION 8. POWER OF ATTORNEY

Except as required by the Bankruptcy Code or by an order of the Bankruptcy

Court, each Loan Party hereby irrevocably constitutes and appoints the Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of such Loan Party and in the name of such Loan Party or in its own name, from time to time in the Agent's discretion, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action by any technologically available means, which may include, any form of electronic data transmission, and to execute in any appropriate manner, which may include, using any symbol that the Agent may adopt to signify such Loan Party's intent to authenticate, any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement. Without in any way affecting the validity of any action taken pursuant to the foregoing, the Agent hereby agrees to provide the Loan Parties three (3) days' prior written notice prior to exercising any powers pursuant to the foregoing power of attorney. This power of attorney is a power coupled with an interest and shall be irrevocable.

SECTION 9. EVENTS OF DEFAULT

Section 9.1 Events of Default. Each of the following events, acts, occurrences or conditions shall constitute an Event of Default under this Agreement, regardless of whether such event, act, occurrence or condition is voluntary or involuntary or results from the operation of law or pursuant to or as a result of compliance by any Person with any judgment, decree, order, rule or regulation of any court or administrative or governmental body:

(a) Failure to Make Payments. The Borrower shall default in the payment when due of any principal or interest on the Loans or in the payment when due of any Fees or any other amounts owing hereunder.

(b) Breach of Representation or Warranty. Any representation or warranty made by any Loan Party herein or in any other Loan Document or in any certificate or statement delivered pursuant hereto or thereto shall prove to be false or misleading in any material respect on the date as of which made or deemed made.

(c) Breach of Covenants.

(i) Any Loan Party shall fail to perform or observe any agreement, covenant or obligation arising under Sections 3.4, 5.1(i), 5.5 (with respect to the existence of the Borrower) or Section 6.

(ii) Any Loan Party shall fail to perform or observe any agreement, covenant or obligation arising under this Agreement (except those described in subsections (a),

(b) and (c)(i) above) or any other Loan Document, and such failure shall continue for 30 days (or, in the case of a breach under any other Loan Document, such longer grace period provided under such Loan Document) after the earlier to occur of (i) the provision of notice by the Agent of such failure or (ii) actual knowledge by the any Loan Party of such failure.

(d) Certain Bankruptcy Events.

(i) Any Case is dismissed or converted to a case under chapter 7 of the Bankruptcy Code, or a trustee is appointed in any Case; or

(ii)(A) An order of the Bankruptcy Court shall be entered granting or there shall arise another Super-Priority Claim or Lien pari passu with or senior to that granted (x) to the Agent and the Lenders pursuant to this Agreement and the Orders, or (y) to the Prepetition Lenders pursuant to the Orders (other than pursuant to clause (x) above), (B) an order of a court of competent jurisdiction shall be entered reversing, staying, vacating or rescinding either of the Orders, (C) an order of a court of competent jurisdiction shall be entered amending, supplementing or otherwise modifying either of the Orders, (D) the Prepetition Lenders' Cash Collateral shall be used in a manner inconsistent with the Orders, or (E) any Loan Party shall fail to comply with the terms of either of the Orders in any material respect; or

(iii) An order of the Bankruptcy Court shall be entered in any of the Cases appointing a responsible officer or an examiner having enlarged powers relating to the operation of the business of any Loan Party (powers beyond those set forth under sections 1106(a)(3) and (4) of the Bankruptcy Code) under section 1106(b) of the Bankruptcy Code; or

(iv) The Borrower or any Guarantor shall make any payments of Indebtedness relating to pre-Petition Date obligations other than (A) as permitted under the Orders, (B) pre-petition wages and benefits and other employee-related claims which are payable with the approval of the Bankruptcy Court and sales tax and employee withholding taxes which have been collected by any Loan Party but not yet paid, (C) as otherwise permitted under this Agreement, payment of certain other pre-Petition Date claims, including payments to physician providers, that are authorized by the Bankruptcy Court pursuant to orders described in Section 3.1(f), or (D) in connection with the assumption of any contract or lease approved by the Bankruptcy Court, in each case to the extent consistent with the Budget; or

(v) The entry of an order granting relief from the automatic stay so as to allow a third party to proceed against any asset or assets of the Borrower or any Guarantor which have a value in excess of $200,000 in the aggregate; or

(vi) The filing of any pleading by the Borrower or any Guarantor seeking, or otherwise consenting to, any of the matters set forth in paragraphs (d)(i) through (v); or

(vii) There shall occur any event after the Petition Date that results in a Material Adverse Effect; or

(viii) The entry of the Final Order shall not have occurred within 30 days after the Petition Date; or

(ix) Any Loan Party shall support (whether by way of any motion or other pleading filed with the Bankruptcy Court or any other writing to another party-in-interest executed by or on behalf of a Loan Party or by oral argument) any other Person's opposition to any motion made in the Bankruptcy Court by the Agent or the Lenders seeking confirmation of the amount or enforceability of the Prepetition Obligations or the validity, perfection or enforceability of the liens or security interests granted in connection therewith; or

(x) Any Loan Party shall seek to, or shall support (whether by way of any motion or other pleading filed with the Bankruptcy Court or any other writing to another party-in-interest executed by or on behalf of a Loan Party or by oral argument) any other Person's motion to, disallow in whole or in part any of the Prepetition Obligations or the Obligations or to challenge the validity, perfection or enforceability of the liens or security interests granted in connection with the Prepetition Obligations or the Obligations; or

(xi) Commencement by any of the Loan Parties or their estates or any of their respective Affiliates of any litigation, arbitration or other proceeding relating to any claim or action against the Agent or any of the Lenders arising or alleged to arise out of any conduct of any of such entities prior to the Closing Date under or in connection with the Prepetition Loan Documents.

(e) ERISA. (i) Any Termination Event shall occur, or (ii) any Plan shall incur an "accumulated funding deficiency" (as defined in Section 412 of the IRC or Section 302 of ERISA), whether or not waived or (iii) any Loan Party or a member of its ERISA Controlled Group shall have engaged in a transaction which is prohibited under Section 4975 of the IRC or Section 406 of ERISA which could result in the imposition of liability in excess of $500,000 on any Loan Party or any member of its ERISA Controlled Group, or (iv) any Loan Party or any member of its ERISA Controlled Group shall fail to pay when due an amount which it shall have become liable to pay to the PBGC, any Plan or a trust established under Title IV of ERISA, or (v) a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that an ERISA Plan must be terminated or have a trustee appointed to administer any ERISA Plan, or (vi) any Loan Party or a member of its

ERISA Controlled Group suffers a partial or complete withdrawal from a Multiemployer Plan or is in "default" (as defined in Section 4219(c)(5) of ERISA) with respect to payments to a Multiemployer Plan, or (vii) a proceeding shall be instituted against any Loan Party or any member of its ERISA Controlled Group to enforce Section 515 of ERISA, or (viii) any other event or condition shall occur or exist with respect to any Plan which could subject any Loan Party or any member of its ERISA Controlled Group to any tax, penalty or other liability in excess of $500,000.

(f) Security. (i) Any material provision of any Loan Document shall, for any reason, cease to be in full force and effect and valid and binding on any Loan Party, or any Loan Party shall so state in writing; or

(ii) Any Loan Document, the Interim Order or the Final Order shall, for any reason, cease to create a valid Lien in any of the Collateral purported to be covered thereby or such Lien shall cease to be a perfected Lien having the priority provided for in the Loan Documents and in the Orders pursuant to section 364 of the Bankruptcy Code against each Loan Party or any Loan Party shall so allege in any pleading filed in any court; or

(g) Guarantees. The guarantees provided for in Section 7 shall for any reason cease to be in full force and effect or any Guarantor shall fail to pay any amount owing pursuant to Section 7 when due or any Guarantor shall disavow any of its obligations under Section 7.

(h) Change of Control. A Change in Control shall occur.

(i) Judgments. Any judgment or order for the payment of money in excess of $100,000 shall be rendered against any of the Loan Parties after the Petition Date, and there shall be any period of ten (10) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

(j) Environmental Matters. (i) Any Environmental Claim shall have been asserted against any Loan Party or any Environmental Affiliate thereof which, if determined adversely, could reasonably be expected to have a Material

Adverse Effect, (ii) any release, emission, discharge or disposal of any Material of Environmental Concern shall have occurred, and such event has formed the basis of an Environmental Claim against any Loan Party or any Environmental Affiliate thereof which, if determined adversely, could have a Material Adverse Effect, or (iii) any Loan Party or its Environmental Affiliate shall have failed to obtain any Environmental Approval necessary for the management, use, control, ownership, or operation of its business, property or assets or any such Environmental Approval shall be revoked, terminated, or otherwise cease to be in full force and effect, in each case, if the existence of such condition could have a Material Adverse Effect.

(k) Management Services Agreements. (i) In any twelve month period, Management Services Agreements in respect of greater than 15% of the Loan Parties' aggregate revenues as of the Closing Date shall be terminated without the prior written consent of the Required Lenders or (ii) any party to any Management Services Agreement shall withhold during any calendar month any amount payable to the Loan Parties pursuant thereto in excess of the lesser of $1,000,000 in the aggregate and 10% of the total amount of such payments projected for such month in the Budget or any cash receipts and disbursement budgets delivered pursuant to Section 5.1(e)(i).

Section 9.2 Rights and Remedies. (a) Upon the occurrence of any Event of Default set forth in Section 9.1(d), the Loan Commitments shall automatically and immediately terminate and the unpaid principal amount of and any and all accrued interest on the Loans and any and all accrued Fees and other Obligations shall automatically become immediately due and payable, with all additional interest from time to time accrued thereon, and without presentation, demand, or protest or other requirements of any kind (including, valuation and appraisement, diligence, presentment, notice of intent to demand or accelerate and notice of acceleration), all of which are hereby expressly waived by the Loan Parties, and the obligation of each Lender to make any Loan hereunder shall thereupon terminate; and upon the occurrence and during the continuance of any other Event of Default, the Agent shall at the request, or may with the consent, of the Required Lenders, by written notice to the Borrower, (i) declare that the Loan Commitments are terminated, whereupon the Loan Commitments and the obligation of each Lender to make any Loan hereunder shall immediately terminate, (ii) terminate any Letter of Credit that may be terminated in accordance with its terms, (iii) direct the Loan Parties to pay (and the Loan Parties agree that upon receipt of such notice they will pay) to the Agent at the Agent's Office an amount of cash, to be held in the Collateral Accounts, in an aggregate amount equal to 105% of the Letter of Credit Liability and (iv) declare the unpaid principal amount of and any and all accrued and unpaid interest on the Loans and any and all accrued Fees and other Obligations to be, and the same shall thereupon be, immediately due and payable with all additional interest from time to time accrued thereon, and without presentation, demand, or protest or other requirements of any kind (including, valuation and appraisement, diligence, presentment, notice of intent to demand or accelerate and notice of acceleration), all of which are hereby expressly waived by the Loan Parties.

(b) Upon the occurrence and during the continuance of an Event of Default, the automatic stay provided by section 362 of the Bankruptcy Code shall be deemed automatically vacated, without further order of the Bankruptcy Court, and the Agent, on behalf of the Lenders, shall, upon three business days' notice to the Borrower and any creditors' committee appointed in the Case pursuant to section 1102 of the Bankruptcy Code, be immediately permitted to, among other things, pursue any and all of its remedies against the Loan Parties or the Collateral and seek payment in respect of all Obligations.

(c) In addition to the remedies set forth above, the Agent, on behalf of the Lenders, may exercise any of the remedies with respect to the Collateral provided for in the Security Agreement or any of the other Loan Documents or any other remedies provided by applicable law.

SECTION 10. THE AGENT

Section 10.1 Appointment. Each Lender hereby irrevocably designates and appoints Paribas as the Agent of such Lender under this Agreement and each other Loan Document, and each such Lender irrevocably authorizes Paribas as the Agent for such Lender, to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Agreement and each other Loan Document, together with such other powers as are

reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities on the part of the Agent shall be read into this Agreement or otherwise exist against the Agent. Notwithstanding anything to the contrary herein, the Issuing Lender shall act on behalf of the Lenders with respect to the Letters of Credit (and all conditions precedent to the issuance or extension thereof) until such time and except for so long as the Agent may elect to act for the Issuing Lender with respect thereto; provided, however, that the Issuing Lender shall have all of the benefits and immunities (i) for acts taken or omissions suffered by the Issuing Lender in connection with the Letters of Credit as fully as if the term "Agent" as used in this Section 10 included the Issuing Lender with respect to such acts or omissions, and (ii) as additionally provided in this Agreement with respect to the Issuing Lender. The provisions of this Section 10 are solely for the benefit of the Agent and the Lenders, and the Borrower shall have no rights as a third party beneficiary or otherwise under any of the provisions hereof. In performing its functions and duties hereunder and under the other Loan Documents, the Agent shall act solely as the agent of the Lenders and does not assume nor shall be deemed to have assumed any obligation or relationship of trust or agency with or for the Borrower or any Lender or any of their respective successors and assigns.

Section 10.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement or the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

Section 10.3 Exculpatory Provisions. The Agent shall not be (i) liable for any

action lawfully taken or omitted to be taken by it (except for its own gross negligence or willful misconduct) or any Person described in Section 10.2 under or in connection with this Agreement or any other Loan Document, or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by any Loan Party contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, or any other Loan Document or for any failure of any Loan Party to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party. This Section is intended solely to govern the relationship between the Agent, on the one hand, and the Lenders, on the other.

Section 10.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless the Agent shall have received an executed Assignment and Acceptance in respect thereof. The Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Notes.

Section 10.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default unless the Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall promptly give notice thereof to the Lenders. The Agent

shall take such action with respect to such Default or Event of Default as shall be directed by the Required Lenders; provided that unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or

refrain from taking such action, with respect to such Default or Event of Default as the Agent shall deem advisable and in the best interests of the Lenders and shall notify the Lenders of any such action taken.

Section 10.6 Non-Reliance on Agent and Other Lenders. Each Lender expressly acknowledges that neither the Agent, nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representations or warranties to it and that no act by the Agent hereafter taken, including, any review of the affairs of the Loan Parties, shall be deemed to constitute any representation or warranty by the Agent. Each Lender represents and warrants to the Agent that it has, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, prospects, financial and other conditions and creditworthiness of the Loan Parties and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, prospects, financial and other condition and creditworthiness of the Loan Parties. Except for notices, reports and other documents expressly required under the Loan Documents to be furnished to the Lenders by the Agent, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, prospects, financial and other condition or creditworthiness of the Loan Parties which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 10.7 Indemnification. The Lenders agree to indemnify the Agent and its officers, directors, employees, representatives and agents (to the extent not reimbursed by any Loan Party and without limiting the obligation of the Loan Parties to do so), ratably according to their Pro Rata Shares, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including, the actual out of pocket fees and disbursements of counsel for the Agent or such Person in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not the Agent or such Person shall be designated a party thereto) that may at any time (including, at any time following the payment of the Obligations) be imposed on, incurred by or asserted against the Agent or such Person as a result of, or arising out of, or in any way related to or by reason of, any of the Transactions or the execution, delivery or performance of any Loan Document (but excluding any such liabilities, obligations, losses, damages, penalties, actions, suits, costs, expenses or disbursements resulting solely from the gross negligence or willful misconduct of the Agent or such Person as determined by a court of competent jurisdiction in a final non-appealable judgment or order).

Section 10.8 Agent in its Individual Capacity. The Agent and its affiliates may make loans to, accept deposits from and generally engage in any kind of business with any Loan Party as though the Agent were not the Agent hereunder. With respect to Loans made or renewed by it and any Note issued to it, the Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not the Agent, and the terms "Lender" and "Lenders" shall include the Agent in its individual capacity.

Section 10.9 Resignation by the Agent. (a) The Agent may resign from the performance of all of its functions and duties hereunder and/or under the other Loan Documents by giving 15 Business Days' prior written notice to the Borrower and the Lenders. Such resignation shall take effect upon the appointment of a successor Agent pursuant to clauses (b) and (c) below or as otherwise provided below.

(b) Upon any such notice of resignation, the Lenders shall appoint a successor Agent hereunder or thereunder who shall be a commercial bank or trust company.

(c) If a successor Agent shall not have been so appointed within such 15 Business Day period, the Agent may then appoint a successor Agent who shall serve as Agent hereunder or thereunder until such time, if any, as the Lenders appoint a successor Agent as provided above.

(d) If no successor Agent has been appointed pursuant to clause (b) or (c) above by the 20th Business Day after the date such notice of resignation was given by the Agent, the Agent's resignation shall become effective and the Lenders shall thereafter perform all the duties of the Agent hereunder and/or under any other Loan Document until such time, if any, as the Lenders appoint a successor Agent as provided above.

SECTION 11. MISCELLANEOUS

Section 11.1 Payment of Expenses, Indemnity, etc. The Borrower and the other Loan Parties shall:

(a) pay all reasonable out-of-pocket costs and expenses of the Agent and the Lenders in connection with the negotiation, preparation, execution and delivery of the Loan Documents and the documents and instruments referred to therein, the creation, perfection or protection of the Agent's Liens in the Collateral (including, fees and expenses for title and lien searches and filing and recording fees), and any amendment, waiver or consent

relating to any of the Loan Documents (including, as to each of the foregoing, the reasonable fees and disbursements of Weil, Gotshal & Manges LLP, special counsel to the Agent and any other attorneys retained by the Agent or the Lenders) and of the Agent and each Lender in connection with the preservation of rights under, and enforcement of, the Loan Documents and the documents and instruments referred to therein or in connection with any restructuring or rescheduling of the Obligations;

(b) pay, and hold the Agent and each of the Lenders harmless from and against, any and all present and future stamp, excise and other similar taxes with respect to the Loan Documents and the Transactions and hold the Agent and each Lender harmless from and against any and all liabilities with respect to or resulting from any delay or omission (other than to the extent attributable to such Lender) to pay such taxes; and

(c) indemnify the Agent, each Lender and each of their Affiliates and each of their respective officers, directors, employees, representatives and agents (each an "Indemnitee") from, and hold each of them harmless against, any and all losses, liabilities, claims, damages, expenses, obligations, penalties, actions, judgments, suits, costs or disbursements of any kind or nature whatsoever (including, the reasonable fees and disbursements of counsel for such Indemnitee in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnitee shall be designated a party thereto) that may at any time (including, at any time following the payment of the Obligations) be imposed on, asserted against or incurred by any Indemnitee as a result of, or arising out of, or in any way related to or by reason of, (i) any of the Loan Documents or the Transactions, (ii) the grant to the Agent and the Lenders of any Lien in any property or assets of any Loan Party or any stock or other equity interest in any Loan Party, and (iii) the exercise by the Agent and the Lenders of their rights and remedies (including, foreclosure) under any agreements creating any such Lien (but excluding, as to any Indemnitee, any such losses, liabilities, claims, damages, expenses, obligations, penalties, actions, judgments, suits, costs or disbursements incurred by reason of the gross negligence or willful misconduct of such Indemnitee as determined by a court of competent jurisdiction in a final non-appealable judgment or order). The Loan Parties' obligations under this Section shall survive the termination of this Agreement and the payment of the Obligations.

Section 11.2 Right of Setoff. In addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, each Lender is hereby authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to the Loan Parties or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and apply any and all deposits (general or special, time or demand, provisional or final) and any other indebtedness at any time held or owing by such Lender (including, by branches and agencies of such Lender wherever

located) to or for the credit or the account of any Loan Party against and on account of the Obligations of any Loan Party to such Lender under this Agreement or under any of the other Loan Documents, including, all interests in Obligations purchased by such Lender pursuant to Section 11.7, and all other claims of any nature or description arising out of or connected with this Agreement or any other Loan Document, irrespective of whether or not such Lender shall have made any demand hereunder and although said Obligations, liabilities or claims, or any of them, shall be contingent or unmatured.

Section 11.3 Notices. Except as otherwise expressly provided herein, all notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy), and shall be deemed to have been duly given or made when delivered by hand, or five days after being deposited in the United States mail, postage prepaid, or, in the case of telecopy notice, when sent or, if not sent during business hours on a Business Day, then on the next Business Day, or, in the case of a nationally recognized overnight courier service, one Business Day after delivery to such courier service, addressed, in the case of each party hereto, at its address specified opposite its signature below or on the appropriate Assignment and Acceptance, or to such other address as may be designated by any party in a written notice to the other parties hereto.

Section 11.4 Successors and Assigns; Participation; Assignments.

(a) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Loan Parties, the Lenders, the Agent, all future holders of the Notes and their respective successors and assigns, except that the Loan Parties may not assign or transfer any of their respective rights or obligations under this Agreement without the prior written consent of each Lender. No Lender may participate, assign or sell any of its Credit Exposure (as defined in clause (b) below) except as provided in this Section 11.4 or as required by operation of law, in connection with the merger, consolidation or dissolution of any Lender.

(b) Participation. Any Lender may at any time sell to one or more Persons (each a "Participant") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Loan Commitment of such Lender and or any other interest of such Lender hereunder (in respect of any such Lender, its "Credit Exposure"). Notwithstanding any such sale by a Lender of participating interests to a Participant, such Lender's rights and obligations under this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such Note for all purposes under this Agreement (except as expressly provided below), and the Loan Parties and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. The Loan Parties agree that if any Obligations are due and unpaid, or shall have been declared or

shall have become due and payable upon the occurrence and during the continuance of an Event of Default, each Participant shall be deemed to have the right of setoff in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement or any Note, provided that such right of setoff shall be subject to the obligations of such Participant to share with the Lenders, and the Lenders agree to share with such Participant, as provided in Section 11.7. The Loan Parties also agree that each Participant shall be entitled to the benefits of Section 2.11. Each Lender agrees that any agreement between such Lender and any such Participant in respect of such participating interest shall not restrict such Lender's right to agree to any amendment, supplement, waiver or modification to this Agreement or any other Loan Document, except where the result of any of the foregoing would be to extend the final maturity of any Obligation or any regularly scheduled installment thereof or reduce the rate or extend the time of payment of interest thereon or reduce the principal amount thereof or release all or substantially all of the Collateral (except as expressly provided in the Loan Documents) or release any Guarantor from its obligations under a Guarantee.

(c) Assignments. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign, with the consent of the Agent, which consent shall not be unreasonably withheld, to any other Person (each an "Assignee") all or any part of its Credit Exposure, in a minimum amount of $1,000,000 or, if such Lender's Credit Exposure is less than $1,000,000, such Lender's total Credit Exposure. The Loan Parties, the Agent and the Lenders agree that to the extent of any assignment the Assignee shall be deemed to have the same rights and benefits under the Loan Documents and the same rights of setoff and obligation to share pursuant to Section 11.7 as it

would have had if it were a Lender hereunder; provided that the Borrower and the Agent shall be entitled to continue to deal solely and directly with the assignor Lender in connection with the interests so assigned to the Assignee unless and until (i) written notice of such assignment, together with payment instructions, addresses and related information with respect to the Assignee, shall have been given to the Borrower and the Agent by such Lender and the Assignee; (ii) such Lender and its Assignee shall have delivered to the Borrower and the Agent (A) an Assignment and Acceptance in the form of Exhibit G (an "Assignment and Acceptance") together with delivery to the Borrower of any Note or Notes subject to such Assignment and (B) if applicable to the Assignee, the forms required to be delivered pursuant to Section 2.12(b); and (iii) such Lender shall have paid to the Agent, for its own account, an assignment fee of $3,500. Immediately upon compliance with the provisions of this Section 11.4(c), this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Loan Commitments arising therefrom. The Loan Commitment allocated to each Assignee shall reduce such Loan Commitment of the assigning Lender pro tanto.

(d) Replacement Notes. Within 5 Business Days after its receipt of notice by the Agent that the Agent has received an executed Assignment and Acceptance and payment of the processing fee, the Borrower shall execute and deliver to the Agent new Notes evidencing such Assignee's assigned Loans and Loan Commitment and, if the assignor Lender has retained a portion of its Loans and Loan Commitment, replacement Notes in the principal amount of the Loans retained by the assignor Lender (such Notes to be in exchange for, but not in payment of, the Notes held by such Lender).

(e) Assignments to Federal Reserve Bank. Notwithstanding any other provision contained in this Agreement or any other Loan Document to the contrary, any Lender may assign all or any portion of the Loans or Notes held by it to any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, provided that any payment in respect of such assigned Notes or Loans made by the Borrower to or for the account of the assigning and/or pledging Lender in accordance with the terms of this Agreement shall satisfy the Borrower's obligations hereunder in respect of such assigned Loans or Notes to the extent of such payment. No such assignment shall release the assigning Lender from its obligations hereunder.

(f) Subsequent Lenders. Each of the parties hereto agrees that from time to time and upon the prior written consent of the Agent, any Person may become party to this Agreement as a Lender and be subject to all of the obligations and entitled to all of the rights of a Lender under the Loan Documents upon such Person's execution and delivery of a counterpart of this Agreement; provided, that in no event shall the Total Commitment exceed five million dollars after giving effect to the Loan Commitment of each additional Lender becoming a party to this Agreement pursuant to this Section 11.4(f). The Agent shall be authorized to amend or supplement Schedule 1 to set forth the Loan Commitment of each Lender becoming a party to this Agreement pursuant to this Section 11.4(f).

Section 11.5 Amendments and Waivers. Neither this Agreement, any Note, any other Loan Document to which any Loan Party is a party nor any terms hereof or thereof may be amended, supplemented, modified or waived except in accordance with the provisions of this Section. The Required Lenders and the Loan Parties may, from time to time, enter into written amendments, supplements, modifications or waivers for the purpose of adding, deleting, changing or waiving any provisions to this Agreement, the Notes, or the other Loan Documents to which any Loan Party is a party, provided, that no such amendment, supplement, modification or waiver shall (a) extend either the Maturity Date or any installment or required prepayment of any Obligations or reduce the rate or extend the time of payment of interest on any Obligations, or reduce the principal amount of any Obligations or reduce any fee payable to the Lenders hereunder, or release all or a substantial portion of the Collateral (except as expressly contemplated by the Loan Documents), or release any Guarantor from its

obligations hereunder, or change the amount of any Loan Commitment of any Lender, or amend, modify or waive any provision of this Section 11.5 or the definition of Required Lenders, or consent to or permit the assignment or transfer by any Loan Party of any of its rights and obligations under this Agreement or any other Loan Document, or consent to any subordination or other materially adverse modification of the priority of the claims and Liens of the

Lenders, in each case without the written consent of all the Lenders or (b) amend, modify or waive any provision of Section 10 or any other provision of any Loan Document if the effect thereof is to affect the rights or duties of the Agent, without the written consent of the then Agent. Any such amendment, supplement, modification or waiver shall apply to each of the Lenders equally and shall be binding upon the Loan Parties, the Lenders, the Agent and all future holders of the Notes. In the case of any waiver, the Loan Parties, the Lenders and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default waived shall be deemed to be cured and not continuing, but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

Section 11.6 No Waiver; Remedies Cumulative. No failure or delay on the part of the Agent or any Lender or any holder of a Note in exercising any right, power or privilege hereunder or under any other Loan Document and no course of dealing between any Loan Party and the Agent or any Lender or the holder of any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which the Agent or any Lender or the holder of any Note would otherwise have. No notice to or demand on any Loan Party in any case shall entitle any Loan Party to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Agent, the Lenders or the holder of any Note to any other or further action in any circumstances without notice or demand.

Section 11.7 Sharing of Payments. Each of the Lenders agrees that if it should receive any amount hereunder (whether by voluntary payment, by realization upon security, by the exercise of the right of setoff or banker's lien, by counterclaim or cross action, by the enforcement of any right under the Loan Documents, or otherwise) which is applicable to the payment of any Obligations, of a sum which, with respect to the related sum or sums received by other Lenders, is in a greater proportion than the total of such Obligations then owed and due to such Lender bears to the total of such Obligations then owed and due to all of the Lenders immediately prior to such receipt, then such Lender receiving such excess payment shall purchase for cash without recourse or warranty from the other Lenders an interest in such Obligations owing to such Lenders in such amount as shall result in a proportional participation by all of the Lenders in such amount; provided that if all or any

portion of such excess amount is thereafter recovered from such Lender, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest.

Section 11.8 GOVERNING LAW. THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND, TO THE EXTENT APPLICABLE, THE BANKRUPTCY CODE.

Section 11.9 Consent to Jurisdiction. Each Loan Party irrevocably
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(a) submits itself and its property to the jurisdiction of the Bankruptcy Court and, if the Bankruptcy Court does not have (or abstains from exercising) jurisdiction, to the jurisdiction of any New York State or Federal court sitting in New York City and any appellate court from any thereof in any action or proceeding arising out of or relating to any Loan Document;

(b) agrees that all claims in respect of such action or proceeding may be heard and determined in the foregoing counts, as applicable;

(c) waives, to the fullest extent that it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding;

(d) consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to it at its address pursuant to Section 11.3; and

(e) agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(f) Nothing in this Section 11.9 shall affect the right of the Agent or any Lender to serve legal process in any other manner permitted by law or affect the right of the Agent or any Lender to bring any action or proceeding

against any Loan Party or its property in the courts of other jurisdictions.

Section 11.10 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

Section 11.11 Effectiveness. This Agreement shall become effective on the

date on which all of the parties hereto shall have signed a counterpart hereof and shall have delivered the same to the Agent which delivery, in the case of the Lenders, may be given to the Agent by telecopy (with the originals delivered promptly to the Agent via overnight courier service).

Section 11.12 Headings Descriptive. The headings of the several Sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

Section 11.13 Marshalling; Recapture. Neither the Agent nor any Lender shall be under any obligation to marshall any assets in favor of any Loan Party or any other party or against or in payment of any or all of the Obligations. To the extent any Lender receives any payment by or on behalf of any Loan Party, which payment or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to any Loan Party or its estate, trustee, receiver, custodian or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such payment or repayment, the obligation or part thereof which has been paid, reduced or satisfied by the amount so repaid shall be reinstated by the amount so repaid and shall be included within the liabilities of the Loan Party to such Lender as of the date such initial payment, reduction or satisfaction occurred.

Section 11.14 Severability. In case any provision in or obligation under this Agreement or the Notes or the other Loan Documents shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

Section 11.15 Survival. All indemnities set forth herein including, in Sections 2.10, 2.11, 2.12, 10.7 and 11.1 shall survive the execution and delivery of this Agreement and the Notes and the making and repayment of the Loans hereunder.

Section 11.16 Domicile of Loans. Each Lender may transfer and carry its Loans at, to or for the account of any branch office, subsidiary or affiliate of such Lender.

Section 11.17 Limitation of Liability. No claim may be made by the Borrower or any other Loan Party against the Agent or any Lender or the Affiliates, directors, officers, employees, attorneys or agent of any of them for any special, indirect, consequential or punitive damages in respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by this Agreement or any other Transactions, or any act, omission or event occurring in connection therewith; each Loan Party hereby waives, releases and agrees not to sue upon any claim for any such damages,

whether or not accrued and whether or not known or suspected to exist in its favor.

Section 11.18 Calculations; Computations. The financial statements to be furnished to the Agent and the Lenders pursuant hereto shall be made and prepared in accordance with GAAP consistently applied throughout the periods involved and consistent with GAAP as used in the preparation of the financial statements referred to in Section 4.5, and, except as otherwise specifically provided herein, all computations determining compliance with Section 6.1 hereof shall utilize GAAP.

Section 11.19 Waiver of Trial by Jury. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE LOAN PARTIES, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES ALL RIGHT OF TRIAL BY JURY IN ANY ACTION, PROCEEDING OR

COUNTERCLAIM ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ANY MATTER ARISING HEREUNDER OR THEREUNDER.

Section 11.20 Absence of Prejudice to the Prepetition Lenders with Respect to Matters Before the Bankruptcy Court. The Agent or any Lender, in its capacity as the Prepetition Agent or a Prepetition Lender under the Prepetition Credit Agreement shall be free to bring, oppose or support any matter before the Bankruptcy Court no matter how treated in this Agreement, and the fact that the Agent is also the Prepetition Agent and a Lender is also an Prepetition Lender shall in no way prejudice the rights of such entities under, or in respect of, the Prepetition Credit Agreement or hereunder.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Agreement as of the date first above written.

BMJ MEDICAL MANAGEMENT, INC., as the Borrower

By:

Name: David H. Fater
Title: Executive Vice President, Chief Financial Officer

BMJ OF CHANDLER, INC., as Guarantor

By:

Name: David H. Fater
Title: Executive Vice President, Chief Financial Officer

ORTHOPAEDIC MANAGEMENT NETWORK, INC., as Guarantor

By:

Name: David H. Fater
Title: Executive Vice President, Chief Financial Officer

VALLEY SPORTS SURGEONS INC., as Guarantor

By:

Name: David H. Fater
Title: Executive Vice President, Chief Financial Officer

BMJ BROG, INC., as Guarantor

By:

Name: David H. Fater
Title: Executive Vice President, Chief Financial Officer

BMJ OF NEVADA, INC., as Guarantor

By:

Name: David H. Fater

Title: Executive Vice President,
Chief Financial Officer

Notice Address:
BMJ Medical Management,Inc.
4800 N. Federal Highway, Suite 101-E
Boca Raton, Florida 33431
Attention: David H. Fater,
Executive Vice President and
Chief Financial Officer
Telephone: (561) 391-1311
Telecopier: (561) 391-1389

With copies to:
Katten, Muchin & Zavis
525 West Monroe Street
Suite 1600
Chicago, Illinois 60661
Attention: Jeff Marwill
Telephone: (312)-902-5454
Telecopier: (312)-902-1061

PARIBAS, as Agent, Issuing Lender and
as a Lender

By:

Name: Edward Canale
Title: Managing Director

By:

Name: Albert A. Young
Title: Director

Notice Address:

Paribas
2029 Century Park East, Suite 3900
Los Angeles, CA 90067
Attention: Clare Bailhe,
Director - Head of WR
Healthcare
Telephone: (310) 551-7381
Telecopier: (310) 556-3157

With copies to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Attention: Daniel S. Dokos
Telephone: (212) 310-8576
Telecopier: (213) 310-8007

FLEET CAPITAL CORPORATION, as Issuing
Lender and as a Lender

By:

Name:

Title:

By:

Name:

Title:

Notice Address:

Fleet Capital Corporation
15260 Ventura Boulevard, Suite 400
Sherman Oaks, CA 91403
Attention: _____
Telephone: (___) ___-____
Telecopier: (___) ___-____

With copies to:

Orrick, Herrington & Sutcliffe
777 South Figueroa Street, Suite 3200
Los Angeles, California 90017-5832
Attn:_____
Telephone: (213) 629-2020
Telecopier: (213) 612-2499

Schedule 1 to
Credit Agreement

Lenders and Commitments

Name of Lender	Domestic Lending Office	Commitment
Paribas		$2,750,000
Fleet Capital Corporation		$1,000,000

Schedule 3.1(j) to
Credit Agreement

Litigation

Schedule 4.11 to
Credit Agreement

ERISA

Schedule 4.14 to
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Capitalization

Schedule 4.15 to
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Subsidiaries

Schedule 4.18 to
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Properties

Schedule 4.21(b) to
Credit Agreement

Defaults under Contractual Obligations

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Exhibit D	--	Form of Blocked Account Agreement
Exhibit E	--	Form of Security and Pledge Agreement
Exhibit F	--	Form of Revolving Note
Exhibit G	--	Form of Assignment and Acceptance
Exhibit H	--	Form of Letter of Credit Request
Exhibit I	--	Form of Notice of Borrowing

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BMJ MEDICAL MANAGEMENT, INC. AND SUBSIDIARIES FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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