SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

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

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 1999 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 0-16271

DVI, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	22-2722773
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 HYDE PARK DOYLESTOWN, PENNSYLVANIA	18901
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (215) 345-6600

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

<TABLE>
<CAPTION>

Title of Each Class	Name of each Exchange on which Registered
<S>	<C>
COMMON STOCK, PAR VALUE $.005 PER SHARE	NEW YORK STOCK EXCHANGE, INC.
9 7/8% SENIOR NOTES DUE 2004	NEW YORK STOCK EXCHANGE, INC.

</TABLE>

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

WARRANTS TO PURCHASE COMMON STOCK
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes X No

The aggregate market value of the Registrant's Common Stock (its only voting stock) held by nonaffiliates of the Registrant as of July 31, 1999 was approximately $140,145,906 based upon the last reported sale price of the Common Stock on the New York Stock Exchange on that date. (Reference is made to Page 16 herein for a statement of the assumptions upon which this calculation is based.)

As of July 31, 1999, the Registrant had 14,173,608 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Registrant's definitive Proxy Statement to be filed with the Commission within 120 days after the close of the Registrant's fiscal year.

PART I

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ITEM 1. BUSINESS

INTRODUCTION

In this discussion, the terms "DVI", the "Company", "we", "us" and "our" refer to DVI, Inc. and its subsidiaries, except where it is made clear that such terms mean only DVI, Inc. or an individual subsidiary.

DVI conducts its business principally through two operating subsidiaries, DVI Financial Services Inc., referred to as "DVI Financial Services" and DVI Business Credit Corporation, referred to as "DVI Business Credit". We conduct securitizations through special-purpose subsidiaries. We also conduct other structured financings through limited-purpose subsidiaries or through our operating subsidiaries. The borrowers under our various warehouse credit facilities are DVI Financial Services or DVI Business Credit.

OVERVIEW

We are an independent specialty finance company that provides asset-backed financing to healthcare service providers. Our core businesses are medical equipment finance and medical receivables finance. We provide these services principally in the U.S., Latin America, Europe, the U.K., Asia and Australia. We also provide interim real estate financing, mortgage loan placement, subordinated debt financing for assisted living facilities and, to a lesser extent, merger and acquisition advisory services and asset-backed financing for emerging growth companies. As of June 30, 1999, our total assets and shareholders' equity were $1.1 billion and $191.6 million, respectively.

We principally serve the financing needs of middle-market healthcare service providers, such as outpatient healthcare providers, medical imaging centers, physician group practices, integrated healthcare delivery networks and hospitals. Many of our customers are growing entrepreneurial companies that have capitalized on trends affecting the healthcare delivery systems in the U.S. and other countries to build their businesses. These trends include:

- Significant growth in the level of healthcare expenditures worldwide;

- Dramatic efforts by governmental and market forces to reduce healthcare delivery costs and increase efficiency;

- Favorable demographic and public policy trends worldwide;

- Growth, consolidation and restructuring of healthcare service providers and

- Advances in medical technologies that have increased the demand for healthcare services and the need for sophisticated medical diagnostic and treatment equipment.

As a result of these trends, our business has grown substantially. From June 30, 1995 to June 30, 1999, our managed net financed assets portfolio increased 236% to approximately $1.7 billion from $494.9 million.

MEDICAL EQUIPMENT FINANCE

Our medical equipment finance business, which had managed net financed assets of $1.5 billion and total revenues of $80.1 million as of June 30, 1999, operates by:

- Providing financing directly to end users of diagnostic imaging and other sophisticated medical equipment;

- Providing financing directly to end users of lower-cost medical devices;

- Providing domestic and international finance programs for vendors of diagnostic and other sophisticated medical equipment and

- To a lesser extent, purchasing medical equipment contracts originated by regional leasing companies through a wholesale contract origination program.

Our typical equipment contracts for diagnostic, patient treatment and other sophisticated medical equipment (originated both domestically and internationally) range from $200,000 to $3.0 million while equipment contracts for lower cost medical

devices range from $5,000 to $200,000. Virtually all of our equipment contracts are structured so that the full cost of the equipment and all financing costs are repaid during the financing term, which is typically five years. Because

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most of our equipment contracts are structured as notes secured by equipment or direct financing leases with a bargain purchase option, our exposure to residual asset value is limited. Our residual asset value was $27.8 million at June 30, 1999.

For accounting purposes, we classify the equipment contracts we originate as:

- Notes secured by equipment,

- Direct financing leases or

- Operating leases.

Generally, in transactions where notes are secured by equipment and direct financing leases, the obligor has substantially all of the benefits and risks of ownership of the equipment. Operating leases provide for the rental of the asset. The different classifications can result in accounting treatments that provide substantially different income and costs during the transaction term. Direct financing leases and notes secured by equipment are reflected on our balance sheet as "investment in direct financing leases and notes secured by equipment or medical receivables." For statement of operations purposes, those transactions result in amortization of finance income over the transaction term in the amounts computed using the interest method.

We enter into two types of direct financing lease transactions, which are referred to as "conditional sales agreements" and "fair market value transactions." Conditional sales agreements and notes secured by equipment represent those transactions in which we retain no residual interest in the underlying equipment. Fair market value transactions are those transactions in which we do retain a residual interest in the equipment. We record this residual interest on our books as an estimate of the financed equipment's projected fair market value at the end of the transaction term. At the inception of notes secured by equipment and direct financing lease fixed payment transactions, "unearned income" represents the amount by which the gross transaction receivables and the estimated residual value (on fair market value transactions) exceed equipment cost. At the inception of notes secured by equipment and direct financing lease variable rate transactions, the beginning receivable balance is equal to the equipment cost only. Variable rate contracts have scheduled principal payments and variable interest payments that are calculated and accrued monthly on the remaining principal balance. The accrued interest on variable rate contracts is reflected on the balance sheet under "Other assets."

Leases and contracts for the rental of equipment that do not meet the criteria of direct financing leases are accounted for as operating leases. We record equipment under an operating lease or a rental contract on the balance sheet at our cost under the caption of "equipment on operating leases" and depreciate this equipment on a straight-line basis over its estimated useful life.

Notes secured by equipment and direct financing lease transactions are all "net" transactions under which the obligor must make all scheduled payments, maintain the equipment, insure the equipment against casualty loss and pay all equipment-related taxes. In fair market value transactions, at the end of the initial financing term, the obligor has the option to purchase the equipment for its fair market value, extend the financing term under renegotiated payments or return the equipment to us. If the equipment is returned to us, we must sell or lease the equipment to another user.

In transactions that we permanently fund through securitization or other structured finance transactions which we treat as debt, income is deferred and recognized using the interest method over the respective term of the transactions. If an obligor under a transaction defaults, we may not receive all or a portion of the unamortized income associated with the transaction.

For those securitizations that are treated as sales, we retain the obligation to service the individual contracts although they are removed from our balance sheet at the time of sale. We are compensated for these services under contractual terms, which include our receipt of a servicing fee, late charges and ancillary revenue that we believe would more than adequately compensate a substitute servicer. Under the terms of Statement of Financial Accounting Standards ("SFAS") No. 125, we will recognize as a servicing asset the excess of that compensation over amounts that would otherwise be required by the marketplace to perform this specific type of servicing for securitizations consummated after July 1, 1999.

We have traditionally focused our financing activities on the domestic outpatient diagnostic and treatment services sector of the healthcare industry. This sector typically consists of radiologists and other diagnostic service providers who were among the first in the domestic healthcare industry to move away from the hospital setting toward outpatient treatment centers. We expect the range of outpatient services we finance to expand and intend to focus on the

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equipment used and medical receivables generated as a result of that expansion.

In recent years, we have expanded our international business significantly. Internationally, we finance the purchase of diagnostic imaging and other sophisticated medical equipment by private clinics, diagnostic centers and hospitals. Our international business is focused on providing finance programs for equipment manufacturers doing business in Latin America, Europe, the U.K., Asia and Australia. We believe our presence in these regions enhances our relationships with certain medical equipment manufacturers and permits us to capitalize on the growing international markets for medical equipment financing. We view continued expansion of our relationships with medical equipment vendors and manufacturers as an integral component of our growth strategy and intend to continue to expand our medical equipment finance activities outside the U.S. At June 30, 1999, our managed portfolio of international equipment contracts was $213.0 million.

MEDICAL RECEIVABLES FINANCE

Our medical receivables financing business, which had managed net financed assets of $186.4 million and total revenues of $23.0 million as of June 30, 1999, generally consists of providing contracts to healthcare providers that are secured by their receivables. Receivables are paid by groups such as insurance companies, governmental programs and other healthcare providers. The interest and fee income generated from these contracts are recognized over the terms of the lines of credit, which are typically one to three years, and are recorded as amortization of finance income and other income. These contracts may also be secured by other types of collateral. Substantially all of these lines of credit are collateralized by third party medical receivables due from Medicare, Medicaid, HMOs, PPOs, commercial insurance companies, self-insured corporations, and, to a limited extent, other healthcare service providers. We generally advance 70% to 85% of our estimate of the net collectible value of the eligible receivables from third party payors. Clients continue to bill and collect the accounts receivable, subject to lockbox collection and sweep arrangements established to our benefit. We conduct due diligence on our potential medical receivables clients for all our financing programs and follow underwriting and credit policies in providing financing to customers. Our credit risk is mitigated by our security interest in all receivables, eligible and ineligible. We also recently acquired a highly sophisticated collateral tracking system that will allow us to improve the monitoring of medical receivables. Our medical receivables contracts are structured as floating rate lines of credit. These lines of credit typically range in size from $500,000 to $15.0 million; however, in certain circumstances commitments ranging from $20.0 million to $40.0 million are also provided.

Medical receivables financing is readily available for many hospitals and for physicians seeking relatively small amounts of funding. However, for outpatient healthcare providers seeking funding in excess of $500,000, the principal sources of financing generally are limited to specialty finance companies or factoring companies that purchase receivables at a discount. We believe the principal reasons for the lack of financing in these areas historically have been the uncertainty of the value of the receivables, the lack of permanent funding vehicles and the potential for fraud due to the difficulty of verifying the performance of healthcare services. More recently, interest in providing financing for this sector has increased as a result of improved understanding of the expected reimbursement levels for healthcare services and the availability of historical performance data on which to base credit decisions. Our strategy in medical receivables financing is to differentiate ourselves from many of our competitors by offering contracts secured by medical receivables rather than factoring those receivables at a discount. We believe that contracts secured by medical receivables are often more attractive to borrowers that generate high-quality medical receivables because those borrowers find that our financing has a lower cost than factoring their receivables.

The following describes the unique risks involved in the medical receivables financing business:

- Healthcare providers may overstate the quality and characteristics of the medical receivables that we analyze in determining the amount of the line of credit to be secured by such receivables. After our determination has been made, healthcare providers could change their billing and collection systems, accounting systems, or patient records in a way that could adversely affect our ability to monitor the quality and/or performance of the related medical receivables.

- There are technical legal issues associated with creating and maintaining perfected security interests in medical receivables, specifically those generated by Medicaid and Medicare claims.

- Payors may make payments directly to healthcare providers that have the effect (intentionally or otherwise) of circumventing our rights in such

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payments.

- Payors may attempt to offset their payments to us against debts owed to the payors by the healthcare providers.

- As a lender whose position is secured by medical receivables, we are less likely to collect outstanding receivables in the event of a borrower's insolvency than a lender whose position is secured by medical equipment that the borrower needs to operate its business.

- A borrower that defaults on obligations secured by medical receivables may require additional contracts (or modifications to the terms of existing contracts) in order to continue operations and repay outstanding contracts.

- A conflict of interest may arise when we act as servicer for an equipment-based securitization and originate medical receivables contracts to borrowers whose equipment contracts have been securitized.

- The fact that the use of structured finance transactions to fund medical receivables is a relatively new process may impair our efforts to develop suitable sources of funding.

ADDITIONAL FINANCING SERVICES

Management believes that the long-term and assisted care markets and emerging growth companies have been underserved by traditional financing sources and that many firms have both a need for and the creditworthiness to support working capital financing. In November 1997, we established DVI Merchant Funding, a division of DVI Financial Services and acquired Third Coast Capital in June 1998 to serve these markets and companies. Through DVI Merchant Funding we provide interim real estate financing, mortgage loan placement, subordinated debt financing for assisted living facilities and, to a lesser extent, merger and acquisition advisory services to our customers operating in the long-term care, assisted care and specialized hospital markets. Through Third Coast Capital, we provide asset-backed financing, including lease lines of credit, to emerging growth companies. The services that are provided by these newly acquired companies have not yet achieved their full potential. For segment reporting purposes they are included under "corporate and all other" (see Item 8, Note 18 for more information on segment reporting).

INCOME CLASSIFICATIONS

We classify income under the categories of:

- "Amortization of finance income", which consists of the interest component of scheduled payments on notes secured by equipment, medical receivables and direct financing leases (this income is calculated using the interest method whereby the income is reported at a level rate of return on the net investments over its term);

- "Other income", which consists primarily of medical receivables fees, consulting and advisory fees, servicing fees, late charges, amounts received upon exercise of warrants issued by other companies, and contract fees and penalties (see Item 8, Note 6 for a summary of other income) and

- "Net gain on sale of financing transactions", in which gains are recognized when we permanently fund transactions through off-balance sheet securitizations or other contract sales.

BUSINESS STRATEGY

Our goal is to be the leading provider of asset-backed financing services to growing segments of the healthcare industry and to be the primary source for all of the financing needs of our customers. The principal components that we believe will enable us to attain this goal include:

- GENERATING ADDITIONAL FINANCING OPPORTUNITIES WITH EQUIPMENT MANUFACTURERS AND THEIR CUSTOMERS IN DOMESTIC AND INTERNATIONAL MARKETS. We view continued expansion of our relationships with medical equipment manufacturers as an integral component of our growth strategy. We intend, to the extent appropriate in pursuit of that objective, to continue

to expand our medical equipment finance activities outside the U.S. We have formed international joint ventures or established branch offices or subsidiaries in Latin America, Europe, the U.K., Asia and Australia that provide medical equipment financing in these regions to strengthen our relationships with certain manufacturers of medical equipment and to capitalize on the growing international markets for medical

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equipment financing. We believe that by helping manufacturers to finance their customers' equipment purchases outside the U.S., we will encourage those manufacturers to increase the finance opportunities they refer to us within the U.S.

- CONTINUING TO EXPAND OUR MEDICAL RECEIVABLES FINANCING BUSINESS. We intend to further expand our medical receivables financing business by generating financing opportunities through our existing medical equipment financing customer base, particularly from those customers that are expanding to provide additional healthcare services as well as through providers who do not finance significant amounts of medical equipment. We intend to maintain a strategy of differentiating ourselves from many of our competitors by continuing to offer contracts secured by medical receivables rather than factoring those receivables at a discount.

- EXPANDING OUR PRESENCE IN THE LOWER-COST MEDICAL DEVICES MARKET. We are seeking to use our reputation as a medical equipment financing specialist and our ability to finance a wide range of healthcare providers to establish a presence in the relatively more competitive market for financing lower-cost medical equipment. This market includes diagnostic and patient treatment devices. As part of this strategy, in September 1998, we acquired substantially all the assets and retained 39 employees of a 15-year old "small ticket" medical equipment financing business, referred to as DVI Strategic Partner Group ("DVI SPG"), formerly known as Affiliated Capital. This business will serve as a platform for the expansion of our vendor sales program into this market. During the nine months ended June 30, 1999, contracts originated by this acquired business were $37.4 million.

- OFFERING FEE-BASED FINANCING SERVICES TO HEALTHCARE PROVIDERS. Our goal is to become the primary source for all of the financing needs of our customers. To this end, we have expanded the financial services we offer to our customers to include, among other things, real estate financing and funding to finance healthcare-related acquisitions. We intend to continue to introduce new financing products to service the needs of our customers and to leverage our existing expertise in the healthcare markets to become the preferred provider of healthcare-related finance within our chosen segments of the healthcare markets.

- ACQUIRING SPECIALTY BUSINESSES. Growth through acquisitions of specialty businesses that fit within our existing operations and long-term business strategy will allow us to expand into other segments of the healthcare industry. During the last two years, we acquired a small healthcare merchant funding operation, a provider of asset-backed financing for emerging growth companies, a "small ticket" medical equipment financing business and a custom software design firm that provides software and services to the healthcare industry. We have integrated these activities with our financing services offered to the healthcare industry. Through these acquisitions, we intend to expand significantly our presence in new markets.

SALES AND MARKETING

We generate most of our financing opportunities from two sources:

- Medical equipment manufacturers that use third parties to finance the sale of their products and

- Healthcare providers with whom our sales organization has relationships.

Generally, medical equipment manufacturers refer customers to us for financing because they believe we have the ability to understand and measure the creditworthiness of the customer's business and to provide the financing necessary for the completion of the equipment sale.

We have established a close working relationship, both domestically and internationally, with major manufacturers of diagnostic imaging equipment by meeting their needs to arrange financing for the higher-cost equipment they sell to healthcare providers. Because of some of these relationships with medical equipment manufacturers, especially those targeting the international markets, we have formed joint ventures or subsidiaries to provide medical equipment financing to

the customers of the manufacturers in the international market. We currently have joint ventures, branch offices or subsidiaries in Latin America, Europe, the U.K., Asia and Australia. We believe that these relationships give us a competitive advantage over other providers of medical equipment financing.

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Our target market for the medical receivables lines of credit we originate includes "middle market" healthcare companies and providers with annual revenues between $10.0 and $125.0 million. By definition, this sector of the marketplace precludes both start-up healthcare companies as well as extremely mature or rated medical organizations that can obtain traditional bank financing. This sector has been one that most traditional financing sources have avoided due to the payor complexity and specialization required. "Middle market" companies and providers that comprise our target market include the following:

- Specialty outpatient clinics, including imaging centers, surgery centers, oncology centers, and medical laboratories;

- Hospitals, including acute care and sub-acute facilities, and community and specialty hospitals;

- Health service companies, including home healthcare, nursing homes, skilled nursing, physical and occupational therapy, pharmacy, infusion, and specialty treatment centers and

- Medical practitioners, including medical groups, individual physicians with large practices and management service organizations.

Our sales and sales management staff consists of 50 healthcare finance specialists located in various parts of the world. These individuals generally have a finance industry and/or medical equipment background. We generally locate sales personnel in geographic areas where they have knowledge of the local market. We believe that sales personnel who understand local economic and political trends are a valuable component of our credit underwriting process.

CREDIT UNDERWRITING

We believe that the credit underwriting process used in originating contracts is effective in managing our risk. The overall credit underwriting process follows detailed guidelines and procedures and reflects our significant experience in evaluating the creditworthiness of potential borrowers. The guidelines use those attributes that are most relevant among different customer types within our targeted markets.

We have historically focused most of our efforts on the non-hospital sector of the healthcare marketplace, which requires rigorous credit analysis and structuring discipline. Our underwriting expertise enables us to require specific working capital and net worth requirements and specify the amount and form of any credit enhancement and/or financial support (such as cash collateral, letters of credit, guarantees, or fee subordination). The credit analysis process is generally simpler when borrowers exhibit greater financial strength and have audited financial statements.

In medical receivables lending, we conduct collateral and receivables underwriting in addition to credit underwriting. Our due diligence staff performs on-site testing to confirm that billing and collections systems, accounting systems and patient records are adequately maintained and comply with our lending policies. A large portion of the analysis consists of a review of receivables quality through the appropriate testing of cash receipts and cash applications on a sample basis. Payor types, collection history and age of receivables are analyzed.

Due to the large size of our transactions, each one is analyzed and reviewed on its own merits. Pursuant to our Company policy, the Director of Credit for DVI Financial Services has approval authority for all transactions up to $500,000. The Vice President of Credit for DVI Financial Services has approval authority for all transactions up to $750,000. The Chief Credit Officer - USA and the Chief Credit Officer of DVI, with the agreement of any other member of the credit committee, has approval authority up to $1.0 million. The credit committee has approval authority for all transactions greater than $1.0 million. Credit committee approval must also be given each time a customer's aggregate exposure exceeds an increment of $3.0 million.

Because of the relatively small size of the medical equipment contracts generated through DVI SPG, the underwriting criteria are significantly different from those we typically use. DVI SPG's applications from obligors are analyzed for approval based upon a combination of the applicant's financial condition and credit score (for applicants who are individuals), which

is obtained from a national credit reporting organization. Applications are filed with the credit department and screened for repeat customers, in which case the previous file, credit and payment history are also analyzed. Based on such information, an individual credit analyst assigns a status to the application (approved, declined, request for further information or change in acceptable terms). If the application is approved and the conditions and requirements of approval are met, an account manager or sales support representative processes the file and issues a signed purchase order. The

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account is then reviewed for completion of all requirements and signed for authorization to book the transaction. In general, DVI SPG completes UCC filings on all transactions where the cost of the equipment exceeds $20,000.

DVI SPG has established specific credit guidelines for hospitals, group practices and sole practitioners that generally require obligors to:

- Be in business for a certain period of time, usually from one to two years;

- Provide financial statements, corporate resolutions and the appropriate purchase documents;

- Provide personal guarantees under certain circumstances;

- Provide proof of medical license and

- Meet the credit report score requirements of independent scoring services.

DVI SPG has imposed other requirements in certain circumstances and may consider an obligor's medical specialty in evaluating creditworthiness. DVI SPG may allow exceptions to the foregoing requirements as warranted, in which event, the approval of two credit officers is required.

CREDIT EXPERIENCE

The following table sets forth certain information with respect to delinquencies for our contracts for the periods indicated:

(IN MILLIONS OF DOLLARS)	AS OF JUNE 30, 1999 $	1999 %(2)	1998 $	1998 %(2)	1997 $	1997 %(2)
Managed net financed assets ...	1,661.8	--	1,223.0	--	925.8	--
Delinquencies (1)						
31 - 60 days	14.9	0.9	24.6	2.0	3.8	0.4
61 - 90 days	8.8	0.5	15.9	1.3	12.1	1.3
91+ days	59.1	3.6	44.0	3.6	17.3	1.9
Total delinquencies	82.8	5.0	84.5	6.9	33.2	3.6

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(1) Under the relevant agreements, our obligors generally are considered in default if payment on a contract has not been received when due. Information presented does not include obligations that are overdue by less than 30 days.

(2) Delinquencies as a percentage of managed net financed assets. Delinquencies reflect the remaining outstanding balance on delinquent contracts.

Ultimately, we expect the borrowers to own all of the equipment financed. Our experience has been that in instances of delinquency, the market value of the equipment generally has been sufficient to allow for the restructuring of contracts without any significant adjustments to the manner in which we record such contracts. We have also exercised our right to bring in new management to operate centers that have defaulted on their contracts.

The following table sets forth information with respect to losses for our contracts for the periods indicated:

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999	1998	1997
Net charge-offs	$ 5,345	$ 1,635	$ 436
Average net financed assets (1)	916,528	679,553	530,677

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Average managed net financed assets (1)	1,437,597	1,064,663	771,743
Net charge-offs as a percentage of average net financed assets	0.58%	0.24%	0.08%
Net charge-offs as a percentage of average managed net financed assets	0.37%	0.15%	0.06%

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(1) Presentation of average amounts for 1997 through 1999 is based on averages of monthly period balances.

The increase in net charge-offs during fiscal 1999 is the result of a charge-off due to a bankruptcy filing by Allegheny Health Education and Research Foundation in the amount of $2.0 million. Small-ticket medical equipment financing charge-offs totaled $1.1 million.

The allowance for losses on receivables (the "allowance") is available to absorb our current estimates of credit losses in our managed portfolio. Each month we compile information on the performance of our portfolio to assess the adequacy of the allowance. Our assessment includes a review of delinquencies, historical loss experience, collateral and the strength of guarantors, and legal options to enforce management changes or sustain legal positions. The assessment includes estimates that may be significantly affected by changes in general economic conditions. We perform detailed analyses for specific obligors to evaluate discrete factors adversely affecting their ability to comply with the terms of their agreements with us. Based on the conclusions of those analyses we make provisions for losses at the end of each fiscal quarter in amounts deemed necessary to maintain an adequate allowance. As these assessments are often influenced by factors outside our control, there is uncertainty inherent in them, making it possible that they could change in the near term. We believe the allowance is adequate to provide for estimated losses. See Item 8, Note 3 for a reconciliation of the allowance for each of the past three years.

Our historical levels of allowances and delinquencies are not necessarily predictive of future results. Various factors, including changes in the way our customers are paid for their services, other developments in the healthcare industry, increasing international activity, general economic conditions, and new technological developments affecting the resale value of equipment we finance, could cause our future allowance and delinquency rates to be different than those experienced historically.

CAPITAL RESOURCES AND FUNDING

We obtain initial funding for most of our equipment contracts through warehouse facilities provided by banks and other financial institutions. Contracts made under these facilities are repaid when we permanently fund our equipment contracts through securitization or other limited-recourse permanent funding programs, including sales. Typically, equipment contracts are held for 30 to 180 days before they are permanently funded.

In addition to the funding provided under our warehouse and permanent funding facilities, our need for capital is affected by four primary factors:

- The level of credit enhancement required under our various warehouse and permanent funding facilities,
- The amount of contracts we hold that do not qualify as eligible collateral under those facilities,
- Growth in overseas markets for which funding resources have not been fully developed and
- Growth in new businesses for which funding resources have not been fully developed.

While these factors tend to reduce our liquidity at times of strong growth in contract origination, they may have the effect of improving our cash flow from operations in the short term if our contract growth were to decline.

The Company's strong growth in contract origination and net financed assets has required substantial amounts of external funding. Through our operating subsidiaries, we finance our equipment and medical receivables on an interim basis with secured credit facilities provided by banks and other financial institutions. These interim "warehouse" facilities are refinanced using asset securitizations, contract sales, and other structured finance techniques that permanently fund most of our equipment and medical receivables contracts. Permanently funded equipment and medical receivables are funded through the life of the respective assets. These permanent financings require us to invest

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additional capital to fund reserve accounts or to meet the overcollateralization required in the securitizations and sales of our contracts.

Each of our warehouse facilities and permanent funding vehicles requires us to provide equity or a form of recourse credit enhancement to the respective lenders or investors and generally does not permit us to fund general corporate requirements. Therefore, the actual liquidity, or funds available to us to finance our growth, is limited to the cash generated from operations and the available proceeds of equity or debt securities we issue. At times of strong origination growth, our cash flows from operations are insufficient to fund these requirements. As a result, our need to fund during periods of high growth in contract origination necessitates external funding to provide the equity or capital required as recourse credit enhancement to leverage borrowings.

WAREHOUSE FACILITIES

At June 30, 1999, we had an aggregate of $402.0 million available for equipment contract financing under various warehouse facilities of which we had borrowed an aggregate of $204.0 million, net of unamortized capitalized costs. These facilities are provided by a syndicate of banks that participate in a revolving credit arrangement and by investment banking firms that we use for securitizations. The contracts made under these bank warehouse facilities (i) bear interest at floating rates; (ii) are full recourse obligations of the Company; and (iii) typically advance an amount equal to approximately 95% of the cost of the underlying equipment. Contracts made under these facilities typically are repaid with the proceeds of advances made under securitization facilities. Those advances in turn are typically repaid with proceeds from permanent fundings. Contracts funded under securitization facilities cease to be eligible collateral if they are not funded within a specified period. The amount advanced under the securitization facilities is 92% of the discounted value of the pledged receivables. If we were unable to arrange continued access to acceptable warehouse financing, we would have to curtail our contract origination, which in turn would have a material adverse effect on our financial condition and operations. See Item 8, Note 5 for a summary of our warehouse availability at June 30, 1999.

MEDICAL RECEIVABLES FINANCING

We fund our medical receivables financing business through various sources. We have established a revolving credit agreement with a syndicate of banks to be used to warehouse medical receivables contracts up to $95.0 million. An additional warehouse facility of $25.0 million is available through a bank. We had $65.9 million outstanding (net of unamortized capitalized costs) under these facilities at June 30, 1999. See Item 8, Note 5 for a summary of our warehouse availability at June 30, 1999.

PERMANENT FUNDING PROGRAM

The most important sources of permanent funding for our contracts have been securitization and other forms of structured finance. Securitization is a process in which a pool of contracts is transferred to a special-purpose financing vehicle that issues notes to investors. Principal and interest on these notes are paid from the cash flows produced by the loan pool. The notes are secured by a pledge of the assets or other collateral in the loan pool. In the securitizations we sponsor, contracts funded through securitizations must be credit enhanced to receive an investment grade credit rating. Credit enhancement can be provided in a number of ways, including cash collateral, letters of credit, a subordinated tranche of each individual transaction, a corporate guarantee or an insurance policy. Typically, our securitizations are enhanced through a combination of some or all of these methods. In the equipment securitizations we have sponsored to date, we have been effectively required to furnish credit enhancement equal to the difference between:

- The total discounted cash flows of the securitization pool and

- The net proceeds we receive in such a securitization.

The requirement to provide this credit enhancement reduces our liquidity and requires us to obtain additional capital periodically. There can be no assurance that we will be able to obtain additional capital.

In the medical receivables contracts we have sponsored to date, we have furnished credit enhancement through corporate guarantees on the subordinated tranches.

For accounting purposes, our securitizations are treated as either financings (on-balance sheet transactions) or sales (off-balance sheet transactions). In an on-balance sheet transaction, the contracts being securitized remain on our balance sheet as an asset for their originally contracted term. In an off-balance sheet transaction, we remove the contracts from our balance sheet

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and recognize a gain on the sale of these contracts upon completion of the securitization.

We continually seek to improve the efficiency of our permanent funding techniques by reducing up-front costs and minimizing our cash requirements. We may consider alternative structures, including senior and subordinated tranches, and alternative forms of credit enhancement, such as letters of credit and surety bonds. The transaction expenses of each securitization and other forms of structured financing depend on market conditions, costs of securitization and the availability of credit enhancement options. We expect to continue to use securitization and other forms of structured financing, on both a public and private basis, as our principal source of permanent funding for the foreseeable future.

To be cost efficient, a securitization must cover a relatively large and diverse portfolio of contracts. One of the basic requirements of the credit rating agencies (entities that rate the quality of the notes issued in our securitizations) relates to borrower concentration. This requirement specifies that no single credit (borrower) may constitute a significant portion of the pool of contracts being securitized. Because of this concentration requirement, we generally must accumulate in excess of $75.0 million in contracts for each securitization. The credit rating agencies also have other concentration guidelines such as equipment type, geographic location of the obligors and medical receivables payor concentrations. Our portfolio management software allows us to continually monitor borrower concentrations, as well as other concentrations dealt with in the agency guidelines. These requirements mean that not all of the contracts held in our warehouse facilities at any point in time can be placed in one securitization.

The securitization of our equipment contracts are often structured as sales and resulted in gains totaling $29.8 million, $21.0 million, and $14.0 million in each of the past three years. We find distinct advantages to this structure over the on-balance sheet structure that does not result in a gain and, subject to the continuing availability of the sale structure, intend to use it in future years. Further, during fiscal year 1999 we explored ways to use this structure in international markets and continue to pursue its use in the medical receivables market. The principal advantage of this structure is that it accelerates the recognition of revenue that would otherwise be recognized over the term of the underlying contracts. This acceleration of revenue, in turn, increases our capital base, increasing the amount of funds that we can borrow. The greater borrowings can be used to acquire greater amounts of earning assets, which promotes our growth and profitability.

If, for any reason, we were to become unable to access the securitization market to permanently fund our equipment and medical receivables contracts, the consequences would be materially adverse. Our ability to complete securitizations and other structured finance transactions depends upon a number of factors, including:

- The general conditions in the credit markets,

- The size and liquidity of the market for the types of receivable-backed securities we issue or place in securitizations and

- The overall financial performance of our contract portfolio.

We do not have binding commitments for permanent funding, through either securitization or contract sales. We have non-binding agreements with investment banking entities to fund future contracts through securitization. While we expect to be able to continue to obtain the permanent funding we require for our equipment and medical receivables financing businesses, we can not give any assurance that we will be able to do so. If, for any reason, any of these types of funding were unavailable in the amounts and on terms deemed reasonable by us, our equipment and medical receivables financing activities would be adversely affected. We believe that our present warehouse and permanent funding sources are sufficient to fund our current needs for our equipment and medical receivables financing businesses.

CREDIT RISK

Many of our customers are outpatient healthcare providers. Contracts to such customers require a high degree of credit analysis. In addition, we have entered the long-term care and assisted care submarkets and recently have begun to provide asset-backed financing for emerging growth companies and subordinated debt financing to our traditional client base, all of which require different types of credit analysis. Although we try to reduce our risk of default and credit losses through our underwriting practices, contract servicing procedures and the use of various forms of non-recourse or limited-recourse financing (in which the financing sources that permanently fund our equipment and other contracts assume all or some of the risk of default by our customers), we remain

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exposed to potential losses resulting from a default by a customer. Customer defaults could result in:

- Requiring us to make certain payments under our warehouse facilities,

- Requiring us to make payments to the extent of our remaining credit enhancement position under our permanent equipment and other funding arrangements,

- The loss of the cash or other collateral pledged as credit enhancement or

- The loss of any remaining interest we may have kept in the underlying equipment.

During the period of time that occurs between the initial funding of a contract to the funding of the contract on a permanent basis, we are exposed to full recourse liability in case of default by the borrower. While we have typically been able to permanently fund our equipment and other contracts, we may not be able to permanently fund many of the contracts in our international portfolio. We are currently in the process of securing permanent funding for our international portfolio and we are exploring opportunities to permanently fund our other financing services. Consequently, we may be subject to credit risk for a longer period. In some cases, this risk will extend over the life of the contracts. In addition, the terms of securitizations and other types of structured finance transactions generally require us to replace or repurchase equipment and other contracts in the event they fail to conform to the representations and warranties made by us, even in transactions otherwise designated as non-recourse or limited recourse.

Defaults by our customers could also adversely affect our ability to obtain additional financing in the future, including our ability to use securitization or other forms of structured finance. The sources of such permanent funding take into account the credit performance of the equipment and other contracts we previously financed in deciding whether and on what terms to make new contracts. In addition, the credit rating agencies often involved in securitizations consider prior credit performance in determining the rating to be given to the securities issued in the securitizations that we sponsor.

Under our wholesale origination program, we purchase equipment contracts from originators that generally do not have direct access to the securitization market as a source of permanent funding for their contracts. We do not work directly with the borrowers at the origination of these equipment contracts and therefore are not directly involved in structuring the credits. Consequently, we must independently verify credit information supplied by the originator. Accordingly, we face a

somewhat higher degree of risk when we acquire contracts under the wholesale origination program. During the years ended June 30, 1999 and 1998, contracts purchased under the wholesale program constituted 12.0% and 13.7%, respectively, of the total domestic contracts originated during such periods. We can not give any assurance that we will be able to avoid the credit risks related to wholesale contract origination.

In June 1999, we purchased $75.0 million of transfer and convertibility risk insurance from the Multilateral Investment Guarantee Agency ("MIGA"), a division of the World Bank. This program will be used by MSF Holding Ltd., our 59%-owned joint venture business in South America, to cover the risks associated with transferring payments out of Brazil. The MIGA guarantee program will eliminate certain capital allocations for lenders and assist DVI in obtaining favorable agency credit ratings needed for bank funding and sales of assets to investors through securitization.

In the past few years, we originated a significantly greater number of equipment, medical receivables and other contracts than we did previously. Because of this growth, our managed net financed asset portfolio grew from $494.9 million at June 30, 1995 to $1.7 billion at June 30, 1999. In light of this growth, the historical performance of our contract portfolio, including rates of credit loss, may not be useful in predicting future contract portfolio performance. Any credit or other problems associated with the large number of equipment and other contracts recently originated are not yet apparent.

Since November 1997, we have provided interim real estate financing, mortgage loan placement, subordinated debt financing for assisted living facilities and, to a lesser extent, merger and acquisition advisory services to the healthcare industry. More recently, we have also begun to offer asset-backed financing to emerging growth companies. We had not provided these products and services previously. We can not give any assurance that we will be able to market these new products and services successfully or at all, or that if we are successful in marketing these products and services that their returns will be consistent with our historical financial results.

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COMPETITION

The business of financing medical equipment is highly competitive. We compete with equipment manufacturers that finance sales of their own equipment, finance subsidiaries of national and regional commercial banks, and equipment leasing and financing companies. Many of our competitors have significantly greater financial and marketing resources than we do. In addition, the competition in the new markets we have recently targeted, specifically the medical device financing market and medical receivables financing market, may be greater than the levels of competition historically experienced by us.

We believe that a decrease in the number of competitors in the higher cost medical equipment financing market, combined with our high level of focus and experience in this market, resulted in increased equipment contract origination during the past few years. We can not give any assurance that new competitive providers of financing will not enter the medical equipment financing market in the future. To meet our long-term growth objectives, we must increase our presence in our targeted markets for lower-cost medical devices and medical receivables financing businesses. To achieve this goal we may be required to reduce our margins to be competitive.

YEAR 2000 CONCERNS

The Year 2000 issue deals with electronic systems that were designed with a two-digit representation of the year. When calendar dates do not include the first two digits of the year, systems have "understood" that prefix to be "19". Elsewhere, some computer systems that project calculations into the future have already begun to malfunction, generating errors based upon next year being regarded as 1900 by the system, instead of 2000. These problems will affect even more systems worldwide, including hardware, when the current date becomes 2000.

If the systems and products we use are not properly equipped to identify and recognize the Year 2000, our systems could fail or create erroneous results. We could be temporarily unable to process transactions, originate loans or leases, service third party contracts, and engage in other normal business activities. Under these circumstances, the Year 2000 problem could have a material adverse effect on our products, services, operations and financial results.

We believe that the Year 2000 issue will not pose any significant operational problems to our internal systems and will not have a material adverse effect on our future financial condition, liquidity or results of operations during calendar year 1999 and in future periods. See Item 7 for additional information on our Year 2000 readiness.

GOVERNMENT REGULATION

Although most states do not regulate the equipment financing business, certain states do require the licensing of lenders and financiers by requiring adequate disclosure of certain contract terms and limitations on certain collection practices and creditor remedies. Some states pose limitations on interest rates and other charges. In addition, federal, state, local and international authorities regulate the operation of certain types of diagnostic imaging and patient treatment equipment. For example, a shared service provider or healthcare provider using the equipment that we finance may be required to obtain and maintain approvals from governmental authorities in order to service other healthcare providers with whom we have entered into service agreements. Failure by our customers to comply with these requirements could adversely affect their ability to meet their obligations to us. Our customers could be adversely affected by changes in regulations that limit or prohibit the referral of patients by physicians who have invested in healthcare facilities that we finance.

EMPLOYEES

As of June 30, 1999, the Company had 283 full-time employees consisting of:

- 7 executive officers,
- 50 sales and sales management personnel,
- 90 documentation and credit personnel,
- 51 accounting and treasury personnel and
- 85 other administrative and technical personnel.

None of our employees is covered by a collective bargaining agreement, and management believes that its relationship with its employees is good.

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ITEM 2. PROPERTIES

The Company leases all of its office buildings. Our principal executive offices are located in Doylestown, Pennsylvania. We lease an aggregate of approximately 87,524 square feet of office space worldwide. We are currently negotiating the lease of a new, larger principal office of approximately 60,000 square feet located a few miles from our current principal office. Construction is scheduled to be completed by April 2000, and we anticipate commencing the lease in May 2000.

We own a 1,553 square-foot residential property located in Jamison, PA for use by those visiting our principal office on company business. We also own a 450 square-foot apartment unit in New York City for use by Company officers while conducting business there.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any pending litigation or legal proceedings, or, to the best of our knowledge, any threatened litigation or legal proceedings, which, in the opinion of management, individually or in the aggregate, would have a material adverse effect on our results of operations or financial condition.

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

There were no matters submitted to a vote of security holders during the three months ended June 30, 1999.

EXECUTIVE OFFICERS OF THE REGISTRANT

As of June 30, 1999, the executive officers of DVI, Inc. were:

NAME	AGE	POSITION
Michael A. O'Hanlon	52	Director, President and Chief Executive Officer
Steven R. Garfinkel	56	Executive Vice President and Chief Financial Officer
Richard E. Miller	47	Executive Vice President and President, DVI Financial Services Inc.
Anthony J. Turek	56	Executive Vice President and Chief Credit Officer
John P. Boyle	49	Vice President and Chief Accounting Officer
Melvin C. Breaux	58	Vice President, Secretary and General Counsel
Cynthia J. Cohn	40	Vice President and Executive Vice President, DVI Business Credit Corp.

MICHAEL A. O'HANLON is the Company's president and chief executive officer and has served as such since November 1995. Mr. O'Hanlon was president and chief operating officer from September 1994 to November 1995. Mr. O'Hanlon joined the Company in March 1993 and until September 1994 served as executive vice president. Mr. O'Hanlon became a director of the Company in November 1993. Before joining the Company, Mr. O'Hanlon served for nine years as president and chief executive officer of Concord Leasing, Inc., a major source of medical, aircraft, ship and industrial equipment financing. Previously, Mr. O'Hanlon was a senior executive with Pitney Bowes Credit Corporation. Mr. O'Hanlon received his MBA from the University of Connecticut and his Bachelor of Business Administration Degree from the Philadelphia College of Textiles and Science.

STEVEN R. GARFINKEL is an executive vice president of the Company and its chief financial officer. Mr. Garfinkel also serves on the executive committee of the Company. Mr. Garfinkel joined the Company in 1995. His responsibilities include corporate finance, loan funding, balance sheet management, treasury, accounting and financial reporting, internal control, financial and strategic planning, and human resources. Mr. Garfinkel has extensive experience in developing and managing corporate finance relationships, money market funding, derivative hedging, financial planning and management information systems. Prior to joining the Company, Mr. Garfinkel spent twenty-nine years with two large bank holding companies: CoreStates Financial Corp. and First Pennsylvania Corporation. For twenty years, he was either controller or treasurer of those organizations. Mr. Garfinkel received his Master of Business Administration degree from Drexel University, and his Bachelor of Arts degree from Temple University.

RICHARD E. MILLER is an executive vice president of the Company and president of DVI Financial Services Inc. He joined the Company in April 1994. Mr. Miller also serves on the executive committee of the Company. His primary responsibility is to manage operations and the Company's sales organization of financing specialists that interface directly with the Company's customers. Before joining the Company, he served for six years as vice president of sales for Toshiba America Medical Systems, a major manufacturer of medical imaging equipment. Previously, Mr. Miller was national sales manager for Thomsen CGR, a French

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manufacturer of medical imaging equipment, which was acquired by General Electric Medical Systems. Mr. Miller received his Bachelor of Arts degree from Eastern College.

ANTHONY J. TUREK is an executive vice president and the chief credit officer of the Company. Mr. Turek has served in that capacity since joining the Company in March 1988. Mr. Turek also serves on the executive committee of the Company. Before joining the Company, Mr. Turek was vice president of commercial banking at Continental Illinois National Bank (now a unit of Bank of America) from 1968 to 1988. For the last five years of his tenure at Continental Illinois National Bank, Mr. Turek managed the equipment leasing and transportation divisions. His prior responsibilities included management positions in the special industries, metropolitan and national divisions of Continental Illinois National Bank. Mr. Turek received his Master of Science degree from the University of Missouri and his Bachelor of Science degree from Iowa State University.

JOHN P. BOYLE is a vice president and chief accounting officer of the Company. Mr. Boyle joined the Company in January 1995. His primary responsibility is managing the Company's accounting, tax and financial reporting functions. Mr. Boyle is a General Securities Principal and a CPA with twenty years of experience in the financial services industry. Mr. Boyle

spent five years of his professional career with Peat Marwick Mitchell & Co. in Philadelphia. Beyond his accounting background, he has extensive experience in credit and corporate finance matters. Mr. Boyle received his Bachelor of Arts degree from Temple University.

MELVIN C. BREAUX is general counsel, secretary and a vice president of the Company, as well as general counsel and a vice president of DVI Financial Services Inc. Before joining the Company in July 1995, Mr. Breaux was a partner in the Philadelphia, Pennsylvania law firm of Drinker, Biddle, & Reath for 17 years and an associate of the firm for 8 years. As a member of that firm's banking and finance department, he specialized in secured and unsecured commercial lending transactions, a wide variety of other financing transactions, and the general practice of business law. Mr. Breaux received his Juris Doctorate degree from the University of Pennsylvania School of Law and his Bachelor of Arts degree from Temple University.

CYNTHIA J. COHN has been a vice president of the Company since October 1988 and executive vice president of DVI Business Credit Corporation since January 1994. The Company has employed Ms. Cohn in a sales and management capacity since July 1986. She is responsible for the operating functions of DVI Business Credit Corporation, the Company's medical receivables financing subsidiary. She served as an assistant vice president from July 1987 to October 1988. Prior to joining the Company, Ms. Cohn served as research coordinator for Cantor, Fitzgerald Co., Inc., a stock brokerage firm, from February 1983 to July 1986, where she was responsible for development and coordination of that firm's research product for both institutional and retail clientele. Ms. Cohn received her Bachelor of Arts degree from Ithaca College. Ms. Cohn is the daughter of Gerald L. Cohn, a director of the Company.

For the purposes of calculating the aggregate market value of the shares of Common Stock of the Registrant held by nonaffiliates, as shown on the cover page of this report, we assumed that all the outstanding shares were held by nonaffiliates except for the shares owned by directors and executive officers of the Company, by CIBC Trust Company and by the Ronald Baron group. However, we can not be sure that all such persons or entities are, in fact, affiliates of the Registrant, or that there are not other persons who may be deemed to be affiliates of the Registrant. Further information concerning shareholdings of officers, directors and principal shareholders is included in our definitive proxy statement relating to our scheduled October 29, 1999 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

PART II

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

PRICE RANGE OF COMMON STOCK

The common stock of DVI, Inc. is listed on the New York Stock Exchange. The following table sets forth high and low sales prices per share of common stock

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as reported on the Composite Tape for the periods indicated:

	YEAR ENDED JUNE 30,			
	1999		1998	
	HIGH	LOW	HIGH	LOW
First Quarter	$ 25 1/4	$ 13 7/16	$ 16 3/4	$ 14 1/8
Second Quarter	19 5/8	9 1/2	21	16 3/8
Third Quarter	18 7/8	12 5/8	27 1/4	18 3/8
Fourth Quarter	17 5/8	12 1/4	25 1/2	19 3/4

DIVIDEND POLICY

We have not declared or paid any cash dividends since our inception, and we anticipate that any future earnings will be retained for investment in our corporate operations. Any declaration of dividends in the future will be determined in light of a number of factors affecting us at that time, including our earnings, financial condition, capital requirements, level of debt and the terms of any contractual limitations on dividends. Our principal warehouse facility prohibits DVI Financial Services, our principal operating subsidiary, from paying cash dividends. In addition, the agreement with respect to our Senior Notes and 9 1/8% Convertible Subordinated Notes due 2002 places limitations on the payment of dividends by the Company and its subsidiaries.

As of July 29, 1999, there were approximately 4,194 beneficial holders of the Company's common stock.

ITEM 6. SUMMARY CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

(IN THOUSANDS OF DOLLARS EXCEPT SHARE DATA)

	YEAR ENDED JUNE 30,				
STATEMENT OF OPERATIONS DATA	1999	1998	1997	1996	1995
Finance and other income	$103,798	$ 74,355	$ 56,334	$ 49,038	$ 35,985
Interest expense	60,850	49,212	38,395	30,489	22,860
Net interest and other income	42,948	25,143	17,939	18,549	13,125
Selling, general and administrative expenses	31,529	18,493	14,117	9,933	7,891
Provision for losses on receivables	6,301	4,735	2,386	2,325	1,261
Earnings before minority interest, equity in net loss of investees, and provision for income taxes	34,931	22,892	15,475	14,323	7,015
Net earnings	19,668	12,858	8,563	8,165	4,069
Diluted earnings per share	$ 1.30	$ 1.03	$ 0.74	$ 0.77	$ 0.60
Weighted average number of dilutive shares outstanding	15,686	13,246	12,487	11,569	8,352

	JUNE 30,				
BALANCE SHEET DATA	1999	1998	1997	1996	1995
Cash and cash equivalents	$ 5,695	$ 15,192	$ 9,187	$ 2,391	$ 1,963
Restricted cash and cash equivalents	36,744	47,582	26,461	32,550	12,241
Total assets	1,080,821	816,920	634,528	560,939	432,876
Borrowings under warehouse facilities	269,923	82,828	44,962	168,108	155,172
Long-term debt, net	487,073	467,853	435,238	267,568	219,130
Shareholders' equity	191,647	172,285	95,660	85,302	40,299

The Company has not declared or paid any cash dividends since its inception (see Dividend Policy).

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

RESULTS OF OPERATIONS

IMPACT OF FINANCING STRATEGIES ON RESULTS OF OPERATIONS

Our financing strategy is to obtain permanent funding for most of our equipment and medical receivables contracts through securitization and contract sales. When funding contracts through securitization, the issuer generally can structure the securitization so that the funding is treated for accounting purposes either as long-term debt secured by equipment or medical receivables contracts owned by us, or as a sale. The manner in which income arising in those transactions is recognized for financial reporting purposes differs significantly depending on which of the two structures the issuer uses. When we sponsor a securitization structured as debt, we treat the proceeds as long-term debt on our financial statements and report the amortization of finance income on those contracts. When we sell contracts, we recognize the discounted unamortized finance income at the time the funding takes place. However, even in a funding treated as a sale, we may recognize servicing income and interest income on our subordinated interest in the securitization over the remaining term of the equipment contracts sold.

Over the past few years, we have focused our strategy on increasing our market share. We can not give any assurance that our historical growth rate or current profitability can be sustained in the future. Additionally, our expense levels are based in part on our expectations of future financing volumes. We may be unable to adjust our spending in a timely manner to compensate for a decrease in demand for financing of medical equipment and receivables. Accordingly, operating results may be adversely impacted by future fluctuations in such demand. We believe that general economic conditions have not had a material adverse effect on our recent operating results. However, we can not give any assurance that general economic conditions will not have a material adverse effect on us in the future.

YEAR ENDED JUNE 30, 1999 COMPARED TO YEAR ENDED JUNE 30, 1998

Total equipment financing contracts originated were $784.6 million in fiscal 1999 compared with $532.9 million in fiscal 1998, an increase of 47.2%. Net financed assets totaled $988.6 million at June 30, 1999, an increase of $260.5 million or 35.8% over the prior year. Not included in net financed assets were the contracts sold but still serviced by us, which increased to $735.3 million as of June 30, 1999 compared to $546.2 million as of June 30, 1998, an increase of 34.6%. Managed net financed assets, the aggregate of those appearing on our balance sheet and those which have been sold and are still serviced by us, totaled $1.7 billion as of June 30, 1999, representing a 35.9% increase over the total as of June 30, 1998.

During fiscal 1999, new commitments of credit in our medical receivables financing business were $144.9 million compared with $183.2 million in fiscal 1998, a decrease of 20.9%. Net medical receivables funded at June 30, 1999 totaled $187.3 million, an increase of $50.0 million or 36.4% over the prior year.

Total finance and other income increased 39.6% to $103.8 million for the year ended June 30, 1999 from $74.4 million in the prior year. Finance income was $83.8 million for the year ended June 30, 1999, or 9.1% of average net financed assets of $916.5 million. This compares to $63.3 million for the 1998 fiscal year, which was 9.3% of that year's average net financed assets of $679.6 million. This 32.3% increase in finance income was largely due to the overall increase in the size of our loan portfolio. Other income increased 81.5% to $20.0 million in fiscal 1999 as compared to $11.0 million in fiscal 1998. Other income consists primarily of medical receivables fees, consulting and advisory fees, servicing fees, late charges, amounts received upon exercise of warrants issued by other companies, and contract fees and penalties. See Item 8, Note 6 for a summary of other income.

Interest expense was $60.9 million for the year ended June 30, 1999, or 6.6% of average net financed assets. This compares to $49.2 million of interest expense for fiscal 1998, which was 7.2% of average net financed assets during that year. Since $69.0 million of average net financed assets in fiscal 1999 were financed by an increase in average shareholders' equity of that amount, the $11.7 million increase in interest expense can be directly attributed to higher levels of debt necessary to finance a larger average portfolio in 1999. The weighted average interest rate on discounted receivables increased to 8.3% for fiscal 1999 compared to 8.0% for fiscal 1998.

The net gain on sale of financing transactions increased 42.1% to $29.8 million for the year ended June 30, 1999, representing 7.9% of the $376.6 million in

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contracts sold that year. This compares to $21.0 million recognized in fiscal 1998, or 7.2% of the $292.7 million in contracts sold. The increase in gain is principally due to the increased number of contracts sold in fiscal year 1999 and, to a lesser extent, better and more efficient executions and lower transaction costs resulting from larger transactions.

Selling, general and administrative expenses ("SG&A") increased 70.5% to $31.5 million for the year ended June 30, 1999 from $18.5 million for the year ended June 30, 1998. The increase over the prior fiscal year is related primarily to our acquisitions, the development of our medical receivables and international businesses and our 35.0% growth in average managed net financed assets. To support this growth, we increased our personnel to 283 employees from 193 one year earlier. See Item 8, Note 7 for a summary of the major components of SG&A expenses.

The allowance for losses was $12.3 million at June 30, 1999, or 0.74% of our managed portfolio, compared to $10.0 million at the end of the prior year, which represented 0.81% of the managed portfolio at that time. We made provisions for losses on receivables during fiscal 1999 of $6.3 million, compared to $4.7 million in the prior year. The increase in the provision was the result of the recognition of a higher loss than previously anticipated resulting from the bankruptcy filing by Allegheny Health Education and Research Foundation ("Allegheny"). Our net charge-offs for the quarters ended September 30, 1998, December 31, 1998, March 31, 1999, and June 30, 1999 were $0.9 million, $2.8 million, $0.8 million, and $0.8 million, respectively, which represent 7.6%, 26.1%, 6.9%, and 6.9%, respectively, of the quarter-end allowance for losses. The increase in net charge-offs during the second quarter of fiscal 1999 is the result of Allegheny's bankruptcy filing.

Earnings before minority interest, equity in net loss of investees and provision for income taxes increased 52.6% to $34.9 million for the year ended June 30, 1999 compared to $22.9 million a year earlier. Net earnings were $19.7 million or $1.30 per diluted share for the year ended June 30, 1999 as compared to net earnings of $12.9 million or $1.03 per diluted share in the prior year.

YEAR ENDED JUNE 30, 1998 COMPARED TO YEAR ENDED JUNE 30, 1997

Total equipment financing contracts originated were $532.9 million in fiscal 1998 compared with $401.7 million in fiscal 1997, an increase of 32.7%. Net financed assets totaled $728.1 million at June 30, 1998, an increase of $147.5 million or 25.4% over the prior year. Not included in net financed assets were the contracts sold, but still serviced by us, which increased to $546.2 million as of June 30, 1998 compared to $389.6 million as of June 30, 1997, an increase of 40.2%. Managed net financed assets, the aggregate of those appearing on our balance sheet and those which have been sold and are still serviced by us, totaled $1.2 billion as of June 30, 1998, representing a 32.1% increase over the total as of June 30, 1997.

During fiscal 1998, new commitments of credit in our medical receivables financing business were $183.2 million compared with $101.1 million in fiscal 1997, an increase of 81.2%. Medical receivables funded at June 30, 1998 totaled $137.3 million, an increase of $51.7 million or 60.3% over the prior year.

Total finance and other income increased 32.0% to $74.4 million for the year ended June 30, 1998 from $56.3 million in the prior year. Finance income was $63.3 million for the year ended June 30, 1998, or 9.3% of average net financed assets of $679.6 million. This compares to $49.5 million for the 1997 fiscal year, which was also 9.3% of that year's average net financed assets of $530.7 million. The 27.9% increase was due to the overall increase in the size of our contract portfolio. Other income increased 62.1% to $11.0 million in fiscal 1998 as compared to $6.8 million in fiscal 1997. Other income consists primarily of medical receivables fees, consulting and advisory fees, servicing fees, late charges, amounts received upon exercise of warrants issued by other companies, and contract fees and penalties. See Item 8, Note 6 for a summary of other income.

Interest expense was $49.2 million for the year ended June 30, 1998, or 7.2% of average net financed assets. This compares to $38.4 million of interest expense for fiscal 1997, which was also 7.2% of average net financed assets during that year. The increase in interest expense is a result of the growth of our contract portfolio and growth in international markets. The weighted average interest rate on discounted receivables, the largest component of interest expense, decreased to 8.0% for fiscal 1998 compared to 8.6% for fiscal 1997.

The net gain on sale of financing transactions was $21.0 million for the year ended June 30, 1998, representing 7.2% of the $292.7 million in contracts sold that year. This compares to $14.0 million recognized in fiscal year 1997, or 6.0% of the $233.0 million in contracts sold. The 49.4% increase in gain is due to both an increased number of contracts sold in fiscal year 1998 and more efficient executions and lower transaction costs resulting from larger

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transactions.

Selling, general and administrative expenses ("SG&A") increased 31.0% to $18.5 million for the year ended June 30, 1998 from $14.1 million for the year ended June 30, 1997. The increase over the prior fiscal year is related primarily to the development of our medical receivables, vendor finance and international businesses and the 38.0% growth in average managed net financed assets. To support this growth, we increased our personnel to 193 employees from 137 one year earlier.

The allowance for losses was $10.0 million at June 30, 1998, or 0.81% of our managed portfolio, compared to $6.0 million at the end of the prior year, which represented 0.65% of the managed portfolio at that time. We made provisions for losses on receivables during fiscal 1998 of $4.7 million, compared to $2.4 million in the prior year. The increase in the provision was due to higher known losses based on our continuing evaluation of delinquencies, historical loss experience, asset valuations, assessment of collateral and legal options.

Our net charge-offs for the quarters ended September 30, 1997, December 31, 1997, March 31, 1998, and June 30, 1998 were $0.4 million, $0.3 million, $0.5 million, and $0.4 million, respectively, which represents 5.5%, 3.5%, 6.4%, and 4.5%, respectively, of the quarter-end allowance for losses.

Earnings before minority interest, equity in net losses of investees and provision for income taxes increased 47.9% to 22.9 million for the year ended June 30, 1998 compared to $15.5 million a year earlier. Net earnings were $12.9 million or $1.03 per diluted share for the year ended June 30, 1998 as compared to net earnings of $8.6 million or $0.74 per diluted share in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As a result of the rapid growth of our domestic and international equipment financing businesses, our medical receivables financing business and our new financing services, the amount of warehouse and permanent funding we require has significantly increased. We obtain warehouse funding from commercial and investment banks. These warehouse borrowings are full recourse obligations in which the lender has recourse against the collateral pledged to secure our obligations and against the Company itself upon default. Our permanent funding is obtained principally on a limited recourse basis in which the lender's primary recourse is against the pledged collateral and the lender has only a limited ability to recover directly from us upon default. In the case of limited recourse funding, we retain some risk of loss because we share in any losses incurred, and/or we may forfeit any residual interest in the underlying sold or permanently funded assets if defaults occur.

A substantial portion of our debt represents permanent funding of equipment contracts obtained on a limited recourse basis and is structured so that the cash flows from the underlying contracts service the debt. Most of our warehouse borrowings are used to fund temporarily the equipment and medical receivables contracts. These borrowings are repaid with the proceeds obtained from the permanent funding and cash flows from the underlying transactions.

To meet our requirements for increased warehouse funding, we have expanded our warehouse facilities with banks and have obtained warehouse facilities with investment banking firms we use for our securitizations. To meet our requirement for increased permanent funding, we have enhanced our ability to fund equipment and medical receivables contracts. If suitable sources of both warehouse and permanent funding are not available in the future, our growth will be limited and we may be forced to use less attractive funding sources in order to ensure liquidity.

In addition to the interim and permanent funding referred to above, our continued growth in contract origination and net financed receivables requires substantial amounts of external funding, primarily to fund the reserve account or

overcollateralization required by the securitizations and sales of our contracts. These funds essentially provide the credit enhancement for our leveraged investments in our contract portfolios, and typically are obtained through sales of debt or equity securities.

SUMMARY OF CASH FLOWS

Our cash and cash equivalents at June 30, 1999 and June 30, 1998 were $5.7 million and $15.2 million, respectively. The following describes the changes from June 30, 1998 to June 30, 1999 in the items that had the most significant impact on our cash flow during the year ended June 30, 1999.

Our net cash provided by operating activities increased $30.3 million for the

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year ended June 30, 1999 to $34.2 million from $3.9 million for the year ended June 30, 1998. Restricted cash decreased $10.8 million compared to an increase of $21.1 million in fiscal 1998, a difference of $31.9 million. This is largely due to higher required levels of cash collateral at DVI Business Credit in 1998 because of greater credit concentrations that existed in its securitized portfolios at that time, as well as higher levels of customer cash being processed on the last day of that year. Net earnings adjusted for non-cash items and the gain on sale of financing transactions increased $4.8 million over the prior year. Offsetting these sources of cash was an increase in the amount due from a portfolio sale of $7.8 million.

Our net cash used in investing activities increased $120.8 million for the year ended June 30, 1999 to $244.7 million from $123.9 million in the prior year. The increase over the prior year is attributed mainly to the business acquisition of DVI SPG for approximately $77.5 million. Receivables originated or purchased (net of portfolio receipts) increased $42.3 million, resulting in an overall increase in the size of our contract portfolio. We also made an investment in U.S. Cancer Care for $7.5 million and sold our preferred shares in Diagnostic Imaging Services for $4.5 million.

Our net cash provided by financing activities increased $75.0 million for the year ended June 30, 1999 to $201.0 million from $126.0 million in the prior year. Proceeds from warehouse borrowings, net of repayments, increased $148.7 million. Proceeds from long-term debt borrowings, net of repayments, decreased $14.6 million. The cash provided in fiscal 1998 included proceeds of $57.9 million from the issuance of common stock.

WAREHOUSE FACILITIES

At June 30, 1999 we had available an aggregate of $522.0 million under various warehouse facilities for medical equipment and medical receivables financing, consisting of $344.5 million available for domestic equipment contracts, $57.5 million for international contracts, and $120.0 million for medical receivables contracts. See Item 8, Note 5 for more detail on our warehouse lines of credit.

PERMANENT FUNDING METHODS

We have completed 23 securitizations for medical equipment and medical receivables financings totaling approximately $2.0 billion, consisting of public debt issues totaling $0.4 billion and private placements of debt and contract sales totaling $1.6 billion. We expect to continue to use securitization (on both a public and private basis) or other structured finance transactions as our principal means to permanently fund our contracts for the foreseeable future. If for any reason we were to become unable to access the securitization market to permanently fund our contracts, the consequences for us would be materially adverse.

Our use of securitization significantly affects our need for warehouse facilities and our liquidity and capital requirements due to the amount of time required to assemble a portfolio of contracts to be securitized. When using securitization, we are required to hold contracts in warehouse facilities until a sufficient quantity, generally in excess of $75.0 million, is accumulated in order to attract investor interest and to allow for a cost-effective placement. This increases our exposure to changes in interest rates and temporarily reduces our warehouse facility liquidity. See Item 8, Notes 2 and 16 for discussions about our efforts to manage this exposure through hedging.

We have $320.0 million available under two facilities with the option to sell to each certain equipment contracts. As of June 30, 1999, $286.8 million was sold to these facilities. Our obligations under these facilities include servicing of the assets and assisting the owners in the securitization of the assets if the owners choose to do so.

In addition, we have investment agreements with two shareholders, IFC and FMO, which provide for the borrowing of $15.0 million and $10.0 million respectively. Borrowings under this loan bear interest at 2.75% over the six-month LIBOR rate, payable semiannually in arrears. Full principal loan repayment is due May 15, 2005. This loan is secured by granting perfected and registered first priority security interest of all lease/loan receivables assigned to IFC and FMO.

The agreements also provide for syndicated borrowings from IFC and FMO, for which we had $13.0 million outstanding at June 30, 1999. Borrowings under this loan bear interest at 3.25% over the six-month LIBOR rate, payable semiannually in arrears. Principal loan repayment commences on November 15, 2000 and is to be paid in full on November 15, 2003. This loan is secured by granting perfected and registered first priority security interest of all lease/loan receivables assigned to IFC and FMO.

As of June 30, 1999, we were in compliance with the financial covenants of these agreements.

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DEBT AND EQUITY OFFERINGS

On January 30, 1997, we completed a public offering of $100.0 million principal amount of 9 7/8% Senior Notes due 2004 ("Senior Notes"). The agreement with respect to the Senior Notes contains, among other things, limitations on our ability to pay dividends and to make certain other kinds of payments. That agreement also prohibits us from incurring additional indebtedness unless certain financial ratio tests are met. Interest on the notes is payable semi-annually on February 1 and August 1 of each year. The Senior Notes will be redeemable at our option in whole or in part at any time on or after February 1, 2002 at specified redemption prices.

On October 30, 1997, we completed a private placement of 300,000 shares of DVI common stock with a group of European financial institutions for which we received net proceeds of $4.9 million.

On April 24, 1998, we registered under the Securities Act of 1933, as amended ("Securities Act"), $500.0 million of common stock, preferred stock, depositary shares, debt securities, and warrants with the Securities and Exchange Commission ("SEC"). The SEC declared the registration statement (Registration No. 333-50895) effective on May 4, 1998.

On May 28, 1998, we issued 2,300,000 shares of common stock through an underwritten public offering. The aggregate price to the public of such shares was $49.3 million and the net proceeds we received were $46.6 million. In addition, on May 28, 1998, we issued 340,000 shares of common stock to certain DVI stockholders. The price to these stockholders and the net proceeds we received for these shares was $6.5 million.

On December 16, 1998, we completed a public offering of $55.0 million principal amount of 9 7/8% Senior Notes due 2004. The agreement with respect to these Senior Notes contains substantially the same terms and limitations as those in the agreement for the $100.0 million Senior Notes issuance of January 30, 1997 discussed above.

On March 22, 1999, we registered under the Securities Act $600.0 million of Asset-Backed Securities issuable in series with the SEC. The SEC declared the registration statement (Registration No. 333-74901) effective on July 12, 1999.

At June 30, 1999, approximately $388.8 million of common stock, preferred stock, depositary shares, debt securities and warrants remained registered and unissued under the Securities Act.

We are using the proceeds from the debt and stock offerings of January 1997, May 1998 and December 1998:

- To fund our growth, including increasing the amount of equipment and medical receivables contracts we can fund;

- To develop our expanding international operations;

- For other working capital needs and

- For general corporate purposes.

We believe that the cash available from our operating, investing and financing activities will be sufficient to fund our current needs for our equipment financing and medical receivables businesses. However, we can not give any assurance in this regard, and we may encounter liquidity problems that could affect our ability to meet such needs while attempting to withstand competitive pressures or adverse economic conditions.

NET FINANCED ASSETS

The following represents a summary of the components of net financed assets:

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(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999	1998
<S>	<C>	<C>
Receivables in installments..............................	$ 776,705	$ 572,679
Receivables and notes - related parties..................	2,550	6,563
Recourse credit enhancements.............................	62,106	51,883
Net notes collateralized by medical receivables..........	187,327	137,316
Residual valuation.......................................	27,761	14,287
Unearned income..	(84,443)	(69,367)

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Equipment on operating leases	16,570	14,773
Net financed assets	$ 988,576	$ 728,134

</TABLE>

INCOME TAX ISSUES

Historically, we have deferred a portion of our federal and state income tax liabilities because of our ability to obtain depreciation deductions from transactions structured as fair market value leases. In addition, we have structured all sales of financing transactions since the quarter ended June 30, 1997 as borrowings for tax purposes versus sales for book (GAAP) purposes. Future sales of financing transactions may also be structured in this manner. Additionally, we believe our effective tax rate will increase moderately in future periods as a result of our inability to fully recognize taxes that have been paid in foreign countries for federal tax purposes as well as our inability to currently recognize tax benefits related to losses incurred by start-up foreign operations.

INFLATION

We do not believe that inflation has had a material effect on our operating results during the past three years. We can not give any assurance that our business will not be affected by inflation in the future.

YEAR 2000 CONCERNS

The Year 2000 issue deals with electronic systems that were designed with a two-digit representation of the year. When calendar dates do not include the first two digits of the year, systems have "understood" that prefix to be "19". Elsewhere, some computer systems that project calculations into the future have already begun to malfunction, generating errors based upon next year being regarded as 1900 by the system, instead of 2000. These problems will affect even more systems worldwide, including hardware, when the current date becomes 2000.

If the systems and products we use are not properly equipped to identify and recognize the Year 2000, our systems could fail or create erroneous results. We could be temporarily unable to process transactions, originate contracts, service third party contracts and engage in other normal business activities. Under these circumstances, the Year 2000 problem could have a material adverse effect on our products, services, operations and financial results.

Our medical receivables finance business is dependent on the successful repayment of receivables from third party payors such as Medicare and Medicaid. Although these providers demonstrated Year 2000 compliance before March 31, 1999, we may be unable to collect on our medical receivables in a timely manner, or at all, if third party payors fail to become Year 2000 compliant. This could have a material adverse effect on our medical receivables financing business. We cannot provide any assurance regarding a third party's ability to become Year 2000 compliant.

Like many financial companies, our computer systems have already been working with calculations that project three to five years into the future. While successfully testing systems in a "live" environment has given us some measure of comfort, it is still necessary to perform a full Year 2000 evaluation.

Several other advantages have simplified the Year 2000 project:

1. As a relatively young company, we do not have an investment in non-compliant hardware.

2. All of our critical systems use "off-the-shelf" software. No consultants or staff programmers will be needed to reprogram our systems.

3. We use strong internal controls and standards for technology purchases. Critical systems worldwide are centralized in our United States headquarters, which has allowed us to focus our assessment and remediation efforts on relatively few hardware and software platforms. Adequate internal resources are available to devote to this project.

We began a formal Year 2000 project in December 1997 with the formation of a Year 2000 Committee, chaired by our senior information technology manager. The Committee has members from various business units and departments within the organization, and provides status reports periodically to senior management and Directors. The first task for the Committee was to formulate a plan for addressing the Year 2000 problem. The Committee selected a five-phase approach, which is outlined below.

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PHASE 1 - INVENTORY

We performed a worldwide assessment of all devices that may be affected by the Year 2000 problem. We investigated computer hardware, operating systems, applications software, networking systems, telephone systems, building security systems, FAX machines, elevators and other electronic office equipment. This phase was completed in May 1998.

PHASE 2 - ASSESSMENT

Once the Committee had identified the current inventory of systems, they performed an assessment of how critical each system was to the operation of the business, and the potential impact of failure, in order to establish priorities for repair or replacement. To ensure that the Inventory and Assessment phases were thorough, we enlisted outside professionals to help with the assessment.

Vendors for each component provided written certification about their Year 2000 compliance status. When this assessment was completed in June 1998, we had identified three off-the-shelf software packages that would need to be upgraded through maintenance releases. This was the only remediation deemed necessary for all critical and non-critical systems within our worldwide offices.

PHASE 3 - REMEDIATION

All non-compliant software packages have been upgraded.

PHASE 4 - TESTING

Although our systems vendors have certified their products as Year 2000 compliant, the next phase requires that we thoroughly test these certifications in our own environment. We recognize that our vendors test and certify products in an isolated, laboratory environment, which does not account for the unique mix of hardware and software in customer locations.

In-house testing is the only way to verify that our current systems will be compliant next year. Testing began in the beginning of calendar year 1999 and will continue throughout the year.

PHASE 5 - CONTINGENCY PLANNING

We developed contingency plans for all systems deemed critical during the assessment phase. These contingency plans are designed to protect us from business interruptions related to the Year 2000 problem. Many of the critical systems we use may be substituted for a short period of time with manual procedures. Whenever possible, alternate suppliers and vendors have been identified in the event that our current vendors are affected by the Year 2000 problem. In addition to the Year 2000 contingency planning, we maintain and deploy standard plans that address various types of business interruptions. These plans may address the interruption of support provided by third parties resulting from their failure to be Year 2000 compliant.

COSTS

We do not have any investment in "custom" programming that will require extensive reprogramming. Virtually all of the software systems are "off-the-shelf" products which have been developed by outside vendors. For this reason, we do not anticipate the need to hire Year 2000 solutions providers or programmers at this time. The cost of the software upgrades discussed in the remediation phase was included in standard maintenance agreements, and has not required any additional expenses. At this time, we project our direct costs to become Year 2000 compliant to be less than $50,000.

OTHER CONCERNS

We have identified significant relationships that may affect the operation of our business, including vendors, customers, asset management and funding counterparties, and all other third parties. Failure by these entities to become Year 2000 compliant could have a material adverse effect on the Company. There can be no assurances that any of our contingency plans will be sufficient to anticipate all of the problems and issues that may arise.

CONCLUSION

We believe that the Year 2000 issue will not pose any significant operational problems to our internal systems and will not have a material adverse effect on our future financial condition, liquidity or results of operations during calendar year 1999 and in future periods. This section discussing Year 2000 issues contains forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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We are exposed to two primary types of market risk: interest rate risk and foreign currency exchange risk. We actively manage both of these risks.

INTEREST RATE RISK

The majority of our assets and liabilities are financial instruments with fixed and variable rates. Any mismatch between the repricing or maturity characteristics of our assets and liabilities exposes us to interest rate risk when interest rates fluctuate. For example, our equipment loans are structured and permanently funded on a fixed-rate basis, but we use warehouse facilities until the permanent matched funding is obtained. Since funds borrowed through warehouse facilities are obtained on a floating-rate basis, we are exposed to a certain degree of risk if interest rates rise and increase our borrowing costs. In addition, when we originate equipment loans, we base our pricing in part on the spread we expect to achieve between the interest rate we charge our equipment loan customers and the effective interest cost we will pay when we permanently fund those loans. Increases in interest rates which increase our permanent funding costs between the time the loans are originated and the time they are permanently funded could narrow, eliminate or even reverse this spread. In addition, changes in interest rates affect the fair market value of fixed rate assets and liabilities. In a rising interest rate environment, fixed rate assets lose market value whereas fixed rate liabilities gain market value and vice versa.

In order to manage our interest rate risk, we employ a hedging strategy. We use derivative financial instruments such as forward rate agreements, Treasury locks, and interest rate swaps, caps and collars to manage interest sensitivity adjustments from mismatches, the pricing of anticipated loan securitizations and sales, and interest rate spreads. We do not use derivative financial instruments for trading or speculative purposes. We manage the credit risk of possible counterparty default in these derivative transactions by dealing exclusively with counterparties with investment grade ratings.

Before entering into a derivative transaction for hedging purposes, we determine that a high correlation exists between the change in the value of the hedged item and the change in the value of the derivative from a movement in interest rates. High correlation means that the change in the value of the derivative will be substantially equal and opposite to the change in the value of the hedged asset or liability. We monitor this correlation throughout the hedged period. If a high degree of correlation is not maintained, the hedge becomes ineffective, and gains and losses in the value of the derivative are recognized in income.

There can be no assurance that our hedging strategies or techniques will be effective, that our profitability will not be adversely affected during any period of change in interest rates or that the costs of hedging will not exceed the benefits.

The following table provides information about certain financial instruments held that are sensitive to changes in interest rates. For assets and liabilities, the table presents principal cash flows and related weighted average interest rates by expected maturity date at June 30, 1999. For derivative financial instruments, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates, which are generally LIBOR-based, represent the interest rates in effect at June 30, 1999. The information is presented in U.S. dollar equivalents, which is our reporting currency. The actual cash flows are denominated in U.S. dollars (US), German deutsche marks (DEM), Spanish pesetas (ESP) and Australian dollars (AUD), as indicated in parentheses. The table excludes investments in direct financing leases in accordance with disclosure requirements although our lease contracts are exposed to interest rate risk. The information does not include any estimates for prepayments, reinvestment or refinancing or any estimates of credit losses. See item 8, Note 16 for a description of the methods used to determine fair value.

	EXPECTED MATURITY DATE - YEAR ENDED JUNE 30,							
(IN THOUSANDS OF DOLLARS)	2000	2001	2002	2003	2004	THERE-AFTER	TOTAL	FAIR VALUE
RATE-SENSITIVE ASSETS:								
Fixed rate receivables in installments (US)	$ 92,041	$ 59,360	$46,714	$27,515	$ 16,290	$13,226	$255,146	$246,264
Average interest rate	9.80%	9.72%	9.80%	9.85%	9.69%	9.81%	9.83%	

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Fixed rate receivables in installments (DEM)	$ 3,156	$ 2,516	$ 2,177	$ 1,083	$ 1,008	$ 774	$ 10,714	$ 10,109
Average interest rate	8.86%	8.98%	8.98%	9.55%	9.45%	9.09%	8.86%	
Fixed rate receivables in installments (ESP)	$ 356	$ 394	$ 436	$ 195	--	--	$ 1,381	$ 1,331
Average interest rate	10.19%	10.19%	10.19%	10.19%	--	--	10.19%	
Floating rate receivables in installments	$ 48,263	$ 28,173	$20,968	$13,872	$ 10,559	$ 727	$122,562	$122,562
Average interest rate	8.24%	7.16%	6.77%	7.27%	8.78%	6.32%	7.66%	
Floating rate notes collateralized by medical receivables	$108,275	$ 66,357	$17,154	--	--	--	$191,786	$191,786
Average interest rate	10.01%	10.10%	9.38%	--	--	--	10.01%	
Fixed rate recourse credit enhancements	$ 14,687	$ 12,430	$10,938	$13,363	$ 8,194	$ 2,494	$ 62,106	$ 57,974
Average interest rate	6.41%	6.31%	6.22%	6.31%	6.26%	6.19%	6.34%	
Totals	$266,778	$169,230	$98,387	$56,028	$ 36,051	$17,221	$643,695	$630,026
Average interest rate	9.41%	9.18%	8.67%	8.37%	8.64%	9.11%	9.12%	

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(IN THOUSANDS OF DOLLARS)	EXPECTED MATURITY DATE - YEAR ENDED JUNE 30, 2000	2001	2002	2003	2004	THERE-AFTER	TOTAL	FAIR VALUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
DERIVATIVES MATCHED AGAINST ASSETS:								
INTEREST RATE SWAPS								
Pay fixed rate swaps (DEM)	$ 7,229	--	--	--	--	--	$ 7,229	$ --
Weighted average pay rate	3.70%	--	--	--	--	--	3.70%	
Weighted average receive rate	5.37%	--	--	--	--	--	5.37%	
Pay variable rate swaps (US)	--	--	$ 5,000	--	--	--	$ 5,000	$ (20)
Weighted average pay rate	--	--	5.08%	--	--	--	5.08%	
Weighted average receive rate	--	--	5.83%	--	--	--	5.83%	
Totals	$ 7,229		$ 5,000				$ 12,229	$ (20)
RATE-SENSITIVE LIABILITIES:								
Variable rate borrowings under warehouse facilities (US)	$244,344	$ 10,000	--	--	--	--	$254,344	$254,344
Average interest rate	6.68%	6.34%	--	--	--	--	6.67%	
Variable rate borrowings under warehouse facilities (AUD)	$ 1,939	--	--	--	--	--	$ 1,939	$ 1,939
Average interest rate	6.11%	--	--	--	--	--	6.11%	
Variable rate borrowings under warehouse facilities (DEM)	$ 9,263	--	--	--	--	--	$ 9,263	$ 9,263
Average interest rate	4.49%	--	--	--	--	--	4.49%	
Variable rate borrowings under warehouse facilities (GBP)	--	$ 4,887	--	--	--	--	$ 4,887	$ 4,887
Average interest rate	--	6.73%	--	--	--	--	6.73%	
Fixed rate discounted receivables	$ 81,435	$ 52,262	$27,007	$12,715	$ 2,497	$ 644	$176,560	$177,279
Average interest rate	6.90%	6.45%	6.25%	6.16%	6.14%	6.14%	6.60%	
Variable rate discounted receivables	$ 25,000	$ 75,000	--	--	--	--	$100,000	$100,000
Average interest rate	7.17%	5.75%	--	--	--	--	6.11%	
Senior notes	--	--	--	--	$155,000	--	$155,000	$150,350
Average interest rate	--	--	--	--	9.88%	--	9.88%	
Other debt	$ 8,573	$ 8,525	$ 6,571	$ 5,884	$ 2,000	$25,000	$ 56,553	$ 56,385
Average interest rate	8.40%	8.38%	8.36%	8.38%	8.34%	7.85%	8.15%	

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	2000	2001	2002	2003	2004	THEREAFTER	TOTAL	FAIR VALUE
Convertible subordinated notes	--	--	$13,900	--	--	--	$ 13,900	$ 22,456
Average interest rate	--	--	9.13%	--	--	--	9.13%	
Totals	$370,554	$150,674	$47,478	$18,599	$159,497	$25,644	$772,446	$776,903
Average interest rate	6.74%	6.21%	7.39%	6.86%	9.80%	7.81%	7.35%	

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(IN THOUSANDS OF DOLLARS)	EXPECTED MATURITY DATE - YEAR ENDED JUNE 30, 2000	2001	2002	2003	2004	THERE-AFTER	TOTAL	FAIR VALUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
DERIVATIVES MATCHED AGAINST LIABILITIES:								
INTEREST RATE SWAPS								
Pay fixed rate swaps (US)	--	--	--	--	--	$10,000	$ 10,000	$ 48
Weighted average pay rate	--	--	--	--	--	5.84%	5.84%	
Weighted average receive rate	--	--	--	--	--	5.65%	5.65%	
Pay fixed rate swaps (AUD)	--	--	$ 2,422	--	--	--	$ 2,422	$ --
Weighted average pay rate	--	--	5.56%	--	--	--	5.56%	
Weighted average receive rate	--	--	4.84%	--	--	--	4.84%	
INTEREST RATE CAPS (US)	$ 50,000	--	--	--	--	--	$ 50,000	$ --
Average strike rate	5.80%	--	--	--	--	--	5.80%	
Average index rate	5.24%	--	--	--	--	--	5.24%	
INTEREST RATE FLOORS (US)	$ 50,000	--	--	--	--	--	$ 50,000	$ (24)
Average strike rate	5.50%	--	--	--	--	--	5.50%	
Average index rate	5.24%	--	--	--	--	--	5.24%	
TREASURY LOCKS (US)	$400,000	--	--	--	--	--	$400,000	$ 609
Average strike rate	5.54%	--	--	--	--	--	5.54%	
Average index rate	5.56%	--	--	--	--	--	5.56%	
Totals	$500,000		$ 2,422			$10,000	$512,422	$ 633

</TABLE>

FOREIGN CURRENCY EXCHANGE RATE RISK

We have international operations and foreign currency exposures due to lending in some areas in local currencies. As a general practice, we have not hedged the foreign exchange exposure related to either the translation of overseas earnings into U.S. dollars or the translation of overseas equity positions back to U.S. dollars. Our preferred method for minimizing foreign currency transaction exposure is to fund local currency assets with local currency borrowings. For specific local currency-denominated receivables or for a portfolio of local currency-denominated receivables for a specific period of time, hedging with derivative financial instruments may be necessary to manage the foreign currency exposure derived from funding in U.S. dollars. The types of derivative instruments used are foreign exchange forward contracts and cross-currency interest rate swaps.

The following table provides information about certain financial instruments held that are sensitive to changes in foreign exchange rates. For assets and liabilities, the table presents principal cash flows and related weighted average interest rates by expected maturity date at June 30, 1999. For foreign currency forward exchange adjustments, the table presents notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. The information is presented in U.S. dollar equivalents, which is our reporting currency. The actual cash flows are denominated in German deutsche marks (DEM), Spanish pesetas (ESP), Australian dollars (AUD) and British pounds (GBP), as indicated in parentheses. The table excludes investments in direct financing leases in accordance with disclosure requirements although our lease contracts are exposed to foreign currency rate risk. The information does not include any estimates for prepayments, reinvestment or refinancing or any estimates of credit losses. See Item 8, Note 16 for a description of the methods used to determine fair value.

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<TABLE>
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(IN THOUSANDS OF DOLLARS)	EXPECTED MATURITY DATE - YEAR ENDED JUNE 30, 2000	2001	2002	2003	2004	THERE-AFTER	TOTAL	FAIR VALUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
FOREIGN CURRENCY SENSITIVE ASSETS:								
Receivables in installments (DEM)	$ 3,156	$ 2,516	$ 2,177	$ 1,083	$ 1,008	$ 774	$ 10,714	$ 10,109
Average interest rate	8.86%	8.98%	8.98%	9.55%	9.45%	9.09%	8.86%	
Receivables in installments (ESP)	$ 356	$ 394	$ 436	$ 195	--	--	$ 1,381	$ 1,331
Average interest rate	10.19%	10.19%	10.19%	10.19%	--	--	10.19%	
Totals	$ 3,512	$ 2,910	$ 2,613	$ 1,278	$ 1,008	$ 774	$ 12,095	$ 11,440
Average interest rate	8.99%	9.14%	9.18%	9.65%	9.45%	9.09%	9.01%	
DERIVATIVES MATCHED AGAINST ASSETS:								
FOREIGN EXCHANGE AGREEMENTS								
Receive $U.S. / Pay DEM	$11,439	--	--	--	--	--	$ 11,439	$ 767
Avg. contractual exchange rate	1.76	--	--	--	--	--	1.76	
Receive $U.S. / Pay ESP	$ 2,499	--	--	--	--	--	$ 2,499	$ 13
Avg. contractual exchange rate	160.05	--	--	--	--	--	160.05	
Totals	$13,938						$13,938	$ 780
FOREIGN CURRENCY SENSITIVE LIABILITIES:								
Warehouse borrowings (DEM)	$ 9,263	--	--	--	--	--	$ 9,263	$ 9,263
Average interest rate	4.49%	--	--	--	--	--	4.49%	
Warehouse borrowings (AUD)	$ 1,939	--	--	--	--	--	$ 1,939	$ 1,939
Average interest rate	6.11%	--	--	--	--	--	6.11%	
Warehouse borrowings (GBP)	--	$ 4,887	--	--	--	--	$ 4,887	$ 4,887
Average interest rate	--	6.73%	--	--	--	--	6.73%	
Totals	$11,202	$ 4,887					$ 16,089	$ 16,089
Average interest rate	4.77%	6.73%					5.37%	

</TABLE>

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Any statements contained in this Form 10-K which are not historical facts are forward-looking statements; and, therefore, many important factors could cause actual results to differ materially from those in the forward-looking statements. Such factors include, but are not limited to, changes (legislative and otherwise) in the healthcare industry, those relating to demand for our services, pricing, market acceptance, the effect of economic conditions, litigation, competitive products and services, the results of financing efforts, the ability to complete transactions, and other risks identified in our Securities and Exchange Commission filings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and its subsidiaries are filed on the pages listed below, as part of Part II, Item 8.

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Independent Auditors' Report	32
Consolidated Balance Sheets as of June 30, 1999 and 1998	33-34
Consolidated Statements of Operations for the years ended June 30, 1999, 1998 and 1997	35
Consolidated Statements of Shareholders' Equity for the years ended June 30, 1999, 1998 and 1997	36
Consolidated Statements of Cash Flows for the years ended June 30, 1999, 1998 and 1997	37-38
Notes to Consolidated Financial Statements	39-61

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
DVI, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of DVI, Inc. and its subsidiaries (the "Company") as of June 30, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of DVI, Inc. and its subsidiaries as of June 30, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1999 in conformity with generally accepted accounting principles.

/S/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
August 6, 1999

DVI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

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(in thousands of dollars except share data)	June 30, 1999	1998
Cash and cash equivalents	$ 5,695	$ 15,192
Restricted cash and cash equivalents	36,744	47,582
Amounts due from portfolio sale	7,827	--
Receivables:		
Investment in direct financing leases and notes secured by equipment or medical receivables:		
Receivables in installments	776,705	572,679
Receivables and notes - related parties	2,550	6,563
Recourse credit enhancements	62,106	51,883
Net notes collateralized by medical receivables	187,327	137,316
Residual valuation	27,761	14,287
Unearned income	(84,443)	(69,367)
Net investment in direct financing leases and notes secured by equipment or medical receivables	972,006	713,361
Less: Allowance for losses on receivables	(12,279)	(9,955)
Net receivables	959,727	703,406
Equipment on operating leases (net of accumulated depreciation of $6,464 and $3,189, respectively)	16,570	14,773
Furniture and fixtures (net of accumulated depreciation of $3,900 and $2,600, respectively)	4,970	4,225
Investments	10,814	7,120
Goodwill, net	10,359	3,646
Other assets	28,115	20,976
Total assets	$ 1,080,821	$ 816,920

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

DVI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, CONTINUED

LIABILITIES AND SHAREHOLDERS' EQUITY

<TABLE>
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(in thousands of dollars except share data)	June 30, 1999	1998
Accounts payable	$ 63,010	$ 48,030
Accrued expenses and other liabilities	24,769	18,271
Borrowings under warehouse facilities	269,923	82,828
Deferred income taxes	36,696	19,393
Long-term debt, net:		
Discounted receivables (primarily limited recourse)	270,821	342,120
9 7/8% Senior notes due 2004	148,085	96,486
Other debt	54,614	15,808
Convertible subordinated notes	13,553	13,439
Total long-term debt, net	487,073	467,853

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Total liabilities	881,471	636,375
Commitments and contingencies (Note 13)		
Minority interest in consolidated subsidiaries	7,703	8,260
Shareholders' equity:		
Preferred stock, $10.00 par value; authorized 100,000 shares; no shares issued		
Common stock, $.005 par value; authorized 25,000,000 shares; outstanding 14,168,608 and 14,080,358 shares, respectively	71	70
Additional capital	134,610	133,516
Retained earnings	59,055	39,387
Accumulated other comprehensive loss	(2,089)	(688)
Total shareholders' equity	191,647	172,285
Total liabilities and shareholders' equity	$ 1,080,821	$ 816,920

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

DVI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Year Ended June 30,		
(in thousands of dollars except share data)	1999	1998	1997
<S>	<C>	<C>	<C>
Finance and other income:			
Amortization of finance income	$ 83,791	$ 63,332	$ 49,535
Other income	20,007	11,023	6,799
Total finance and other income	103,798	74,355	56,334
Interest expense	60,850	49,212	38,395
Net interest and other income	42,948	25,143	17,939
Net gain on sale of financing transactions	29,813	20,977	14,039
Net finance income	72,761	46,120	31,978
Selling, general and administrative expenses	31,529	18,493	14,117
Provision for losses on receivables	6,301	4,735	2,386
Earnings before minority interest, equity in net loss of investees, and provision for income taxes	34,931	22,892	15,475
Minority interest in net loss of consolidated subsidiaries	471	126	--
Equity in net loss of investees	(353)	(439)	(281)
Provision for income taxes	15,381	9,721	6,631
Net earnings	$ 19,668	$ 12,858	$ 8,563
Net earnings per share:			
Basic	$ 1.39	$ 1.12	$ 0.78
Diluted	$ 1.30	$ 1.03	$ 0.74

</TABLE>

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The accompanying notes are an integral part of these consolidated financial statements.

DVI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of dollars except share data)	Common Stock $.005 Par Value Shares	Common Stock $.005 Par Value Amount	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
BALANCES AT JUNE 30, 1996	10,451,375	$ 52	$ 67,284	$ 17,966	$ --	$ 85,302
Net earnings				8,563		8,563
Currency translation adjustment					(116)	(116)
Comprehensive income						8,447
Issuance of common stock upon exercise of stock options and warrants	82,881	1	1,310			1,311
Conversion of subordinated notes	56,603		600			600
BALANCES AT JUNE 30, 1997	10,590,859	53	69,194	26,529	(116)	95,660
Net earnings				12,858		12,858
Currency translation adjustment					(572)	(572)
Comprehensive income						12,286
Issuance of common stock upon exercise of stock options and warrants	149,499		1,756			1,756
Net proceeds from issuance of common stock	2,940,000	15	57,918			57,933
Issuance of common stock for acquisition of MEFC	400,000	2	4,648			4,650
BALANCES AT JUNE 30, 1998	14,080,358	70	133,516	39,387	(688)	172,285
Net earnings				19,668		19,668
Currency translation adjustment					(1,401)	(1,401)
Comprehensive income						18,267
Issuance of common stock upon exercise of stock options and warrants	88,250	1	1,116			1,117
Cost of issuance of common stock			(199)			(199)
Non-employee stock option grants			177			177
BALANCES AT JUNE 30, 1999	14,168,608	$ 71	$ 134,610	$ 59,055	$ (2,089)	$ 191,647

The accompanying notes are an integral part of these consolidated financial statements.

DVI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	Year Ended June 30, 1999	1998	1997

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CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 19,668	$ 12,858	$ 8,563
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Equity in net loss of investees	353	439	281
Depreciation and amortization	18,604	12,050	10,289
Provision for losses on receivables	6,301	4,735	2,386
Net gain on sale of financing transactions	(29,813)	(20,977)	(14,039)
Minority interest in net loss of consolidated subsidiaries	(471)	(126)	--
Cumulative translation adjustments	(1,401)	(572)	(116)
Changes in assets and liabilities:			
(Increases) decreases in:			
Restricted cash and cash equivalents	10,838	(21,121)	6,090
Amounts due from portfolio sale	(7,827)	--	54,797
Receivables	(13,363)	(4,534)	(10,915)
Other assets	(6,006)	(9,697)	(3,260)
Increases (decreases) in:			
Accounts payable	13,536	16,328	7,285
Accrued expenses and other liabilities	6,498	3,713	7,558
Deferred income taxes	17,303	10,783	3,865
Total adjustments	14,552	(8,979)	64,221
Net cash provided by operating activities	34,220	3,879	72,784
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of business	(77,506)	--	--
Receivables originated or purchased	(769,039)	(541,715)	(429,515)
Portfolio receipts net of amounts included in income and proceeds from sale of financing transactions	658,055	473,018	372,973
Net increase in notes collateralized by medical receivables	(50,011)	(51,667)	(51,311)
Furniture and fixtures additions	(2,192)	(2,897)	(1,017)
Investments	(8,479)	(1,148)	(24)
Cash received from sale of investments	4,482	549	--
Net cash used in investing activities	(244,690)	(123,860)	(108,894)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Exercise of stock options and warrants	798	1,756	1,311
Issuance of common stock, net of issuance costs	(199)	57,933	--
Borrowings under warehouse facilities, net of repayments	186,279	37,574	(123,286)
Borrowings under long-term debt	151,562	156,884	283,825
Repayments on long-term debt	(137,467)	(128,161)	(118,944)
Net cash provided by financing activities	200,973	125,986	42,906

</TABLE>

continued

DVI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)

<TABLE>
<CAPTION>

	Year Ended June 30,		
(in thousands of dollars)	1999	1998	1997
<S>	<C>	<C>	<C>
Net (decrease) increase in cash and cash equivalents	$ (9,497)	$ 6,005	$ 6,796
Cash and cash equivalents, beginning of year	15,192	9,187	2,391
Cash and cash equivalents, end of year	$ 5,695	$ 15,192	$ 9,187
CASH PAID DURING THE YEAR FOR:			
Interest	$ 51,063	$ 44,786	$ 31,073
Income taxes, net of refunds	$ (1,869)	$ 1,508	$ 4,777

</TABLE>

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SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:

In June 1998 the purchase price for Medical Equipment Finance Corporation ("MEFC") of $4.7 million was reclassified from accrued liabilities to shareholders' equity to reflect the issuance of 400,000 common shares.

At June 30, 1999, 1998 and 1997, we recorded in receivables in installments and accrued expenses amounts of $3.6 million, $3.0 million and $1.9 million, respectively, representing the present value of future obligations we have guaranteed.

In July 1996, $600,000 of convertible subordinated notes was converted into common stock.

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS

In this discussion, the terms "DVI", the "Company", "we", "us" and "our" refer to DVI, Inc. and its subsidiaries, except where it is made clear that such terms mean only DVI, Inc. or an individual subsidiary.

We are primarily engaged in the business of providing equipment and receivable financing for domestic and foreign users of diagnostic imaging, radiation therapy and other medical technologies. Our customer base consists principally of outpatient healthcare providers, physician groups and hospitals. By the terms of the underlying financing contracts, our customers are generally considered in default if payment on a contract has not been received. Equipment under direct financing leases and notes secured by equipment, combined with obligor guarantees and vendor recourse, serve as collateral for unpaid contract payments. Receivables under medical receivables financing transactions serve as collateral for unpaid contract payments.

ABILITY TO ACCESS THE SECURITIZATION MARKET - Our ability to complete securitizations and other structured finance transactions depends upon a number of factors, including:

- The general conditions in the credit markets,

- The size and liquidity of the market for the types of receivable-backed securities that we issue or place in securitizations and

- Our overall financial performance and contract portfolio.

Additionally, our ability to securitize assets is dependent upon our ability to provide credit enhancement, which reduces our liquidity and periodically requires us to obtain additional capital to enable us to expand our operations.

CREDIT RISK - A customer's failure to pay back amounts borrowed is a risk faced by all finance companies. Many of our customers are outpatient healthcare providers that have complex credit characteristics, and providing financing for these customers involves sophisticated credit analysis.

CONTINUING NEED FOR CAPITAL - Our ability to maintain and build our financing business is dependent on our ability to obtain warehouse and long-term debt financing.

REGULATION AND CONSOLIDATION - Considerable regulatory attention has been directed towards physician-owned healthcare facilities and other arrangements whereby physicians are compensated, directly or indirectly, for referring patients to such healthcare facilities. Furthermore, the market is subject to consolidation among outpatient facilities, physician groups and hospitals. Our source of customers is subject to the effects of regulatory actions and market consolidation.

INVESTMENTS IN FOREIGN AND INITIAL OPERATIONS - In an effort to mitigate the impact of regulation and consolidation and to expand our market, we have initiated operations internationally and have made investments in certain emerging markets. We have a joint venture based in Singapore to service the medical equipment market in the Asia-Pacific region. DVI Europe is our branch established in the United Kingdom to service the medical equipment industry in Europe.

In May 1998, we entered into a joint venture, MSF Holding Ltd., with the International Finance Corporation (an affiliate of the World Bank) ("IFC"), the

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Netherlands Development Finance Company ("FMO"), and Philadelphia International Equities, Inc., a subsidiary of First Union National Corporation. Through MSF Holding Ltd., we provide financing programs for vendors and manufacturers of diagnostic and patient treatment equipment and devices in Latin America, including Brazil, Argentina, Colombia, Venezuela and Mexico. We own 59% of this joint venture holding company that operates through free-trade zone subsidiaries in Uruguay and consolidate its operations in our financial statements. Our customer base for equipment vendors is private clinics, diagnostic centers and local hospitals. Upon commencement of the joint venture, its owners contributed capital of $20.1 million (DVI's portion was $11.8 million). As of June 30, 1999, a syndicate of banks headed by IFC and FMO has loaned the venture $38.0 million and are pursuing other bank participants for additional funds. We believe that this arrangement may prove to be a suitable model for our other international activities.

The success and ultimate recovery of these investments is dependent upon many factors including foreign regulation, customs, currency exchange, the achievement of management's planned projections for these markets, and our ability to manage these operations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION POLICY - The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The equity method of accounting is used for 20%- to 50%-owned entities in which we have the ability to exercise significant influence over operating and financial policies of the investee. Investments in less than 20%-owned entities are accounted for using the cost method of accounting. All significant intercompany accounts and transactions have been eliminated.

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

TRANSLATION ADJUSTMENTS - All assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Revenues, costs and expenses are translated at average rates of exchange prevailing during the period. Translation adjustments are accumulated as a separate component of shareholders' equity. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include highly liquid securities with original maturities of 90 days or less.

RESTRICTED CASH AND CASH EQUIVALENTS - Restricted cash and cash equivalents consist of cash, certificates of deposit and money market mutual funds which are pledged as collateral for certain limited recourse borrowings related to direct financing leases, notes secured by equipment and operating leases. At June 30, 1999 and 1998, we had only available-for-sale securities with maturities less than 90 days, which are included in restricted cash.

INVESTMENT IN DIRECT FINANCING LEASES AND NOTES SECURED BY EQUIPMENT - At contract commencement, we record the gross contract receivable, initial direct costs, estimated residual value of the financed equipment, if any, and unearned income of fixed payment contracts. The principal portion and initial direct costs of variable rate contracts are recorded at commencement, and interest is calculated and accrued monthly on the remaining principal balance. At June 30, 1999 and 1998, unamortized initial direct costs amounted to $9.6 million and $6.6 million, respectively. Initial direct costs are deferred and amortized over the life of the contract using the interest method, which reflects a constant effective yield.

NET GAINS AND RECOURSE CREDIT ENHANCEMENTS - The most important source of permanent funding for contracts has been securitization and other forms of structured finance. Securitization is a process in which a pool of contracts is transferred to a special-purpose financing entity that issues notes to investors. The notes are secured by a pledge of the assets or other collateral in the contract pool. Upon the transfer of the pool of contracts, we recognize a gain. Principal and interest on these notes are paid from the cash flows produced by the contract pool. In the securitizations we sponsor, equipment contracts funded through securitizations must be credit enhanced to receive an investment grade credit rating. Credit enhancement can be provided in a number of ways, including cash collateral, letters of credit, a subordinated tranche of each individual transaction or an insurance policy. Typically, our securitizations are enhanced through a combination of some or all of these methods. In the equipment securitizations we have sponsored to date, we have

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been effectively required to furnish credit enhancement equal to the difference between:

- The total discounted cash flows of the securitization pool and

- The net proceeds we receive in such a securitization.

In the medical receivables securitizations we have sponsored to date, we have furnished credit enhancement through corporate guarantees on the subordinated tranches.

The majority of the credit enhancements are recorded as subordinated interests of the present value of the discounted cash flows and are repaid from their share of those future cash flows.

NET NOTES COLLATERALIZED BY MEDICAL RECEIVABLES - Notes collateralized by medical receivables consist of notes receivable resulting from working capital and other contracts made to entities in the healthcare industry.

RESIDUAL VALUATION - Residual values, representing the estimated value of the equipment at the end of the lease term, are recorded in the financial statements at the inception of each fair market value lease. These amounts are estimated by management based upon its experience and judgment. In addition, we purchase the residual value of equipment leased to local municipalities in the UK. This residual is recorded as either the amount paid to the lessor at the inception of the contract or the present value of the amount that will be paid at the end of the contract's term.

RECEIVABLES IMPAIRMENT - Impaired receivables are measured based on the present value of the expected cash flows discounted at the receivables' effective interest rate or the fair value of the collateral. A receivable is considered impaired when it becomes probable that we will be unable to collect all amounts due according to the contract terms.

ALLOWANCE FOR LOSSES ON RECEIVABLES - The allowance for losses on receivables is available to absorb credit losses in our managed portfolio. Each month we evaluate the adequacy of the allowance to absorb our current estimates of credit losses that have occurred in our managed portfolio. Our evaluation is based on a continuing assessment of the delinquencies, historical loss experience, asset valuations, assessment of collateral and strength of guarantors, and legal options to enforce management changes or sustain legal positions. That evaluation includes estimates that may be significantly affected by changes in economic conditions or discrete events adversely affecting specific obligors. We believe that the allowance is adequate to provide for credit losses.

We generally place receivables contracts on non-accrual status (in which we halt the recognition of income) when they become greater than 90 days delinquent. At that time, we consider the range of remedies available to mitigate a potential loss. Remedies include the pursuit of underlying collateral and guarantors (including recourse to dealers and manufacturers), draws on letters of credit, and protecting our investment by taking control of a medical facility's operations and replacing its existing management. Receivables contracts are charged-off when a loss is considered probable and all reasonable remedies have been pursued. The small delinquent contracts arising from our vendor programs are generally charged-off when they become greater than 120 days delinquent.

EQUIPMENT ON OPERATING LEASES - Leases that do not meet the criteria for direct financing leases are accounted for as operating leases. Equipment on operating leases is recorded at cost and depreciated on a straight-line basis over its estimated useful life. The residual values for operating leases are excluded from the leased equipment's net depreciable basis. We evaluate the residual's carrying value for potential impairment each quarter and record any required changes in valuation. Rental income is recorded monthly on a straight-line basis. Initial direct costs associated with operating leases are deferred and amortized over the lease term on a straight-line basis, which approximates a constant effective yield. There were no writedowns in residual valuation during the year ended June 30, 1999.

FURNITURE AND FIXTURES - Furniture and fixtures are stated at cost less accumulated depreciation and are depreciated using the straight-line method over their estimated useful lives (generally five years).

INVESTMENTS - We account for our investments using either the cost or equity method of accounting. Equity securities classified as available-for-sale securities are reported at their estimated fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of comprehensive income (under shareholders' equity), net of deferred taxes. All debt securities are classified as held-to-maturity and are stated at cost. We do not own investments that are considered trading securities.

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GOODWILL - Goodwill represents the excess purchase price over the fair value of net assets stemming from business acquisitions and is being amortized over periods not exceeding 15 years. We evaluate the recoverability of our goodwill

separately for each applicable business acquisition quarterly. The recoverability of goodwill is determined by comparing the carrying value of the goodwill to the estimated operating income of the related entity on an undiscounted cash flow basis. Should the carrying value of the goodwill exceed the estimated operating income for the expected period of benefit, impairment for the excess is recorded at that time.

OTHER ASSETS - Other assets consist of prepaid financing costs, accrued interest, advances related to our serviced portfolio, equipment held for sale or lease (which is stated at the lower of cost or its net realizable value), and miscellaneous accounts receivable. Also included in this category are loans to officers and employees including the financing of a personal residence.

ACCOUNTS PAYABLE - Accounts payable includes equipment payables for equipment fundings of $60.0 million and $40.8 million at June 30, 1999 and 1998, respectively.

DEBT ISSUANCE COSTS - Debt issuance costs related to our warehouse facilities, securitizations, senior notes, convertible subordinated notes and other debt are offset against the related debt. These costs are being amortized over the lives of the notes using the interest and straight-line methods, as applicable.

AMORTIZATION OF FINANCE INCOME - Amortization of finance income primarily consists of three categories:

- Income on fixed payment transactions,
- Income on variable rate transactions and
- Income on notes collateralized by medical receivables.

The interest component of scheduled payments on notes secured by equipment and direct financing lease fixed-payment transactions is calculated using the interest method in order to approximate a level rate of return on the net investment. The interest component of notes secured by equipment and direct financing lease variable rate transactions is calculated and accrued monthly on the remaining principal balance. The interest component on medical receivables is calculated and accrued monthly on the average balance outstanding during the period.

RECOURSE OBLIGATIONS - Subsequent to a sale, we retain either a limited remaining interest in the transaction or underlying equipment, or none at all. Accordingly, we carry no obligation to indemnify the purchaser in the event of a default on the transaction by the obligor, except when the sale agreement provides for participation in defined excess interest spreads or limited recourse in which we guarantee reimbursement under the agreement up to a specific maximum. Consequently, in case of default by the obligor, the investor would exercise its rights under the lien with limited or no further recourse against us.

OTHER INCOME - Other income is accrued when earned and consists primarily of medical receivables fees, consulting and advisory fees, servicing fees, late charges, amounts received upon exercise of warrants issued by other companies, and contract fees and penalties. See Note 6 for a summary of other income.

TAXES ON INCOME - Deferred taxes on income result from temporary differences between the reporting of income for financial statement and tax reporting purposes. Such differences arise principally from recording gains on sales of financing transactions and lease transactions in which the operating lease method of accounting is used for tax purposes and the financing lease method is used for financial statement purposes. Under the operating lease method, leased equipment is recorded at cost and depreciated over the useful life of the equipment, and lease payments are recorded as revenue when earned.

STOCK OPTIONS - We record no compensation expense for the granting of stock options to our employees and directors. The fair market value of stock options granted to consultants, however, is recorded as an expense over the service or vesting period.

HEDGING INSTRUMENTS - We use various interest rate contracts such as forward rate agreements, Treasury locks, interest rate swaps, caps and collars to manage our interest rate risk from our floating rate liabilities and anticipated

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securitization and sale transactions. No contracts are held for trading purposes. The gains or losses from forward rate agreements that are used to hedge floating rate exposure within warehouse funding facilities are deferred and amortized to interest expense over the hedged period. When hedge transactions are matched to anticipated securitizations that are accounted for as financings, gains or losses from the hedge transactions are deferred and amortized to interest expense over the term of the securitized transactions. When hedge transactions are matched to anticipated sales or securitizations that are accounted for as sales, gains or losses from the hedge transactions are recognized as part of the gain or loss on the sale. Foreign exchange forward contracts are accounted for as hedges of foreign currency. The net gain or loss is recorded as a cumulative translation adjustment in comprehensive income.

Before entering into a derivative transaction for hedging purposes, we determine that a high correlation exists between the change in the value of the hedged item and the change in the value of the derivative from a movement in interest rates. High correlation means that the change in the value of the derivative will be substantially equal and opposite to the change in the value of the hedged asset or liability. We monitor this correlation throughout the hedged period. If a high degree of correlation is not maintained, the hedge becomes ineffective, and gains and losses in the value of the derivative are recognized in income. We manage the credit risk of possible counterparty default in these derivative transactions by dealing exclusively with counterparties with investment grade ratings.

RECENT ACCOUNTING DEVELOPMENTS - In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133, as amended, is effective for all quarters of fiscal years beginning after June 15, 2000 and does not permit retroactive restatement of prior period financial statements. This statement requires the recognition of all derivative instruments as either assets or liabilities in the statement of financial position measured at fair value. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If certain conditions are met, where the derivative instrument has been designated as a fair value hedge, the hedged item may also be marked to market through earnings thus creating an offset. If the derivative is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument may be recorded in comprehensive income. We have not yet quantified the impact on the consolidated financial statements of adopting SFAS No. 133; however, the statement will likely result in a change in reported assets and liabilities and may affect earnings and comprehensive income.

RECLASSIFICATIONS AND RESTATEMENTS - Certain amounts as previously reported have been reclassified to conform to the year ended June 30, 1999 presentation.

NOTE 3. INVESTMENT IN DIRECT FINANCING LEASES AND NOTES SECURED BY EQUIPMENT OR MEDICAL RECEIVABLES AND EQUIPMENT ON OPERATING LEASES

Receivables in installments are due in varying amounts and are collateralized by the underlying equipment, along with obligor guarantees and vendor recourse. Notes collateralized by medical receivables consist of notes receivable resulting from working capital loans and are due at maturity. Scheduled rents on operating leases relate to noncancelable operating leases and are due in installments of varying amounts.

Information regarding scheduled collections for direct financing leases, notes secured by equipment or medical receivables and operating leases is as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS OF DOLLARS) YEAR ENDED JUNE 30,	DIRECT FINANCING LEASES AND NOTES SECURED BY EQUIPMENT OR MEDICAL RECEIVABLES	SCHEDULED RENTS ON OPERATING LEASES	TOTAL RECEIVABLES
<S>	<C>	<C>	<C>
2000	$ 532,715	$ 3,596	$ 536,311
2001	190,818	3,565	194,383
2002	142,116	3,190	145,306
2003	89,086	2,423	91,509
2004	51,477	835	52,312
Thereafter	22,476	334	22,810
Subtotal	1,028,688	13,943	1,042,631
Equipment residual value ...	27,761	--	27,761

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Total	$1,056,449	$ 13,943	$1,070,392

</TABLE>

The total receivables balance is comprised of notes secured by equipment (50.9%), direct financing leases (30.3%), medical receivables (17.5%) and scheduled rents on operating leases (1.3%). We are exposed to credit risk on these receivables. At June 30, 1999, of the 13,430 debtors, the top ten obligors represented 10.83% of the portfolio. Geographic concentration for the top five states was New York (15.6%), California (13.4%), Texas (13.0%), Florida (9.6%) and New Jersey (9.2%). International contracts (those outside the 50 United States), represented 19.5% of the portfolio.

Our contracts in Brazil require that our customers' payments be made in U.S. dollars. The devaluation of the Brazilian real during the first quarter of this year created a burden on our customers' ability to service their debt. Many of them sought concessions in their payment schedules, consisting of either a deferral of the next payment or a lengthening of their schedule by one or two payments. In most cases, we granted these concessions since they were minor and the customers' requests were due to broad economic issues facing Brazil rather than specific customer performance. We granted these concessions in exchange for additional consideration from our customers that preserve our original contract yields. As of June 30, 1999, concessions were made for 43 contracts with total outstanding balances of $27.2 million.

Equipment residual value represents the estimated amount to be received at contract termination from the disposition of equipment financed under fair market value leases. Amounts to be realized at contract termination depend on the fair market value of the related equipment and may vary from the recorded estimate. Carrying values are reviewed periodically to determine if the equipment's anticipated fair market value is below its recorded value.

During the years ended June 30, 1999 and 1998, we sold receivables to third parties realizing gains of $29.8 million and $21.0 million, respectively. In connection with certain of these transactions, we retained subordinated interests in the receivables totaling $62.1 million and $51.9 million at June 30, 1999 and 1998, respectively. Valuations of retained subordinated interest at the date of sale and at each reporting period are based on discounted cash flow analyses using our best estimates of market assumptions. There can be a wide range in market assumptions that are used by participants in the market to value such assets. Accordingly, our estimate of fair value is subjective. Under the sale agreements, we are at risk for losses on the receivables up to our subordinated interests. Once repurchased or substituted such leases are included within our portfolio and are evaluated within the allowance for losses on receivables.

At June 30, 1999, receivables amounting to $421.9 million were assigned as collateral for long-term debt.

The following is an analysis of the allowance for losses on receivables:

<TABLE>
<CAPTION>

	YEAR ENDED JUNE 30,		
(IN THOUSANDS OF DOLLARS)	1999	1998	1997
<S>	<C>	<C>	<C>
Balance, beginning of year	$ 9,955	$ 5,976	$ 4,026
Provision for losses on receivables	6,301	4,735	2,386
Allowance assumed in business acquisition ...	1,368	879	--
Net charge-offs	(5,345)	(1,635)	(436)
Balance, end of year	$ 12,279	$ 9,955	$ 5,976

</TABLE>

The net investment of non-performing contracts, including the managed portfolio, on which income recognition was suspended, was $47.4 million and $22.6 million at June 30, 1999 and 1998, respectively. Cash collected on all non-accrual contracts is applied to the net investment.

NOTE 4. INVESTMENTS

The following represents a summary of investments and related party receivables held as of June 30, 1999 and 1998:

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<TABLE>
<CAPTION>
(IN THOUSANDS OF DOLLARS)

DESCRIPTION OF INVESTEE	TYPE OF INVESTMENT	DATE ACQUIRED	YEAR ENDED JUNE 30, 1999 TOTAL INVESTMENT	TOTAL RECEIVABLES
Operator of radiation therapy centers...	Preferred stock	Mar 1999	$ 7,500	$ 1,808
40%-owned Singapore joint venture.......	Common stock	Nov 1995	2,333	--
Online healthcare transaction processor.	Common stock	Oct 1998	500	--
Other..................................	Various	Various	481	742
Total..			$ 10,814	$ 2,550

</TABLE>

<TABLE>
<CAPTION>
(IN THOUSANDS OF DOLLARS)

DESCRIPTION OF INVESTEE	TYPE OF INVESTMENT	DATE ACQUIRED	YEAR ENDED JUNE 30, 1998 TOTAL INVESTMENT	TOTAL RECEIVABLES
Operator of radiation therapy centers...	N/A	N/A	$ --	$ 808
40%-owned Singapore joint venture.......	Common stock	Nov 1995	2,635	--
Imaging services.......................	Preferred stock	Sep 1994	4,482	5,755
Other..................................	Common stock	Various	3	--
Total..			$ 7,120	$ 6,563

</TABLE>

In June 1999, we purchased a lien on a customer's surgery center for $228,000. In addition, in April 1999, we purchased convertible debentures in an operator of wound care centers for $250,000. We also acquired preferred stock of an operator of radiation therapy centers for $7.5 million in March 1999. In October 1998, we purchased a minority equity interest in Claimsnet.com for $500,000.

As of June 30, 1998 we had an investment in the Series F and G preferred stock of Diagnostic Imaging Services ("DIS") and cumulative deferred dividends related to that stock totaling $5.1 million. As part of an overall restructuring of their equipment contracts and other indebtedness to us, DIS repurchased their stock and paid the dividends in December 1998.

The Series F and G preferred stock:

- Had liquidation preferences at $1.00 per share;
- Was redeemable (at the option of DIS) at $1.00 per share plus accrued dividends;
- Was convertible, under certain conditions, into common stock of DIS at $2.482 per share for Series F and $2.00 per share for Series G and
- Was entitled to annual cumulative dividends ranging from $0.05 per share to $0.10 per share.

During the year ended June 30, 1996, we converted a note receivable totaling $541,000 into shares of outstanding stock of EQ Computer Products and Services ("CP&S"), which deals in the distribution of parts and components used in the repair and maintenance of microcomputer and associated peripherals. CP&S sells to various computer maintenance firms, independent computer service organizations and original equipment manufacturers throughout the United States engaged in the maintenance and repair of their own computer equipment as well as equipment manufactured by others. During the year ended June 30, 1997, CP&S issued additional shares and had a reverse stock split. As of June 30, 1997, we had 273,773 shares or 14.25% of the outstanding stock of CP&S. We accounted for the investment in this entity under the cost method of accounting since we did not exert significant influence over them. On June 30, 1998, we sold our entire investment in CP&S for an insignificant gain.

In November 1995, we entered into a joint venture with two other partners to

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establish Medical Equipment Credit Pte Ltd. ("MEC"). MEC pursues opportunities in the Asia-Pacific diagnostic imaging marketplace. Initial capitalization of MEC is 7,000,000 shares of common stock ($5.0 million), and ownership is based on the percentage of the initial capitalization invested by each of the three joint venture partners. At June 30, 1999, our ownership was 40% based on an initial $2.0 million investment. We account for our investment in MEC under the equity method of accounting. At June 30, 1999, 1998 and 1997, we recognized losses of approximately $353,000, $439,000, and $231,000, respectively, on this investment. See Note 19 for a discussion of our July 1999 ownership increase in MEC.

NOTE 5. INTEREST BEARING DEBT

WAREHOUSE FACILITIES - The following summarizes our warehouse lines of credit at June 30, 1999:

<TABLE>
<CAPTION>

(IN MILLIONS OF DOLLARS)

TYPE OF FACILITY	COUNTRY	LINE OF CREDIT	RATE AT JUNE 30, 1999 (1)	MATURITY DATE
Equipment	U.S.	$ 117.0	LIBOR + 1.25%	2/27/2000
Equipment	U.S.	100.0	LIBOR + 1.00%	4/19/2000
Equipment	U.S.	100.0	LIBOR + 0.80%	3/31/2000
Equipment	U.S.	5.0	Prime - 0.25%	12/31/1999
Assisted Living	U.S.	22.5	LIBOR + 1.85%	9/28/1999
		344.5		
Equipment	Australia	6.7	LIBOR + 1.25%	8/31/1999
Equipment	Europe	10.0	LIBOR + 1.25%	9/15/2000
Equipment	Germany	9.3	LIBOR + 1.25%	3/31/2000
Equipment	U.K.	31.5	LIBOR + 1.00%	1/22/2001
		57.5		
Medical Receivables	U.S.	95.0	LIBOR + 1.45%	8/31/1999
Medical Receivables	U.S.	25.0	LIBOR + 2.15%	9/29/1999
		120.0		
Total lines of credit........		$ 522.0		

</TABLE>

----

(1) The LIBOR (or country equivalent) rates charged under our lines of credit ranged from 5.03% to 5.65% at June 30, 1999. The Prime rate was 7.75% at June 30, 1999.

LONG-TERM DEBT - The discounted receivables are direct financing lease obligations, notes secured by equipment and medical receivables which were securitized and offered to investors primarily on a limited or nonrecourse basis. They are collateralized by the underlying equipment and medical receivables.

Future annual maturities of discounted receivables are as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS OF DOLLARS)

YEAR ENDED JUNE 30,	
2000..	$ 106,435
2001..	127,262
2002..	27,007
2003..	12,715
2004..	2,498
Thereafter..	643
Less: capitalized issuance costs.........................	(5,739)

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Total	$ 270,821

</TABLE>

All of the discounted receivables have been permanently funded through nine structured transactions that were initiated during fiscal years 1995 through 1999. Debt under these securitizations is limited recourse and bears interest at fixed rates ranging between 5.24% to 12.85% and floating interest rates ranging between 0.35% and 2.25% over 30-day LIBOR. We service all of these receivables. The related securitization agreements contain various recourse provisions and require that we comply with certain servicing requirements and maintain limited cash collateral or residual interests.

Effective July 31, 1996, we securitized some of our net retained subordinated positions in our prior securitizations and contract sales. The outstanding balance, net of unamortized capitalized issuance costs, is $8.3 million at June 30, 1999. This amount is included in the above discounted receivables figures.

We have net convertible subordinated notes outstanding of $13.6 million and $13.4 million at June 30, 1999 and 1998, respectively. The notes are convertible into common shares at $10.60 per share at the discretion of the noteholders, bear interest at a rate of 9 1/8% payable in quarterly installments of interest only and mature in June 2002. There were no conversions in fiscal years 1999 and 1998. During the year ended June 30, 1997, $600,000 of these notes was converted into 56,603 shares of DVI common stock. Cumulatively, $1.1 million of these notes have been converted into 103,772 shares of DVI common stock.

On January 30, 1997, we completed a public offering of $100.0 million principal amount of 9 7/8% Senior Notes due 2004 ("Senior Notes"). The agreement with respect to the Senior Notes contains, among other things, limitations on our ability to pay dividends and to make certain other kinds of payments. That agreement also prohibits us from incurring additional indebtedness unless certain financial ratio tests are met. Interest on the notes is payable semiannually on February 1 and August 1 of each year. The Senior Notes will be redeemable at our option in whole or in part at any time on or after February 1, 2002 at specified redemption prices. On December 16, 1998, we completed another public offering of $55.0 million principal amount of 9 7/8% Senior Notes due 2004 under substantially the same terms.

We are using the proceeds from these debt offerings:

- To fund our growth, including increasing the amount of equipment and medical receivables contracts we can fund;
- To develop our expanding international operations;
- For other working capital needs and
- For general corporate purposes.

We have facilities totaling $7.4 million outstanding with a foreign bank to fund a portfolio of equipment contracts in Turkey and another $10.0 million outstanding from an unsecured facility for general corporate purposes.

In addition, we have investment agreements with two shareholders, IFC and FMO, which provide for the borrowing of $15.0 million and $10.0 million respectively. Borrowings under this loan bear interest at 2.75% over the six-month LIBOR rate, payable semiannually in arrears. Full principal loan repayment is due May 15, 2005. This loan is secured by granting perfected and registered first priority security interest of all lease/loan receivables assigned to IFC and FMO.

The agreements also provide for syndicated borrowings from IFC and FMO, for which we had $13.0 million outstanding at June 30, 1999. Borrowings under this loan bear interest at 3.25% over the six-month LIBOR rate, payable semiannually in arrears. Principal loan repayment commences on November 15, 2000 and is to be paid in full on November 15, 2003. This loan is secured by granting perfected and registered first priority security interest of all lease/loan receivables assigned to IFC and FMO.

As of June 30, 1999, we were in compliance with the financial covenants of these agreements.

The following chart summarizes interest-bearing credit facilities as of June 30, 1999 and 1998:

<TABLE>
<CAPTION>

	AS OF JUNE 30, 1999	AS OF JUNE 30, 1998

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(IN THOUSANDS OF DOLLARS)	MATURITY	BALANCE	RATE	BALANCE	RATE
SHORT-TERM DEBT:					
Warehouse facilities (1)..	1999-2001	$ 269,923	6.77%	$ 82,828	7.71%
LONG-TERM DEBT:					
Discounted receivables....	2002-2005	$ 270,821	8.26%	$ 342,120	8.02%
9 7/8% Senior notes.......	2004	148,085	11.36%	96,486	10.90%
Other debt................	2001-2005	54,614	9.35%	15,808	8.38%
Convertible sub debt......	2002	13,553	10.22%	13,439	10.30%

----

(1) $521,993 and $498,208 were available at June 30, 1999 and 1998, respectively.

NOTE 6. OTHER INCOME

The following represents a summary of the major components of other income:

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999	1998	1997
Medical receivables fees	$ 4,661	$ 3,752	$ 1,953
Consulting and advisory fees	3,774	172	1
Service fee income	3,135	2,317	1,482
Late fees	1,917	1,561	966
Income received upon exercise of customer warrants	1,740	696	--
Contract fees and penalties	1,234	434	947
Commitment and referral fees	524	105	--
Gains from asset disposals	201	350	133
Contract placement fees	174	352	--
Preferred stock dividends received on investments	134	225	224
Miscellaneous	2,513	1,059	1,093
Total other income	$20,007	$11,023	$ 6,799

NOTE 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following represents a summary of the major components of selling, general and administrative expenses:

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999	1998	1997
Salaries and benefits.............................	$14,308	$ 7,433	$ 5,276
Outside services..................................	6,018	4,191	2,860
Travel and entertainment..........................	2,070	1,495	868
Building costs....................................	2,139	1,034	790
Equipment...	2,860	2,063	1,593
Other...	4,134	2,277	2,730
Total SG&A..	$31,529	$ 18,493	$ 14,117

NOTE 8. INCOME TAXES

The provision for income taxes is comprised of the following:

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999	1998	1997

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<S>

Current taxes (refundable)	$(3,083)	$ (1,539)	$ 2,766
Foreign	1,161	399	--
Deferred	17,303	10,861	3,865
Total	$15,381	$ 9,721	$ 6,631

</TABLE>

A reconciliation of the provision for income taxes to the amount of income tax expense that would result from applying the federal statutory rate (35%) to earnings from continuing operations is as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999 $	1999 %	1998 $	1998 %	1997 $	1997 %
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Provision for income taxes at the federal statutory rate ...	12,267	35.0	7,896	35.0	5,318	35.0
State income taxes, net of federal tax benefit	1,676	4.8	1,023	4.5	850	5.6
Foreign taxes, net of federal tax benefit	755	2.2	259	1.1	--	--
Limitation on utilization of foreign losses	503	1.4	332	1.5	--	--
Other	180	0.5	211	0.9	463	3.0
Total	15,381	43.9	9,721	43.0	6,631	43.6

</TABLE>

Earnings before minority interest, equity in net loss of investees, and provision for income taxes consist of the following:

<TABLE>
<CAPTION>

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999	1998	1997
<S>	<C>	<C>	<C>
Domestic	$34,261	$ 21,783	$ 15,040
Foreign	670	1,109	435
Total	$34,931	$ 22,892	$ 15,475

</TABLE>

The major components of our net deferred tax liabilities of $36.7 million and $19.4 million at June 30, 1999 and 1998, respectively, are as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999	1998
<S>	<C>	<C>
Accumulated depreciation	$ 34,913	$ 30,576
Deferred gain on financing transactions	17,871	8,955
Loss on hedging activities	1,376	1,397
Other	834	259
Total deferred tax liability	$ 54,994	$ 41,187
Deferred recognition of lease income	$ 11,106	$ 16,086
Allowance for losses on receivables	3,792	3,584
State income taxes	1,447	1,004
Other	1,953	1,120
Total deferred tax asset	$ 18,298	$ 21,794
Total net deferred tax liability	$ 36,696	$ 19,393

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=========   =========

</TABLE>

NOTE 9. SHAREHOLDERS' EQUITY

During fiscal year 1998, we issued 300,000 shares of our common stock in a private offering and 2,640,000 shares in a public offering for which we received net proceeds of $4.9 million and $53.1 million, respectively. The net proceeds were used:

- To fund our growth, including increasing the amount of equipment and medical receivables contracts we can fund;
- To develop our expanding international operations;
- For other working capital needs and
- For general corporate purposes.

The 400,000 shares for the 1995 MEFC acquisition were issued in June 1998 and registered in January 1999.

In March 1998 and October 1997, we issued options to purchase a total of 75,000 and 50,000 common shares at $15.00 and $15.3125 per share, respectively, to directors of the Company. We record no compensation expense on these transactions and the options vest at various dates through August 2000 and expire in March 2008.

In November 1997, we acquired a healthcare-based merchant funding group whose key product offerings are private debt placement, loan syndication, bridge and subordinated debt financing, and mortgage loan arrangement for clients operating in the long term/assisted care and specialized hospital markets. We issued 84,011 shares of our common stock for the acquisition at a price of $18.45 per share. The transaction was accounted for as a pooling of interests and, therefore, all prior financial statements presented have been restated as if the merger took place at the beginning of such periods. The shares were allocated to the four companies as follows:

<TABLE>
<CAPTION>

COMPANY	PERIOD AFFECTED	NUMBER OF SHARES ISSUED
<S>	<C>	<C>
J. G. Wentworth Securities, Inc.........	Fiscal 1995	42,005
J. G. Wentworth Mortgage Funding LP.....	Fiscal 1997	27,100
J. G. Wentworth Partners LP............	Fiscal 1997	10,840
J. G. Wentworth Partners, Inc...........	Fiscal 1997	4,066
Total...		84,011

</TABLE>

In June 1997, we granted options to purchase 100,000 shares DVI common stock at an exercise price of $13.50 per share as compensation to a financial advisory firm. The options will vest on a pro-rata basis over a twenty-four month period, or 4,167 shares per month. The options are exercisable for a period of five years from the date of grant.

Prior to June 30, 1994, we issued warrants to purchase a total of 80,000 common shares at prices between $7.625 and $8.375 per share to all directors. During fiscal 1999, 20,000 shares at $7.625 were exercised. During fiscal 1998, 10,000 shares at $8.375 and 10,000 at $7.625 were exercised. The 20,000 warrants still outstanding at June 30, 1999 are fully vested and will expire on October 16, 2000.

In June 1994, we issued convertible subordinated notes to related and unrelated parties which are convertible at the option of the holder into 1,415,094 shares of common stock at $10.60 per share. There were no conversions to common stock during fiscal years 1999 and 1998. During the year ended June 30, 1997, $600,000 of these notes was converted into 56,603 shares of common stock. As of June 30, 1999, cumulative conversions of these notes were $1.1 million into 103,772 shares of common stock.

NOTE 10. STOCK OPTION PLAN AND INCENTIVE AGREEMENT

We had a stock option plan from August 1986 that provided for the granting of options to employees to purchase up to 1,250,000 shares of our common stock at

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the fair market value at the date of grant. Options granted under this plan generally vest over three to five years from the date of grant and expire ten years after the date of the grant. Any unexercised options are canceled 90 days after the termination of the employee and are returned to the plan. This plan expired in August 1996.

Our current stock option plan, effective August 1996, provides for the granting of options to employees, consultants and directors to purchase up to 1,500,000 shares of our common stock at the fair market value at the date of grant. Consistent with the plan, options in excess of 1,500,000 were approved by the Board of Directors and granted both before and after June 30, 1999, subject to shareholder approval at our next annual meeting. Options granted under this plan generally vest over three to five years from the date of grant and expire ten years after the date of the grant. Any unexercised options are canceled 90 days after the termination of the employee and are returned to the plan. This plan will expire in August 2006.

The following table summarizes the activity under the plans for the periods indicated:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
<S>	<C>	<C>	<C>
Outstanding at July 1, 1996..................	627,209	$ 1.75 - $ 13.13	$ 9.17
Granted.....................................	291,500	12.75 - 14.63	14.05
Exercised...................................	(40,875)	5.00 - 10.38	7.56
Canceled....................................	(8,534)		
Outstanding at June 30, 1997................	869,300	$ 1.75 - $ 14.63	$ 10.85
Granted.....................................	653,000	14.44 - 25.06	16.71
Exercised...................................	(109,499)	1.75 - 15.31	7.94
Canceled....................................	(1,350)		
Outstanding at June 30, 1998................	1,411,451	$ 4.06 - $ 25.06	$ 13.79
Granted.....................................	795,800	13.94 - 22.50	15.94
Exercised...................................	(68,250)	5.00 - 18.06	12.79
Canceled....................................	(81,368)	15.19 - 22.00	20.37
Outstanding at June 30, 1999................	2,057,633	$ 4.06 - $ 25.06	$ 14.41

</TABLE>

The following table summarizes stock options outstanding at June 30, 1999:

<TABLE>
<CAPTION>

RANGE OF EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVG. REMAINING CONTRACTUAL LIFE (YEARS)
<S>	<C>	<C>	<C>	<C>	<C>
$ 4.06 - $ 9.13	262,150	$ 7.81	262,150	$ 7.81	4
10.38 - 13.50	304,184	12.80	292,516	12.80	4
13.88 - 15.19	169,667	14.54	94,495	14.53	8
15.31 - 15.31	441,432	15.31	163,858	15.31	8
15.50 - 15.50	652,700	15.50	400	15.50	9
15.75 - 20.63	210,500	18.84	35,329	19.04	9
21.13 - 22.50	7,000	22.11	666	21.13	9
25.06 - 25.06	10,000	25.06	3,333	25.06	9
	2,057,633	$ 14.41	852,747	$ 12.25	7

</TABLE>

If compensation cost for our stock option plan had been determined based on the fair value at the date of awards consistent with the fair value method described in SFAS No. 123, our net income, basic earnings per share, and diluted earnings per share would be reduced to the following proforma amounts at June 30, 1999,

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1998 and 1997:

(IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)	YEAR ENDED JUNE 30, 1999	1998	1997
Net income	$17,000	$ 12,000	$ 8,700
Basic earnings per share	$ 1.21	$ 1.05	$ 0.78
Diluted earnings per share	$ 1.13	$ 0.97	$ 0.70

Significant assumptions used to calculate the fair value of awards for June 30, 1999, 1998 and 1997 are as follows:

	YEAR ENDED JUNE 30, 1999	1998	1997
Weighted average risk-free rate of return	5.4%	6.0%	6.3%
Expected option life (in months)	60	60	60
Expected volatility	63%	38%	32%
Expected dividends	-	-	-

We have an employee incentive agreement ("Agreement"). Under this Agreement, we have agreed, subject to the discretion of our Compensation Committee, to issue from time to time an aggregate of not more than 200,000 shares of DVI common stock ("Incentive Shares") to certain of our employees. Eligible employees must be employed by us during the above-described 30-day period in order to receive any Incentive Shares. When issuing shares under these conditions, we will record compensation expense equal to the fair value of the common shares issued at the date the Compensation Committee awards the shares.

NOTE 11. RECONCILIATION OF EARNINGS PER SHARE CALCULATION

(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)	YEAR ENDED JUNE 30, 1999	1998	1997
BASIC			
Income available to common shareholders	$19,668	$12,858	$ 8,563
Average common shares	14,108	11,464	10,968
Basic earnings per common share	$ 1.39	$ 1.12	$ 0.78
DILUTED			
Income available to common shareholders	$19,668	$12,858	$ 8,563
Effect of dilutive securities:			
Convertible debentures	736	736	736
Diluted income available to common shareholders	$20,404	$13,594	$ 9,299
Average common shares	14,108	11,464	10,968
Effect of dilutive securities:			
Warrants	12	97	29
Options	255	374	179
Convertible debentures	1,311	1,311	1,311
Diluted average common shares	15,686	13,246	12,487

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Diluted earnings per common share	$ 1.30	$ 1.03	$ 0.74

</TABLE>

NOTE 12. RELATED PARTY TRANSACTIONS

Our principal executive offices located in Doylestown, Pennsylvania are leased from a party related to a shareholder and director of the Company. The lease commenced in December 1994 and we recorded rent expense under this lease of $447,074, $322,229, and $242,510 for the years ended June 30, 1999, 1998, and 1997, respectively. We are currently negotiating the lease of a new, larger principal office that we will lease from the same related party.

At June 30, 1999 and 1998, receivables in installments from entities in which we have an interest totaled $2.6 million and $6.6 million, respectively.

As of June 30, 1999 and 1998, we had loans receivable from Company officers and employees totaling $912,387 and $550,000, respectively.

In April 1999, we purchased convertible debentures in Diversified Therapy for $250,000. In March 1999, we acquired preferred stock of U.S. Cancer Care for a total of $7.5 million.

As of June 30, 1998 we had an investment in the Series F and G preferred stock of DIS and cumulative deferred dividends related to that stock totaling $5.1 million. As part of an overall restructuring of their equipment contracts and other indebtedness to us, DIS repurchased their stock and paid the dividends in December 1998.

As of June 30, 1999 and 1998, we had convertible subordinated notes at an unamortized cost totaling $9.6 million to related parties.

NOTE 13. COMMITMENTS AND CONTINGENCIES

FACILITY LEASES - We lease our facilities under noncancelable operating leases with terms in excess of one year. The lease for our principal facility expires in August 2007. We are currently negotiating the lease of a new, larger principal office. Construction is scheduled to be completed by April 2000, and we anticipate commencing the lease in May 2000. Rent expense for all of our domestic and international office space for the years ended June 30, 1999, 1998 and 1997 amounted to approximately $1.8 million, $0.9 million and $0.7 million, respectively. Future minimum lease payments under these leases are as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS OF DOLLARS)

YEAR ENDED JUNE 30,	FUTURE MINIMUM LEASE PAYMENTS
2000	$ 1,973
2001	2,168
2002	1,862
2003	1,656
2004	1,458
Thereafter	6,922
Total	$ 16,039

</TABLE>

CONTINGENCIES - Under certain limited recourse agreements, we may be required to provide for losses incurred on uncollected lease and medical receivables previously securitized. At June 30, 1999, the maximum contingent liability under the limited recourse agreements amounted to $62.1 million. This contingent liability, however, could be offset by any proceeds received from the resale or remarketing of available equipment financed under the agreements or outstanding medical receivables collected.

We have $320.0 million available under two facilities with the option to sell to each certain equipment contracts. As of June 30, 1999, $286.8 million was sold to these facilities. Our obligations under these facilities include servicing of the assets and assisting the owners in the securitization of the assets if the owners choose to do so.

We have credit lines of $6.2 million available from four foreign banks, of which $4.9 million was used as of June 30, 1999 to provide for the future payment of guarantees made by DVI Europe, a branch office of DVI Financial Services. We record the present value of the future obligation as an asset within receivables

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and the corresponding liability within other liabilities at the date the guarantee is assumed. At June 30, 1999, the present value recorded for these guarantees was $3.6 million.

We had receivables from and investments in U.S. Cancer Care ("USCC") aggregating $9.3 million at June 30, 1999. Management has reviewed the value of the collateral that secures the contracts to USCC and is confident that there is sufficient collateral to cover contracts outstanding.

As of June 30, 1999 we had unfunded contract commitments of $205.6 million.

LITIGATION - We are involved in litigation both as a plaintiff and as defendant in matters arising out of our normal business activities. Management does not expect the outcome of these lawsuits to have a material adverse effect on our consolidated financial statements.

NOTE 14. BENEFIT PLANS

We maintain and administer an Employee Savings Plan ("Plan") pursuant to Internal Revenue Code Section 401(k). The Plan provides for discretionary contributions as determined by our Board of Directors. Substantially all full-time employees are eligible to participate. Each eligible employee can contribute up to 17% of his/her base salary up to a maximum of $10,000 per year. The Plan also provides for Company matching of employee contributions. Prior to January 1, 1999, this Company matching was 40% up to $500 per employee per year. Effective January 1, 1999, the Company matching is 25% up to $2,500 per employee per year. Company contributions to the Plan totaled $196,000, $60,000 and $60,000 during the years ended June 30, 1999, 1998 and 1997, respectively.

NOTE 15. ACQUISITIONS

In November 1997, we acquired a healthcare-based merchant funding group whose key product offerings are private debt placement, loan syndication, subordinated debt, bridge financing and mortgage loan arrangement for clients operating in the long term, assisted care and specialized hospital markets. The group included J. G. Wentworth Partners, Inc., J. G. Wentworth Partners, LP; J. G. Wentworth Mortgage Funding, LP; and J. G. Wentworth Securities, Inc. (collectively, "Wentworth"). We issued 84,011 shares of our common stock for the acquisition at a price of $18.45 per share. The transaction was accounted for as a pooling of interests and, therefore, all prior financial statements presented have been restated as if the merger took place at the beginning of such periods.

Separate results of operations for the periods prior to the merger are as follows:

(IN THOUSANDS OF DOLLARS)	FOUR MONTHS ENDED OCTOBER 31, 1997	YEAR ENDED JUNE 30, 1997
TOTAL FINANCE AND OTHER INCOME:		
DVI, Inc.	$ 21,385	$ 55,971
Wentworth	632	363
Total	$ 22,017	$ 56,334
NET EARNINGS:		
DVI, Inc.	$ 2,389	$ 8,941
Wentworth	12	(378)
Total	$ 2,401	$ 8,563

In June 1998, we acquired for cash a 99% partnership interest in and certain assets of Third Coast Venture Lease Partners I, L.P. ("TCC"), for $9.3 million for which no goodwill was recorded. TCC is a Chicago-based venture leasing operation, founded in 1996, which provides asset-backed financing to emerging growth companies for their key operating assets through lease lines of credit and other financial structures. The purchase price was allocated to individual assets based on estimates of their fair market value. The acquired assets were included in our balance sheet as of June 30, 1998 with no effect on operating statements. Had the purchase of TCC occurred two years prior, its revenue and net earnings would have had an immaterial effect on the consolidated results of

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our operations for fiscal years 1998 and 1997. In February 1999, we purchased the remaining partnership interest in TCC resulting in goodwill of $0.9 million.

In September 1998, we acquired for cash substantially all the assets and retained all of the employees of a "small ticket" medical equipment financing business, referred to as DVI Strategic Partner Group ("DVI SPG"), formerly known as Affiliated Capital, from Irwin Financial Corporation. We paid $77.5 million for this acquisition. DVI SPG is a Chicago-based medical equipment leasing company that was founded 16 years ago. At the time of purchase, it employed 39 people operating in five regional sales offices and generated new lease transactions through 27 vendor relationships. DVI SPG had approximately 8,700 customer contracts involving doctors and dentists with an original average equipment cost of $15,000. Had the purchase of DVI SPG occurred at the beginning of fiscal 1998, our total finance and other income would have been $83.5 million and net earnings would have been $12.8 million.

In addition, in September 1998, we purchased Healthcare Technology Solutions ("HTS"), a custom software design firm that has been providing software and services to the healthcare industry for approximately 20 years. HTS specializes in accounts receivable analysis software designed for financial services companies and accounts receivable collection software designed for healthcare providers.

NOTE 16. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Following is a summary of the estimated fair value of our consolidated financial instruments at June 30, 1999 and 1998. We determined these estimated fair value amounts using available market information and appropriate valuation methodologies such as market quotations and discounting expected cash flows using current market rates. For short-term and floating rate instruments, the carrying values approximate fair value. Considerable judgment is necessary to interpret market data to develop the estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein were based on information available as of June 30, 1999 and 1998. Although we are not aware of any factors that would significantly affect the estimated fair values, such values have not been updated since June 30, 1999; therefore, current estimates of fair value may differ significantly from the amounts presented herein.
All instruments we hold are classified as other than trading.

(IN MILLIONS OF DOLLARS)

YEAR ENDED JUNE 30, 1999	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Assets:		
Cash and cash equivalents	$ 5.7	$ 5.7
Restricted cash and cash equivalents	36.7	36.7
Amounts due from portfolio sale	7.8	7.8
Receivables in installments (excluding investment in direct financing leases)	389.8	380.3
Notes collateralized by medical receivables	191.8	191.8
Recourse credit enhancements	62.1	58.0
Liabilities:		
Borrowings under warehouse facilities	$ 270.4	$ 270.4
Discounted receivables	276.6	277.3
Senior notes	155.0	150.4
Other debt	56.6	56.4
Convertible subordinated notes	13.9	22.5

YEAR ENDED JUNE 30, 1998	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Assets:		
Cash and cash equivalents	$ 15.2	$ 15.2
Restricted cash and cash equivalents	47.6	47.6
Receivables in installments (excluding investment in direct financing leases	289.5	289.6
Notes collateralized by medical receivables	141.0	141.0
Recourse credit enhancements	51.9	51.9
Liabilities:		

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Borrowings under warehouse facilities	$ 83.1	$ 83.1
Discounted receivables	349.3	351.4
Senior notes	100.0	100.0
Other debt	16.0	16.0
Convertible subordinated notes	13.9	13.9

</TABLE>

The methods and assumptions used to estimate the fair values of other financial instruments are summarized as follows:

CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND CASH EQUIVALENTS AND AMOUNTS DUE FROM PORTFOLIO SALE - Due to their short-term nature, the carrying values of cash and its equivalents approximates fair value.

RECEIVABLE IN INSTALLMENTS - The fair value of the financing contracts was estimated by discounting expected cash flows using the current rates at which contracts of similar fixed-rate credit quality, size and remaining maturity would be made as of June 30, 1999 and 1998. We believe that the risk factor embedded in the entry-value interest rates applicable to performing contracts for which there are no known credit concerns results in a fair valuation of such contracts on an entry-value basis. The fair value of the floating rate contracts was estimated at carrying value. In accordance with SFAS 107, we excluded receivables from lease contracts of approximately $328.3 million and $231.0 million as of June 30, 1999 and 1998, respectively, from the receivable in installments fair value calculation.

RECOURSE CREDIT ENHANCEMENTS - The fair value of the recourse credit enhancements was determined by discounting the expected future cash flows using current rates for similar credit quality and remaining maturity. At June 30, 1998, the fair value was estimated at carrying value.

NOTES COLLATERALIZED BY MEDICAL RECEIVABLES - Due to their floating rate nature, the carrying value of notes collateralized by medical receivables approximates fair value.

BORROWINGS UNDER WAREHOUSE FACILITIES - The carrying values of the warehouse borrowings estimate fair value due to their short-term nature and floating rates.

DISCOUNTED RECEIVABLES - The fair value of discounted receivables, related to the securitization of contracts, was estimated by discounting future cash flows using rates currently available for debt with similar terms and remaining maturities, except for floating rate securitizations in which the carrying value approximates fair value.

OTHER DEBT, SENIOR NOTES AND CONVERTIBLE SUBORDINATED NOTES - The fair value of other debt was estimated at the incremental current market borrowing rate. The fair values of the senior notes and convertible subordinated notes were determined based on their quoted market prices. At June 30, 1998, the fair values were estimated at carrying value.

DERIVATIVE FINANCIAL INSTRUMENTS - We use off-balance sheet derivative financial instruments to hedge interest rate risk. Our interest rate risk is associated with variable rate funding of the fixed rate contracts and the timing difference between temporary funding through the warehouse and permanent funding through either securitization or sale.
We use derivatives to manage three components of this interest rate risk:

- Interest sensitivity adjustments,
- Pricing of anticipated contract securitizations and sales and
- Interest rate spread protection.

In addition, we have foreign currency exposures in our international operations due to lending in some areas in local currencies. As a general practice, we have not hedged the foreign exchange exposure related to either the translation of overseas earnings into U.S. dollars or the translation of overseas equity positions back to U.S. dollars. Our preferred method for minimizing foreign currency transaction exposure is to fund local currency assets with local currency borrowings. For specific local currency-denominated receivables or for a portfolio of local currency-denominated receivables for a specific period of time, hedging with derivative financial instruments may be necessary to manage the foreign currency exposure derived from funding in U.S. dollars.

The following represents a summary of derivative financial instruments held at June 30, 1999 and 1998:

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	JUNE 30, 1999		
	NOTIONAL AMOUNT	FAIR VALUE	DEFERRED GAINS/(LOSSES)
Treasury locks	$ 400.0 million	$ 609,332	$ 773,440
Swaps	15.0 million	27,442	--
Options	100.0 million	(24,254)	--
Foreign exchange cross currency interest rate swap	7.2 million	596,000	--
Foreign exchange forward rate agreements	6.7 million	183,395	--
Foreign exchange interest rate swap	2.4 million	(178)	--

	JUNE 30, 1998		
	NOTIONAL AMOUNT	FAIR VALUE	DEFERRED GAINS/(LOSSES)
Swaps	$ 23.5 million	$ (21,397)	$ --
Options	150.0 million	(107,398)	(443,559)
Foreign exchange cross currency interest rate swap	4.2 million	36,650	(10,000)

Credit risk exists for these derivative instruments since a counterparty for any of these instruments may fail to make required payments in our favor. We seek to manage the credit risk of possible counterparty default in these derivative transactions by dealing exclusively with counterparties with investment grade ratings. The fair value of the derivative positions was determined by market dealers using appropriate valuation methodologies.

SWAPS - Interest rate swaps are used to reduce the impact of rising interest rates in certain contract sale facilities where the cash flows from the contracts sold are at fixed rates but the borrowing costs are at variable rates. Our swaps pay fixed rates of 3.7% to 5.84% and receive LIBOR (or a country's equivalent) rates ranging from three to six months.
The swaps mature through October 2004.

FORWARDS AND OPTIONS - Treasury locks and collars are used to hedge the interest rate risk on anticipated contract securitizations and sales. Treasury lock and collar transactions lock in specific rates and a narrow range of rates, respectively, of Treasury notes having maturities comparable to the average life of the anticipated securitizations and sales. The open positions at June 30, 1999 are for securitizations and sales expected to occur in the first and second quarters of fiscal 2000. We deferred $1.3 million in losses associated with securitized transactions in fiscal years 1999 and 1998. We recognized losses on securitized transactions of $2.6 million, $0.2 million, and $0.1 million for the years ended June 30, 1999, 1998 and 1997, respectively.

FOREIGN EXCHANGE FORWARD CONTRACTS - We have international operations and foreign currency exposures at some of these operations due to lending in local currencies. As a general practice, we have not hedged the foreign exchange exposure related to either the translation of overseas earnings into U.S. dollars or the translation of overseas equity positions back to U.S. dollars. Foreign exchange forward contracts are used to hedge the amount receivable to the U.S. parent for specific portfolios in German deutsche marks and Spanish pesetas. At June 30, 1999, we had $11.4 million in forward contracts and cross-currency interest rate swaps for deutsche marks. We also had $2.5 million in forward contracts for Spanish pesetas and $2.4 million in an interest rate swap for Australian dollars. These foreign exchange forward contracts are accounted for as hedges of foreign currency.

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED AND NOT REVIEWED)

The following is a summary of the quarterly results of operations for the fiscal years ended June 30, 1999 and 1998:

	FISCAL YEAR 1999			
	THREE MONTHS ENDED			
(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30

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<S> <C> <C> <C> <C>

Finance and other income	$ 21,815	$ 25,664	$ 26,611	$ 29,708
Net finance income	16,126	18,101	18,385	20,149
Earnings before minority interest, equity in net loss of investees, and provision for income taxes	7,975	8,428	8,681	9,847
Net earnings	4,544	4,823	4,943	5,358
Net earnings per common and common equivalent share - basic	$ 0.32	$ 0.34	$ 0.35	$ 0.38
Net earnings per common and common equivalent share - diluted	$ 0.30	$ 0.32	$ 0.33	$ 0.35

</TABLE>

<TABLE>
<CAPTION>

	FISCAL YEAR 1998			
	THREE MONTHS ENDED			
(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30
<S>	<C>	<C>	<C>	<C>
Finance and other income	$ 16,134	$ 18,477	$ 19,486	$ 20,258
Net finance income	9,530	11,477	11,566	13,547
Earnings before minority interest, equity in net loss of investees, and provision for income taxes	4,752	5,338	5,488	7,314
Net earnings	2,590	3,014	3,365	3,889
Net earnings per common and common equivalent share - basic	$ 0.23	$ 0.27	$ 0.30	$ 0.32
Net earnings per common and common equivalent share - diluted	$ 0.22	$ 0.25	$ 0.27	$ 0.29

</TABLE>

NOTE 18. SEGMENT REPORTING

In June 1999, we adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the reporting of operating segments in interim and annual financial statements, as well as requiring related disclosures about products and services, geographic areas and major customers. In accordance with this standard, we have determined the following reportable segments based on the types of our financings:

- Equipment financing, which includes:
  - Sophisticated medical equipment financing directly to U.S. and international end users,
  - Medical equipment contracts acquired from originators that generally do not have access to cost-effective permanent funding and
  - "Small ticket" equipment financing,
- Medical receivables financing, which includes:
  - Medical receivable lines of credit issued to a wide variety of healthcare providers and
  - Software tracking of medical receivables
- Corporate and all other, which includes:
  - Interim real estate financing, mortgage loan placement, subordinated debt financing for assisted living facilities and, to a lesser extent, merger and acquisition advisory services to our customers operating in the long-term care, assisted care and specialized hospital markets;
  - Asset-backed financing (including lease lines of credit) to emerging growth companies and

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- Miscellaneous corporate income and overhead allocations.

The following information reconciles our reportable segment information to consolidated totals:

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999			
	TOTAL FINANCE AND OTHER INCOME	INTEREST EXPENSE	NET EARNINGS	MANAGED NET FINANCED ASSETS
Equipment financing	$ 80,099	$ 47,591	$ 20,633	$ 1,418,228
Medical receivables financing	23,000	12,632	2,052	186,419
Corporate and all other	699	627	(3,017)	57,151
Consolidated total	$ 103,798	$ 60,850	$ 19,668	$ 1,661,798

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1998			
	TOTAL FINANCE AND OTHER INCOME	INTEREST EXPENSE	NET EARNINGS	MANAGED NET FINANCED ASSETS
Equipment financing	$ 57,368	$ 38,958	$ 17,159	$ 1,068,977
Medical receivables financing	19,178	10,424	2,310	136,562
Corporate and all other	(2,191)	(170)	(6,611)	17,489
Consolidated total	$ 74,355	$ 49,212	$ 12,858	$ 1,223,028

Segment information is not available for year ended June 30, 1997.

GEOGRAPHIC INFORMATION

We attribute finance and other income earned and managed net financed assets to geographic areas based on the location of our subsidiaries. Finance and other income earned and balances of managed net financed assets for years ended and at June 30, 1999 and 1998 by geographic area are as follows:

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1999	
	TOTAL FINANCE AND OTHER INCOME	MANAGED NET FINANCED ASSETS
United States	$ 84,785	$ 1,448,806
International	19,013	212,992
Total	$ 103,798	$ 1,661,798

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 1998	
	TOTAL FINANCE AND OTHER INCOME	MANAGED NET FINANCED ASSETS
United States	$ 65,276	$ 1,068,983
International	9,079	154,045
Total	$ 74,355	$ 1,223,028

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MAJOR CUSTOMER INFORMATION

We have no single customer that accounts for 10% or more of revenue for years ended June 30, 1999 and 1998.

NOTE 19. SUBSEQUENT EVENTS

On July 1, 1999, we increased our ownership in Medical Equipment Credit Pte Ltd. ("MEC") from 40% to 80% with the purchase of an additional 2.8 million shares of common stock of MEC from Philips Medical Systems International B.V., a shareholder of MEC, for $475,000. Prior to this transaction, we recorded our investment in MEC using the equity method of accounting. Beginning July 1, 1999 MEC's balance sheet and results of operations will be fully consolidated with DVI. Had this increase in ownership occurred at the beginning of fiscal 1997, our net earnings would have been $19.4 million, $12.3 million, and $8.3 million for the years ended June 30, 1999, 1998 and 1997, respectively.

***

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

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding the Company's directors is incorporated herein by reference to the Company's definitive proxy statement filed not later than October 28, 1999, with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. Information regarding the Company's Executive Officers is set forth in Part I of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement filed not later than October 28, 1999 with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 403 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement filed not later than October 28, 1999, with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 404 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement filed not later than October 28, 1999, with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

PART IV

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

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT:

(1) Financial Statements:

See Index to Consolidated Financial Statements included as part of this Form 10-K on Page 31.

(2) Financial Statement Schedules:

SCHEDULE NUMBER	DESCRIPTION	PAGE NUMBER
II.	Amounts Receivable from Related Parties	64

All other schedules are omitted because of the absence of conditions under which they are required or because all material information required to be reported is included in the consolidated financial statements and notes thereto.

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(3) Exhibits:

See Index to Exhibits of this Form 10-K on Pages 65-66.

(b) REPORTS ON FORM 8-K:

There were no reports on Form 8-K filed during the fourth quarter of the fiscal year ended June 30, 1999.

SIGNATURES

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

DVI, INC.
(Registrant)

Date: September 10, 1999 By /s/ MICHAEL A. O'HANLON
Michael A. O'Hanlon
President and Chief Executive Officer

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

<TABLE>
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Signature	Title	Date
Principal Financial Officer:		
/s/ STEVEN R. GARFINKEL Steven R. Garfinkel	Executive Vice President and Chief Financial Officer	September 10, 1999
Principal Accounting Officer:		
/s/ JOHN P. BOYLE John P. Boyle	Vice President and Chief Accounting Officer	September 10, 1999

</TABLE>

<TABLE>
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Directors	Date		Date
/s/ GERALD L. COHN Gerald L. Cohn	September 10, 1999	/s/ MICHAEL A. O'HANLON Michael A. O'Hanlon	September 10, 1999
/s/ WILLIAM S. GOLDBERG William S. Goldberg	September 10, 1999	/s/ HARRY T. J. ROBERTS Harry T. J. Roberts	September 10, 1999
/s/ JOHN E. MCHUGH John E. McHugh	September 10, 1999	/s/ NATHAN SHAPIRO Nathan Shapiro	September 10, 1999

</TABLE>

DVI, INC. AND SUBSIDIARIES

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SCHEDULE II - AMOUNTS RECEIVABLE FROM RELATED PARTIES

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NAME OF DEBTOR	BALANCE AT BEGINNING OF YEAR	ADDITIONS	DEDUCTIONS	BALANCE AT END OF YEAR
Year ended June 30, 1999:				
<S>	<C>	<C>	<C>	<C>
Michael A. O'Hanlon.............	$ 295,000	$ 221,000	$ --	$ 516,000
Mark H. Idzerda.................	220,000	--	220,000	--
Anthony J. Turek................	35,000	130,982	--	165,982
Richard Miller..................	--	152,250	--	152,250
Stuart Murray...................	--	78,155	--	78,155
Total.......................	$ 550,000	$ 582,387	$ 220,000	$ 912,387
Year ended June 30, 1998:				
Michael A. O'Hanlon.............	$ 285,000	$ 10,000	$ --	$ 295,000
Mark H. Idzerda.................	220,000	--	--	220,000
Anthony J. Turek................	--	35,000	--	35,000
Total.......................	$ 505,000	$ 45,000	$ --	$ 550,000
Year ended June 30, 1997:				
Michael A. O'Hanlon.............	$ 344,000	$ --	$ 59,000	$ 285,000
Mark H. Idzerda.................	--	220,000	--	220,000
Total.......................	$ 344,000	$ 220,000	$ 59,000	$ 505,000
Year ended June 30, 1996:				
Michael A. O'Hanlon.............	$ 59,000	$ 285,000	$ --	$ 344,000
Year ended June 30, 1995:				
Michael A. O'Hanlon.............	$ 20,000	$ 39,000	$ --	$ 59,000

</TABLE>

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	Restated Certificate of Incorporation of the Company (12)
3.2	By-laws of the Company and Amendment to By-Laws of the Company dated April 17, 1996. (2)
4.1	Form of Common Stock Certificate. (3)
4.2	Form of Global Note representing the Senior Notes due 2004. (4)
4.3	Indenture dated January 27, 1997 between the Company and the Trustee. (4)
4.4	First Supplemental Indenture dated January 30, 1997 with respect to the Senior Notes between the Company and the Trustee. (4)
4.5	Form of Global Note representing Senior Notes due 2004. (5)
4.6	Supplemental Indenture dated December 23, 1998 with respect to the Senior Notes between the Company and the Trustee. (5)
10.1	DVI Financial Services Inc. Employee Savings Plan. (6)
10.2	Purchase Agreement dated as of October 22, 1991, by and among DMR Associates, L.P., HIS Acquisition, Inc. and DVI Financial Services Inc.

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(7)

10.3 Direct Stock Option Agreements, dated as of October 16, 1990, between the Company and certain of the Company's directors. (7)

10.4 Amended and Restated Letter Agreement dated December 15, 1991, between the Company and W.I.G. Securities Limited partnership regarding investment banking services. (7)

10.5 Warrant dated April 27, 1992, executed by the Company on behalf of W.I.G. Securities Limited Partnership. (7)

10.6 Note Purchase Agreement among the Company and the Purchasers listed therein, dated as of June 21, 1994. (8)

10.7 Amendment No. 1 to Note Purchase Agreement among the Company and the Purchasers listed therein, dated as of November 1994. (9)

10.8 Amendment No. 1 to the MEFC Agreement dated as of June 1995. (9)

10.9 Joint Venture Agreement dated November 10, 1995 among Philips Medical Systems International B.V., the Company and Philadelphia International Equities, Inc. (10)

10.10 Interim Loan and Security Agreement, dated as of February 20, 1997, between Prudential Securities Credit Corporation and DVI Financial Services Inc. (2)

10.11 Shareholders' Agreement dated as of April 27, 1998 by and among DVI International, Inc. (the Company's wholly owned subsidiary), International Finance Corporation, Nederlandse Financierings-Maatschappij voor Ontwikkelinglarden N.V., Philadelphia International Equities Inc. and MSF Holding Ltd. (11)

10.12 Share Retention, Non-Competition and Put Option Agreement dated April 27, 1998 among DVI, Inc., International Finance Corporation, MSF Holding Ltd., Cadilur S.A., Estolur S.A., and Natuler S.A. (11)

10.13 Share Retention, Non-Competition and Put Option Agreement dated April 27, 1998 among DVI, Inc., Nederlandse Financierings-Maatschappij voor Ontwikkelinglarden N.V., MSF Holding Ltd., Cadilur S.A., Estolur S.A., and Natuler S.A. (11)

10.14 First Amendment, dated September 30, 1998, to Share Retention, Non-Competition and Put Option Agreement dated April 27, 1998 among DVI, Inc., International Finance Corporation, MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., and Sistemas Financieros S.A. (1)

10.15 First Amendment, dated September 30, 1998, to Share Retention, Non-Competition and Put Option Agreement dated April 27, 1998 among DVI, Inc., Nederlandse Financierings-Maatschappij voor Ontwikkelinglarden N.V., MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., and Sistemas Financieros S.A.
(13)

10.16 Amended and Restated Investment Agreement dated April 27, 1998 (amended and restated September 30, 1998) among DVI, Inc., Nederlandse Financierings-Maatschappij voor Ontwikkelinglarden N.V., MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., and Sistemas Financieros S.A. (14)

10.17 Amended and Restated Investment Agreement dated April 27, 1998 (amended and restated September 30, 1998) among International Finance Corporation, MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., and Sistemas Financieros S.A.
(1)

10.18 Guaranty Agreement dated as of April 27, 1998 by DVI, Inc. in favor of Cadilur S.A. and Natuler S.A. (11)

10.19 Limited Partnership Interest Purchase Agreement dated as of June 30, 1998 by and among Cargill Leasing Corporation, Third Coast SPC-I, L.L.C., Third Coast GP-I, and DVI Financial Services Inc. (11)

10.20 1996 Incentive Stock Option Plan. (1)

21 Subsidiaries of the Registrant. (1)

24 Power of Attorney. (4)

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----

1. Filed herewith.

2. Filed previously as an Exhibit to the Company's Form 10-Q for the quarter ended March 31, 1997 and by this reference incorporated herein.

3. Filed as an Exhibit to the Company's Registration Statement on Form S-3 (Registration No. 33-84604) and by this reference incorporated herein.

4. Filed previously as an Exhibit to the Company's Current Report on Form 8-K dated January 27, 1997 and by this reference incorporated herein.

5. Filed previously as an Exhibit to the Company's Current Report on Form 8-K dated December 23, 1998 and by this reference incorporated herein.

6. Filed previously as an Exhibit to the Company's Registration Statement on Form S-18 (Registration No. 33-8758) and by this reference incorporated herein.

7. Filed previously as an Exhibit to the Company's Form 10-K (File No. 0-16271) for the year ended June 30, 1990 and by this reference incorporated herein.

8. Filed previously as an Appendix to the Company's Consent Statement dated as of December 29, 1994 and by this reference incorporated herein.

9. Filed previously as an Exhibit to the Company's Registration Statement on Form S-1 (Registration No. 33-60547) and by this reference incorporated herein.

10. Filed previously as an Exhibit to the Company's Form 10-K (File No. 0-16271) for the year ended June 30, 1996 and by this reference incorporated herein.

11. Filed previously as an Exhibit to the Company's Form 10-K (File No. 0-16271) for the year ended June 30, 1998 and by this reference incorporated herein.

12. Filed previously as an Exhibit to the Company's Form 10-Q for the quarter ended December 31, 1998 and by this reference incorporated herein.

13. This Exhibit is not being filed herewith because it is substantially identical to Exhibit 10.14 in all material respects except as to the parties thereto.

14. This Exhibit is not being filed herewith because it is substantially identical to Exhibit 10.17 in all material respects except as to the parties thereto.

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1

IFC INVESTMENT NUMBER 8354

FIRST AMENDMENT TO
SHARE RETENTION, NON-COMPETITION AND
PUT OPTION AGREEMENT

AMONG

DVI, INC.

MSF HOLDING LTD,

MEDICAL SYSTEMS FINANCE S.A.,

ESTOLUR S.A.,

HEALTHCARE SYSTEMS FINANCE S.A.,

SISTEMAS FINANCIEROS S.A.,

AND

INTERNATIONAL FINANCE CORPORATION

Dated as of September 29, 1998

2

FIRST AMENDMENT TO
SHARE RETENTION, NON-COMPETITION
AND PUT OPTION AGREEMENT

FIRST AMENDMENT TO SHARE RETENTION, NON-COMPETITION and PUT OPTION AGREEMENT (this "Amendment"), dated as of September 29, 1998,

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among:

DVI, INC., a corporation organized and existing under the laws of the State of Delaware;

MSF HOLDING LTD, a sociedad anonima organized and existing under the laws of Commonwealth of the Bahamas ("MSF Holding");

MEDICAL SYSTEMS FINANCE S.A., a sociedad anonima organized and existing under the laws of Uruguay, formerly known as Cadilur S.A. ("MSF");

ESTOLUR S.A., a sociedad anonima organized and existing under the laws of Uruguay ("Estolur");

HEALTHCARE SYSTEMS FINANCE S.A., a sociedad anonima organized and existing under the laws of Uruguay, formerly known as Natuler S.A. ("HSF");

SISTEMAS FINANCIEROS S.A., a sociedad anonima organized and existing under the laws of Argentina ("MSF Argentina"); and

INTERNATIONAL FINANCE CORPORATION, an international organization established by Articles of Agreement among its member countries ("IFC").

WHEREAS:

(A) Pursuant to an Investment Agreement dated April 27, 1998, as amended and restated as of September 29, 1998 (as amended from time to time, the "Investment Agreement"), among MSF Holding, MSF, Estolur, HSF (collectively, the "Original Co-Borrowers") and IFC, IFC has agreed to make a loan (the "Loan")

to the Original Co-Borrowers, composed of two portions, the "A Loan" and the "B Loan," in the amounts, for the purpose and on the terms and conditions set forth therein.

(B) The Investment Agreement is being amended and restated on the date hereof (i) to provide, among other things, for MSF Argentina to become, and undertake the obligations of, a Co-Borrower under the Investment Agreement and for IFC to make the Loan to MSF Argentina on same terms and conditions as the Loan is made to the Original Co-Borrowers and (ii) to specify a procedure for the designation as Co-Borrowers under the Investment Agreement of one or more Subsidiaries of the Co-Borrowers.

(C) DVI, the Original Co-Borrowers and IFC have entered into a Share

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Retention, Non-Competition and Put Option Agreement dated April 27,1998 (the "Share Retention, Put Option and Non-Competition Agreement").

(D) In consideration of IFC entering into the Amended and Restated Investment Agreement and as an inducement to IFC to make the first Disbursement of the Loan, DVI, the Original Co-Borrowers and MSF Argentina desire to amend the Share Retention, Non-Competition and Put Option Agreement to obligate MSF Holding to retain its present equity interest in MSF Argentina and to include MSF Argentina as a party to the Share Retention, Non-Competition and Put Option Agreement, as amended hereby.

NOW, THEREFORE, the parties agree as follows:

ARTICLE I

ACCESSION BY MSF ARGENTINA

Section 1.1 By execution and delivery of this Amendment, MSF Argentina shall become a party to the Share Retention, Non-Competition and Put Option Agreement, as amended hereby, and agrees to perform and discharge all of its obligations, debts, and liabilities under the Share Retention, Non-Competition and Put Option Agreement, as amended hereby, whether now existing or hereafter arising, known or unknown, absolute or contingent.

ARTICLE II

AMENDMENTS

Section 2.1. The preamble to the Share Retention, Non-Competition and Put Option Agreement is amended to read as follows:

> AGREEMENT, dated April 27, 1998 and amended and restated as of September 29, 1998 among DVI, Inc. ("DVI"), a corporation organized and existing under the laws of the State of Delaware, USA, MSF Holding Ltd., a company organized and existing under the laws of the Commonwealth of the Bahamas ("MSF Holding"), Medical Systems Finance S.A. ("MSF"), ESTOLUR S.A. ("Estolur"), HEALTHCARE SYSTEMS FINANCE S.A. ("HSF"), SISTEMAS FINANCIEROS S.A. ("MSF Argentina" and together with

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MSF Holding, MSF, Estolur and HSF, the "Co-Borrowers" and each individually a "Co-Borrower"), each of MSF, Estolur and HSF being companies organized and existing under the laws of Uruguay, and MSF Argentina being a company organized under the laws of Argentina, and INTERNATIONAL FINANCE CORPORATION, an international organization established by Articles of Agreement among its member countries (hereinafter called "IFC").

Section 2.2 The first recital in the Share Retention, Non-Competition and Put Option Agreement is amended to read as follows:

(A) By an Investment Agreement dated April 27,1998 and amended and restated as of September 29, 1998 (as amended from time to time, the "Investment Agreement"), IFC has agreed to (i) extend a loan to the Co-Borrowers in the aggregate principal amount of up to forty million Dollars ($40,000,000) (the "Loan"), in the form of an A Loan of up to fifteen million Dollars ($15,000,000) and a B loan of up to twenty-five million Dollars ($25,000,000), and (ii) make the IFC Subscription, upon

the terms and conditions set forth in the Investment Agreement.

Section 2.3 Section 1.02 of the Share Retention, Non-Competition and Put Option Agreement is amended by deleting clauses (i) and (ii) of the definition of the term "Triggering Event" and replacing such clauses with the following:

(i) the failure or incapability of MSF Holding to maintain, on a consolidated basis, a diversified vendor lease portfolio, with no single vendor providing more than:

(A) fifty percent (50%) of the equipment financed pursuant to Eligible Leases/Loans in the MSF Portfolio from December 31, 2001 through December 31, 2002; and

(B) forty percent (40%) of the equipment financed pursuant to Eligible Leases/Loans in the MSF Portfolio thereafter;

(ii) the failure or incapability of MSF Holding

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to maintain, on a consolidated basis, a Lease/Loan Loss Reserve of at least:

(A) one percent (1%) of Net Financed Assets during Fiscal Year 1999;

(B) one and one-half percent (1.5%) of Net Financed Assets during Fiscal Year 2000; and

(C) two percent (2%) of Net Financed Assets in Fiscal Year 2001 and thereafter;

Section 2.4 Section 2.01(a) of the Share Retention, Non-Competition and Put Option Agreement is amended to read as follows:

(a) (i) in the case of DVI, it is a company duly incorporated and validly existing under the laws of the State of Delaware, USA, (ii) in the case of MSF Holding, it is a company duly incorporated and validly existing under the laws of the Commonwealth of the Bahamas, (iii) in the case of each of MSF, Estolur and HSF, it is a company duly incorporated and validly existing under the laws of Uruguay, and (iv) in the case of MSF Argentina, it is a company duly incorporated and validly existing under the laws of Argentina;

Section 2.5 Section 2.02(b) of the Share Retention, Non-Competition and Put Option Agreement is amended to read as follows:

(b) MSF Holding represents and warrants that it presently holds one hundred percent (100%) of the voting shares of each of MSF, HSF and Estolur, and ninety-nine percent (99%) of the voting shares of MSF Argentina, unencumbered by any Lien.

Section 2.6 Sections 3.02(a) and (b) of the Share Retention, Non-Competition and Put Option Agreement are amended to read as follows:

(a) MSF Holding agrees not to sell, transfer, assign, redeem, pledge or otherwise in any manner dispose of or encumber, or permit any encumbrances or Liens to exist over, any of the voting shares of MSF, Estolur,

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HSF or MSF Argentina which it now owns or which it may acquire in the future if, as a result thereof, it would own less than one hundred percent (100%) of the voting share capital of each of MSF, Estolur and HSF and less than ninety-nine percent (99%) of the voting share capital of MSF Argentina, unencumbered by any pledge, Lien or security; and

(b) MSF Holding also agrees that it will from time to time take such action as shall be required on its part,

including the exercise (to the extent permitted by law) of its preemptive rights under the respective Memorandum and Articles of Association, Estatutos or other relevant constitutive documents of each of MSF, Estolur, HSF, and MSF Argentina to maintain its respective shareholdings in each such company at the minimum levels specified above.

Section 2.7 Section 3.04(b) of the Share Retention, Non-Competition and Put Option Agreement is amended to read as follows:

(b) Each of MSF, Estolur, HSF and MSF Argentina shall promptly give written notice to IFC of any request received by it to record a transfer, pledge or other form of disposition by MSF Holding of the shares held by MSF Holding in any of MSF, Estolur, HSF or MSF Argentina and shall, to the extent permitted by law, refuse to make any such registration which is in violation of the provisions of this Agreement.

Section 2.8 Section 3.05 of the Share Retention, Non-Competition and Put Option Agreement is amended to read as follows:

Section 3.05. Further Assurances. (i) MSF Holding undertakes to take all necessary actions to ensure that this Agreement is expressly mentioned in its respective registry of shareholders and/or any other registry whenever so required under the laws of the Bahamas, as the case may be, in order for this Agreement to become fully effective, valid and enforceable against the parties hereto and third parties; and (ii) each of MSF Holding, MSF, Estolur, HSF and MSF Argentina undertakes to take all necessary actions to ensure the prompt and effective implementation of all of the provisions of this Agreement.

Section 2.9 Section 6.01(b) of the Share Retention, Non-Competition and

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Put Option Agreement is amended by deleting the reference to "subsection (e)" and replacing it with "subsection (a)."

Section 2.10 Section 6.02 of the Share Retention, Non-Competition and Put Option Agreement is amended to read as follows:

Section 6.02. MSF Holding as Agent for Communication. (a) So long as any amounts are due and payable to IFC under any of the Transaction Documents, and so long as IFC holds shares in the voting capital of MSF Holding, any notice, request or other communication to be given by IFC to MSF, Estolur, HSF or MSF Argentina under the terms of this Agreement and each Transaction Document may, at the option of IFC and without prejudice to its right to communicate directly with MSF, Estolur, HSF or MSF Argentina, be addressed to MSF Holding, as agent, which is hereby irrevocably authorized and directed by MSF, Estolur, HSF and MSF Argentina to act as agent for it in such matter, and MSF Holding hereby accepts such appointment.

(b) Each of MSF, Estolur, HSF and MSF Argentina hereby irrevocably appoint MSF Holding to act as its agent to give any notice, request or other communication to be given by MSF, Estolur, HSF and MSF Argentina under the terms of this Agreement and each Transaction Document, and MSF Holding accepts such appointment.

Section 2.11 Section 6.03 of the Share Retention, Non-Competition and Put Option Agreement is amended to delete the addresses for notices to DVI and substitute therefor the following:

DVI Inc.
500 Hyde Park
Doylestown, PA 18901

Attention: Controller Latin America

Facsimile: (215) 230-5328

and to delete the address for notice to the Co-Borrowers and substitute therefor the following:

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c/o DVI Inc.
500 Hyde Park
Doylestown, PA 18901

Attention: Controller Latin America

Facsimile: (215) 230-5328

ARTICLE III

MISCELLANEOUS

Section 3.1 All capitalized terms used in this Amendment (including the preamble and recitals) and not otherwise defined herein shall have the meanings given such terms in the Share Retention, Non-Competition and Put Option Agreement, as amended by this Amendment, or in the Investment Agreement.

Section 3.2 (a) All references in the Share Retention, Non-Competition and Put Option Agreement to "this Agreement", "herein", "hereof", "hereunder", "hereto" or expressions of like meaning shall be references to the Share Retention, Non-Competition and Put Option Agreement, as amended by this Amendment; and

(b) except as amended hereby, the Share Retention, Non-Competition and Put Option Agreement shall remain in full force and effect.

Section 3.3 Each of DVI and the Co-Borrowers hereby restates, as if set forth herein at length, and confirms, as of the date hereof, the representations and warranties made by it in Sections 2.01 and 2.02 of the Share Retention, Non-Competition and Put Option Agreement, as amended by this Amendment.

Section 3.4 DVI and the Co-Borrowers shall pay to IFC or as IFC may direct the reasonable fees and expenses of IFC's counsel in New York and elsewhere incurred in connection with (i) the preparation and/or review, execution and, where appropriate, translation and registration of this Amendment, and any other documents related to this Amendment; and (ii) the giving of any legal opinions required by IFC in connection herewith.

Section 3.5 This Amendment is governed by, and shall be construed in accordance with, the laws of the State of New York, United States of America.

Section 3.6 This Amendment may be executed in several counterparts, each of which shall be considered an original, but all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties to this Amendment have caused this

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Amendment to be duly executed as of the date first above written.

DVI, INC.

By: ______________________________
Name:
Authorized Representative

MSF HOLDING LTD.

By: ______________________________
Name:
Authorized Representative

MEDICAL SYSTEMS FINANCE S.A.

By: ________________________________
Name:
Authorized Representative

ESTOLUR S.A.

By: ______________________________
Name:
Authorized Representative

HEALTHCARE SYSTEMS FINANCE S.A.

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By: ____________________________________
Name:
Authorized Representative

SISTEMAS FINANCIEROS S.A.

By: _______________________
Name:
Authorized Representative

INTERNATIONAL FINANCE CORPORATION

By: ____
Name:
Authorized Representative

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CONFORMED COPY

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INVESTMENT NUMBER 8354

AMENDED AND RESTATED
INVESTMENT AGREEMENT

AMONG

MSF HOLDING LTD.,

MEDICAL SYSTEMS FINANCE S.A.,

ESTOLUR S.A,

HEALTHCARE SYSTEMS FINANCE S.A.,

SISTEMAS FINANCIEROS S.A.,

AND

INTERNATIONAL FINANCE CORPORATION

Dated April 27, 1998
and amended and restated as of September 29, 1998

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AMENDED AND RESTATED INVESTMENT AGREEMENT

AGREEMENT, dated April 27, 1998 and amended and restated as of September 29, 1998, among MSF HOLDING LTD., a company organized and existing under the laws of the Commonwealth of the Bahamas ("MSF Holding"), MEDICAL SYSTEMS FINANCE S.A. ("MSF"), ESTOLUR S.A. ("Estolur"), HEALTHCARE SYSTEMS FINANCE S.A. ("HSF"), each of them a sociedad anonima, organized and existing under the laws of Uruguay, and SISTEMAS FINANCIEROS S.A., a sociedad anonima organized and existing under the laws of Argentina ("MSF Argentina"), and INTERNATIONAL FINANCE CORPORATION, an international organization established by Articles of Agreement among its member countries ("IFC").

ARTICLE I

DEFINITIONS AND INTERPRETATION

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Section 1.01. General Definitions. Wherever used in this Agreement, unless the context otherwise requires, the following terms have the meanings opposite them:

Term	Meaning
"A Loan"	the loan specified in Section 3.01(a) or, as the context requires, its principal amount from time to time outstanding;
"A Loan Disbursement"	any disbursement of the A Loan;
"A Loan Interest Rate"	for any Interest Period, the rate at which interest is payable on the A Loan during that Interest Period, determined in accordance with Section 3.03;
"Affiliate"	in respect of any Person, any entity of which a company is a Subsidiary; or any entity in whose share capital a company, any entity of which a company is a Subsidiary, or any of their respective

Term	Meaning
	Subsidiaries has a direct or indirect interest exceeding twenty-five per cent (25%);
"Assignment Agreements"	the agreements, dated as of April 27, 1998 between Oferil and MSF, on the one hand and Oferil and HSF, on the other hand, whereby certain rights under Oferil's portfolio are assigned to MSF and HSF;
"Auditors"	Grant Thornton/Trevisan Auditores or such other firm of independent public accountants as the Co-Borrowers, with IFC's consent, from time to time appoint as the Co-Borrowers' auditors;
"Authority"	any government or governmental, administrative, fiscal, judicial, or government-owned, body, department, commission, authority, tribunal, agency or entity and any central bank or other monetary or fiscal authority;
"Authorization"	any consent, registration, filing, agreement, notarization, certificate, license, approval, permit, authority or exemption from, by or with any Authority, whether given by express action or deemed given by failure to act within any specified time period and all corporate, creditors' and shareholders' approvals or consents;
"B Loan"	the loan specified in Section 3.01(b) or, as the context requires, its principal amount from time to time outstanding;
"B Loan Disbursement"	any disbursement of the B Loan;
"B Loan Interest Rate"	for any Interest Period, the rate at which interest is payable on the B Loan during that Interest Period, determined in accordance with Section 3.04;
"Bahamas"	the Commonwealth of the Bahamas;

Term	Meaning
"Bilateral Vendor Agreements"	the agreements between (i) Oldelft International Trading Co. N.V. (dba Nucletron B.V.) and Oferil dated as of March

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6, 1998; (ii) PIE Medical N.V. and Oferil dated October 31, 1997; (iii) Phillips Medical System International B.V. and Oferil dated February 21, 1997; and (iv) ADAC Laboratories and Oferil dated as of September 30, 1997;

"BIS Guidelines"	the Bank for International Settlements' Basle Accord on Bank Capital Adequacy set forth in Annex A hereto;
"Borrowing Base Report"	The monthly report, in form and substance acceptable to IFC, provided by the Co-Borrowers which shall include details as set forth in the Security Agreements regarding the Eligible Leases/Loans, the Eligible Lessees/Borrowers and the IFC/FMO Security and which sets forth the Loan to Collateral Value Ratio, the Advance Rate and the Current Net Equipment Investment Cost as at the date of such report and the calculation thereof;
"Business Day"	any day other than a Saturday or Sunday, or a legal holiday on which banks are authorized or required to be closed in New York, New York, and, for the purpose of determining the A Loan Interest Rate and the B Loan Interest Rate, London, England as well;
"Co-Borrower"	MSF Holding, MSF, Estolur, HSF, MSF Argentina and such Subsidiaries of MSF Holding, MSF, Estolur, HSF and MSF Argentina as may become Co-Borrowers in accordance with Section 9.13;
"Disbursement"	an A Loan Disbursement or a B Loan Disbursement or both, as the context requires;
"Dollars" and the sign "$"	the lawful currency of the United States of America;

"Dow Jones Market

Screen Page"	the display of interest settlement rates (commonly known as LIBOR) for Dollar deposits in London designated as page 3750 (British Bankers Association (BBA) LIBOR rates) of the Dow Jones Market Service (or any other page that replaces page 3750 and displays BBA London interbank settlement rates for Dollar deposits);
"DVI"	DVI, Inc., a corporation organized and existing under the laws of the State of Delaware, USA;
"DVI Financial"	DVI Financial Services, Inc., a corporation organized and existing under the laws of the State of Delaware, USA and a wholly-owned Subsidiary of DVI;
"DVI Guarantee Agreement"	the guarantee agreement dated as of September 29, 1998 between DVI and IFC;
"DVI International"	DVI International, Inc., a corporation organized and existing under the laws of the State of Delaware, USA and a wholly-owned Subsidiary of DVI;
"Eligible Co-Borrower"	MSF, HSF, MSF Argentina and any Person that becomes a Co-Borrower and is designated as

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an Eligible Co-Borrower in accordance with the provisions of Section 9.13;

"Eligible Leases/Loans" unless otherwise approved by IFC, any lease or loan made to an Eligible Lessee/Borrower pursuant to a Lease/Loan Agreement:

(a) which has a term of not less than three years at the time of execution of the lease or loan documentation and, in the case of existing leases or loans, where not more than 18 months have elapsed from the time of inception until such leases or loans are assigned or otherwise transferred to the MSF Portfolio;

(b) which is fully documented and (where required) registered with the relevant authorities in the country of the lessee or borrower;

(c) which is considered a trade obligation in the respective country and

(d) which is priced at market rates;

"Eligible Lessees/ Borrowers" physician groups, private doctors, health laboratories, hospitals, clinics, which, to the extent they are independent legal entities:

(a) are duly organized and existing under the laws of their respective countries where such entities carry on their respective operations in which the public sector participation in their equity does not exceed forty-nine per cent (49%) of the total voting rights and are not managed by the public sector;

(b) are engaged in medical or health care activities as providers of diagnostic and therapeutic services and have obtained all the relevant medical safety and health authorizations to operate the relevant medical equipment;

(c) operate in compliance with local and international regulations and laws and medical directives, requirements and professional codes of conduct applicable thereto; and

(d) have been and are current on all their past and present lease and other financial obligations;

"Event of Default" any one of the events specified in Section 8.02;

"Financial Plan" the proposed sources of financing for the Project set out in Section 2.02(b);

"Fiscal Year" the accounting year of the Co-Borrowers commencing each year on July 1 and ending on

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the following June 30 or such other period (of at least 52 consecutive weeks) as the Co-Borrowers, with IFC's consent, from time to time designates as the Co-Borrowers' accounting year;

"FMO" — Nederlandse Financierings-Maatschappij voor Ontwikkelingbladen N.V., a limited liability company established under the laws of The Netherlands;

"FMO Documents" — the following agreements:

(i) the investment agreement dated April 27, 1998, as amended as of September 29, 1998, among MSF Holding, MSF, Estolur, HSF, MSF Argentina and FMO (the "FMO Investment Agreement"); and

(ii) the share retention, non-competition and put option agreement dated April 27, 1998, as amended as of September 29, 1998, between FMO and DVI;

"FMO Financing" — the investment by FMO in the Co-Borrowers provided in the FMO Documents;

"FMO Loan" — the loan specified in Section 3.01 of the FMO Investment Agreement, or, as the context requires, its principal amount from time to time outstanding;

"Guarantee Agreement" — the agreement dated as of April 27, 1998, as amended from time to time, among DVI and the Eligible Co-Borrowers whereby DVI guarantees the Eligible Co-Borrowers against losses incurred in connection with the purchase by the Eligible Co-Borrowers of DVI's existing lease or loan

receivables on the terms and conditions specified therein;

"IFC/FMO Security" — the security created by or pursuant to the Security Agreements to secure all amounts owing by the Co-Borrowers to IFC and FMO under the Transaction Documents;

"IFC Shares" — the Shares subscribed or to be subscribed for pursuant to the IFC Subscription;

"IFC Subscription" — the subscription for Shares by IFC provided for in Article IV;

"Interest Determination Date" — the second Business Day before the beginning of each Interest Period;

"Interest Payment Date" — any day which is May 15 or November 15 in any year, provided that, if any such day is not a Business Day, the Interest Payment Date which would otherwise fall on that day shall fall on the immediately succeeding Business Day;

"Interest Period" — each six (6) month period beginning on an Interest Payment Date and ending on the day immediately before the next following Interest Payment Date; except in the case of the first period applicable to each Disbursement when it shall mean the period beginning on the date on which that Disbursement is made and ending on the day

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immediately before the next following Interest Payment Date;

"Latin American Countries"	countries in Latin America and the Caribbean which are members of IFC;
"Lease/Loan Agreement"	any agreement providing or evidencing an Eligible Lease/Loan which any of the Eligible Co-Borrowers may from time to time enter into with an Eligible Lessee/Borrower, pursuant to which such Eligible Co-Borrower leases medical diagnostic, imaging

and treatment equipment to an Eligible Lessee/Borrower or provides a loan to fund the acquisition of such equipment by the Eligible Lessee/Borrower;

"Letter of Information"	the letter dated October 22, 1997, addressed by DVI to IFC and containing material information and representations concerning certain of the Co-Borrowers, the Project, the Financial Plan, the organization, operations, affiliations, liabilities and assets (including any Liens on those assets) of such Co-Borrowers and any other relevant matters, and any amendment or supplement to such letter which is acceptable to IFC;
"Lien"	any mortgage, pledge, charge, assignment, hypothecation, security interest, title retention, preferential right, trust arrangement, right of set-off, counterclaim or bankers lien, privilege or priority of any kind having the effect of security, any designation of loss payees or beneficiaries or any similar arrangement under or in respect of any insurance policy or any preference of one creditor over another arising by operation of law;
"Loan"	collectively, the A Loan and the B Loan or, as the context requires, the principal amount of the A Loan and the B Loan outstanding from time to time;
"Maintenance Amount"	the amount certified in the Maintenance Amount Certification to be the net incremental costs of or reduction in return of IFC or any Participant in connection with the making or maintaining of the Loan or its Participation which result from:

(i) any change in any applicable law or regulation or directive (whether or not having force of law) or in its interpretation or application by any Authority charged with its administration; or

(ii) compliance with any request from, or requirement of, any central bank or other monetary or other Authority;

which in any case, after the date of this Agreement:

(A) imposes, modifies or makes applicable any

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reserve, special deposit or similar requirements against assets held by, or deposits with or for the account of, or loans by IFC or a Participant;

(B) imposes a cost on IFC as a result of IFC having made the Loan or on the Participant as a result of the Participant having acquired its Participation or reduces the rate of return on the overall capital of IFC or the Participant which it would have achieved, had IFC or such Participant not made the Loan or acquired its Participation, as the case may be;

(C) changes the basis of taxation on payments received by IFC in respect of the Loan or by the Participant in respect of its Participation (otherwise than by a change in taxation of the overall net income of IFC or the Participant imposed by the jurisdiction of its incorporation or in which it books its Participation or in any political subdivision of any such jurisdiction); or

(D) imposes on IFC or the Participant any other condition

regarding the making or maintaining of the Loan or its Participation;

but excluding any incremental costs of making or maintaining a Participation which are a direct result of a Participant having its principal office in any country in which any of the Co-Borrowers is incorporated or having or maintaining a permanent office or establishment in any country in which any of the Co-Borrowers is incorporated, if and to the extent such permanent office or establishment acquires such Participation;

"Maintenance Amount Certification" a certification furnished from time to time by IFC (based on a certificate to IFC from any Participant, if Maintenance Amount affects its Participation), certifying:

(i) the circumstances giving rise to the Maintenance Amount;

(ii) that the costs of the Participant or, as the case may be, IFC, have

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(continued from previous definition)

increased or the rate of return of either of them has been reduced;

(iii) that, in the opinion of IFC or, as the case may be, the Participant, it has exercised reasonable efforts to minimize or eliminate such increase or reduction as the case may be; and

(iv) the Maintenance Amount;

"MSF Portfolio"	any Eligible Co-Borrower's portfolio of Eligible Leases/Loans as documented by Lease/Loan Agreements;
"Oferil"	Oferil S.A., a sociedad anonima organized and existing under the laws of Uruguay, and a Subsidiary of DVI;

"Participant"	any Person who acquires a participating interest in the B Loan;
"Participation"	the interest of any Participant in the B Loan, or as the context requires, in a B Loan Disbursement;
"Participation Agreement"	an agreement between IFC and a Participant pursuant to which the Participant acquires a Participation;
"Person"	any natural person, corporation, limited liability company, partnership, firm, association, joint venture, joint stock company, trust (including any beneficiary thereof), unincorporated organization or government or any agency or political subdivision thereof, or any other entity, whether acting in an individual, fiduciary or other capacity;
"PIE"	Philadelphia International Equities Inc., a corporation organized and existing under the laws of the State of Delaware, USA;
"Policy/Operating Guidelines"	guidelines adopted by each of the Co-Borrower's board of directors, which have been approved by IFC, which cover, among other things (i) procedures to assess and monitor Eligible Lessees'/Borrowers' compliance with medical profession requirements and health care practices according to applicable domestic legislation; (ii) procedures and authorizations for the professional and consistent use of hedging instruments and for investing in securities consistent with DVI (including DVI Financial) guidelines; (iii) guidelines on interest rate exposures; (iv) guidelines on foreign exchange exposures; and (v) guidelines on the level of risk concentration per country;
"Potential Event of Default"	any event or circumstance which would, with notice, lapse of time, the making of a determination

or any combination thereof, become an Event of Default;

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"Project"	the project described in Section 2.01;
"Security Agreements"	the agreements evidencing security interests in receivables under Eligible Leases/Loans and equipment, granted by the Co-Borrowers to IFC and FMO, with an aggregate value satisfactory to IFC or having a value of 1.05 times the outstanding amount of the Loan and the FMO Loan, including, without limitation (i) each of the two Open Pledge Agreements dated as of September 29, 1998 among MSF Holding, MSF, Estolur, HSF, IFC and FMO; (ii) the Security Agreement dated as of September 29, 1998 among MSF Holding, MSF, Estolur, HSF, IFC and FMO; (iii) the Fiduciary Assignment Agreement dated as of September 29, 1998 among MSF Holding, MSF, Estolur, HSF, MSF Argentina, IFC, FMO and BankBoston N.A.; and (iv) the Trustee Account and Security Agreement dated as of September 29, 1998 among MSF, HSF, MSF Argentina, IFC, FMO, BankBoston N.A. and BankBoston N.A. acting through its Buenos Aires, Argentina, Branch, as collateral agent;
"Servicing Agreement"	the agreement dated as of April 27, 1998, as amended from time to time, among MSF Holding, MSF, HSF and Estolur whereby Estolur will provide services and technical assistance to the Eligible Co-Borrowers on the terms and conditions specified therein;
"Share Retention, Non-Competition and Put Option Agreement"	the agreement dated April 27, 1998, as amended from time to time, among IFC, DVI, and the Co-Borrowers whereby (i) DVI agrees to continue to hold directly or indirectly through its Subsidiaries or Affiliates not less than forty per cent (40%) of the shares of MSF Holding; (ii) DVI agrees to develop its activities in Latin America exclusively

	through the Co-Borrowers and not to compete, directly or indirectly in any way with the Co-Borrowers; (iii) MSF Holding agrees to retain one hundred per cent (100%) of the shares of MSF, Estolur and HSF, ninety-nine percent (99%) of the shares of MSF Argentina, and not less than ninety-nine percent of the shares of any other Co-Borrower; and (iv) IFC has the right to require DVI to purchase its shares in MSF Holding on agreed terms and conditions;
"Share Subscription Agreement"	the agreement dated as of April 27, 1998 between MSF Holding and PIE providing for the issuance and subscription of Shares;
"Shareholders Agreement"	the Shareholders Agreement dated as of April 27, 1998, among IFC, DVI International, FMO, PIE and MSF Holding;
"Shares"	voting shares in the capital of MSF Holding, which rank equally in all respects with all other voting shares in the capital of MSF Holding;
"Stand-by Loan Facility	

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Agreement"	the agreement dated as of April 27, 1998, as amended from time to time, between DVI Financial and the Co-Borrowers whereby DVI Financial agrees to provide a twenty-five million Dollar ($25,000,000) stand-by credit facility;
"Subsidiary"	in respect of any Person, any entity:
	(i) over fifty percent (50%) of whose capital is owned, directly or indirectly, by that Person;
	(ii) for which that Person may nominate or appoint a majority of the members of the board of directors or Persons performing similar functions; or

	(iii) which is otherwise effectively controlled by that Person;
"Technical Assistance Agreement"	the agreement dated as of April 27, 1998, as amended from time to time, between DVI Financial and the Co-Borrowers whereby DVI Financial provides technical advice and assistance to the Co-Borrowers;
"Transaction Documents"	(i) this Agreement;
	(ii) the Security Agreements;
	(iii) the Share Retention, Non-Competition and Put Option Agreement;
	(iv) the Guarantee Agreement;
	(v) the Technical Assistance Agreement;
	(vi) the Servicing Agreement;
	(vii) the Bilateral Vendor Agreements;
	(viii) the Share Subscription Agreement;
	(ix) the Shareholders' Agreement;
	(x) the FMO Documents;
	(xi) the Assignment Agreements;
	(xii) the Stand-by Loan Facility Agreement; and
	(xiii) the DVI Guarantee Agreement;
"World Bank"	the International Bank for Reconstruction and Development, an international organization established by Articles of Agreement among its member countries.

Section 1.02. Financial Definitions. Wherever used in this Agreement, unless the context otherwise requires, the following terms have the meanings opposite them:

"Advance Rate"	the amount which is ninety-five percent (95%) of the present value of the remaining payments under the Lease/Loan Receivables pledged or assigned in guarantee to IFC and

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FMO, as security pursuant to the Security Agreements and in which IFC and FMO have a perfected and registered first priority security interest, discounted at the rate of six-month LIBOR plus 2.75%;

"Capital Adequacy Ratio" — the ratio which is not less than ten per cent (10%) of capital to risk-weighted assets, computed on the basis of risk-weighting and other standards of the BIS Guidelines, (treating leases as if they were loans) or any other applicable current or future local capital adequacy requirement for leasing and other financial institutions, whichever is higher;

"Current Net Equipment Investment Cost" — the amount which is the sum of (i) the remaining Lease/Loan Receivables less unearned income (i.e. the amount by which such Lease/Loan Receivables arising under leases exceeds the cost of the equipment leased pursuant to such leases and the interest component of Lease/Loan Receivables arising under loans) plus (ii) any residual value of the equipment leased pursuant to the leases under which such Lease/Loan Receivables arise;

"Debt" — the aggregate of all obligations (whether actual or contingent) of a Co-Borrower to pay or repay money including, without limitation:

(i) all Indebtedness for Money Borrowed;

(ii) the aggregate amount then outstanding of all liabilities of any party to the extent a Co-Borrower guarantees them or otherwise obligates itself to pay them to the relevant creditor;

(iii) all liabilities of a Co-Borrower (actual or contingent) under any conditional sale or a transfer with recourse or obligation to repurchase, including, without limitation, by way of discount or factoring of book debts or receivables;

"Indebtedness for Money Borrowed" — all obligations of a Co-Borrower to repay money including, without limitation, in respect of:

(i) borrowed money;

(ii) the outstanding principal amount of any bonds, notes, loan stock, commercial paper, acceptance credits, debentures and bills or promissory notes drawn, accepted, endorsed or issued by a Co-Borrower;

(iii) any credit to a Co-Borrower from a supplier of goods or under any installment purchase or other similar arrangement in respect of

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goods or services (except trade accounts payable within ninety (90) days in the ordinary course of business);

(iv) non-contingent obligations of a Co-Borrower to reimburse any other Person in respect of amounts paid by such Person under a letter of credit or similar instrument (excluding any such letter of credit or similar instrument issued for the benefit of a Co-Borrower in respect of trade accounts payable within ninety (90) days in the ordinary course of business);

(v) amounts raised under any other transaction having the financial effect of a borrowing and which would be classified as a borrowing (and not as an off-balance sheet financing) under U.S. generally accepted accounting principles consistently applied including, without limitation, under leases or similar arrangements entered into primarily as a means of financing the acquisition of the asset leased; and

(vi) any premium payable on a mandatory redemption or replacement of any of the foregoing obligations;

"Lease/Loan Loss Reserve" the total allowance deemed necessary to cover possible losses arising from uncollectable amounts in the MSF Portfolio;

"Lease/Loan Receivables" any and all amounts payable to any of the Eligible Co-Borrowers under Lease/Loan Agreements and any and all related insurances;

"Loan to Collateral Value Ratio" at any calculation date, (i) the amount of the Loan and the FMO Loan outstanding on the calculation date divided by (ii) the net present value at the calculation date of all Lease/Loan Receivables assigned to IFC and FMO under the Security Agreements and in which IFC and FMO have a perfected and registered first priority security interest discounted at the rate of six-month LIBOR plus 2.75%;

"Long-term Debt" that part of the Debt the final maturity of which, by its terms or the terms of any agreement relating to it, falls due more than one year after the date of its incurrence;

"Net Financed Assets" all financing provided through Eligible Leases/Loans outstanding less principal payments received;

"Portfolio Affected by Arrears" the aggregate principal amount of leases or loans made by an Eligible Co-Borrower which at the time of computation are in default for at least thirty (30) days;

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"Shareholders' Equity"	the aggregate of:

(i) the amount paid up or credited as paid up on the share capital of a Co-Borrower; and

(ii) the amount standing to the credit of the reserves of a Co-Borrower (including, without limitation, any share premium account and capital redemption reserve funds);

after deducting from such aggregate any impairment of the issued share capital of a Co-Borrower, amounts set aside for dividends or taxation (including deferred taxation) or attributable to goodwill or other intangible assets; and

"Short-term Debt"	all Debt other than Long-term Debt;

Section 1.03. Interpretation. In this Agreement, unless the context otherwise requires:

(a) headings are for convenience only and do not affect the interpretation of this Agreement;

(b) words importing the singular include the plural and vice versa;

(c) a reference to a Section, Article, party, Exhibit, Annex or Schedule is a reference to that Section or Article of, or that party, Exhibit, Annex or Schedule to, this Agreement;

(d) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document but disregarding any amendment, supplement, replacement or novation made in breach of this Agreement; and

(e) a reference to a party to any document includes that party's successors and permitted assigns.

Section 1.04. Business Day Adjustment. Where the day on or by which a payment is due to be made is not a Business Day, that payment shall be made on or by the next succeeding Business Day unless, in the case of payments of principal or interest, that next succeeding Business Day falls in a different calendar month, in which case that payment shall be made on the immediately preceding Business Day. Interest, fees and charges (if any) shall continue to accrue for the period from the due date which is not a Business Day to that next succeeding Business Day.

ARTICLE II

THE PROJECT, PROJECT COST AND FINANCIAL PLAN

Section 2.01. The Project. The Project consists of the provision by Eligible Co-Borrowers to Eligible Lessees/Borrowers of lease financing or loans

to fund the purchase (principally on a cross border basis in Latin American Countries) of medical diagnostic, imaging and treatment equipment.

Section 2.02. Project Cost and Financial Plan. (a) The total estimated cost of the Project, during the first twelve (12) months of operations is the equivalent of one hundred ten million one-hundred thousand Dollars ($110,100,000).

(b) The proposed sources of financing for the Project are as follows:

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	$ million equivalent
Equity in MSF Holding	
Voting Shares	
PIE	4.2
FMO	2.1
IFC	2.0
DVI	7.7
	16.0
Non-Voting Shares	
DVI	4.1
Total Equity	20.1
Loans	
FMO	25
IFC	40
DVI (Stand-by Facility)	25
Total Loans	90
TOTAL FINANCING	110.1

ARTICLE III

THE LOAN

Section 3.01. The Loan. On the terms and subject to the conditions of this Agreement, IFC agrees to lend to the Co-Borrowers:

(a) the A Loan, being fifteen million Dollars ($15,000,000); and

(b) the B Loan, being twenty-five million Dollars ($25,000,000).

Section 3.02. Disbursement Procedure. (a) The Co-Borrowers may request disbursements of the Loan by delivering to IFC, at least seven (7) Business Days prior to the proposed date of disbursement, a disbursement request substantially in the form of Schedule 1 and a receipt substantially in the form of Schedule 2.

(b) IFC shall make Disbursements to the credit of Fleet Bank N.A. in New York for further credit to the Co-Borrower's account at such bank in such place as the Co-Borrowers from time to time designate with IFC's consent.

(c) Each Disbursement shall be made in an amount (except with respect to the last Disbursement) of not less than four million Dollars ($4,000,000).

Section 3.03. A Loan Interest. Subject to Section 3.05, the Co-Borrowers shall pay interest on the A Loan in accordance with this Section 3.03.

(a) During each Interest Period, the A Loan (or, in respect of the first Interest Period of each A Loan Disbursement, the amount of that A Loan Disbursement) shall bear interest at the A Loan Interest Rate (as determined under subsection (c) or (d) below) for that Interest Period.

(b) Interest on the A Loan shall accrue from day to day, be prorated on the basis of a 360-day year for the actual number of days in the relevant Interest Period and be payable in arrears on the Interest Payment Date immediately following the end of that Interest Period.

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(c) The A Loan Interest Rate for any Interest Period shall be two and three quarters per cent (2.75%) per annum above the rate which appears on the Dow Jones Market Screen Page in the column headed "USD" as of 11:00 a.m.,

London time, on the Interest Determination Date for that Interest Period for six months (or, in the case of the first Interest Period for any A Loan Disbursement, for one month, two months, three months or six months, whichever period is closest to the duration of the relevant Interest Period (or, if two periods are equally close, the longer one)) rounded upward to the nearest three decimal places.

(d) If, for any reason, IFC cannot determine the A Loan Interest Rate for any Interest Period from the Dow Jones Market Screen Page (whether as a result of the discontinuation of the Dow Jones Market Screen Page or otherwise), IFC shall notify the Co-Borrowers and instead determine that Interest Rate using the arithmetical average (rounded upward to the nearest three decimal places) of the offered rates advised to IFC by any three major banks active in the eurodollar interbank market in London selected by IFC after consultation with the Co-Borrowers and otherwise in accordance with subsection (c) above.

(e) On each Interest Determination Date for any Interest Period, IFC shall, in accordance with the relevant subsection above, determine the A Loan Interest Rate applicable to that Interest Period and promptly notify the Co-Borrowers of such rate.

(f) The determination by IFC, from time to time, of the A Loan Interest Rate shall be final and conclusive and shall bind the Co-Borrowers (unless the Co-Borrowers show to IFC's satisfaction that the determination involves clerical error).

Section 3.04. B Loan Interest. Subject to Section 3.05, the Co-Borrowers shall pay interest on the B Loan in accordance with this Section 3.04.

(a) During each Interest Period the B Loan (or, in respect of the first Interest Period of each B Loan Disbursement, the amount of that B Loan Disbursement) shall bear interest at the B Loan Interest Rate (as determined under subsection (c) or (d) below) for that Interest Period.

(b) Interest on the B Loan shall accrue from day to day, be prorated on the basis of a 360-day year for the actual number of days in the relevant Interest Period and be payable in arrears on the Interest Payment Date immediately following the end of that Interest Period.

(c) The B Loan Interest Rate for any Interest Period shall be two and one quarter per cent (2.25%) per annum above the rate which appears on the Dow Jones Market Screen Page in the column headed "USD" as of 11:00 a.m., London

time, on the Interest Determination Date for that Interest Period for six months (or in the case of the first Interest Period for any B Loan Disbursement, for one month, two months, three months or six months, whichever period is closest to the duration of the relevant Interest Period (or, if two periods are equally close, the longer one)) rounded upward to the nearest three decimal places.

(d) If, for any reason, IFC cannot determine the B Loan Interest Rate for any Interest Period from the Dow Jones Market Screen Page (whether as a result of the discontinuation of the Dow Jones Market Screen Page or otherwise), IFC shall notify the Co-Borrowers and instead determine that Interest Rate using the arithmetical average (rounded upward to the nearest three decimal places) of the offered rates advised to IFC by any three major banks active in the eurodollar interbank market in London selected by IFC after consultation with the Co-Borrowers and otherwise in accordance with subsection (c) above.

(e) On each Interest Determination Date for any Interest Period, IFC shall, in accordance with the relevant subsection above, determine the B Loan Interest Rate applicable to that Interest Period and promptly notify the Co-Borrowers of such rate.

(f) The determination by IFC, from time to time, of the B Loan Interest

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Rate shall be final and conclusive and shall bind the Co-Borrowers (unless the Co-Borrowers show to IFC's satisfaction that the determination involves clerical error).

Section 3.05. Additional Interest. Without limiting the remedies available to IFC under this Agreement or otherwise and to the maximum extent permitted by applicable law, if the Co-Borrowers fail to make:

(a) any payment of principal or interest (including interest payable pursuant to this Section); or

(b) any other payment;

on or before its due date as specified in this Agreement (whether at stated maturity or upon prematuring by acceleration or otherwise) or, if not so specified, as notified by IFC to the Co-Borrowers, the Co-Borrowers shall pay, in respect of the amount of such payment due and unpaid, interest at the rate of two and one-half per cent (2.5%) per annum plus the A Loan Interest Rate (if that amount relates to the A Loan) or plus the B Loan Interest Rate (if that amount relates to the B Loan), in effect from time to time from the date any such payment became due until the date of actual payment (as well after as before judgment). Such

interest shall be payable on demand, or if not demanded, on each Interest Payment Date after such failure.

Section 3.06. Repayment. (a) The Co-Borrowers shall repay the A Loan in full on May 15, 2005:

(b) The Co-Borrowers shall repay the B Loan on the following dates and in the following amounts:

<TABLE>
<CAPTION>

<S> Date Payment Due	<C> Principal Amount Due
November 15, 2000	$4,166,666.67
May 15, 2001	$4,166,666.67
November 15, 2001	$4,166,666.67
May 15, 2002	$4,166,666.67
November 15, 2002	$4,166,666.67
May 15, 2003	$4,166,666.67

</TABLE>

(c) Upon each Disbursement, the amount of the B Loan disbursed shall be allocated for repayment on each of the dates for repayment of principal set out in the table in subsection (b) above in amounts which are pro rata to the amounts of the respective installments shown opposite those dates in that table (with IFC adjusting those allocations as necessary so as to achieve whole numbers in each case).

Section 3.07. Prepayment. (a) In addition to their rights of prepayment under Section 3.11, the Co-Borrowers may prepay on any Interest Payment Date all or any part of the Loan, on not less than sixty (60) days' notice to IFC, but only if:

(i) the Co-Borrowers simultaneously pay all accrued interest and Maintenance Amount (if any) on the amount of the Loan to be prepaid together with all other amounts then payable under this Agreement;

(ii) for a partial prepayment, such prepayment is an amount not less than four million Dollars ($4,000,000); and

(iii) if required, the Co-Borrowers shall deliver to IFC, prior to the date of prepayment, evidence satisfactory to IFC that all

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necessary governmental approvals in respect of the prepayment have been obtained.

(b) Amounts prepaid under this Section:

(i) shall be allocated by IFC pro rata between the A Loan and the B Loan in proportion to their respective principal amounts outstanding; and

(ii) shall then be applied by IFC to the outstanding repayment installments of the B Loan in inverse order of maturity.

(c) Upon delivery of a notice in accordance with subsection (a) above, the Co-Borrowers shall make the prepayment in accordance with the terms of that notice.

(d) Any principal amount of the Loan prepaid under this Agreement may not be re-borrowed.

Section 3.08. Fees. (a) The Co-Borrowers shall pay to IFC a commitment fee at the rate of one-half of one per cent (1/2%) per annum on that part of the Loan which from time to time has not been disbursed or canceled. The commitment fee shall:

(i) begin to accrue, with respect to the A Loan, on April 27, 1998 and, with respect to the amounts of the B Loan which are committed, on the dates of the respective Participation Agreements;

(ii) be pro rated on the basis of a 360-day year for the actual number of days elapsed; and

(iii) be payable semi-annually, in arrears, on the Interest Payment Dates in each year, the first such payment to be due on May 15, 1998.

(b) The Co-Borrowers shall also pay to IFC:

(i) a front-end fee for the A Loan of one per cent (1%) of the amount of the A Loan, to be paid within thirty (30) days

after April 27, 1998, but in any event prior to the date of the first A Loan Disbursement;

(ii) a front-end fee for the B Loan of one per cent (1%) of the amount of the B Loan, to be paid within thirty (30) days after the date of the Participation Agreements, but in any event prior to the date of the first B Loan Disbursement;

(iii) a syndication fee of one per cent (1%) of the amount of the B Loan to be paid within thirty (30) days after the date of the Participation Agreements but in any event prior to the date of the first B Loan Disbursement;

(iv) a structuring fee of two hundred thirty thousand Dollars ($230,000) to be paid no later than April 27, 1998; and

(v) an annual loan administration fee of five thousand Dollars ($5,000) for each Participant; provided, however that the aggregate amount of the loan administration fee shall not exceed fifteen thousand Dollars ($15,000) per annum.

Section 3.09. Currency and Place of Payments. (a) The Co-Borrowers shall make all payments of principal, interest, fees, and any other amount due to IFC under this Agreement in Dollars, in same day funds, at such bank or banks

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in New York as IFC from time to time designates.

(b) The tender or payment of any amount payable under this Agreement (whether or not by recovery under a judgment) in any currency other than Dollars shall not novate, discharge or satisfy the obligation of the Co-Borrowers to pay in Dollars all amounts payable under this Agreement except to the extent that (and as of the date when) IFC actually receives Dollars in its account in New York.

(c) If a currency other than Dollars is tendered or paid (or recovered under any judgment) and the amount IFC receives at its designated account in New York falls short of the full amount of Dollars owed to IFC, then the Co-Borrowers shall continue to owe IFC, as a separate obligation, the amount of the shortfall (regardless of any judgment for any other amounts due under this Agreement).

(d) Notwithstanding subsections (a) through (c) above, IFC may require the Co-Borrowers to pay (or reimburse IFC) in any currency other than Dollars for:

(i) any taxes and other amounts payable under Section 7.07; and

(ii) any fees, costs and expenses payable under Section 9.05; to the extent those taxes, amounts, fees, costs, and expenses are payable in that other currency.

Section 3.10. Allocation of Partial Payments. If IFC shall at any time receive less than the full amount then due and payable to it under this Agreement, IFC may allocate and apply such payment in any way or manner and for such purpose or purposes under this Agreement as IFC in its sole discretion determines, notwithstanding any instruction that the Co-Borrowers may give to the contrary.

Section 3.11. Maintenance Amount. (a) On each Interest Payment Date, the Co-Borrowers shall pay, in addition to interest, the amount which IFC from time to time notifies to the Co-Borrowers in a Maintenance Amount Certification as being the aggregate Maintenance Amount of IFC and each Participant accrued and unpaid prior to that Interest Payment Date.

(b) If the Co-Borrowers are required to pay any Maintenance Amount pursuant to Section 3.11(a), the Co-Borrowers may prepay that part of the Loan in respect of which the Maintenance Amount is being incurred, in whole but not in part, in accordance with Section 3.07(a)(i) and (iii).

Section 3.12. Funding Costs. (a) If the Co-Borrowers:

(i) fail to pay any amount due under this Agreement on its due date, or to borrow in accordance with a request for disbursement made pursuant to Section 3.02 or to prepay in accordance with a notice of prepayment; or

(ii) prepay all or any portion of the Loan on a date other than an Interest Payment Date;

and as a result IFC or any Participant incurs any cost, expense or loss, then the Co-Borrowers shall immediately pay to IFC the amount which IFC from time to time notifies to the Co-Borrowers as being the amount of those costs, expenses and losses incurred.

(b) For the purposes of this Section, "costs, expenses or losses" include any interest paid or payable to carry any unpaid amount and any premium, penalty or expense incurred to liquidate or obtain third party deposits or borrowings in order to make, maintain or fund all or any part of the Loan, including damages due on early termination of any swap transactions entered into by IFC in order to maintain the Loan or the relevant part thereof (but in the case of a late payment, after taking into account any additional interest received under Section 3.05).

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Section 3.13. Suspension or Cancellation of Disbursements by IFC. (a) IFC may, by notice to the Co-Borrowers, suspend or cancel the right of the Co-Borrowers to Disbursements:

(i) if the first Disbursement has not been made by December 31, 1998, or such other date as the parties agree;

(ii) if the right of the Co-Borrowers to any subscription under the IFC Subscription is suspended or canceled as provided in Section 4.03(a);

(iii) if any Event of Default has occurred and is continuing or if the Event of Default specified in Section 8.02(d) is, in the reasonable opinion of IFC, imminent;

(iv) if at any time in the reasonable opinion of IFC, there exists any situation which indicates that performance by any of the Co-Borrowers of any of their obligations under this Agreement cannot be expected; or

(v) on or after December 31, 1999.

(b) Upon the giving of any such notice, the right of the Co-Borrowers to any further Disbursement shall be suspended or canceled as the case may be. The exercise by IFC of its right of suspension shall not preclude IFC from exercising its right of cancellation, either for the same or any other reason specified in subsection (a) above. Upon such cancellation the Co-Borrowers shall pay to IFC all fees and other amounts accrued (whether or not then due and payable) under this Agreement up to the date of such cancellation. A suspension shall not limit any other provision of this Agreement.

Section 3.14. Taxes. (a) The Co-Borrowers shall pay or cause to be paid all present and future taxes, duties, fees and other charges of whatsoever nature, if any, now or in the future levied or imposed by the Government of the Bahamas, Uruguay, Argentina or any other country in which the Co-Borrowers operate or by any Authority of or by any organization of which the Bahamas, Uruguay, Argentina or any other country in which the Co-Borrowers operate is a member or any jurisdiction through or out of which a payment is made on or in connection with the payment of any and all amounts due under this Agreement.

(b) All payments of principal, interest and other amounts due under this Agreement shall be made without deduction for or on account of any such taxes, duties, fees or other charges.

(c) If the Co-Borrowers are prevented by operation of law or otherwise from making or causing to be made such payments without deduction, the principal or (as the case may be) interest or other amounts due under this Agreement shall be increased to such amount as may be necessary so that IFC receives the full amount it would have received (taking into account any such taxes, duties, fees or other charges payable on amounts payable by the Co-Borrowers under this subsection) had such payments been made without such deduction.

(d) If subsection (c) above applies and IFC so requires, the Co-Borrowers shall deliver to IFC official tax receipts evidencing payment (or certified copies of them) within thirty (30) days of the date of payment.

(e) Subsections (a) and (b) above do not apply to taxes, duties, fees and other charges which directly result from a Participant (or, as the case may be, a participant with a comparable participation in the A Loan) having its principal office in the Bahamas, Uruguay, Argentina or any other country in which any of the Co-Borrowers are organized or having or maintaining a permanent office or establishment in the Bahamas, Uruguay, Argentina or any other country in any of which the Co-Borrowers are organized if and to the extent that such permanent office or establishment acquires the relevant Participation (or a comparable participation in the A Loan).

Section 3.15. Illegality of Participation. If, after the date of this Agreement, any change made in any applicable law or regulation or official directive (or its interpretation or application by any Authority charged with

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its administration), makes it unlawful for any Participant to continue to maintain or to fund its Participation, then the Co-Borrowers shall, upon request by IFC (but subject to the approval of the relevant Authority of the Bahamas, Uruguay,

Argentina or any other jurisdiction, which the Co-Borrowers agree to take all reasonable steps to obtain as quickly as possible, if such approval is then required), prepay on the next Interest Payment Date (or upon such earlier date as IFC may advise the Co-Borrowers is the latest day permitted by the relevant change of law, regulation or official directive or relevant interpretation or application) in full that part of the B Loan which IFC advises corresponds to that Participation, together with all accrued interest, Maintenance Amount (if any) on that part of the B Loan (and, if such prepayment is not made on an Interest Payment Date, any amount payable in respect of the prepayment under Section 3.12). In addition, upon receipt of such request from IFC, the Co-Borrowers shall have no further right to disbursement of the undisbursed portion of the B Loan corresponding to that Participation.

ARTICLE IV

IFC SUBSCRIPTION

Section 4.01. Subscription and Disbursement. (a) On the terms and subject to the conditions of this Agreement, IFC agrees to subscribe and pay for in Dollars at the price of eight thousand Dollars ($8,000) per share, two hundred fifty (250) Shares (the "IFC Shares") which shall equal twelve and one-half per cent (12.5%) of the Shares issued and outstanding after giving effect to the subscription by IFC.

(b) MSF Holding may request IFC to subscribe for the IFC Shares by delivering to IFC, at least seven (7) Business Days prior to the proposed date of subscription, a request in the form of Schedule 3. The request shall be for the full number of the IFC Shares.

(c) IFC shall disburse under the IFC Subscription to the credit of MSF Holding at Fleet Bank N.A. or at such other bank in such place as IFC and MSF Holding from time to time agree.

(d) Upon subscription and payment by IFC under this Section, MSF Holding shall:

(i) issue to IFC, or as IFC directs, the number of IFC Shares so subscribed free of all Liens and which shall rank, to the extent of the capital paid up on them, pari passu in all respects with all other Shares, and deliver to IFC, or as IFC

directs, a share certificate evidencing valid title to such number of IFC Shares; and

(ii) furnish to IFC evidence satisfactory to IFC that such number of IFC Shares have been duly and validly authorized, issued and delivered and that all other legal requirements in connection with their authorization, issue and delivery have been duly satisfied.

(e) Notwithstanding anything contained in this Agreement, IFC may, at any time and from time to time, in its discretion and without request by MSF Holding, subscribe and pay, on the terms set out in subsection (a) above, for any or all of the IFC Shares; provided that the number of Shares which IFC has agreed to subscribe under subsection (a) above shall thereafter be reduced by the number of Shares which IFC has subscribed under this subsection (e).

Section 4.02. Actions Prohibited until IFC Shares Issued. Until all of the IFC Shares have been subscribed or the right of MSF Holding to further subscriptions has been canceled as provided in Section 4.03, whichever first

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occurs:

(a) MSF Holding shall maintain a sufficient number of authorized and unissued Shares to satisfy in full the exercise of IFC's rights under the IFC Subscription; and

(b) MSF Holding shall not, unless IFC otherwise agrees:

(i) issue any Shares of any class, except in accordance with the Financial Plan;

(ii) increase its authorized capital except in accordance with the provisions of this Agreement;

(iii) change the par value (if any) of, or the rights attached to, any of its Shares of any class; or

(iv) take any other action by amendment of its Memorandum and Articles of Association or through reorganization, consolidation, sale of share capital or Shares held in treasury, merger or sale of assets, or otherwise which might result in a dilution of the interest in MSF Holding represented by the IFC Shares.

Section 4.03. Suspension and Cancellation of IFC Subscription. IFC may, by notice to MSF Holding, suspend or cancel the right of MSF Holding to request subscription of the unsubscribed part of the IFC Shares:

(a) if the subscription has not been made by the earlier of October 31, 1998 or the date thirty (30) days after the date upon which all required Authorizations have been obtained or such other date as the parties agree;

(b) if the right of the Co-Borrowers to disbursements of the Loan is suspended or canceled as provided in Section 3.13;

(c) if any Event of Default has occurred and is continuing, or if the Event of Default specified in Section 8.02(d) is, in the reasonable opinion of IFC, imminent;

(d) if, at any time, in the reasonable opinion of IFC, there exists any situation which indicates that performance by any of the Co-Borrowers of any of its obligations under this Agreement cannot be expected; or

(e) on or after June 30, 1999.

The exercise by IFC of its right of suspension shall not preclude IFC from exercising its right of cancellation, either for the same or any other reason specified in subsection (a) above. A suspension shall not limit any other provision of this Agreement.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Section 5.01. Representations and Warranties. Each of the Co-Borrowers represents and warrants that:

(a) it is a company duly incorporated and validly existing under the laws of its jurisdiction of formation and has the corporate power to own its assets, conduct its business as presently conducted and to enter into, observe and perform its obligations under, the Transaction Documents to which it is a party or will, in the case of any Transaction Document not executed as at the date of this Agreement, when that Transaction Document is executed, have the corporate

power to enter into, observe and perform its obligations under that Transaction

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Document;

(b) each Transaction Document to which it is a party has been, or will be, duly authorized and executed by it and constitutes, or will, when executed constitute, valid and legally binding obligations of such Co-Borrower, enforceable in accordance with its terms (except for the application of any bankruptcy, insolvency or other laws relating to creditor's rights generally);

(c) neither the making of any Transaction Document to which it is a party nor (when all the consents referred to in Section 6.01(g) have been obtained) the compliance with its terms will conflict with or result in a breach of any of the terms, conditions or provisions of, or constitute a default or require any consent under, any indenture, mortgage, agreement or other instrument or arrangement to which any of the Co-Borrowers is a party or by which it is bound, or violate any of the terms or provisions of any of the Co-Borrower's Memorandum and Articles of Association, Estatutos, or other organizational documents, as the case may be, or any judgment, decree or order or any statute, rule or regulation applicable to any of the Co-Borrowers;

(d) neither such Co-Borrower nor any of its property enjoys any right of immunity from set-off, suit or execution in respect of its assets or its obligations under any Transaction Document;

(e) the Information Memorandum dated December 1997 prepared by IFC in connection with the offering of Participations does not contain any information which is misleading in any material respect nor does it omit any information which makes the information contained in it misleading in any material respect;

(f) since the date of the Letter of Information, such Co-Borrower:

(i) has not suffered any material adverse change in its business prospects or financial condition or incurred any substantial or unusual loss or liability; and

(ii) has not undertaken or agreed to undertake any substantial or unusual obligation;

(g) the latest financial statements of such Co-Borrower delivered to IFC:

(i) have been prepared in accordance with accounting principles consistently applied, and present fairly the financial condition of such Co-Borrower as of the date as of which they were prepared and the results of such Co-Borrower's operations during the period then ended; and

(ii) disclose all liabilities (contingent or otherwise) of the Co-Borrower, and the reserves, if any, for such liabilities and all unrealized or anticipated losses arising from commitments entered into by the Co-Borrower (whether or not such commitments have been disclosed in such financial statements);

(h) such Co-Borrower is not a party to or committed to enter into, any material contract except as follows:

(i) the Tax Free Zone Indirect User Agreement dated January 30, 1998 between Oferil, HSF and Zona Franca Montevideo; and

(ii) the Tax Free Zone Indirect User Agreement dated September 8, 1997 between Oferil, MSF and Zona Franca Montevideo;

(i) such Co-Borrower has no outstanding Lien on any of its assets other than Liens arising by operation of law, and no contracts or arrangements, conditional or unconditional, exist for the creation by the Co-Borrower of any Lien, except for the IFC/FMO Security;

(j) all tax returns and reports of the Co-Borrower required by law to be filed have been duly filed and all tax assessments, fees and other governmental charges upon the Co-Borrower, or its properties, or its income or

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assets, which are due and payable, have been paid, other than those presently payable without penalty or interest;

(k) such Co-Borrower is not engaged in nor, to the best of its knowledge, threatened by, any litigation, arbitration or administrative proceedings, the outcome of which might materially and adversely affect its business prospects or financial condition or make it improbable that the Co-Borrower will be able to observe or perform its obligations under this Agreement;

(l) to the best of its knowledge and belief, the Co-Borrower is not in violation of any statute or regulation of any Authority and no judgment or order has been issued which has or is likely to have any materially adverse effect on the Co-Borrower's business prospects or financial condition or make it improbable that such Co-Borrower will be able to observe or perform its obligations under this Agreement; and

(m) the IFC Shares shall equal twelve and one-half per cent (12.5%) of the Shares issued and outstanding after giving effect to the subscription by IFC for the IFC Shares.

Section 5.02. IFC Reliance. (a) Each of the Co-Borrowers acknowledges that it makes the representations and warranties in Section 5.01 with the intention of inducing IFC to enter into this Agreement (and the Participants to enter into the Participation Agreements) and that IFC enters into this Agreement (and the Participants will enter into the Participation Agreements) on the basis of, and in full reliance on, each of such representations and warranties.

(b) Each of the Co-Borrowers warrants to IFC (for itself and for the benefit of the Participants) that each of such representations is true and correct in all material respects as of the date of this Agreement and that none of them omits any matter the omission of which makes any of such representations misleading.

Section 5.03. Rights and Remedies not Limited. IFC's rights and remedies in relation to any misrepresentation or breach of warranty on the part of the Co-Borrowers are not prejudiced:

(a) by any investigation by or on behalf of IFC (or the Participants) into the affairs of any of the Co-Borrowers;

(b) by the execution or the performance of this Agreement (or the Participation Agreements); or

(c) by any other act or thing which may be done by or on behalf of IFC (or the Participants) in connection with this Agreement (or the Participation Agreements) and which might, apart from this Section, prejudice such rights or remedies.

ARTICLE VI

CONDITIONS OF DISBURSEMENT AND SUBSCRIPTION

Section 6.01. Initial Conditions. The obligation of IFC to make the first Disbursement or the subscription and disbursement under the IFC Subscription is subject to the fulfillment, in a manner satisfactory to IFC, prior to or concurrently with the making of such first Disbursement or subscription and disbursement, of the following conditions:

(a) each of the Co-Borrowers has performed all of its obligations due to be performed under the Transaction Documents in each case due to be performed prior to the first Disbursement or the subscription and disbursement under the IFC Subscription;

(b) arrangements satisfactory to IFC have been made with respect to the installation and operation of an accounting, treasury and cost control system and a management information system satisfactory to IFC;

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(c) each of the Co-Borrowers has insured its properties and business in accordance with Section 7.01(t) and has provided to IFC copies of all insurance policies required to be in force as at the date of the first Disbursement or the subscription and disbursement under the IFC Subscription together with a certificate of the insurer confirming that such policies are in effect;

(d) the Transaction Documents, each in form and substance satisfactory to IFC, have been entered into by all parties to them and have become (or, as the case may be, remain) unconditional and fully effective in accordance with their respective terms (except for this Agreement having become unconditional and fully effective, if that is a condition of any of such agreements), and, if IFC requires, IFC has received a copy of each Transaction Document to which it is not a party, certified as a true and complete copy by the Co-Borrowers;

(e) [Reserved];

(f) the Memorandum and Articles of Association, Estatutos, or other organizational documents, as the case may be, of each of the Co-Borrowers are in form and substance satisfactory to IFC;

(g) the Co-Borrowers have obtained, or made arrangements satisfactory to IFC for obtaining, all Authorizations for:

(i) the Loan and the IFC Subscription;

(ii) the carrying on of the business of the Co-Borrowers as it is presently carried on and is contemplated to be carried on;

(iii) the carrying out of the Project and the implementation of the Financial Plan;

(iv) the due execution, delivery, validity and enforceability of, and performance under, this Agreement, the Share Retention, Non-Competition and Put Option Agreement, the Guarantee Agreement, the Security Agreements, the Share Subscription Agreement, the Shareholders Agreement, the Technical Assistance Agreement, the Bilateral Vendor Agreements, the Servicing Agreement, the FMO Documents, the Assignment Agreements, the Stand-by Loan Facility Agreement, and any other documents necessary or desirable to the implementation of any of those Agreements or Documents and the issue and delivery of the IFC Shares; and

(v) the remittance to IFC or its assigns in Dollars of all monies payable in respect of the Transaction Documents and the IFC Shares;

and has provided IFC with copies of those Authorizations, certified as true and complete copies by the Co-Borrowers, if IFC so requires;

(h) IFC has received a legal opinion or opinions, in form and substance satisfactory to it, from IFC's special counsel in the Bahamas, Uruguay, New York, Delaware, Massachusetts, Argentina, Brazil, Colombia and such other jurisdictions as IFC may request (as appropriate and as IFC requires) and concurred in by counsel for each of the Co-Borrowers, with respect to:

(i) the organization, existence and operations of each of the Co-Borrowers and its authorized and subscribed share capital;

(ii) the matters referred to in subsections (d), (f) and (g) above;

(iii) the title of the relevant Co-Borrower to, or other interest of the Co-Borrower in, the assets which are

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the subject of the IFC/FMO Security;

(iv) the authorization, execution, validity and enforceability of this Agreement, the Share Retention, Non-Competition and Put Option Agreement, the Guarantee Agreement, the Security Agreements, the Share Subscription Agreement, the Shareholders Agreement, the Technical Assistance Agreement, the Bilateral Vendor Agreements, the Servicing Agreement, the FMO Documents, the Assignment Agreements, the Stand-by Loan Facility Agreement, and any other documents necessary or desirable to the implementation of any of those Agreements or Documents;

(v) the compliance with all obligations referred to in Sections 3.14 and 7.07;

(vi) the priorities or privileges, if any, that creditors of the Co-Borrowers, other than IFC, may have by reason of law; and

(vii) such other matters relating to the transactions contemplated by this Agreement as IFC reasonably requests;

(i) IFC has received:

(i) (if IFC so requires) the reimbursement of fees and expenses of IFC's counsel as provided in Section 9.05; and

(ii) the fees specified in Section 3.08 required to be paid on or before the date of the first Disbursement or the subscription and disbursement under the IFC Subscription;

(j) arrangements satisfactory to IFC have been made for appointment of an agent for service of process pursuant to Section 9.08(c);

(k) IFC has received a copy of the authorization to the Auditors referred to in Section 7.01(g);

(l) IFC has received evidence, in the form of Schedule 4, of the authority of the person or persons who will, on behalf of the Co-Borrowers, sign the requests and certifications provided for in this Agreement, or take any other

action or execute any other document required or permitted to be taken or executed by the Co-Borrowers under this Agreement, and the authenticated specimen signature of each such person; and

(m) IFC has received a copy of the Policy/Operating Guidelines of the Co-Borrowers which shall have been agreed upon by the Co-Borrowers and IFC, and shall have been approved by each Co-Borrower's Board of Directors;

Section 6.02. Conditions of all Disbursements and subscription and disbursement under the IFC Subscription. The obligation of IFC to make any Disbursement or the subscription and disbursement under the IFC Subscription is also subject to the conditions that:

(a) no Event of Default and no Potential Event of Default has occurred and is continuing;

(b) the proceeds of such Disbursement or subscription and disbursement under the IFC Subscription are, at the date of the relevant request, needed by the Co-Borrowers for the purpose of the Project, or will be needed for that purpose within six (6) months of such date;

(c) since April 27, 1998 nothing has occurred which can reasonably be expected to materially and adversely affect the carrying out of the Project, any of the Co-Borrowers or DVI's business prospects or financial condition or make it improbable that any of the Co-Borrowers will be able to observe or perform

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any of its obligations under this Agreement;

(d) since April 27, 1998 none of the Co-Borrowers have incurred any material loss or liability (except such liabilities as may be incurred in accordance with Sections 7.02, 7.03 and 7.04); and

(e) the representations and warranties made in Article V are true on and as of the date of that Disbursement or subscription and disbursement under the IFC Subscription with the same effect as if such representations and warranties had been made on and as of the date of that Disbursement or subscription and disbursement under the IFC Subscription (but in the case of Section 5.01(c), without the words in parenthesis).

Section 6.03. Additional Conditions for Loan. The obligation of IFC to make any Disbursement is also subject to the conditions that:

(a) in the case of the first Disbursement, the IFC Shares have been subscribed in full;

(b) the proceeds of that Disbursement are not in reimbursement of, or to be used for, expenditures in the territories of any country which is not a member of IFC or the World Bank or for goods produced in or services supplied from any such country;

(c) after giving effect to that Disbursement, none of the Co-Borrowers would be in violation of:

(i) its Memorandum and Articles of Association, Estatutos, or other organizational documents, as appropriate;

(ii) any provision contained in any document to which any of the Co-Borrowers is a party (including this Agreement) or by which any of the Co-Borrowers is bound; or

(iii) any law, rule or regulation directly or indirectly limiting or otherwise restricting any Co-Borrower's borrowing power or authority or its ability to borrow;

(d) (without limiting the generality of subsection (c) above) after taking account of the amount of that Disbursement MSF Holding shall be in compliance with the Capital Adequacy Ratio (on a consolidated basis);

(e) such Disbursement is made pro rata with the disbursement of any other senior loan forming part of the Financial Plan.

(f) the IFC/FMO Security has been duly created and registered as first priority or first ranking security interests in all assets subject to the Security Agreements;

(g) the Co-Borrowers shall have perfected and registered first priority security interests in favor of IFC and FMO over Lease/Loan Receivables such that, at all times, the Loan to Collateral Value Ratio is no more than 95%; and

(h) after giving effect to that Disbursement, the aggregate amount outstanding under the Loan would not exceed the lesser of (i) the Advance Rate, or (ii) the Current Net Equipment Investment Cost.

(i) IFC has entered into Participation Agreements with Participants for the acquisition by them of Participations in an aggregate amount equal to the full amount of the B Loan and those commitments are in full force and effect;

Section 6.04. Additional Conditions for IFC Subscription. The obligation of IFC to make any subscription and disbursement under the IFC Subscription is also subject to the conditions that:

(a) immediately after such subscription and disbursement, IFC would not

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have subscribed and paid for a higher proportion of the IFC Shares than the proportion which each of the other shareholders of MSF Holding has by then subscribed and paid for of the total number of Shares to be subscribed by it in accordance with the Financial Plan;

(b) DVI International and PIE shall have acquired, or shall contemporaneously with such subscription acquire, in the aggregate, at least seventy-four per cent (74%) of the issued voting share capital of MSF Holding on terms and conditions satisfactory to IFC;

(c) FMO shall have acquired, or shall contemporaneously with such subscription, acquire, in the aggregate, at least thirteen percent (13%) of the issued voting share capital of MSF Holding on terms and conditions satisfactory to IFC; and

(d) all subscribed shares have been paid in full in cash.

Section 6.05. B Loan Conditions. Notwithstanding any other provision of this Agreement, IFC is not obliged to make:

(a) any B Loan Disbursement, except to the extent that the Participants provide funds for that B Loan Disbursement under their Participations;

(b) any Disbursement except pro rata from the A Loan and the B Loan to the extent amounts under the B Loan are committed; and

(c) to the extent amounts have been disbursed under the A Loan prior to any commitment under the B Loan, any Disbursement except pro rata from the undisbursed amount of the A Loan and the amount of the B Loan committed and undisbursed.

Section 6.06. Co-Borrowers' Certification. The Co-Borrowers shall deliver to IFC:

(a) as part of each request for Disbursement and for the subscription and disbursement under the IFC Subscription a certification, substantially in the form of Schedule 1 or Schedule 3, as the case may be, with respect to the conditions specified in Sections 6.02, 6.03 and 6.04, as the case may be, expressed to be effective as of the date of the relevant Disbursement or subscription and disbursement, and in the case of Section 6.02(d), certified by the Auditors if IFC so requires;

(b) such evidence as IFC reasonably requests of the proposed utilization of the proceeds of the relevant Disbursement or subscription and disbursement or the utilization of the proceeds of any prior Disbursement or subscription and disbursement; and

(c) if IFC requests, a legal opinion or opinions in form and substance satisfactory to IFC, of IFC's special counsel in the Bahamas, Uruguay, Argentina and such other jurisdiction as IFC may reasonably request, and concurred in by counsel for each of the Co-Borrowers, with respect to any matters relating to the relevant Disbursement or subscription and disbursement.

Section 6.07. Conditions for IFC Benefit. The conditions in Sections 6.01 through 6.06 are for the benefit of IFC and may be waived only by IFC at its sole discretion.

Section 6.08. Saving of Rights. Unless IFC otherwise notifies the Co-Borrowers and without limiting the generality of Section 9.12, the right of IFC to require compliance with any condition under this Agreement which IFC waives in respect of any Disbursement or subscription and disbursement shall be preserved for the purposes of any subsequent Disbursement or subscription and disbursement.

ARTICLE VII

PARTICULAR COVENANTS

Section 7.01. Affirmative Covenants. Unless IFC otherwise agrees, each of the Co-Borrowers shall:

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(a) carry out the Project and conduct its business with due diligence and efficiency and in accordance with sound financial and business practices;

(b) cause the financing specified in the Financial Plan to be applied exclusively to the Project;

(c) promptly install and maintain the accounting, treasury and cost control system and management information system referred to in Section 6.01(b), and an operational and organizational structure satisfactory to IFC and maintain books of account and other records adequate to reflect truly and fairly the financial condition of such Co-Borrower and the results of its operations (including the progress of the Project) in conformity with U.S. generally accepted accounting principles (with respect to MSF Holding), both U.S. generally accepted accounting principles and accounting principles which are generally accepted in Uruguay (with respect to MSF, Estolur and HSF), both U.S. generally accepted accounting principles and accounting principles which are generally accepted in Argentina (with respect to MSF Argentina), and both U.S. generally accepted accounting principles and accounting principles which are generally accepted in such other countries as IFC may specify (with respect to each other Co-Borrower), consistently applied;

(d) as soon as available but in any event within sixty (60) days after the end of each of the first three quarters of each Fiscal Year, deliver to IFC:

(i) two (2) copies of such Co-Borrower's complete consolidated financial statements in Dollars for such quarter in form satisfactory to IFC and, if requested by IFC, certified by an officer of such Co-Borrower;

(ii) a report on any factors materially and adversely affecting or which might materially and adversely affect such Co-Borrower's business and operations or its financial condition;

(iii) during implementation of the Project, a report, in a form satisfactory to IFC, on the implementation and progress of the Project, including any factors materially and adversely affecting or which might materially and adversely affect the Project or the implementation of the Financial Plan;

(iv) a statement of all financial transactions between such Co-Borrower and each of its Subsidiaries and other Affiliates and a certification by the chief financial officer of such Co-

Borrower that those transactions were on the basis of arms'-length arrangements;

(v) a statement of such Co-Borrower's Indebtedness for Borrowed Money in respect of hedging transactions as of the last day of such quarter; and

(vi) a statement of interest and foreign currency exposures of the Co-Borrowers containing duration (dynamic gap) analysis as per the last day of such quarter;

(e) as soon as available but in any event within ninety (90) days after the end of each Fiscal Year, deliver to IFC:

(i) two (2) copies of its complete consolidated and audited financial statements in Dollars for such Fiscal Year (which are in agreement with its books of account and prepared in accordance with U.S. generally accepted accounting principles (with respect to MSF Holding), both U.S. generally accepted accounting principles and accounting principles which

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are generally accepted in Uruguay (with respect to MSF, Estolur and HSF), both U.S. generally accepted accounting principles and accounting principles which are generally accepted in Argentina (with respect to MSF Argentina), and both U.S. generally accepted accounting principles and accounting principles which are generally accepted in such other countries as IFC may specify (with respect to each other Co-Borrower), consistently applied, together with the Auditors' audit report on them, all in form satisfactory to IFC;

(ii) a copy of any management letter or other communication from the Auditors to such Co-Borrower or to its management commenting, with respect to such Fiscal Year, on, among other things, the adequacy of such Co-Borrower's financial control procedures, interest rate and foreign exchange exposures, accounting systems and management information system;

(iii) a report by the Auditors certifying that, on the basis of its financial statements, such Co-Borrower was in compliance with the financial covenants contained in Sections 7.02,

7.03 and 7.04 as of the end of the relevant Fiscal Year or, as the case may be, detailing any non-compliance;

(iv) a review by such Co-Borrower of the operations of such Co-Borrower during such Fiscal Year, in a form satisfactory to IFC, containing the information listed in Schedule 6; and

(v) a statement by such Co-Borrower of all financial transactions between such Co-Borrower and each of its Subsidiaries and other Affiliates during such Fiscal Year and a certification by the chief financial officer of such Co-Borrower that those transactions were on the basis of arms'-length arrangements;

(f) deliver to IFC, promptly following receipt, a copy of any management letter or other communication sent by the Auditors (or any other accountants retained by such Co-Borrower) to such Co-Borrower or its management in relation to the Co-Borrower's financial, accounting and other systems, management or accounts if not provided pursuant to subsection (e)(ii) above;

(g) authorize, in the form of Schedule 5, the Auditors (whose fees and expenses shall be for the account of the Co-Borrower) to communicate directly with IFC at any time regarding the Co-Borrowers accounts and operations and furnish to IFC a copy of such authorization;

(h) notify IFC not less than ten (10) days before any meeting of its shareholders including the agenda of the meeting;

(i) promptly deliver to IFC two (2) copies of:

(i) all notices, reports and other communications of such Co-Borrower to its shareholders; and

(ii) the minutes of all shareholders' meetings;

(j) promptly provide to IFC such information as IFC from time to time reasonably requests about the Co-Borrower, its assets and the Project;

(k) permit representatives of IFC to visit any of the premises where the business of the Co-Borrower is conducted upon notice and during normal business hours and to have access to its books of account and records;

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(l) promptly notify IFC of any proposed change in the nature or scope of the Project or the business or operations of the Co-Borrower and of any event or condition which might materially and adversely affect the carrying out of the Project or the carrying on of the Co-Borrower's business or operations;

(m) promptly notify IFC by facsimile or telex as soon as it becomes aware of any litigation or administrative proceedings before any Authority or arbitral body which does or can reasonably be expected to materially and adversely affect the Co-Borrower, its assets or the Project or the ability of the Co-Borrower to perform and observe its obligations under any Transaction Document;

(n) if Grant Thornton/Trevisan Auditores cease to be the auditors of the Co-Borrower for any reason, appoint and maintain as the auditors of the Co-Borrower another firm of independent public accountants satisfactory to IFC and, within thirty (30) days after such appointment, deliver to IFC a copy of an authorization to such firm in the form of Schedule 5;

(o) obtain and maintain in force (or where appropriate, promptly renew) all Authorizations necessary for carrying out the Project and the Co-Borrower's business and operations generally;

(p) perform and observe all the conditions and restrictions contained in, or imposed on the Company by, any such Authorizations;

(q) from time to time, execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such further instruments as may reasonably be requested by IFC for perfecting or maintaining in full force and effect the perfection of the IFC/FMO Security or for re-registering the IFC/FMO Security or otherwise to comply with the Co-Borrower's obligations under the Transaction Documents;

(r) maintain the Policy/Operating Guidelines in force and effect and operate its business and cause its Subsidiaries to operate their businesses in accordance therewith and with all applicable regulations governing such business and operations;

(s) with respect to the Eligible Co-Borrowers only, enter into, Lease/Loan Agreements and other contracts that ensure that Eligible Leases/Loans are made in such form and upon such terms as to confer upon the Eligible Co-Borrowers valid and enforceable rights, and impose upon the Eligible Lessees/Borrowers valid and enforceable obligations, including the obligation to purchase adequate liability insurance, adequate to protect the interests of the Eligible Co-Borrowers;

(t) perform all of the following:

(i) insure and keep insured its assets and business operations with sound and reputable insurers, or effect scheme(s) of self-insurance, or make alternative arrangements, as outlined in Schedule 7;

(ii) punctually pay any premium, commission and any other amount necessary for effecting and maintain in force each insurance policy;

(iii) ensure that every property insurance policy cannot be terminated by the insurers for any reason (including failure to pay the premium or any other amount) unless both IFC and the relevant Co-Borrower receive at least forty-five (45) days notice;

(iv) deliver to IFC:

(a) within ninety (90) days after the end of each Fiscal Year a written policy statement outlining insurance arrangements made by the relevant Co-Borrower to protect its assets and operations (as specified in Schedule 7), and confirming (y) procedures are in place to monitor insurances on all loans and leases made under Lease/Loan Agreements and (z) such loans or leases may be audited by

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IFC's representatives;

(b) any information or documents on each insurance policy IFC requests;

(v) not vary, rescind, terminate, cancel or cause a material change to any insurance policy; and

(vi) promptly notify the relevant insurer of any claim by the relevant Co-Borrower under any policy written by that insurer and diligently pursue that claim;

(u) maintain separate accounts in which such Co-Borrower shall record: (i) the amount of all funds disbursed by IFC and paid to IFC under this Agreement and the dates of such disbursements or payments; (ii) all funds disbursed by the Co-Borrowers, including the amount paid by MSF to Estolur and HSF, for the acquisition of goods and equipment leased to Eligible Lessees/Borrowers and for the provision of services;

(v) maintain a Loan to Collateral Value Ratio no more than 95%; and

(w) collect any amounts which it may be entitled to claim against DVI pursuant to the Guarantee Agreement.

Section 7.02. Affirmative Covenants Particular to MSF Holding. Unless IFC otherwise agrees, MSF Holding shall:

(a) cause the Eligible Co-Borrowers to maintain on a consolidated basis at all times the following financial ratios:

(i) the Capital Adequacy Ratio;

(ii) a Portfolio Affected by Arrears less loss provisions which shall not exceed twenty percent (20%) of the total Tier 1 (as defined in the BIS Guidelines) capital of the Eligible Co-Borrowers as determined in accordance with the BIS Guidelines; and

(iii) a single client exposure ratio of no more than twenty percent (20%) of Shareholders' Equity and an exposure ratio to any company and its Affiliates of no more than thirty percent (30%) of Shareholders' Equity;

(b) cause the Eligible Co-Borrowers to maintain on a consolidated basis a diversified vendor portfolio, with no single vendor providing more than (i) 50% of the equipment financed pursuant to Eligible Leases/Loans in the MSF Portfolio from December 31, 2001 through December 31, 2002, and (ii) 40% of such equipment thereafter;

(c) maintain a Lease/Loan Loss Reserve of at least (i) one percent (1%) of Net Financed Assets during Fiscal Year 1999, (ii) one and one-half percent (1.5%) of Net Financed Assets during Fiscal Year 2000, and (iii) two percent (2%) of Net Financed Assets in Fiscal Year 2001 and thereafter; and

(d) provide a Borrowing Base Report to IFC not later than thirty (30) days after the end of each month.

Section 7.03. Affirmative Covenants Particular to the Eligible Co-Borrowers. Unless IFC otherwise agrees, the Eligible Co-Borrowers shall:

(a) maintain the following financial ratios on an aggregate basis:

(i) the Capital Adequacy Ratio;

(ii) a Portfolio Affected by Arrears less loss provisions which shall not exceed twenty percent (20%) of the total Tier 1 capital (as defined in the BIS Guidelines) of the Eligible Co-Borrowers, as determined in accordance with the BIS Guidelines; and

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(iii) a single client exposure ratio of no more than twenty percent (20%) of Shareholders' Equity and an exposure ratio to any company and its Affiliates of no more than thirty percent (30%) of Shareholders' Equity;

(b) maintain, on an aggregate basis, a diversified vendor lease portfolio, with no single vendor representing more than (i) fifty percent (50%) of the equipment financed pursuant to Eligible Leases/Loans in the MSF Portfolio from December 31, 2001 through December 31, 2002, and (ii) forty percent (40%) of such equipment thereafter;

(c) maintain, on an aggregate basis, a Lease/Loan Loss Reserve of at least (i) one percent (1%) of Net Financed Assets during Fiscal Year 1999, (ii) one and one half percent (1.5%) of Net Financed Assets during Fiscal Year 2000, and (iii) two percent (2.0%) of Net Financed Assets in Fiscal Year 2001 and thereafter; and

(d) in the case of MSF Argentina, as soon as possible after the execution of this Agreement, change its name from Sistemas Financieros S.A. to MSF Argentina S.A.

Section 7.04. Negative Covenants. Unless IFC otherwise agrees, each of the Co-Borrowers shall not:

(a) incur, assume or permit to exist any indebtedness except:

(i) the Loan;

(ii) the FMO Loan;

(iii) that part of Short-term Debt which is Indebtedness for Money Borrowed incurred from commercial and/or investment banks in the ordinary course of business, not exceeding at any one time outstanding the equivalent of twenty percent (20%) of the aggregate principal amount of Eligible Leases/Loans in the MSF Portfolio; and

(iv) other loans contemplated in the Financial Plan;

(b) enter into any agreement or arrangement to guarantee or, in any way or under any condition, to become obligated for all or any part of any financial or other obligation of another Person;

(c) create or permit to exist any Lien on any property, revenues or other assets, present or future, of any of the Co-Borrowers, except for:

(i) the IFC/FMO Security;

(ii) the naming of IFC as beneficiary under the Co-Borrower's insurance policies;

(iii) any tax or other Lien arising by operation of law, provided that such lien is discharged within thirty (30) days after the date it is created or arises (unless contested in good faith by any of the Co-Borrowers, in which case it shall be discharged within thirty (30) days after final adjudication);

(iv) any banker's right of set-off arising in respect of Debt permitted by Section 7.04(a)(iii);

(v) Liens on revenues or other assets to secure Debt with maturities of five years or longer; and

(vi) Liens on revenues or other assets provided in connection with securitizations or structured

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borrowings approved by IFC;

(d) enter into any transaction except in the ordinary course of business on the basis of arm's-length arrangements (including, without limitation, transactions whereby any of the Co-Borrowers might pay more than the ordinary commercial price for any purchase or might receive less than the full ex-works commercial price (subject to normal trade discounts) for its products);

(e) enter into any partnership, profit-sharing or royalty agreement or other similar arrangement whereby any of the Co-Borrower's income or profits are, or might be, shared with any other Person;

(f) enter into any management contract, except for the Servicing Agreement, or similar arrangement whereby its business or operations are managed by any other Person;

(g) form or have any Subsidiary or Affiliate, other than Subsidiaries and Affiliates existing on April 27, 1998 and disclosed to IFC in writing;

(h) make or permit to exist loans or advances to, or deposits (except commercial bank deposits in the ordinary course of business) with, other Persons or investments in any Person or enterprise other than short-term marketable securities acquired solely to give temporary employment to its idle funds;

(i) change its Memorandum, Articles of Association, Estatutos, or other organizational documents, as applicable, in any manner which would be inconsistent with the provisions of any Transaction Document;

(j) change its Fiscal Year;

(k) change the nature or scope of the Project or change the nature of its present or contemplated business or operations;

(l) other than as contemplated by the Project, sell, transfer, lease or otherwise dispose of all or a substantial part of its capital assets (whether in a single transaction or in a series of transactions, related or otherwise and including, but not limited to, securitizations or loan sales);

(m) undertake or permit any merger, consolidation or reorganization with any party which is not an Affiliate;

(n) terminate, amend or grant any waiver in respect of any provision of any Transaction Document or any agreements evidencing any loans provided under the Financial Plan; or

(o) prepay (whether voluntarily or involuntarily) or repurchase any Long-term Debt (other than the Loan, or the FMO Loan) pursuant to any provision of any agreement or note in respect of that Long-term Debt (other than any provision which permits prepayment in circumstances where any of the Co-Borrowers has a liability equivalent to Sections 3.11, and 3.15), unless:

(i) that Long-term Debt is refinanced using new Long-term Debt on equivalent terms or terms (as to interest rate and tenor) more favorable to such Co-Borrower; or

(ii) if IFC so requires, such Co-Borrower contemporaneously prepays a proportionate amount of the Loan in accordance with the provisions of Section 3.07 (except that there shall be no minimum amount or advance notice period for such prepayment);

(p) undertake any type of banking activity or act as a commercial bank unless: (i) IFC specifically approves of such activity; and (b) such Co-Borrower is regulated and supervised by the applicable jurisdiction's monetary authorities;

(q) use the proceeds of any Disbursement in the territories of any country which is not a member of IFC or the World Bank or for reimbursements of expenditures in those territories or for goods produced in or services supplied from those territories; or

(r) issue any shares in its capital, equity-related securities,

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warrants, options or other rights to acquire capital stock or securities convertible into shares of any of the Co-Borrowers, unless IFC shall have approved such issuance and the Board of Directors of MSF Holding shall have unanimously approved such issuance;

Section 7.05. Negative Covenants Particular to MSF Holding. Unless IFC otherwise agrees, MSF Holding shall not:

(a) declare or pay any dividend or make any distribution on its share capital, or purchase, redeem or otherwise acquire any shares of MSF Holding or

its Subsidiaries or any option over them, if an Event of Default or Potential Event of Default has occurred and is continuing;

(b) declare or pay any dividend or make any distribution on its share capital (other than dividends or distributions payable in shares of MSF Holding), or purchase, redeem or otherwise acquire any shares of MSF Holding or its Subsidiaries or any option over them except out of profits earned in the immediately preceding Fiscal Year (excluding income from revaluations);

(c) cause any of its Subsidiaries to issue any shares in its capital, equity-related securities, warrants, options or other rights to acquire capital stock or securities convertible into shares of any of the Co-Borrowers, unless IFC shall have approved such issuance and the Board of Directors of MSF Holding shall have unanimously approved such issuance;

Section 7.06. Application of Insurance Proceeds. (a) At its discretion IFC may remit the proceeds of any insurance paid to it to the relevant Co-Borrower to repair or replace the relevant damaged assets or may apply such proceeds to prepay all or any part of the Loan in accordance with Section 3.07; provided that there shall be no minimum amount or notice period for any such prepayment.

(b) Each of the Co-Borrowers shall use any insurance proceeds it receives (whether from IFC or directly from the insurers) for loss of or damage to any asset solely to replace or repair that asset.

Section 7.07. Document Taxes. (a) The Co-Borrowers shall pay all taxes (including stamp taxes), duties, fees or other charges payable on or in connection with the execution, issue, delivery, registration or notarization of the Transaction Documents, the IFC Shares and any other documents related to this Agreement.

(b) The Co-Borrowers shall, upon notice from IFC, reimburse IFC or its assigns for any such taxes, duties, fees or other charges paid by IFC or its assigns.

ARTICLE VIII

EVENTS OF DEFAULT

Section 8.01. Acceleration after Default. If any Event of Default occurs and is continuing (whether it is voluntary or involuntary, or results from operation

of law or otherwise), IFC may, by notice to the Co-Borrowers, require the Co-Borrowers to repay the Loan or such part of the Loan as is specified in that notice. On receipt of any such notice, the Co-Borrowers shall immediately repay the Loan (or that part of the Loan specified in that notice) and all interest accrued on it and any other amounts then payable under this Agreement. Each of the Co-Borrowers waives any right it might have to further notice, presentment, demand or protest in respect of that demand for immediate payment.

Section 8.02. Events of Default. It shall be an Event of Default if:

(a) any of the Co-Borrowers fails to pay when due any part of the principal of the Loan or any interest on the Loan and such failure continues for

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a period of five (5) days;

(b) any of the Co-Borrowers fails to observe or perform any of its obligations under this Agreement (other than for the payment of the principal of, or interest on, the Loan), any other Transaction Document or any other agreement between any of the Co-Borrowers and IFC, and any such failure continues for a period of thirty (30) days after IFC notifies the Co-Borrowers of that failure; provided, however that with regard to any Eligible Co-Borrowers' obligations pursuant to Section 7.03(a)(ii) of this Agreement, if IFC agrees that such failure cannot be remedied within such thirty (30) day period, but may be remedied within a reasonably longer period acceptable to IFC, and the Co-Borrowers notify IFC of a proposed plan to remedy such failure and IFC approves such plan, with such approval not to be unreasonably withheld, no Event of Default shall be declared to have occurred, so long as MSF Holding and the Eligible Co-Borrowers promptly commence to remedy such default and continue to do so diligently, but in no event shall such cure period extend for more than forty-five (45) days beyond the initial thirty (30) day period, except where the relevant Co-Borrowers have formally instituted proceedings to recover equipment, enforce their security interests or otherwise obtain payment of loans and leases in default within such forty-five (45) day period and such recovery, enforcement or payment and remedy of the failure of such Eligible Co-Borrowers to perform its obligations under Section 7.03 (a) (ii), is reasonably expected to occur within ninety (90) days after such additional forty-five (45) day period), and for the purposes of this subsection, a default shall be deemed to have occurred if the Shareholders of any of the Co-Borrowers cause any of the Co-Borrowers to take any of the actions prohibited by Section 7.04 unless IFC has given its prior consent to the taking of any such action;

(c) any representation or warranty made in Article V, in connection with the execution and delivery of this Agreement, or the IFC Shares, or in

connection with any request for Disbursement or for subscription and disbursement under the IFC Subscription under this Agreement or in any other Transaction Document, is found to be incorrect in any material respect;

(d) any Authority condemns, nationalizes, seizes, or otherwise expropriates all or any substantial part of the property or other assets of any Co-Borrower or of its share capital, or assumes custody or control of such property or other assets or of the business or operations of any Co-Borrower or of its share capital, or takes any action for the dissolution or disestablishment of any Co-Borrower or any action that would prevent any Co-Borrower or its officers from carrying on all or a substantial part of its business or operations;

(e) a decree or order by a court is entered against any Co-Borrower other than MSF Holding:

(i) adjudging such Co-Borrower bankrupt or insolvent;

(ii) approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of, or in respect of, such Co-Borrower under any applicable law;

(iii) appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of such Co-Borrower or of any substantial part of its property or other assets; or

(iv) ordering the winding up or liquidation of its affairs;

or any petition is filed seeking any of the above and is not dismissed within forty-five (45) days;

(f) any Co-Borrower other than MSF Holding:

(i) requests a moratorium or suspension of payment of debts from any court;

(ii) institutes proceedings or takes any form of corporate action to be liquidated, adjudicated bankrupt or insolvent;

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(iii) consents to the institution of bankruptcy or insolvency proceedings against it;

(iv) files a petition or answer or consent seeking reorganization or relief under any applicable law, consents to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of such Co-Borrower or of any substantial part of its property;

(v) makes a general assignment for the benefit of creditors; or

(vi) admits in writing its inability to pay its debts generally as they become due or otherwise becomes insolvent;

(g) an attachment or analogous process is levied or enforced upon or issued against any of the material assets of any Co-Borrower and is not dismissed or released within forty-five (45) days;

(h) MSF Holding:

(i) takes any step (including petition, giving notice to convene or convening a meeting) for the purpose of making, or proposes or enters into, any arrangement, assignment or composition with or for the benefit of its creditors;

(ii) ceases or threatens to cease to carry on its business or any substantial part of its business; or

(iii) is unable to pay its debts as they fall due or otherwise becomes insolvent;

(i) an order is made or an effective resolution passed or analogous proceedings taken for MSF Holding's winding up, bankruptcy or dissolution or a petition is presented or analogous proceedings taken for the winding up or dissolution of MSF Holding;

(j) any encumbrancer lawfully takes possession, or a liquidator, judicial custodian, receiver, administrative receiver or trustee or any analogous officer is appointed, of the whole or any material part of the undertaking or assets of MSF Holding or an attachment, sequestration, distress or execution (or analogous process) is levied or enforced upon or issued against any of the material assets or property of MSF Holding;

(k) any other event occurs which under any applicable law would have an effect analogous to any of those events listed in subsections (e), (f), (g), (h) (i) and (j) above;

(l) any of the Co-Borrowers fails to pay any of its Debt (other than the Loan) which is outstanding under, or to perform any of its obligations under, any agreement pursuant to which there is outstanding any Debt of any of the Co-Borrowers in an amount exceeding two hundred thousand Dollars ($200,000), and such failure continues for more than any applicable period of grace;

(m) any Authorization necessary for any of the Co-Borrowers to perform and observe its obligations under any Transaction Document is not obtained when required or is rescinded, terminated, lapses or otherwise ceases to be in full force and effect, including in respect of the remittance to IFC or its assigns in Dollars of any amounts payable under any Transaction Document and is not restored or reinstated within thirty (30) days of notice by IFC to the Co-Borrowers requiring that restoration or reinstatement;

(n) any provision of any Security Agreement is revoked, terminated or ceases to be in full force and effect or ceases to provide the security intended

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and a first priority Lien on all assets subject thereto, without, in each case, the prior consent of IFC, or performance of the obligations under any such document becomes unlawful or any such document is declared to be void or is repudiated or its validity or enforceability at any time is challenged by any Person unless, in the case only of a repudiation or challenge, such repudiation or challenge is withdrawn within thirty (30) days of IFC's notice to the Co-Borrowers requiring that withdrawal and pending such withdrawal such repudiation or challenge has no effect;

(o) any provision of any Transaction Document (other than a Security Agreement) is revoked, terminated or ceases to be in full force and effect without, in each case, the prior consent of IFC, or performance of the obligations under any such document becomes unlawful or any such document is declared to be void or is repudiated or its validity or enforceability at any time is challenged by any Person and such provision is not restored or replaced by a provision acceptable to IFC, or such repudiation or challenge is not withdrawn within thirty (30) days of IFC's notice to the Co-Borrowers requiring that restoration, replacement or withdrawal and pending such withdrawal such repudiation or challenge has no effect; or

(p) any Bilateral Vendor Agreement entered into before, on or after the date of this Agreement:

(i) is breached by any party to it and such breach can reasonably be expected to have material adverse effect on the ability of any of the Co-Borrowers to perform and observe its obligations under any Transaction Document; or

(ii) is revoked, terminated or ceases to be in full force and effect without the prior consent of IFC, or performance of the obligations under any such agreement becomes unlawful or any such agreement is declared to be void or is repudiated or its validity or enforceability at any time is challenged by any party to it and such action can reasonably be expected to have a material adverse effect on the ability of any of the Co-Borrowers to perform and observe its obligations under any Transaction Document.

Section 8.03. Bankruptcy. If any of the Co-Borrowers is liquidated or declared bankrupt, the Loan, all interest accrued on it and any other amounts payable under this Agreement will become immediately due and payable without any presentment, demand, protest or notice of any kind, all of which the Co-Borrowers waive.

Section 8.04. Notice of Events. If any Event of Default or Potential Event of Default occurs, the Co-Borrowers shall immediately notify IFC by facsimile or telex specifying the nature of such Event of Default or Potential Event of Default and any steps the Co-Borrowers are taking to remedy it.

Section 8.05. Disclosure of Information. (a) IFC may disclose to any Person for the purpose of exercising any power, remedy, right, authority, or discretion under this Agreement or any other Transaction Document in connection with an Event of Default, any documents or records of, or information about, any Transaction Document, or the assets, business or affairs of any of the Co-Borrowers.

(b) Each of the Co-Borrowers acknowledges and agrees that, notwithstanding the terms of any other agreement between any of the Co-Borrowers and IFC, a disclosure of information by IFC in the circumstances contemplated by this Section does not violate any duty owed to any of the Co-Borrowers or any agreement between IFC and any of the Co-Borrowers.

ARTICLE IX

MISCELLANEOUS

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Section 9.01. Joint and Several Obligations. The obligations of the Co-Borrowers hereunder to make payments of principal, interest and any other amounts payable under this Agreement when due and to faithfully observe and perform all conditions and obligations hereunder are joint and several.

Section 9.02. MSF Holding as Agent for Communication. (a) Until the Loan shall have been repaid in full, any notice, request or other communication to be given by IFC to any Co-Borrower other than MSF Holding under the terms of this Agreement and each Transaction Document may, at the option of IFC and without prejudice to its right to communicate directly with such Co-Borrower, be addressed to MSF Holding, as agent, which is hereby irrevocably authorized and directed by each such Co-Borrower to act as agent for it in such matter, and MSF Holding hereby accepts such appointment.

(b) Each Co-Borrower other than MSF Holding hereby irrevocably appoints MSF Holding to act as its agent to give any notice, request or other communication to be given by each such Co-Borrower under the terms of this Agreement and each Transaction Document, including but not limited to signing the request and receipt for Disbursements on behalf of such Co-Borrower pursuant to Section 3.02 and 6.06 of this Agreement, and MSF Holding accepts such appointment.

Section 9.03. Notices. Any notice, request or other communication to be given or made under this Agreement shall be in writing. Subject to Sections 7.01(m) and 8.04, the notice, request or other communication may be delivered by hand, airmail, facsimile or established courier service to the party's address specified below or at such other address as such party notifies to the other party from time to time and will be effective upon receipt or, in the case of delivery by hand or by established courier service, upon refusal to accept delivery.

For the Co-Borrowers:

c/o DVI Inc.
500 Hyde Park
Doylestown, PA 18901

Attention: Controller Latin America

Facsimile: (215) 230-5328

For IFC:

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Director, Latin America and Caribbean Department

Facsimile: (202) 974-4390

With a copy (in the case of notices relating to payments) sent to the attention of the Manager, Financial Operations Unit, at:

Facsimile: 202-676-1830

Telex: 248423 - World Bank
64145 - World Bank
197688 - World Bank
82987 - World Bank

Cable: CORINTFIN
Washington, D.C.

Section 9.04. English Language. All documents to be furnished or communications to be given or made under this Agreement shall be in the English language or, if in another language, shall, if IFC so requests, be accompanied

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by a translation into English satisfactory to IFC certified by a representative of the Co-Borrowers, which translation shall be the governing version between the Co-Borrowers and IFC.

Section 9.05. Expenses. The Co-Borrowers shall pay to IFC or as IFC may direct:

(a) the fees and expenses of IFC's counsel in the Bahamas, Uruguay, New York, Delaware, Massachusetts, Colombia, Argentina, Brazil and any other

jurisdiction in which any of the Co-Borrowers conducts business or is incorporated, incurred in connection with:

(i) the preparation of the investment by IFC provided for under this Agreement;

(ii) the preparation and/or review, execution and, where appropriate, registration of the Transaction Documents and any other documents related to them;

(iii) the giving of any legal opinions required by IFC under this Agreement;

(iv) the administration by IFC of the investment provided for in this Agreement or otherwise in connection with any amendment, supplement or modification to, or waiver under, any of the Transaction Documents;

(v) the registration (where appropriate) and the delivery of the evidences of indebtedness relating to the Loan and its disbursement;

(vi) matters pertaining to the IFC Subscription; and

(vii) the occurrence of any Event of Default or Potential Event of Default;

(b) the costs and expenses incurred by IFC in relation to the enforcement or protection or attempted enforcement or protection of its rights under any Transaction Document, or the exercise of its rights or powers consequent upon or arising out of the occurrence of any Event of Default or Potential Event of Default, including legal and other professional consultants' fees.

Section 9.06. Financial Calculations. (a) All financial calculations to be made under, or for the purposes of, this Agreement shall be determined in accordance with U.S. generally accepted accounting principles and applied on a consistent basis and, except as otherwise required to conform to the definitions contained in Article I or any other provisions of this Agreement, shall be calculated from the then most recently issued financial statements which each of the Co-Borrowers is obligated to furnish to IFC under Sections 7.01(d) and (e).

(b) If any material adverse change in the financial condition of any of the Co-Borrowers after the end of the period covered by the relevant financial statements has occurred, such material adverse change shall also be taken into account in calculating the relevant figures.

Section 9.07. Termination of Agreement. This Agreement shall continue in force until all monies payable under it have been fully paid in accordance with its provisions.

Section 9.08. Applicable Law and Jurisdiction. (a) This Agreement is governed by, and shall be construed in accordance with, the laws of the State of New York, United States of America.

(b) Each of the Co-Borrowers irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Agreement or any other Transaction Document to which any of the Co-Borrowers is a party may be brought by IFC in the courts of the State of New York or of the United States of America

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located in the Southern District of New York. Final judgment against any of the Co-Borrowers in any such action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction, including the Bahamas, Uruguay, or Argentina by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the judgment, or in any other manner provided by law.

(c) By the execution and delivery of this Agreement, each of the Co-Borrowers irrevocably submits to the non-exclusive jurisdiction of any such court in any such action, suit or proceeding and designates, appoints and empowers CT Corporation System, New York, New York as its authorized agent to receive for and on its behalf service of any summons, complaint or other legal process in any such action, suit or proceeding in the State of New York.

(d) Nothing in this Agreement shall affect the right of IFC to commence legal proceedings or otherwise sue any of the Co-Borrowers in the Bahamas, Uruguay, Argentina, or any other appropriate jurisdiction, or concurrently in more than one jurisdiction, or to serve process, pleadings and other legal papers upon any of the Co-Borrowers in any manner authorized by the laws of any such jurisdiction.

(e) As long as this Agreement remains in force, each of the Co-Borrowers shall maintain a duly appointed agent for the service of summons, complaint and other legal process in New York, New York, United States of America, for purposes of any legal action, suit or proceeding IFC may bring in

respect of this Agreement or any other Transaction Document to which the Co-Borrower is a party. The Co-Borrowers shall keep IFC advised of the identity and location of such agent.

(f) Each of the Co-Borrowers also irrevocably consents, if for any reason any of the Co-Borrower's authorized agent for service of process of summons, complaint and other legal process in any such action, suit or proceeding is not present in New York, New York, to service of such papers being made out of those courts by mailing copies of the papers by registered United States air mail, postage prepaid, to any of the Co-Borrowers at its address specified in Section 9.01. In such a case, IFC shall also send by telex or facsimile, or have sent by telex or facsimile, a copy of the papers to such Co-Borrower.

(g) Service in the manner provided in subsection (f) above in any such action, suit or proceeding will be deemed personal service, will be accepted by the Co-Borrowers as such and will be valid and binding upon the Co-Borrowers for all purposes of any such action, suit or proceeding.

(h) Each of the Co-Borrowers irrevocably waives to the fullest extent permitted by applicable law:

(i) any objection which it may have now or in the future to the laying of the venue of any such action, suit or proceeding in any court referred to in this Section;

(ii) any claim that any such action, suit or proceeding has been brought in an inconvenient forum; and

(iii) its right of removal of any matter commenced by IFC in the courts of the State of New York to any court of the United States of America.

(i) To the extent that any of the Co-Borrowers may be entitled in any jurisdiction to claim for itself or its assets immunity in respect of its obligations under this Agreement or any other Transaction Document to which such Co-Borrower is a party from any suit, execution, attachment (whether provisional or final, in aid of execution, before judgment or otherwise) or other legal process or to the extent that in any jurisdiction such immunity (whether or not claimed) may be attributed to it or its assets, each of the Co-Borrowers irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction.

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(j) Each of the Co-Borrowers hereby acknowledges that IFC shall be entitled under applicable law, including the provisions of the International Organizations Immunities Act, to immunity from a trial by jury in any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby or any other Transaction Document to which any of the Co-Borrowers is a party, brought against IFC in any court of the United States of America. Each of the Co-Borrowers hereby waives any and all rights to demand a trial by jury in any action, suit or proceeding arising out of or relating to this Agreement or any other Transaction Document to which any of the Co-Borrowers is a party or the transactions contemplated by this Agreement or such Transaction Documents, that is (i) brought against any of the Co-Borrowers, or (ii) brought against IFC in any forum in which IFC is not entitled to immunity from a trial by jury.

(k) To the extent that any of the Co-Borrowers may, in any suit, action or proceeding brought in any of the courts referred to in paragraph (b) above or a court of the Bahamas, Uruguay, Argentina or elsewhere arising out of or in connection with this Agreement or any other Transaction Document to which any of the Co-Borrowers is a party, be entitled to the benefit of any provision of law requiring IFC in such suit, action or proceeding to post security for the costs of any of the Co-Borrowers (cautio judicatum solvi), or to post a bond or to take similar action, each of the Co-Borrowers hereby irrevocably waives such benefit, in each case to the fullest extent now or in the future permitted under the laws of the Bahamas, Uruguay, Argentina or, as the case may be, the jurisdiction in which such court is located.

Section 9.09. Successors and Assigns. This Agreement binds and benefits the respective successors and assigns of its parties. However the Co-Borrowers may not assign or delegate any of their respective rights or obligations under this Agreement without IFC's consent.

Section 9.10. Amendment. Any amendment of any provision of this Agreement shall be in writing and signed by the parties.

Section 9.11. Counterparts. This Agreement may be executed in several counterparts, each of which is an original, but all of which together constitute one and the same agreement.

Section 9.12. Remedies and Waivers. No failure or delay by IFC in exercising any power, remedy, discretion, authority or other rights under this Agreement shall waive or impair that or any other right of IFC. No single or partial exercise of such a right shall preclude its additional or future exercise. No

such waiver shall waive any other right under this Agreement. All waivers or consents given under this Agreement shall be in writing.

Section 9.13. Additional Co-Borrowers. Upon the request of the Co-Borrowers and with the consent of IFC, any Subsidiary of MSF Holding, MSF, Estolur, HSF, or MSF Argentina may become a party to and Co-Borrower under this Agreement by executing and delivering an agreement with IFC and the Co-Borrowers in the form annexed hereto as Schedule 8 and, if such agreement so provides, such Co-Borrower shall be an Eligible Co-Borrower; provided, that no such Subisidary shall become a party to this Agreement, or a Co-Borrower or Eligible Co-Borrower hereunder, until such agreement in the form of Schedule 8 becomes effective in accordance with the terms thereof and such Subsidiary becomes a party to the FMO Investment Agreement on terms satisfactory to IFC.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed in their respective names as of the date first above written.

MSF HOLDING LTD.

By: /sd/ Steve Garfinkel
Authorized Representative

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MEDICAL SYSTEMS FINANCE S.A.

By: /sd/ Steve Garfinkel
Authorized Representative

ESTOLUR S.A.

By: /sd/ Steve Garfinkel
Authorized Representative

HEALTHCARE SYSTEMS FINANCE S.A.

By: /sd/ Steve Garfinkel
Authorized Representative

SISTEMAS FINANCIEROS S.A.

By: /sd/ Laura Ocampo
Authorized Representative

INTERNATIONAL FINANCE CORPORATION

By /sd/ Haydee Celaya
Manager
Capital Markets Division
Latin America and Caribbean Department
Authorized Representative

METHOD OF THE BANK FOR INTERNATIONAL SETTLEMENTS
BASLE ACCORD ON BANK CAPITAL ADEQUACY

Committee on Banking Regulations and Supervisory Practices
July 1988

INTERNATIONAL CONVERGENCE OF CAPITAL
MEASUREMENT AND CAPITAL STANDARDS

Introduction

1. This report presents the outcome of the Committee's(1) work over several years to secure international convergence of supervisory regulations governing the capital adequacy of international banks. Following the publication of the Committee's proposals in December 1987, a consultative process was set in train in all G-10 countries and the proposals were also circulated to supervisory authorities worldwide. As a result of those consultations some changes were made to the original proposals. The present paper is now a statement of the Committee agreed by all its members. It sets out the details of the agreed framework for measuring capital adequacy and the minimum standard to be achieved which the national supervisory authorities represented on the Committee intend to implement in their respective countries. The framework and this standard have been endorsed by the Group of Ten central-bank Governors.

2. With a view to implementation as soon as possible, it is intended that national authorities should now prepare papers setting out their views on the timetable and the manner in which this accord will be implemented in their respective countries. This document is being circulated to supervisory authorities worldwide with a view to encouraging the adoption of this framework in countries outside the G-10 in respect of banks conducting significant

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international business.

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(1) The Basle Committee on Banking Regulations and Supervisory Practices comprises representatives of the central banks and supervisory authorities of the Group of Ten countries (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, United States) and Luxembourg. The Committee meets at the Bank for International Settlements, Basel, Switzerland.

3. Two fundamental objectives lie at the heart of the Committee's work on regulatory convergence. These are, firstly, that new framework should serve to strengthen the soundness and stability of the international banking system; and secondly that the framework should be fair and have a high degree of consistency in its application to banks in different countries with a view to diminishing an existing source of competitive inequality among international banks. The Committee notes that, in responding to the invitation to comment on its original proposals, banks have welcomed the general shape and rationale of the framework and have expressed support for the view that it should be applied as uniformly as possible at the national level.

4. Throughout the recent consultations, close contact has been maintained between the Committee in Basle and the authorities of the European Community in Brussels who are pursuing a parallel initiative to develop a common solvency ratio to be applied to credit institutions in the Community. The aim has been to ensure the maximum degree of consistency between the framework agreed in Basle and the framework to be applied in the Community. It is the Committee's hope and expectation that this consistency can be achieved, although it should be noted that regulations in the European Community are designed to apply to credit institutions generally, whereas the Committee's framework is directed more specifically with banks undertaking international business in mind.

5. In developing the framework described in this document the Committee has sought to arrive at a set of principles which are conceptually sound and at the same time pay due regard to particular features of the present supervisory and accounting systems in individual member countries. It believes that this objective has been achieved. The framework provides for a transitional period so that the existing circumstances in different countries can be reflected in flexible arrangements that allow time for adjustment.

6. In certain very limited respects (notably as regards some of the risk weightings) the framework allows for a degree of national discretion in the way in which it is applied. The impact of such discrepancies on the overall ratios is likely to be negligible and it is not considered that they will compromise the basic objectives. Nevertheless, the Committee intends to monitor and review the application of the framework in the period ahead with a view to achieving even greater consistency.

7. It should be stressed that the agreed framework is designed to establish minimum levels of capital for internationally active banks. National authorities will be free to adopt arrangements that set higher levels.

8. It should also be emphasized that capital adequacy as measured by the present framework, though important, is one of a number of factors to be taken into account when assessing the strength of banks. The framework in this document is mainly directed towards assessing capital in relation to credit risk (the risk of counterparty failure) but other risks, notably interest rate risk and the investment risk on securities, need to be taken into account by supervisors in assessing overall capital adequacy. The Committee is examining possible approaches in relation to these risks. Furthermore, and more generally, capital ratios, judged in isolation, may provide a misleading guide to relative strength. Much also depends on the quality of a bank's assets and, importantly, the level of provisions a bank may be holding outside its capital against assets

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of doubtful value. Recognizing the close relationship between capital and provisions, the Committee will continue to monitor provisioning policies by banks in member countries and will seek to promote convergence of policies in this field as in other regulatory matters. In assessing progress by banks in member countries towards meeting the agreed capital standards, the Committee will therefore take careful account of any differences in existing policies and procedures for setting the level of provisions among countries' banks and in the form in which such provisions are constituted.

9. The Committee is aware that differences between countries in the fiscal treatment and accounting presentation for tax purposes of certain classes of provisions for losses and of capital reserves derived from retained earnings may to some extent distort the comparability of the real or apparent capital positions of international banks. Convergence in tax regimes, though desirable, lies outside the competence of the Committee and tax considerations are not addressed in this paper. However, the Committee wishes to keep these tax and accounting matters under review to the extent that they affect the comparability of the capital adequacy of different countries' banking systems.

10. This agreement is intended to be applied to banks on a consolidated basis, including subsidiaries undertaking banking and financial business. At the same time, the Committee recognizes that ownership structures

and the position of banks within financial conglomerate groups are undergoing significant changes.

The Committee will be concerned to ensure that ownership structures should not be such as to weaken the capital position of the bank or expose it to risks stemming from other parts of the group. The Committee will continue to keep these developments under review in the light of the particular regulations in member countries, in order to ensure that the integrity of the capital of banks is maintained. In the case of several of the subjects for further work mentioned above, notably investment risk and the consolidated supervision of financial groups, the European Community has undertaken or is undertaking work with similar objectives and close liaison will be maintained.

11. This document is divided into four sections. The first two describe the framework: Section I the constituents of capital and Section II the risk weighting system. Section III deals with the target standard ratio; and Section IV with transitional and implementing arrangements.

I. THE CONSTITUENTS OF CAPITAL

(a) Core capital (basic equity)

12. The Committee considers that the key element of capital on which the main emphasis should be placed is equity capital(2) and disclosed reserves. This key element of capital is the only element common to all countries' banking systems; it is wholly visible in the published accounts and is the basis on which most market judgments of capital adequacy are made; and it has a crucial bearing on profit margins and a bank's ability to compete. This emphasis on equity capital and disclosed reserves reflects the importance the Committee attaches to securing a progressive enhancement in the quality, as well as the level, of the total capital resources maintained by major banks.(3)

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(2) Issued and fully paid ordinary shares/common stock and non-cumulative perpetual preferred stock (but excluding cumulative preferred stock).

(3) One member country, however, maintains the view that in international definition of capital should be confined in core capital elements and indicated that it would continue to press for the definition to be reconsidered by the Committee in the years ahead.

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13. Notwithstanding this emphasis, the member countries of the Committee also consider that there are a number of other important and legitimate constituents of a bank's capital base which may be included within the system of measurement (subject to certain conditions set out in sub-section (b) below).

14. The Committee has therefore concluded that capital, for supervisory purposes, should be defined in two tiers in a way which will have the effect of requiring at least 50 per cent of a bank's capital base to consist of a core element comprised of equity capital and published reserves from post-tax retained earnings (tier 1). The other elements of capital (supplementary capital) will be admitted into tier 2 up to an amount equal to that of the core capital. These supplementary capital elements and the particular conditions attaching to their inclusion in the capital base are set out below and in more detail in Annex 1. Each of these elements may be included or not included by national authorities at their discretion in the light of their national accounting and supervisory regulations.

(b) Supplementary capital

(i) Undisclosed reserves

15. Unpublished or hidden reserves may be constituted in various ways according to differing legal and accounting regimes in member countries. Under this heading are included only reserves which, though unpublished, have been passed through the profit and loss account and which are accepted by the bank's supervisory authorities. They may be inherently of the same intrinsic quality as published retained earnings, but, in the context of an internationally agreed minimum standard, their lack of transparency, together with the fact that many countries do not recognize undisclosed reserves, either as an accepted accounting concept or as a legitimate element of capital, argue for excluding them from the core equity capital element.

(ii) Revaluation reserves

16. Some countries, under their national regulatory or accounting arrangements, allow certain assets to be revalued to reflect their current value, or something closer to their current value than historic cost, and the resultant revaluation reserves to be included in the capital base. Such revaluations can arise in two ways:

(a) from a formal revaluation, carried through to the balance sheets of banks' own premises; or

(b) from a notional addition to capital of hidden values which arise from the practice of holding securities in the balance sheet valued at historic cost.

Such reserves may be included within supplementary capital provided that the assets are considered by the supervisory authority to be prudently valued, fully reflecting the possibility of price fluctuations and forced sale.

17. Alternative (b) is relevant to those banks whose balance sheets traditionally include very substantial amounts of equities held in their portfolio at historic cost but which can be, and on occasions are, realized at current prices and used to offset losses. The Committee considers these "latent" revaluation reserves can be included among supplementary elements of capital since they can be used to absorb losses on a going-concern basis, provided they are subject to a substantial discount in order to reflect concerns both about market volatility and about the tax charge which would arise were such gains to be realized. A discount of 55 per cent on the difference between the historic cost book value and market value is agreed to be appropriate in the light of these considerations. The Committee considered, but rejected, the proposition that latent reserves arising in respect of the undervaluation of banks' premises should also be included within the definition of supplementary capital.

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(iii) General provisions/general loan loss reserves

18. General provisions or general loan-loss reserves are created against the possibility of future losses. Where they are not ascribed to particular assets and do not reflect a reduction in the valuation of particular assets, these reserves qualify for inclusion in capital and it has been agreed that they should be counted

within tier 2. Where, however, provisions have been created against identified losses or in respect of a demonstrable deterioration in the value of particular assets, they are not freely available to meet unidentified losses which may subsequently arise elsewhere in the portfolio and do not possess an essential characteristic of capital. Such specific or earmarked provisions should therefore not be included in the capital base.

19. The Committee accepts, however, that, in practice, it is not always possible to distinguish clearly between general provisions (or general loan loss reserves) which are genuinely freely available and those provisions which in reality are earmarked against assets already identified as impaired. This partly reflects the present diversity of accounting, supervisory, and, importantly fiscal policies in respect of provisioning and in respect of national definitions of capital. This means, inevitably, that initially there will be a degree of inconsistency in the characteristics of general provisions or general loan-loss reserves included by different member countries within the framework.

20. In the light of these uncertainties, the Committee intends during the transitional period (see paragraphs 45 to 50 below) to clarify the distinction made in member countries between those elements which should conceptually be regarded as part of capital and those which should not qualify. The Committee will aim to develop before the end of 1990 firm proposals applicable to all member countries, so as to ensure consistency in the definition of general provisions and general loan-loss reserves eligible for inclusion in the capital base by the time the interim and final minimum target standards fall to be observed.

21. As a further safeguard, in the event that agreement is not reached on the refined definition of unencumbered resources eligible for inclusion in supplementary capital, where general provisions and general loan-loss reserves may include amounts reflecting lower valuations for assets or latent but unidentified losses present in the balance sheet, the amount of such reserves or provisions that qualify as capital would be phased down so that, at the end of the transitional period, such items would constitute no more than 1.25 percentage points, or exceptionally and temporarily up to 2.0 percentage points, of risk assets within the secondary elements.

(iv) Hybrid debt capital instruments

22. In this category fall a number of capital instruments which combine certain characteristics of equity and certain characteristics of debt. Each of these has particular features which can be considered to affect its quality as capital. It has been agreed that, where these instruments have close similarities to equity, in particular when they are able to support losses on an on-going basis without triggering liquidation, they may be included in supplementary capital. In addition to perpetual preference shares carrying a cumulative fixed charged, the following instruments, for example, may qualify for inclusion: long-term preferred shares in Canada, titres participatifs and titres subordonnes a duree indeterminee in France, Genussscheine in Germany, perpetual debt instruments in the United Kingdom and mandatory convertible debt instruments in the United States. The qualifying criteria for such instruments are set out in Annex 1.

(v) Subordinated term debt

23. The Committee is agreed that subordinated term debt instruments have

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significant deficiencies as constituents of capital in view of their fixed maturity and inability to absorb losses except in a liquidation. These deficiencies justify an additional restriction on the amount of such debt capital which is eligible for inclusion within the capital base. Consequently, it has been concluded that subordinated term debt instruments with a minimum original term to maturity of over five years may be included within the supplementary elements of capital but only a maximum of 50 per cent of the core capital elements, and subject to adequate amortization arrangements.

(c) Deductions from capital

24. It has been concluded that the following deductions should be made from the capital base for the purpose of calculating the risk-weighted capital ratio. The deductions will consist of:

(i) goodwill, as a deduction from tier 1 capital elements;

(ii) investments in subsidiaries engaged in banking and financial activities which are not consolidated in national systems. The normal practice will be to consolidate subsidiaries for the purpose of assessing the capital adequacy of banking groups. Where this is not done, deduction is essential to prevent the multiple use of the same capital resources in different parts of the group. The deduction for such investments will be made against the total capital base. The assets representing the investments in subsidiary companies whose capital had been deducted from that of the parent would not be included in total assets for the purposes of computing the ratio.

25. The Committee carefully considered the possibility of requiring deduction of banks' holdings of capital issued by other banks or deposit-taking institutions, whether in the form of equity or of other capital instruments. Several G-10 supervisory authorities currently require such a deduction to be made in order to discourage the banking system as a whole from creating cross-holdings of capital, rather than drawing capital from outside investors. The Committee is very conscious that such double-gearing (or "double-leveraging") can have systematic dangers for the banking system by making it more vulnerable to the rapid transmission of problems from one institution to another and some members consider these dangers justify a policy of full deduction of such holdings.

26. Despite these concerns, however, the Committee as a whole is not presently in favor of a general policy of deducting all holdings of other banks' capital, on the grounds that to do so could impede certain significant and desirable changes taking place in the structure of domestic banking systems.

27. The Committee has nonetheless agreed that:

(a) individual supervisory authorities should be free at their discretion to apply a policy of deduction, either for all holdings of other banks' capital, or for holdings which exceed material limits in relation to the holding bank's capital or the issuing bank's capital, or on a case-by-case basis;

(b) where no deduction is applied, banks' holdings of other banks' capital instruments will bear a weight of 100 per cent;

(c) in applying these policies, member countries consider that reciprocal cross-holdings of bank capital designed artificially to inflate the capital position of the banks concerned should not be permitted;

(d) the Committee will closely monitor the degree of

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double-gearing in the international banking system and does not preclude the possibility of introducing constraints at a later date. For this purpose, supervisory authorities intend to ensure that adequate statistics are made available to enable them and the Committee to monitor the development of banks' holdings of other banks' equity and debt instruments which rank as capital under the present agreement.

II. THE RISK WEIGHTS

28. The Committee considers that a weighted risk ratio in which capital is related to different categories of asset or off-balance-sheet exposure, weighted according to broad categories of relative riskiness, is the preferred method for assessing the capital adequacy of banks. This is not to say that other methods of capital measurement are not also useful, but they are considered by the Committee to be supplementary to the risk weight approach. The Committee believes that a risk ratio has the following advantages over the simpler gearing ratio approach:

(i) it provides a fairer basis for making international comparisons between banking systems whose structures may differ;

(ii) it allows off-balance-sheet exposures to be incorporated more easily into the measure;

(iii) it does not deter banks from holding liquid or other assets which carry low risk.

29. The framework of weights has been kept as simple as possible and only five weights are used - 0, 10, 20, 50 and 100 per cent. There are inevitably some broad-brush judgments in deciding which weight should apply to different types of asset and the weightings should not be regarded as a substitute for commercial judgment for purposes of market pricing of the different instruments.

30. The weighting structure is set out in detail in Annexes 2 and 3. There are six aspects of the structure to which attention is particularly drawn.

(i) Categories of risk captured in the framework

31. There are many different kinds of risks against which banks' managements need to guard. For most banks the major risk is credit risk, that is to say the risk of counterparty failure, but there are many other kinds of risk - for example, investment risk, interest rate risk, exchange rate risk, concentration risk. The central focus of this framework is credit risk and, as a further aspect of credit risk, country transfer risk. In addition, individual supervisory authorities have discretion to build in certain other types of risk. Some countries, for example, will wish to retain a weighting for open foreign exchange positions or for some aspects of investment risk. No standardization has been attempted in the treatment of these other kinds of risk in the framework at the present stage.

32. The Committee considered the desirability of seeking to incorporate additional weightings to reflect the investment risk in holdings of fixed rate domestic government securities - one manifestation of interest rate risk which is of course present across the whole range of a bank's activities, on and off the balance sheet. For the present, it was concluded that individual supervisory authorities should be free to apply either a zero or a low weight to claims on the domestic government (e.g. 10 per cent for all securities or 10 per cent for those maturing in under one year and 20 per cent for one year and over). All members agreed, however, that interest rate risk generally required further study and that if, in due course, further work made it possible to develop a satisfactory method of measurement for this aspect of risk for the business as a whole, consideration should be given to applying some appropriate control along side this credit risk framework. Work is already under way to explore the possibilities in this regard.

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(ii) Country transfer risk

33. In addressing country transfer risk, the Committee has been very conscious of the difficulty of devising a satisfactory method for incorporating country transfer risk into the framework of measurement. In its earlier, consultative, paper two alternative approaches were put forward for consideration and comment. These were, firstly, a simple differentiation between claims on domestic institutions (central government, official sector and banks) and claims on all foreign countries; and secondly, differentiation on the basis of an approach involving the selection of a defined grouping of countries considered to be of high credit standing.

34. The comments submitted to the Committee by banks and banking associations in G-10 countries during the consultative period were overwhelmingly in favor of the second alternative. In support of this view, three particular arguments were strongly represented to the Committee. Firstly, it was stressed that a simple domestic/foreign split effectively ignores the reality that transfer risk varies greatly between different countries and that this risk is of sufficient significance to make it necessary to ensure that broad distinctions in the credit standing of industrialized and non-industrialized countries should be made and captured in the system of measurement, particularly one designed for international banks. Secondly, it was argued that the domestic/foreign split does not reflect the global integration of financial markets and the absence of some further refinement would discourage international banks from holding securities issued by central governments of major foreign countries as liquid cover against their Euro-currency liabilities. To that extent a domestic foreign approach would run counter to an important objective of the risk weighting framework, namely that it should encourage prudent liquidity management. Thirdly, and most importantly, the member states of the European Community are firmly committed to the principle that all claims on banks, central governments and the official sector within European Community countries should be treated in the same way. This means that, where such a principle is put into effect, there would be an undesirable asymmetry in the manner in which a domestic/foreign split was applied by the seven G-10 countries which are members of the Community compared with the manner in which it was applied by the non-Community countries.

35. In the light of these arguments, the Committee has concluded that a defined group of countries should be adopted as the basis for applying differential weighting coefficients, and that this group should be full members of the OECD or countries which have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow. This group of countries is referred to as the OECD in the rest of the report.

36. This decision has the following consequences for the weighting structure. Claims on central governments within the OECD will attract a zero weight (or a low weight if the national supervisory authority elects to incorporate interest rate risk); and claims on OECD non-central government public-sector entities will attract a low weight (see (iii) below). Claims on central governments and central banks outside the OECD will also attract a zero weight (or a low weight if the national supervisory authority elects to incorporate investment risk), provided such claims are denominated in the national currency and funded by liabilities in the same currency. This reflects the absence of risks relating to the availability and transfer of foreign exchange on such claims.

37. As regards the treatment of interbank claims, in order to preserve the efficiency and liquidity of the international interbank market there will be no differentiation between short-term claims on banks incorporated within or outside the OECD. However, the Committee draws a distinction between, on the one hand, short-term placements with other banks which is an accepted method of managing liquidity in the interbank market and carries a perception of low risk and, on the other, longer-term cross-border loans to banks which are often associated with particular transactions and carry greater transfer and/or credit risks. A 20 per cent weight will therefore be applied to claims on all banks, wherever incorporated, with a residual maturity of up to and including one year;

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longer-term claims on OECD incorporated banks will be weighted at 20 per cent; and longer-term claims on banks incorporated outside the OECD will be weighted at 100 per cent.

(iii) Claims on non-central-government, public-sector entities (PSEs)

38. The Committee concluded that it was not possible to settle on a single common weight that can be applied to all claims on domestic public-sector entities below the level of central government (e.g. states, local authorities, etc.), in view of the special character and varying creditworthiness of these entities in different member countries. The Committee therefore opted to allow discretion to each national supervisory authority to determine the appropriate weighting factors for the PSEs within that country. In order to preserve a degree of convergence in the application of such discretion, the Committee agreed that the weights ascribed in this way should be 0, 10, 20 or 50 per cent for domestic PSEs but that PSEs in foreign countries within the OECD should attract a standard 20 per cent weight. These arrangements will be subject to review by the Committee in pursuit of further convergence towards common weights and consistent definitions in member countries and in the light of decisions to be taken within the European Community on the specification of a common solvency ratio for credit institutions.

Commercial companies owned by the public sector will attract a uniform weight of 100 per cent inter alia in order to avoid competitive inequality vis-a-vis similar private sector commercial enterprises.

(iv) Collateral and guarantees

39. The framework recognizes the importance of collateral in reducing credit risk, but only to a limited extent. In view of the varying practices among banks in different countries for taking collateral and different experiences of the stability of physical or financial collateral values, it has not been found possible to develop a basis for recognizing collateral generally in the weighting system. The more limited recognition of collateral will apply only to loans secured against cash or against securities issued by OECD central governments and specified multilateral development banks. These will attract the weight given to the collateral (i.e. a zero or a low weight). Loans partially collateralised by these assets will also attract the equivalent low weights on that part of the loan which is fully collateralised.

40. As regards loans or other exposures guaranteed by third parties, the Committee has agreed that loans guaranteed by OECD central governments, OECD public sector entities, or OECD incorporated banks will attract the weight allocated to a direct claim on the guarantor (e.g. 20 per cent in the case of banks). Loans guaranteed by non OECD incorporated banks will also be recognized by the application of a 20 per cent weight but only where the underlying transaction has a residual maturity not exceeding one year. The Committee intends to monitor the application of this latter arrangement to ensure that it does not give rise to inappropriate weighting of commercial loans. In the case of loans covered by partial guarantees, only that part of the loan which is covered by the guarantee will attract the reduced weight. The contingent liability assumed by banks in respect of guarantees will attract a credit conversion factor of 100 per cent (see sub-section (vi) below).

(v) Loans secured on residential property

41. Loans fully secured by mortgage on occupied residential property have a very low record of loss in most countries. The framework will recognize this by assigning a 50 per cent weight to loans fully secured by mortgage on residential property which is rented or is (or is intended to be) occupied by the borrower. In applying the 50 per cent weight, the supervisory authorities will satisfy themselves, according to their national arrangements for the provision of housing finance, that this concessionary weight is applied restrictively for residential purposes and in accordance with strict prudential criteria. This may

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mean, for example, that in some member countries the 50 per cent weight will only apply to first mortgages creating a first charge on the property; and that in other member countries it will only be applied where strict, legally-based, valuation rules ensure a substantial margin of additional security over the amount of the loan. The 50 per cent weight will specifically not be applied to loans to companies engaged in speculative residential building or property development. Other collateral will not be regarded as justifying the reduction of the weightings that would otherwise apply.(4)

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(4) One member country feels strongly that the lower weight should also apply to other loans secured by mortgages on domestic property, provided that the amount of the loan does not exceed 60 per cent of the value of the property as calculated according to strict legal valuation criteria.

transitional period of some four-and-a-half years for any necessary adjustment by banks who need time to build up to those levels. The Committee fully recognizes that the transition from existing, sometimes long-established, definitions of capital and methods of measurement towards a new internationally agreed standard will not necessarily be achieved easily or quickly.

IV TRANSITIONAL AND IMPLEMENTING ARRANGEMENTS

(i) Transition

45. Certain transitional arrangements have been agreed upon to ensure that there are sustained efforts during the transitional period to build up individual banks' ratios towards the ultimate target standard; and to facilitate smooth adjustment and phasing in of the new arrangements within a wide variety of existing supervisory systems.

46. The transitional period will be from the date of this paper to the end of 1992, by which latter date all banks undertaking significant cross-border business will be expected to meet the standard in full (see paragraph 50 below). In addition, there will be an interim standard to be met by the end of 1990 (see paragraph 49 below).

47. Initially no formal standard or minimum level will be set. It is the general view of the Committee, however, that every encouragement should be given to those banks whose capital levels are at the low end of the range to build up their capital as quickly as possible and the Committee expects there to be no erosion of existing capital standards in individual member countries' banks. Thus, during the transitional period, all banks which need to improve capital levels up to the interim and final standards should not diminish even temporarily their current capital levels (subject to the fluctuations which can occur around the time new capital is raised). A level of 5 per cent attained by application of the framework and transitional arrangements is considered by some countries to be a reasonable yardstick for the lower capitalized banks to seek to attain in the short term. Individual member countries will, of course, be free to set, and announce, at the outset of the transitional period the level from which they would expect all their banks to move towards the interim and final target standard. In order to assess and compare progress during the initial period of adjustment to end-1990 in a manner which takes account both of existing supervisory systems and the new

arrangements the Committee and individual supervisory authorities will initially apply the basis of measurement set out in paragraph 48 below.

48. In measuring the capital position of banks at the start of the transitional period, a proportion of the core capital may be made up of supplementary elements up to a maximum of 25 per cent of core capital elements, reducing to 10 per cent by end-1990. In addition, throughout the transitional period up to end-1992, subject to more restrictive policies which individual authorities may

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wish to apply, term subordinated debt may be included without limit as a constituent of supplementary elements and the deduction from tier 1 capital elements in respect of goodwill may be waived.

49. At end-1990 there will be an interim minimum standard of 7.25 per cent of which at least half should be core capital. However, between end-1990 and end-1992 up to 10 per cent of the required core elements may be made up of supplementary elements. This means, in round figure, a minimum core capital element of 3.6 per cent of which tier 1 elements should total at least 3.25 per cent, is to be achieved by the end of 1990. In addition, from end-1990, general loan loss reserves or general provisions which include amounts reflecting lower valuations of assets or latent but unidentified losses present in the balance sheet will be limited to 1.5 percentage points, or exceptionally up to 2.0(5) percentage points, of risk assets within supplementary elements.

50. At end-1992 the transitional period ends. The minimum standard will then be 8 per cent, of which core capital (tier 1, equity and reserves) will be at least 4 per cent, supplementary elements no more than core capital and term subordinated debt within supplementary elements no more than 50 per cent of tier 1. In addition, general loan loss reserves or general provisions (having the characteristics described in paragraph 49) will be limited at end-1992 to 1.25

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(5) These limits would only apply in the event that no agreement is reached on a consistent basis for including unencumbered provisions or reserves in capital (see paragraphs 20 and 21).

percentage points, or exceptionally and temporarily up to 2.0(6) percentage points, within supplementary elements.

For ease of reference, the arrangements described in paragraphs 45 to 50 are summarized in a table at Annex 4.

(ii) Implementation

51. The arrangements described in this document will be implemented at national level at the earliest possible opportunity. Each country will decide the way in which the supervisory authorities will introduce and apply these recommendations in the light of their different legal structures and existing supervisory arrangements. In some countries, changes in the capital regime may be introduced, after consultation, relatively speedily without the need for legislation. Other countries may employ more lengthy procedures, and in some cases these may require legislation. In due course the member states of the European Community will also need to ensure that their own domestic regulations are compatible with the Community's own legislative proposals in this field. None of these factors needs result in any inconsistency in the timing of implementation among member countries. For example, some countries may apply the framework in this report, formally or informally, in parallel with their existing system, certainly during the initial period of transition. In this way banks can be assisted to start the necessary process of adjustment in good time before substantive changes in national systems are formally introduced.

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(6) These limits would only apply in the event that no agreement is reached on a consistent basis for including unencumbered provisions or reserves in capital (see paragraphs 20 and 21).

ANNEX 1

Definition of capital included in the capital base
(To apply at end-1992 - see Annex 4

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for transitional arrangements)

A. Capital elements

Tier 1 (a) Paid-up share capital/common stock
(b) Disclosed reserves

Tier 2 (a) Undisclosed reserves
(b) Asset revaluation reserves
(c) General provisions/general loan loss reserves
(d) Hybrid (debt/equity) capital instruments
(e) Subordinated term debt

The sum of Tier 1 and Tier 2 elements will be eligible for inclusion in the capital base, subject to the following limits.

B. Limits and restrictions

(i) The total of Tier 2 (supplementary) elements will be limited to a maximum of 100 per cent of the total of Tier 1 elements;

(ii) subordinated term debt will be limited to a maximum of 50 per cent of Tier 1 elements;

(iii) where general provisions/general loan loss reserves include amounts reflecting lower valuations of asset or latent but unidentified losses present in the balance sheet, the amount of such provisions or reserves will be limited to a maximum of 1.25 percentage points, or exceptionally and temporarily up to 2.0 percentage points, of risk assets;(7)

(iv) asset revaluation reserves which take the form of latent gains on unrealized securities (see below) will be subject to a discount of 55 per cent.

C. Deductions from the capital base

From Tier 1: Goodwill

From total capital: (i) Investments in unconsolidated banking and financial subsidiary companies.

N.B. The presumption is that the framework would be applied on a consolidated basis to banking groups.

(ii) Investments in the capital of other banks and financial institutions (at the discretion of national authorities).

D. Definition of capital elements

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(7) This limit would only apply in the event that no agreement is reached on a consistent basis for including unencumbered provisions or reserves in capital (see paragraphs 20 and 21).

(i) Tier 1: includes only permanent shareholders' equity (issued and fully paid ordinary shares/common stock and perpetual non-cumulative preference shares) and disclosed reserves (created or increased by appropriations of retained earnings or other surplus, e.g. share premiums, retained profit,(8) general reserves and legal reserves). In the case of consolidated accounts, this also includes minority

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interests in the equity of subsidiaries which are less than wholly owned. This basic definition of capital excludes revaluation reserves and cumulative preference shares.

(ii) Tier 2: (a) undisclosed reserves are eligible for inclusion within supplementary elements provided these reserves are accepted by the supervisor. Such reserves consist of that part of the accumulated after-tax surplus of retained profits which banks in some countries may be permitted to maintain as an undisclosed reserve. Apart from the fact that the reserve is not identified in the published balance sheet, it should have the same high quality and character as a disclosed capital reserve; as such, it should not be encumbered by any provision or other known liability but should be freely and immediately available to meet unforeseen future losses. This definition of undisclosed reserves excludes hidden values arising from holdings of securities in the balance sheet at below current market prices (see below).

(b) Revaluation reserves arise in two ways. Firstly, in some countries, banks (and other commercial companies) are permitted to revalue fixed assets, normally their own premises, from time to time in line with the change in market values. In some of these countries the amount of such revaluations is determined by law. Revaluations of this kind are reflected on the face of the balance sheet as a revaluation reserve.

Secondly, hidden values or "latent" revaluation reserves may be present as a result of long-term holdings of equity securities valued in the balance sheet at the historic cost of acquisition.

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(8) Including, at national discretion, allocations to or from reserve during the course of the year from current year's retained profit.

Both types of revaluation reserve may be included in Tier 2 provided that the assets are prudently valued, fully reflecting the possibility of price fluctuation and forced sale. In the case of "latent" revaluation reserves a discount of 55 per cent will be applied to the difference between historic cost book value and market value to reflect the potential volatility of this form of unrealized capital and the notional tax charge on it.

(c) General provisions/general loan loss reserves: provisions or loan loss reserves held against future, presently unidentified losses are freely available to meet losses which subsequently materialize and therefore qualify for inclusion within supplementary elements. Provisions ascribed to impairment of particular assets or known liabilities should be excluded. Furthermore, where general provisions/general loan loss reserves include amounts reflecting lower valuations of assets or latent but unidentified losses already present in the balance sheet, the amount of such provisions or reserves eligible for inclusion will be limited to a maximum of 1.25 percentage points, or exceptionally and temporarily up to 2.0 percentage points.(9)

(d) Hybrid (debt/equity) capital instruments. This heading includes a range of Instruments which combine characteristics of equity capital and of debt. Their precise specifications differ from country to country, but they should meet the following requirements:

- they are unsecured, subordinated and fully paid-up;
- they are not redeemable at the initiative of the holder or without the prior consent of the supervisory authority;
- they are available to participate in losses without the bank being obliged to cease trading (unlike conventional subordinated debt);

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(9) This limit would apply in the event that no agreement is reached on a

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consistent basis for including unencumbered provisions or reserves in capital (see paragraphs 20 and 21).

- although the capital instrument may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends on ordinary shareholders' equity), it should allow service obligations to be deferred (as with cumulative preference shares) where the profitability of the bank would not support payment.

Cumulative preference shares, having these characteristics, would be eligible for inclusion in this category. In addition, the following are examples of instruments that may be eligible for inclusion: long-term preferred shares in Canada, titres participatifs and titres subordonnes a duree indeterminee in France. Cenusscheine in Germany, perpetual subordinated debt and preference shares in the United Kingdom and mandatory convertible debt instruments in the United States. Debt capital instruments which do not meet these criteria may be eligible for inclusion in item (e).

(e) Subordinated term debt: includes conventional unsecured subordinated debt capital instruments with a minimum original fixed term to maturity of over five years and limited life redeemable preference shares. During the last five years to maturity, a cumulative discount (or amortization) factor of 20 per cent per year will be applied to reflect the diminishing value of these instruments as a continuing source of strength. Unlike instruments included in item (d) , these instruments are not normally available to participate in the losses of a bank which continues trading. For this reason these instruments will be limited to a maximum of 50 per cent of Tier 1.

ANNEX 2

Risk weights by category of on-balance-sheet asset

0% (a) Cash(10)

(b) Claims on central governments and central banks denominated in national currently funded in that currency

(c) Other claims on OECD(11) central governments(12) and central banks

(d) Claims collateralised by cash or OECD central-government securities(13) or guaranteed by OECD central governments(14)

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(10) Includes (at national discretion) gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities.

(11) The OECD comprises countries which are full members of the OECD or which have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.

(12) Some member countries intend to apply weights to securities issued by OECD central governments to take account of investment risk. These weights would, for example, be 10 per cent for all securities or 10 per cent for those maturing in up to one year and 20 per cent for those maturing in over one year.

(13) Some member countries intend to apply weights to securities issued by OECD central governments to take account of investment risk. These weights would, for example, be 10 per cent for all securities or 10 per cent for those maturing in up to one year and 20 per cent for those maturing in over one year.

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(14) Commercial loans partially guaranteed by these bodies will attract equivalent low weights on that part of the loan which is fully covered. Similarly, loans partially collateralised by cash or securities issued by OECD central governments and multilateral development banks will attract low weights on that part of the loan which is fully covered.

0, 10,20 or 50% (at national discretion)	(a)	Claims on domestic public-sector entities, excluding central government, and loans guaranteed(15) by such entities
20%	(a)	Claims on multilateral development banks (IBRD, IADB, AsDB, AfDB, EIB)
	(b)	Claims on banks incorporated in the OECD and loans guaranteed(16) by OECD incorporated banks
	(c)	Claims on banks incorporated in countries outside the OECD with a residual maturity of up to one year and loans with a residual maturity of up to one year guaranteed by banks incorporated in countries outside the OECD
	(d)	Claims on non-domestic OECD public-sector entities, excluding central government, and loans guaranteed(17) by such entities

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(15) Commercial loans partially guaranteed by these bodies will attract equivalent low weights on that part of the loan which is fully covered. Similarly, loans partially collateralised by cash or securities issued by OECD central governments and multilateral development banks will attract low weights on that part of the loan which is fully covered.

(16) Claims on other multilateral development banks in which C-10 countries are shareholding members may, at national discretion, also attract a 20 per cent weight.

(17) Commercial loans partially guaranteed by these bodies will attract equivalent low weights on that part of the loan which is fully covered. Similarly, loans partially collateralised by cash or securities issued by OECD central governments and multilateral development banks will attract low weights on that part of the loan which is fully covered.

	(e)	Cash items in process of collection
50%	(a)	Loans fully secured by mortgage on residential property that is or will be occupied by the borrower or that is rented
100%	(a)	Claims on the private sector
	(b)	Claims on banks incorporated outside the OECD with a residual maturity of over one year
	(c)	Claims on central governments outside the OECD (unless denominated in national currency - and funded in that currency - see above)
	(d)	Claims on commercial companies owned by the public sector

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(e) Premises, plant and equipment and other fixed assets

(f) Real estate and other investments (including non-consolidated investment participations in other companies)

(g) Capital instruments issued by other banks (unless deducted from capital)

(h) All other assets

ANNEX 3

Credit conversion factors for off-balance-sheet items

The framework takes account of the credit risk on off-balance-sheet exposures by applying credit conversion factors to the different types of off-balance-sheet instrument or transaction. With the exception of foreign exchange and interest rate related contingencies, the credit conversion factors are set out in the table below. They are derived from the estimated size and likely occurrence of the credit exposure, as well as the relative degree of credit risk as identified in the Committee's paper. "The management of banks' off-balance-sheet exposures: a supervisory perspective" issued in March 1986. The credit conversion factors would be multiplied by the weights applicable to the category of the counterparty for an on-balance-sheet transaction (see Annex 2).

Instruments

	Credit conversion factors
1. Direct credit substitutes, e.g. general guarantees of indebtedness (including standby) letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances)	100%
2. Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)	50%
3. Short-term self-liquidating trade-related contingencies (such as documentary credits collateralised by the underlying shipments)	20%

4. Sale and repurchase agreements and asset sales with recourse,(18) where the credit risk remains with the bank	100%

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5.	Forward asset purchases, forward deposits and partly-paid shares and securities,(19) which represent commitments with certain drawdown	100%
6.	Note issuance facilities and revolving under- writing facilities	50%
7.	Other commitments (e.g. formal standby facilities and credit lines) with an original(20) maturity of over one year	50%

</TABLE>

(18) These items are to be weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been entered into Reverse _____ (i.e. purchase and resale agreements, where the bank is the receiver of the asset) are to be treated as collateralised loans, reflecting the economic reality of the transaction. The risk is therefore to be measured as an exposure on the counter. Where the asset temporarily acquired is a security which attracts a preferential risk weighting, this would be recognized as collateral and the risk weighting would be reduced accordingly.

(19) These items are to be weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been entered into Reverse _____ (i.e. purchase and resale agreements, where the bank is the receiver of the asset) are to be treated as collateralised loans, reflecting the economic reality of the transaction. The risk is therefore to be measured as an exposure on the counter. Where the asset temporarily acquired is a security which attracts a preferential risk weighting, this would be recognized as collateral and the risk weighting would be reduced accordingly.

(20) But see footnote 5 in the main text.

8.	Similar commitments with an original(21) maturity of up to one year, or which can be unconditionally cancelled at any time	0%

(N.B. Member countries will have some limited discretion to allocate particular instruments into items 1 to 8 above according to the characteristics of the instrument in the national market.)

Foreign exchange and interest rate related contingencies

The treatment of foreign exchange and interest rate related items needs special attention because banks are not exposed to credit risk for the full face value of their contracts, but only to the potential cost of replacing the cash flow (on contracts showing positive value) if the counterparty defaults. The credit equivalent amounts will depend inter alia on the maturity of the contract and on the volatility of the rates underlying that type of instrument.

Despite the wide range of different instruments in the market, the theoretical basis for assessing the credit risk on all of them has been the same. It has consisted of an analysis of the behavior of matched pairs of swaps under different volatility assumptions. Since exchange rate contracts involve an exchange of principal on maturity, as well as being generally more volatile, higher conversion factors are proposed for those instruments which feature exchange rate risk. Interest rate contracts(22) are defined to include single-currency interest rate swaps, basis swaps, forward rate agreements, interest rate futures, interest rate options purchased and similar instruments. Exchange rate contracts(23) include

(21) But see footnote 5 in the main text.

(22) Instruments traded on exchanges may be excluded where they are subject to daily margining requirements. Options purchased over the counter are

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included with the same conversion factors as other instruments, but this decision might be reviewed in the light of future experience.

(23) Instruments traded on exchanges may be excluded where they are subject to daily margining requirements. Options purchased over the counter are included with the same conversion factors as other instruments, but this decision might be reviewed in the light of future experience.

cross-currency interest rate swaps, forward foreign exchange contracts, currency futures, currency options purchased and similar instruments. Exchange rate contracts with an original maturity of 14 calendar days or less are excluded.

A majority of G-10 supervisory authorities are of the view that the best way to assess the credit risk on these items is to ask banks to calculate the current replacement cost by marking contracts to market, thus capturing the current exposure without any need for estimation, and then adding a factor (the "add-on") to reflect the potential future exposure over the remaining life of the contract. It has been agreed that, in order to calculate the credit equivalent amount of its off-balance-sheet interest rate and foreign exchange rate instruments under this current exposure method, a bank would sum:

- the total replacement cost (obtained by "marking to market") of all its contracts with positive value and

- an amount for potential future credit exposure calculated on the basis of the total notional principal amount of its book, split by residual maturity as follows:

Residual maturity Rate	Interest Rate Contracts	Exchange Contracts
Less than one year	nil	1.0%
One year and over	0.5%	5.0%

No potential credit exposure would be calculated for single currency/floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark to market value.

A few G-10 supervisors believe that this two-step approach, incorporating a "mark to market" element, is not consistent with the remainder of the capital framework. They favor a simpler method whereby the potential credit exposure is estimated against each type of contract and a notional capital weight allotted, no matter what the market value of the contract might be at a particular

reporting date. It has therefore been agreed supervisory authorities should have discretion(24) to apply the alternative method of calculation described below, in which credit conversion factors are derived without reference to the current market price of the instruments. In deciding on what those notional credit conversion factors should be, it has been agreed that a slightly more cautious bias is justified since the current exposure is not being calculated on a regular basis.

In order to arrive at the credit equivalent amount using this

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original exposure method, a bank would simply apply one of the following two sets of conversion factors to the notional principal amounts of each instrument according to the nature of the instrument and its maturity:

Maturity(25)	Interest Rate Contracts	Exchange Rate Contracts
Less than one year	0.5%	2.0%
One year and less than two years	1.0%	5.0% (i.e. 2% + 3%)
For each additional year	1.0%	3.0%

It is emphasized that the above conversion factors, as well as the "additions" for the current exposure method, should be regarded as provisional and may be subject to amendment as a result of changes in the volatility of exchange rates and interest rates.

(24) Some national authorities may permit individual banks to choose which method to adopt, it being understood that once a bank had chose to apply the current exposure method, it would not be allowed to switch back to the original exposure method.

(25) For interest rate contracts, there is national discretion as to whether the conversion factors are to be based on original or residual maturity for exchange rate contracts, the conversion factors are to be calculated according to the original maturity of the instrument.

ANNEX 4

TRANSITIONAL ARRANGEMENTS

<TABLE>
<CAPTION>

<S>	<C> Initial	<C> End-1990	<C> End-1992
1. Minimum standard	The level prevailing at end-1987	7.25%	8.0%
2. Measurement formula	Core elements plus 100%	Core elements plus 100% (3.625% plus 3.624%)	Core elements plus 100% (4% plus 4%)
3. Supplementary elements included in core	Maximum 25% of total core	Maximum 10% of total core (i.e. 0.36%)	None
4. Limit on general loan loss reserves in supplementary elements*	No limit	1.5 percentage points, or exceptionally up to 2.0 percentage points	1.25 percentage points, or exceptionally and temporarily up to 2.0 percentage points
5. Limit on term subordinated debt in supplementary elements	No limit (at discretion)	No limit (at discretion)	Maximum of 50% of Tier 1
6. Deduction for goodwill	Deducted from Tier 1 (at discretion)	Deducted from Tier 1 (at discretion)	Deducted from Tier 1

</TABLE>

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*   This limit would only apply in the event that no agreement is reached on a consistent basis for including unencumbered provisions or reserves in capital (see paragraphs 20 and 21).

FORM OF REQUEST FOR DISBURSEMENT (LOAN)

(See Sections 3.02 and 6.06)

[MSF HOLDING LETTERHEAD]

[Date]

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: [Director, Latin America and the Caribbean Department]

Ladies and Gentlemen:

Investment No. 8354
Request for Loan Disbursement No. [ ]*

1. Please refer to the Investment Agreement (as amended from time to time, the "Investment Agreement") dated April 27, 1998 and amended and restated as of September 29, 1998 among MSF Holding Ltd., Medical Systems Finance S.A., Estolur, S.A., Healthcare Systems Finance S.A., Sistemas Financieros S.A. and International Finance Corporation ("IFC"). Terms defined in the Investment Agreement have their defined meanings whenever used in this request.

2. The Co-Borrowers irrevocably request the disbursement on ____________, 19__ (or as soon as practicable thereafter) of the amount of ____________ (____________) under the Loan (the "Disbursement") in accordance with the provisions of Section 3.02 of the Investment Agreement. You are requested to pay such amount to the account in [New York] of [Name of Company], Account No. ____________ at [Name and Address of Bank].

*   Each to be numbered in series.

3. There is enclosed a signed, stamped, but undated receipt for the amount of the Disbursement. The Co-Borrowers authorize IFC to date such receipt with the date of actual disbursement by IFC.

4. For the purpose of Sections 6.02 and 6.03 of the Investment Agreement, each of the Co-Borrowers further certifies as follows:

(a) no Event of Default and no Potential Event of Default has occurred and is continuing;

(b) the proceeds of the Disbursement are at the date of this request needed by the Co-Borrowers for the purpose of the Project, or will be needed for

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such purpose within six (6) months of such date;

(c) since April 27, 1998 nothing has occurred which might materially and adversely affect the carrying out of the Project or any of the Co-Borrower's or DVI's business prospects or financial condition, or make it improbable that any of the Co-Borrowers will be able to fulfill any of its obligations under the Investment Agreement;

(d) since April 27, 1998 none of the Co-Borrowers has incurred any material loss or liability (except such liabilities as may be incurred by such Co-Borrower in accordance with Sections 7.02, 7.03 and 7.04 of the Investment Agreement);

(e) the representations and warranties made in Article V of the Investment Agreement are true on the date of this request and will be true on the date of Disbursement with the same effect as if such representations and warranties had been made on and as of each such date (but in the case of Section 5.01(c), without the words in parenthesis);

(f) the proceeds of that Disbursement are not in reimbursement of, or to be used for, expenditures in the territories of any country which is not a member of IFC or the World Bank or for goods produced in or services supplied from any such country;

(g) after giving effect to the Disbursement, none of the Co-Borrowers will be in violation of:

(i) its Memorandum and Articles of Association, Estatutos or other organizational documents;

(ii) any provision contained in any document to which such Co-Borrower is a party (including the Investment Agreement) or by which such Co-Borrower is bound; or

(iii) any law, rule or regulation, directly or indirectly, limiting or otherwise restricting such Co-Borrower's borrowing power or authority or its ability to borrow; and

(h) (without limiting the generality of subsection (g) above) after taking account of the amount of that Disbursement MSF Holding shall be in compliance with the Capital Adequacy Ratio (on a consolidated basis);

(i) such Disbursement is made pro rata with the disbursement of any other senior loan forming part of the Financial Plan;

(j) the IFC/FMO Security has been duly created and registered as first priority or first ranking security interests in all assets subject to the Security Agreements;

(k) the Co-Borrowers have perfected and registered first priority security interests in favor of IFC and FMO over Lease/Loan Receivables such that the Loan to Collateral Value Ratio is no more than 95%; and

(l) after giving effect to the Disbursement, the aggregate amount outstanding under the Loan will not exceed the lesser of (i) the Advance Rate, or (ii) the Current Net Equipment Investment Cost.

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The above certifications are effective as of the date of this Request for Disbursement and shall continue to be effective as of the date of the Disbursement. If any of these certifications is no longer valid as of or prior to the date of the requested Disbursement, each of the Co-Borrowers undertakes to immediately notify IFC.

Yours truly,

MSF HOLDING LTD.

By ________________________
Authorized Representative

Copy to: Manager, Accounting Division
International Finance Corporation

FORM OF LOAN DISBURSEMENT RECEIPT

(See Section 3.02 of the Investment Agreement)

[MSF HOLDING'S LETTERHEAD]

[Date]

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Manager, Accounting Division

Ladies and Gentlemen:

Investment No. 8354
Disbursement Receipt No. [ ]* (Loan)

The Co-Borrowers, as defined in the Investment Agreement referred to below, hereby acknowledge receipt on the date hereof, of the sum of $___________ disbursed to us by International Finance Corporation ("IFC") under the Loan of forty million Dollars ($40,000,000) provided for in the Investment Agreement dated April 27, 1998 and amended and restated as of September 29, 1998 among MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., Sistemas Financieros S.A., and International Finance Corporation.

Yours truly,

MSF HOLDING LTD.

By ________________________
Authorized Representative**

* To correspond with number of the Disbursement request. See Schedule 1.

** As named in the Co-Borrower's Certificate of Incumbency and Authority

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(see Schedule 4).

FORM OF REQUEST FOR SUBSCRIPTION AND
DISBURSEMENT (EQUITY)

(See Sections 4.01(b) and 6.06)

[MSF HOLDING'S LETTERHEAD]

[Date]

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Director, Latin America and the Caribbean Department

Ladies and Gentlemen:

Investment No. 8354
Request for Disbursement (Equity)*

1. Please refer to the Investment Agreement (as amended from time to time, the "Investment Agreement") dated April 27, 1998 and amended and restated as of September 29, 1998 among MSF Holding Ltd., Medical Systems Finance S.A., Estolur, S.A. and Healthcare Systems Finance S.A., Sistemas Financieros S.A. and International Finance Corporation ("IFC"). Terms defined in the Investment Agreement have their defined meanings whenever used in this request.

* Each request to be numbered in sequence.

2. The Co-Borrowers request the subscription and disbursement on ____________, 19__ [as soon as practicable after the date of this request], of the amount of [amount and currency] in accordance with Section 4.01 of the Investment Agreement. You are requested to pay such amount to [Name and Address of Bank], for credit to the Co-Borrower's account no. ____________.

3. Against disbursement by you in accordance with Section 4.01 of the Investment Agreement, we will deliver to you a share certificate evidencing ownership of [number] Shares.

4. For the purpose of Sections 6.02 and 6.04 of the Investment Agreement, each of the Co-Borrowers certifies as follows:

(a) no Event of Default and no Potential Event of Default has occurred and is continuing;

(b) there has not occurred any default by any party to any of the agreements referred to in Section 6.01(d) of the Investment Agreement in the performance of any provision of any of such agreements;

(c) the proceeds of the disbursement are at the date of this request needed by the Co-Borrowers for the purpose of the Project, or will be needed for

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such purpose within six (6) months of such date;

(d) since April 27, 1998 nothing has occurred which might materially and adversely affect the carrying out of the Project or such Co-Borrower's or DVI's business prospects or financial condition, or make it improbable that such Co-Borrower will be able to fulfill any of its obligations under the Investment Agreement;

(e) since April 27, 1998 such Co-Borrower has not incurred any material loss or liability (except such liabilities as may be incurred by such Co-Borrower in accordance with Section 7.02, 7.03 and 7.04 of the Investment Agreement);

(f) the representations and warranties made in Article V of the Investment Agreement are true on the date of this request and will be true on the date of Disbursement with the same effect as if such representations and warranties had been made on and as of each such date (but in the case of Section 5.01(c), without the words in parenthesis);

(g) immediately after such subscription or disbursement, IFC would not have subscribed and paid for a higher proportion of the IFC Shares than the proportion which each of the other shareholders of MSF Holding has by then subscribed and paid for of the total number of Shares to be subscribed by it in accordance with the Financial Plan;

(h) DVI International and PIE have acquired, or will contemporaneously with this subscription acquire, in the aggregate, at least seventy-four per cent (74%) of the issued voting share capital of MSF Holding;

(i) FMO has acquired, or will contemporaneously with this subscription acquire, in the aggregate, at least thirteen percent (13%) of the issued voting share capital of MSF Holding on terms and conditions satisfactory to IFC; and

(j) all subscribed shares have been paid in full in cash.

The above certifications are effective as of the date of this request and shall continue to be effective as of the date of subscription and disbursement. If any such certification is no longer valid as of or prior to the date of the requested subscription and disbursement each of the Co-Borrowers undertakes to promptly notify IFC by telex or facsimile.

Yours truly,

MSF HOLDING LTD.

By ________________________
Authorized Representative

Copy to: Manager
Accounting Division
International Finance Corporation

FORM OF CERTIFICATE OF INCUMBENCY AND AUTHORITY

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(See Section 6.01(l))

[CO-BORROWER'S LETTERHEAD]

[Date]

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Director, Latin America and Caribbean Department

Ladies and Gentlemen:

Certificate of Incumbency and Authority

With reference to the Investment Agreement between us, dated April 27, 1998 and amended and restated as of September 29, 1998 (as amended from time to time the "Investment Agreement"), I, the undersigned [Chairman/Director] of [Name of Company] (the "Co-Borrower"), duly authorized to do so, hereby certify that the following are the names, offices and true specimen signatures of the persons each of whom are, and will continue to be, authorized:

(a) to sign on behalf of the Co-Borrower the requests for the subscription and disbursement of funds provided for in Sections 3.02 and 4.01 of the Investment Agreement;

(b) to sign the certifications provided for in Sections 6.02, 6.03, 6.04 and 6.06 of the Investment Agreement; and

(c) to take any other action required or permitted to be taken, done, signed or executed under the Investment Agreement or any other agreement to which IFC and the Co-Borrower may be parties.

* Name	Office	Specimen Signature
---------------------	----------------------	-------------------------
---------------------	----------------------	-------------------------
---------------------	----------------------	-------------------------

You may assume that any such person continues to be so authorized until you receive authorized written notice from the Co-Borrower that they, or any of them, is no longer so authorized.

Yours truly,

[NAME OF CO-BORROWER]

By ------------------------
[Chairman/Director]

* Designations may be changed by the Co-Borrower at any time by issuing a new Certificate of Incumbency and Authority authorized by the Board of Directors of the Co-Borrower.

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FORM OF LETTER TO CO-BORROWERS' AUDITORS

(See Sections 6.01(k) and 7.01(g) of
the Investment Agreement)

[CO-BORROWER'S LETTERHEAD]

[DATE]

[NAME OF AUDITORS]
[ADDRESS]

Ladies and Gentlemen:

We hereby authorize and request you to give to International Finance Corporation of 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433, United States of America ("IFC"), all such information as IFC may reasonably request with regard to the financial statements of the undersigned Co-Borrower, both audited and unaudited. We have agreed to supply that information and those statements under the terms of an Investment Agreement between the undersigned Co-Borrower and IFC dated April 27, 1998 and amended and restated as of September 29, 1998 (as amended from time to time, the "Investment Agreement"). For your information we enclose a copy of the Investment Agreement.

We authorize and request you to send two copies of the audited accounts of the undersigned Co-Borrower to IFC to enable us to satisfy our obligation to IFC under Section 7.01(e)(i) of the Investment Agreement. When submitting the same to IFC, please also send, at the same time, a copy of your full report on such accounts in a form reasonably acceptable to IFC.

Please note that under Section 7.01(e)(ii) and (iii) of the Investment Agreement, we are obliged to provide IFC with:

(a) a copy of any management letter or other communication from you to the Co-Borrower or its management commenting on, among other things, the adequacy of the Co-Borrower's financial control procedures and accounting and management information systems; and

(b) a report by you certifying that, based upon its audited financial statements, the Co-Borrower was in compliance with the financial covenants contained in Sections 7.02, 7.03 and 7.04 of the Investment Agreement as at the end of the relevant Fiscal Year or, as the case may be, detailing any non-compliance.

Please also submit each such communication and report to IFC with the audited accounts.

For our records, please ensure that you send to us a copy of every letter which you receive from IFC immediately upon receipt and a copy of each reply made by you immediately upon the issue of that reply.

Yours truly,

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[NAME OF CO-BORROWER]

By ________________________
Authorized Representative

Enclosure

cc: Director
Latin America and Caribbean
International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

INFORMATION TO BE INCLUDED IN ANNUAL REVIEW OF OPERATIONS

(See Section 7.01(e)(iv) of the Investment Agreement)

(1) Sponsors and Shareholdings. Information on significant changes in share ownership of any Co-Borrower, the reasons for such changes, and the identity of major new shareholders.

(2) Country Conditions and Government Policy. Report on any material changes in local conditions, including government policy changes, that directly affect any Co-Borrower (e.g. changes in government economic strategy, taxation, foreign exchange availability, price controls, and other areas of regulations.)

(3) Management and Technology. Information on significant changes in (i) the Co-Borrowers' senior management or organizational structure, and (ii) technology used by any Co-Borrower, including technical assistance arrangements.

(4) Corporate Strategy. Description of any changes to any Co-Borrower's corporate or operational strategy, including changes in products, degree of integration, and business emphasis.

(5) Markets. Brief analysis of changes in any Co-Borrower's market conditions (both domestic and export), with emphasis on changes in market share and degree of competition.

(6) Operating Performance. Discussion of major factors affecting the year's financial results (sales by value and volume, operating and financial costs, profit margins, capacity utilization, capital expenditure, etc.).

(7) Financial Condition. Key financial ratios for previous year,

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compared with ratios covenanted in the Investment Agreement.

(8) Asset Liability Management Reports. Reports containing interest rate exposures, foreign currency exposures (Dollars and other currencies), hedging, etc.

MINIMUM INSURANCE REQUIREMENTS

(Section 7.01(t) of the Investment Agreement)

The Co-Borrowers shall insure their assets and activities according to their own written insurance policy which shall be approved by IFC, and monitor the insurance on all loans and leases made under Lease/Loan Agreements.

The insurance required will be expected to include, but not be limited to, insurance against the following:

(a) Fire and Perils, or all Risks, on assets;

(b) General Liability;

(c) Financial Institution Bond (Fidelity/Cash/etc.);

(d) Other Insurances required by law.

SPECIAL PROVISIONS

(a) IFC named as additional insured on all liability policies.

(b) Deliver to IFC a description of the procedures instituted by the Co-Borrowers to monitor insurance on all loans and leases made under Lease/Loan Agreements.

FORM OF AGREEMENT OF ADDITIONAL CO-BORROWERS

(See Section 9.13)

[LETTERHEAD OF INTERNATIONAL FINANCE CORPORATION]

[Date]

MSF Holding Ltd.
Medical Systems Finance S.A.

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Estolur S.A.
Healthcare Systems Finance S.A.
Sistemas Financieros S.A.
[other Co-Borrowers]
[new Co-Borrower]
Euro Canadian Centre
Marlborough Street
P.O. Box B-8327
Nassau, Bahamas

Dear Sirs:

We refer to the Amended and Restated Investment Agreement dated April 27, 1998 and amended and restated as of September 29, 1998, among MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., Sistemas Financieros S.A., [other Co-Borrowers] (collectively the "Existing Co-Borrowers") and International Finance Corporation (as amended from time to time, the "Investment Agreement"). Terms used and not defined herein that are defined in the Investment Agreement are used herein as there defined.

The parties hereto agree that [name of new Co-Borrower] (the "New Co-Borrower") is to become a Co-Borrower under the Investment Agreement and further agree as follows.

1. The New Co-Borrower hereby agrees to perform and discharge, jointly and severally with the other Co-Borrowers, all of the obligations, debts and liabilities of a Co-Borrower under the Investment Agreement, whether now existing or hereafter arising, known or unknown, absolute or contingent.

2. The New Co-Borrower shall be entitled to all of the rights of a Co-Borrower under the Investment Agreement.

[3. The New Co-Borrower shall be an Eligible Co-Borrower.]*

[4]. The New Co-Borrower hereby makes, and each of the Existing Co-Borrowers hereby restates, as if set forth at length herein, each of the representations and warranties set forth in Section 5.01 of the Investment Agreement.

[5]. This Agreement shall become effective upon (a) the execution and delivery of this Agreement by IFC, each of the Existing Co-Borrowers and the New Co-Borrower and (b) the delivery by IFC to the Co-Borrowers of a notice stating that each of the following events has occurred and that this Agreement has become effective:

(i) IFC has received opinions of counsel acceptable to IFC and in form and substance satisfactory to IFC (A) to the effect that this Agreement has been duly executed and delivered by the Existing Co-Borrowers and the New Co-Borrower, that this Agreement and the Investment Agreement as amended hereby each constitutes the legal, valid, and binding obligations of the Existing Co-Borrowers and the New Co-Borrower and that each of the agreements referred to in Section[5](b)(ii), as amended in accordance with Section [5](b)(ii), constitutes the legal, valid and binding obligations of the parties thereto and (B) with respect to such other matters as IFC may reasonably request.

* Include this paragraph only if the New Co-Borrower is to be an Eligible Co-Borrower.

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(ii) to the extent necessary in the reasonable opinion of IFC, each of the following agreements has been amended by the execution and delivery of amendatory agreements in form and substance satisfactory to IFC:

(A) the Guarantee Agreement;

(B) the Servicing Agreement;

(C) the Share Retention, Non-Competition and Put Option Agreement;

(D) the Stand-by Loan Facility Agreement;

(E) the Technical Assistance Agreement; and

(F) the Security Agreements.

(iii) the fees and disbursements of IFC's counsel in connection with the preparation, execution and delivery of this Agreement, the delivery of the legal opinions referred to in Section [5](b)(i), and the preparation, execution and delivery of amendatory agreements referred to in Section [5](b)(ii) have been paid in full by the Co-Borrowers.

6. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

If the foregoing correctly states our agreement, please so indicate by signing and returning to us the enclosed copy of this Agreement.

INTERNATIONAL FINANCE CORPORATION

By:_____________________________________
Authorized Representative

AGREED:

MSF HOLDING LTD.

By:______________________
Authorized Representative

MEDICAL SYSTEMS FINANCE S.A.

By:_______________________
Authorized Representative

ESTOLUR S.A.

By:_______________________
Authorized Representative

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HEALTHCARE SYSTEMS FINANCE S.A.

By:________________________
Authorized Representative

SISTEMAS FINANCIEROS S.A.

By:________________________
Authorized Representative

[ANY ADDITIONAL CO-BORROWER]

By:______________________________
Authorized Representative

[NEW CO-BORROWER]

By:______________________________
Authorized Representative

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DVI, INC.

1996 STOCK OPTION PLAN

DVI, Inc., a Delaware corporation, wishes to attract key employees, consultants and directors to the Company and its Subsidiaries, to induce key employees, consultants and directors to remain with the Company and its Subsidiaries, and to encourage them to increase their efforts to make the Company's business more successful whether directly or through its Subsidiaries. In furtherance thereof, the DVI, Inc. 1996 Stock Option Plan is designed to provide equity-based incentives to key employees, consultants and directors of the Company and its Subsidiaries.

1. Definitions.

Whenever used herein, the following terms shall have the meanings set forth below:

"Administrator" means the Board, or, if the Board so determines, the Committee.

"Award Agreement" means a written agreement in a form approved by the Administrator to be entered into by the Company and the Optionee of an Option, as provided in Section 4.

"Board" means the Board of Directors of the Company.

"Cause" means, unless otherwise provided in the applicable Award Agreement, with respect to the termination of an employee's employment or a consultant's or director's service, termination by reason of commission of a felony, fraud, willful misconduct, or habitual neglect of the Optionee's duties, which has resulted, or is likely to result, in substantial and material damage to the Company or a parent or a Subsidiary, all as the Administrator, in its sole discretion, may determine.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Committee appointed by the Board under Section 3, if any.

"Common Stock" means the Company's Common Stock, par value $.005, either currently existing or authorized hereafter.

"Company" means DVI, Inc., a Delaware corporation.

"Constituent Corporation" means a corporation which has been merged into or consolidated with the Company or one or more Subsidiaries, or whose assets or stock has been acquired by or liquidated into the Company, or by or

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into any one or more Subsidiaries, or any parent or any subsidiary of any such corporation.

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

"Fair Market Value" per Share as of a particular date means (i) if Shares are then listed on a national stock exchange, the closing sales price per Share on the exchange for the last preceding date on which there was a sale of Shares on such exchange, as determined by the Administrator; (ii) if Shares are not then listed on a national stock exchange but are then traded on an over-the-counter market, the average of the closing bid and asked prices for the Shares in such over-the-counter market for the last preceding date on which there was a sale of such Shares in such market, as determined by the Administrator; or (iii) if Shares are not then listed on a national stock exchange or traded on an over-the-counter market, such value as the Administrator in its discretion may in good faith determine; provided that, where the Shares are so listed or traded, the Administrator may make discretionary determinations where the Shares have not been traded for 10 trading days.

"Incentive Stock Option" means an "incentive stock option" within the meaning of Section 422(b) of the Code.

"Non-Qualified Stock Option" means an Option which is not an Incentive Stock Option.

"Option" means the right to purchase, at a price and for the term fixed by the Administrator in accordance with the Plan, and subject to such other limitations and restrictions in the Plan and the applicable Award Agreement, a number of Shares determined by the Administrator.

"Optionee" means an employee, consultant or director of the Company to whom an Option is granted, or the Successors of the Optionee, as the context so requires.

"Option Price" means the exercise price per Share.

"Plan" means this DVI, Inc. 1996 Stock Option Plan, as set forth herein and as the same may from time to time be amended.

"Securities Act" means the Securities Act of 1933, as amended.

"Shares" means shares of Common Stock of the Company.

"Subsidiary" means any corporation (other than the Company) that is a "subsidiary corporation" with respect to the Company under Section 424(f) of the

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Code. In the event the Company becomes a subsidiary of another company, the provisions hereof applicable to subsidiaries shall, unless otherwise determined by the Administrator, also be applicable to any Company that is a "parent corporation" with respect to the Company under Section 424(e) of the Code.

"Successor of the Optionee" means the legal representative of the estate of a deceased Optionee or the person or persons who shall acquire the right to exercise an Option by bequest or inheritance or by reason of the death of the Optionee.

2. Effective Date and Termination of Plan.

The effective date of the Plan is August 29, 1996. The Plan shall terminate on, and no Option shall be granted hereunder on or after, August 29, 2006.

3. Administration of Plan.

The Plan shall be administered by the Administrator. If the Administrator is the Committee, then the Committee shall consist of at least two individuals each of whom shall be a "nonemployee director" as defined in Rule 16b-3 as promulgated by the Securities and Exchange Commission ("Rule 16b-3") under the Exchange Act and shall, at such times as the Company is subject to Section 162(m) of the Code (to the extent relief from the limitation of Section 162(m) of the Code is sought with respect to Options), qualify as "outside directors" for purposes of Section 162(m) of the Code. The acts of a majority of the members present at any meeting of the Committee at which a quorum is present, or acts approved in writing by a majority of the entire Committee, shall be the acts of the Committee for purposes of the Plan. If and to the extent applicable, no member of the Committee may act as to matters under the Plan specifically relating to such member.

4. Eligibility and Grant of Options; Administrator Authority.

Subject to the provisions of the Plan, the Administrator shall, in its discretion as reflected by the terms of the Award Agreements: (i) authorize the granting of Options to key employees, consultants and directors of the Company and its Subsidiaries; (ii) determine and designate from time to time those key employees, consultants and directors of the Company and its Subsidiaries to whom Options are to be granted and the number of Shares to be optioned to each employee, consultant or director; (iii) determine whether to grant Incentive Stock Options, or Non-Qualified Stock Options, or both (to the extent that any Option does not qualify as an Incentive Stock Option, it shall constitute a separate Non-Qualified Stock Option); (iv) determine the number of Shares subject to each Option; (v) determine the time or times when and the manner and condition in which each Option shall be exercisable and the duration of the

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exercise period; and (vi) determine or impose other conditions to the grant or exercise of Options under the Plan as it may deem appropriate. In determining the eligibility of an employee, consultant or director to receive an Option, as well as in determining the number of Shares to be optioned to any employee, consultant or director, the Administrator may consider the position and responsibilities of such employee, consultant or director, the nature and value to the Company of the employee's, consultant's or director's services and accomplishments whether directly or through its Subsidiaries, the employee's, consultant's or director's present and potential contribution to the success of the Company whether directly or through its Subsidiaries and

such other factors as the Administrator may deem relevant. The Award Agreement shall contain such other terms, provisions and conditions not inconsistent herewith as shall be determined by the Administrator. The Optionee shall take whatever additional actions and execute whatever additional documents the Administrator may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Optionee pursuant to the express provisions of the Plan and the Award Agreement. The Administrator shall cause each Option to be designated as an Incentive Stock Option or a Non-Qualified Stock Option.

5. Number of Shares Subject to Options.

Subject to adjustments pursuant to Section 17, Options with respect to an aggregate of no more than 1,500,000 Shares may be granted under the Plan. In no event may any Optionee receive Options for more than 1,000,000 Shares of Common Stock over the life of the Plan. Notwithstanding the foregoing provisions of this Section 5, Shares as to which an Option is granted under the Plan that remains unexercised at the expiration, forfeiture or other termination of such Option may be the subject of the grant of further Options. Shares of Common Stock issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares or any Shares purchased in the open market or otherwise. The certificates for Shares issued hereunder may include any legend which the Administrator deems appropriate to reflect any repurchase rights of the Company, restrictions on transfer hereunder or under the Award Agreement, or as the Administrator may otherwise deem appropriate.

The aggregate Fair Market Value, determined as of the date an Option is granted, of the Common Stock for which any Optionee may be awarded Incentive Stock Options which are first exercisable by the Optionee during any calendar year under the Plan (or any other stock option plan required to be taken into account under Section 422(d) of the Code) shall not exceed $100,000.

6. Option Price.

The Option Price shall not be less than 100% (or 110%, in the case of an Incentive Stock Option granted to an individual described in Section

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422(b)(6) of the Code (relating to certain 10% owners)) of the Fair Market Value of a Share on the day the Option is granted.

7. Period of Option and Vesting.

(a) Unless earlier expired, forfeited or otherwise terminated, each Option shall expire in its entirety upon the 10th anniversary of the date of grant or shall have such other term as is set forth in the applicable Award Agreement (except that, in the case of an individual described in Section 422(b)(6) of the Code (relating to certain 10% owners) who is granted an Incentive Stock Option, the term of such Option shall be no more than five years from the date of grant). The Option shall also expire, be forfeited and terminate at

such times and in such circumstances as otherwise provided hereunder or under the Award Agreement.

(b) Each Option, to the extent that there has been no termination of the Optionee's employment (or, in the case of consultants and directors, other service) and the Option has not otherwise lapsed, expired, terminated or been forfeited, shall first become exercisable according to the terms and conditions set forth in the Award Agreement, as determined by the Administrator at the time of grant; provided that no Option shall be exercisable at the rate of less than 20% per year over a five-year period. Unless otherwise provided in the Award Agreement or herein, no Option (or portion thereof) shall ever be exercisable if the Optionee's employment (or other service, if applicable) with the Company and its Subsidiaries has terminated before the time at which such Option would otherwise have become exercisable, and any Option that would otherwise become exercisable after such termination shall not become exercisable and shall be forfeited upon such termination. Notwithstanding the foregoing provisions of this Section 7(b), Options exercisable pursuant to the schedule set forth by the Administrator at the time of grant may be fully or more rapidly exercisable or otherwise vested at any time in the discretion of the Administrator. Upon and after the death of an Optionee, such Optionee's Options, if and to the extent otherwise exercisable hereunder or under the applicable Award Agreement after the Optionee's death, may be exercised by the Successors of the Optionee.

8. Exercisability Upon and After Termination of Optionee.

(a) Unless otherwise provided in the Award Agreement, if the Optionee's employment (or other service, as applicable) with the Company and its Subsidiaries is terminated within twelve months after the date of grant, the Optionee's Options, to the extent then unexercised, shall thereupon cease to be exercisable and shall be forfeited forthwith.

(b) Unless otherwise provided in the Award Agreement, other than by reason of voluntary separation, Cause, death, retirement or disability, no

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exercise of an Option may occur after the expiration of the three-month period to follow the termination, or if earlier, the expiration of the term of the Option as provided under Section 7; provided that, if the Optionee should die after termination of employment (or other service, if applicable) such termination being for a reason other than disability or retirement, but while the Option is still in effect, the Option (if and to the extent otherwise exercisable by the Optionee at the time of death) may be exercised until the earlier of (i) one year from the date of termination of employment (or other service, if applicable) of the Optionee, or (ii) the date on which the term of the Option expires in accordance with Section 7.

(c) Unless otherwise provided in the Award Agreement, if the Optionee's employment (or other service) with the Company and its Subsidiaries terminates due to the death or disability of the Optionee, no exercise of an Option may occur after the expiration of the one-year period to follow such termination or, if earlier, the expiration of the term of the Option in accordance with Section 7.

(d) Unless otherwise provided in the Award Agreement, if the Optionee's employment (or other service, as applicable) with the Company and its Subsidiaries terminates due to the retirement of the Optionee, no exercise of an Option may occur after the expiration of the three-month period to follow such termination or, if earlier, the expiration of the term of the Option in accordance with Section 7.

(e) Notwithstanding any other provision hereof, unless otherwise provided in the Award Agreement, if (i) the Optionee's employment (or other service, as applicable) is terminated by the Company and its Subsidiaries for Cause or (ii) the Optionee voluntarily terminates employment (or other service, as applicable) with the Company and its Subsidiaries (other than on account of death, retirement or disability) the Optionee's Options, to the extent then unexercised, shall thereupon cease to be exercisable and shall be forfeited forthwith.

(f) If the Optionee commences or continues service as a consultant or director of the Company upon termination of employment, such continued service shall, if the Administrator in its discretion so consents, be treated as continued employment hereunder.

(g) Except as may otherwise be expressly set forth in this Section 8, and except as may otherwise be expressly provided under the Award Agreement, no provision of this Section 8 is intended to or shall permit the exercise of the Option to the extent the Option was not exercisable upon cessation of employment (or other service, as applicable).

(h) Notwithstanding any other provision hereof, whether a termination

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of employment (or other service, if applicable) is considered to be a retirement or disability and whether an authorized leave of absence on military or government service shall constitute a termination of employment (or other service, if applicable) for the purposes of the Plan shall be determined by the Administrator, which determination, unless overruled by the Board, shall be final and conclusive. An Optionee's employment (or other service, as applicable) with a Constituent Corporation shall be deemed to be employment (or other service, as applicable) with the Company. An Optionee's employment (or other service, as applicable) by the Company shall be deemed to continue during such periods as he or she is employed (or otherwise serves) by the a corporation which is a Subsidiary both (i) at the time the Optionee's Option is granted and (ii) throughout the period of the Optionee's employment (or other service, as applicable) by such Subsidiary. If the Optionee shall be transferred from the Company to a Subsidiary or from a Subsidiary to the Company or from a Subsidiary to another Subsidiary, his or her employment (or other service, as applicable) shall not be deemed to be terminated by reason of such transfer. An Option shall terminate immediately if while the Optionee is employed (or otherwise services) by a Subsidiary, such Subsidiary shall cease to be a Subsidiary and the Optionee is not thereupon transferred to and employed by the Company or another Subsidiary.

9. Exercise of Options.

(a) Subject to vesting and other restrictions provided for hereunder or otherwise imposed in accordance herewith, an Option may be exercised, and payment in full of the aggregate Option Price made, by an Optionee only by written notice (in the form prescribed by the Administrator) to the Company specifying the number of Shares to be purchased.

(b) Without limiting the scope of the Administrator's discretion hereunder, the Administrator may impose such other restrictions on the exercise of Incentive Stock Options (whether or not in the nature of the foregoing restrictions) as it may deem necessary or appropriate.

(c) If Shares acquired upon exercise of an Incentive Stock Option are disposed of in a disqualifying disposition within the meaning of Section 422 of the Code by an Optionee prior to the expiration of either two years from the date of grant of such Option or one year from the transfer of Shares to the Optionee pursuant to the exercise of such Option, or in any other disqualifying disposition within the meaning of Section 422 of the Code, such Optionee shall notify the Company in writing as soon as practicable thereafter of the date and terms of such disposition and, if the Company thereupon has a tax-withholding obligation, shall pay to the Company an amount equal to any withholding tax the Company is required to pay as a result of the disqualifying disposition.

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10. Payment.

(a) The aggregate Option Price shall be paid in full upon the exercise of the Option. Except to the extent otherwise provided by the Administrator, payment must be made by check or bank draft.

(b) Except in the case of Options exercised by check or bank draft, the Administrator may impose limitations and prohibitions on the exercise of Options as it deems appropriate, including, without limitation, any limitation or prohibition designed to avoid accounting consequences which may result from the use of Common Stock as payment upon exercise of an Option. Any fractional Shares resulting from an Optionee's election that are accepted by the Company shall in the discretion of the Administrator be paid in cash.

11. Tax Withholding.

The Administrator may, in its discretion, require the Optionee to pay to the Company at the time of exercise of any Option the amount that the Administrator deems necessary to satisfy the Company's obligation to withhold federal, state or local income or other taxes incurred by reason of the exercise. Upon exercise of the Option, the Optionee may, if approved by the Administrator in its discretion, make a written election to have Shares then issued withheld by the Company from the Shares otherwise to be received, or

to deliver previously owned Shares, in order to satisfy the liability for such withholding taxes. In the event that the Optionee makes, and the Administrator permits, such an election, the number of Shares so withheld or delivered shall have an aggregate Fair Market Value on the date of exercise sufficient to satisfy the applicable withholding taxes. Where the exercise of an Option does not give rise to an obligation by the Company to withhold federal, state or local income or other taxes on the date of exercise, but may give rise to such an obligation in the future, the Administrator may, in its discretion, make such arrangements and impose such requirements as it deems necessary or appropriate. Notwithstanding anything contained in the Plan to the contrary, the Optionee's satisfaction of any tax-withholding requirements imposed by the Administrator shall be a condition precedent to the Company's obligation as may otherwise be provided hereunder to provide Shares to the Optionee, and the failure of the Optionee to satisfy such requirements with respect to the exercise of an Option shall cause such Option to be forfeited.

12. Exercise by Successors and Payment in Full.

An Option may be exercised, and payment in full of the aggregate Option Price made, by the Successors of the Optionee only by written notice (in the form prescribed by the Administrator) to the Company specifying the number of Shares to be purchased. Such notice shall state that the aggregate Option Price will be paid in full, or that the Option will be exercised as otherwise provided

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hereunder, in the discretion of the Company or the Administrator, if and as applicable.

13. Nontransferability of Option.

Each Option granted under the Plan shall by its terms be nontransferable by the Optionee except by will or the laws of descent and distribution of the state wherein the Optionee is domiciled at the time of his death; provided, however, that the Administrator may (but need not) permit other transfers, where the Administrator concludes that such transferability (i) does not result in accelerated taxation, (ii) does not cause any Option intended to be an Incentive Stock Option to fail to be described in Section 422(b) of the Code and (iii) is otherwise appropriate and desirable.

14. Right of Repurchase.

At the time of grant, the Administrator may provide in connection with any grant made under the Plan that Shares received in connection with Options shall be subject to a right of repurchase, pursuant to which the Company shall be entitled to purchase such Shares at no less than the greater of the Option Price paid by the Optionee for such Shares or the Fair Market Value of such Shares on the date of such repurchase.

15. Regulations and Approvals.

(a) The obligation of the Company to sell Shares with respect to Options granted under the Plan shall be subject to all applicable laws, rules and regulations,

including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Administrator.

(b) The Administrator may make such changes to the Plan as may be necessary or appropriate to comply with the rules and regulations of any government authority or to obtain tax benefits applicable to stock options.

(c) Each Option is subject to the requirement that, if at any time the Administrator determines, in its discretion, that the listing, registration or qualification of Shares issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Option or the issuance of Shares, no Options shall be granted or payment made or Shares issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions in a manner acceptable to the Administrator.

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(d) In the event that the disposition of stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act, and is not otherwise exempt from such registration, such Shares shall be restricted against transfer to the extent required under the Securities Act, and the Administrator may require any individual receiving Shares pursuant to the Plan, as a condition precedent to receipt of such Shares, to represent to the Company in writing that the Shares acquired by such individual are acquired for investment only and not with a view to distribution and that such Shares will be disposed of only if registered for sale under the Securities Act or if there is an available exemption for such disposition.

16. Interpretation and Amendments; Other Rules.

The Administrator may make such rules and regulations and establish such procedures for the administration of the Plan as it deems appropriate. Without limiting the generality of the foregoing, the Administrator may (i) determine (A) the conditions under which an Optionee will be considered to have retired or become disabled and (B) whether any Optionee has done so; (ii) establish or assist in the establishment of a program (which need not be administered in a nondiscriminatory or uniform manner) under which the Company or a third party may make bona-fide loans on arm's-length terms to any or all Optionees to assist such Optionees with the satisfaction of any or all of the obligations that such Optionees may have hereunder or under which third-party sales may be made for such purpose (including, without limitation, a loan program under which the Company or a third party would advance the aggregate Option Price to the Optionee and be repaid with Option stock or the proceeds thereof and a sale program under which funds to pay for Option stock are delivered by a third party upon the third party's receipt from the Company of stock certificates); (iii) determine the extent, if any, to which Options or Shares shall be forfeited (whether or not such forfeiture is expressly contemplated hereunder); (iv) interpret the Plan and the Award Agreements hereunder, with such interpretations to be conclusive and

binding on all persons and otherwise accorded the maximum deference permitted by law; and (v) take any other actions and make any other determinations or decisions that it deems necessary or appropriate in connection with the Plan or the administration or interpretation thereof. The Administrator may in the Award Agreement provide that the Optionee shall notify the Company of the failure to meet any holding period requirement under the Code applicable to Shares received upon the exercise of an Incentive Stock Option. Unless otherwise expressly provided hereunder, the Administrator, with respect to any Option, may exercise its discretion hereunder at the time of the award or thereafter. In the event of any dispute or disagreement as to the interpretation of the Plan or of any rule, regulation or procedure, or as to any question, right or obligation arising from or related to the Plan, the decision of the Administrator shall be final and binding upon all persons. The Board may amend the Plan as it shall deem

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advisable, except that no amendment may adversely affect an Optionee with respect to Options previously granted unless such amendments are in connection with compliance with applicable laws; provided that the Board may not make any amendment in the Plan that would, if such amendment were not approved by the holders of the Common Stock, cause the Plan to fail to comply with any requirement of applicable law or regulation, unless and until the approval of the holders of such Common Stock is obtained. Without limiting the generality of the foregoing, the Administrator may (subject to such considerations as may arise under Section 16 of the Exchange Act, or under other corporate, securities or tax laws) take any steps it deems appropriate, that are not inconsistent with the purposes and intent of the Plan, to take into account the provisions of Section 162(m) of the Code.

17. Changes in Capital Structure.

If (i) the Company or its Subsidiaries shall at any time be involved in a merger, consolidation, dissolution, liquidation, reorganization, exchange of shares, sale of all or substantially all of the assets or stock of the Company or its Subsidiaries or a transaction similar thereto, (ii) any stock dividend, stock split, reverse stock split, stock combination, reclassification, recapitalization or other similar change in the capital structure of the Company or its Subsidiaries, or any distribution to holders of Common Stock other than cash dividends, shall occur or (iii) any other event shall occur which in the judgment of the Administrator necessitates action by way of adjusting the terms of the outstanding Options, then the Administrator shall forthwith take any such action as in its judgment shall be necessary to preserve to the Optionees rights substantially proportionate to the rights existing prior to such event, and to maintain the continuing availability of Shares under Section 5 (if Shares are otherwise then available) in a manner consistent with the intent hereof, including, without limitation, adjustments in (x) the number and kind of shares subject to Options, (y) the Option Price, and (z) the number and kind of shares available under Section 5; provided that no such action taken by the Administrator shall cause Options intended to qualify as Incentive Stock Options to fail to qualify as Incentive Stock Options. To the extent that such action shall include an increase or decrease in the number of Shares (or units of other property then available) subject to outstanding Options, the number of Shares (or units) available under Section 5 above shall be increased or decreased, as the case may be, proportionately, as may be provided by Administrator in its

discretion.

If the Company sells all, or substantially all, of its assets, or the Company merges or consolidates with another corporation and the stockholders of the Company immediately prior to such transaction do not own, immediately after such transaction, stock of the purchasing or surviving corporation in such transaction (or of the parent corporation of the purchasing or surviving corporation) possessing more than 50% of the voting power of the outstanding

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stock of that corporation, which ownership shall be measured without regard to any stock of the purchasing, surviving or parent corporation owned by the stockholders of the Company before the transaction, then any outstanding Options shall become fully vested and exercisable thirty (30) days prior to such merger, consolidation or sale of assets (but shall terminate thereafter), unless provisions are made in connection with such transaction for the continuance of the Plan or the assumption or the substitution for outstanding Options of new options covering the stock of the successor employer corporation, or a parent or subsidiary thereof, with such equitable and appropriate adjustments as to price, number and kind of shares as is just and reasonable under the circumstances. Upon the dissolution or liquidation of the Company, all outstanding Options shall terminate; provided, however, that the persons then entitled to exercise an unexercised portion of an Option shall have the right, at such time immediately prior to such dissolution or liquidation as the Company shall designate, to exercise the Option to the full extent not theretofore exercised.

Anything in the Plan to the contrary notwithstanding, the Board may, without further approval of the stockholders of the Company, substitute new options for prior options of a Constituent Corporation or assume the prior options of a Constituent Corporation.

The judgment of the Administrator with respect to any matter referred to in this Section 17 shall be conclusive and binding upon each Optionee without the need for any amendment to the Plan.

18. Notices.

All notices under the Plan shall be in writing, and if to the Company, shall be delivered to the Board or mailed to its principal office, addressed to the attention of the Board; and if to the Optionee, shall be delivered personally or mailed to the Optionee at the address appearing in the records of the Company. Such addresses may be changed at any time by written notice to the other party given in accordance with this Section 18.

19. Rights as Stockholder.

Neither the Optionee nor any person entitled to exercise the Optionee's rights in the event of death shall have any rights of a stockholder with respect to the Shares subject to an Option, except to the extent that a certificate for such Shares shall have been issued upon the exercise of the Option as provided for herein.

20. Rights to Employment.

Nothing in the Plan or in any Option granted pursuant to the Plan shall confer on any individual any right to continue in the employ (or other service,

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as applicable) of the Company or its Subsidiaries or interfere in any way with the right of the Company or its Subsidiaries to terminate the individual's employment (or other service, as applicable) at any time.

21. Exculpation and Indemnification.

To the maximum extent permitted by law, the Company shall indemnify and hold harmless the members of the Board and the members of the Administrator from and against any and all liabilities, costs and expenses incurred by such persons as a result of any act or omission to act in connection with the performance of such person's duties, responsibilities and obligations under the Plan, other than such liabilities, costs and expenses as may result from the gross negligence, bad faith, willful misconduct or criminal acts of such persons.

22. Captions.

The use of captions in this Plan is for convenience. The captions are not intended to and do not provide substantive rights.

23. Governing Law.

THE PLAN SHALL BE GOVERNED BY THE LAWS OF DELAWARE, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICT OF LAWS.

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DVI, INC.

SUBSIDIARIES AND SUB-SUBSIDIARIES

EXHIBIT 21

<TABLE>
<CAPTION>

NAME OF ENTITY/JURISDICTION OF ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
<S>	<C>	<C>
DVI Financial Services Inc. (Delaware)	100%	
DVI Business Credit Corporation (Delaware)	100%	
Westgate Imaging Center, Inc. (Delaware)		100%
DVI Lease Receivables Corp. 1993-A (Delaware)		100%
DVI Lease Finance Corporation II (Delaware)		100%
DVI Lease Finance Corporation III (Delaware)		100%
DVI Subordinated Securities Corporation (Delaware)		100%
DVI Receivables Corp. (Delaware)		100%
DVI Receivables Corp. II (Delaware)		100%
DVI Receivables Corp. III (Delaware)		100%
DVI Receivables Corp. IV (Delaware)		100%
DVI Receivables Corp. V (Delaware)		100%
DVI Receivables Corp. V, LLC (Delaware)		100%
DVI Receivables Corp. VI (Delaware)		100%
DVI Receivables Corp. VI, LLC (Delaware)		100%
DVI Receivables Corp. VII (Delaware)		100%
DVI Receivables Corp. VII, LLC (Delaware)		100%
DVI Receivables Corp. VIII (Delaware)		100%
DVI Receivables Corp. VIII, LLC (Delaware)		100%
DVI Receivables Corp. IX (Delaware)		100%
DVI Receivables Corp. X (Delaware)		100%
DVI Receivables Corp. X, LLC (Delaware)		100%
DVI Business Credit Receivables Corporation (Delaware)		100%
DVI Business Credit Receivables Corp. II (Delaware)		100%
DVI Business Credit Receivables Corp. III (Delaware)		100%
DVI Securities, Inc. (Delaware)		100%
DVI Mortgage Funding (Delaware)		100%
DVI Healthcare Financial Advisors (Delaware)		100%
DVI Ohio, Inc. (Delaware)		100%
DVI Realty Company (Delaware)		100%
DVI Texas, Inc. (Delaware)		100%
Healthcare Technology Solutions, Inc. (Delaware)		100%
DVI International, Inc. (Delaware)		100%
DVI Thailand Ltd. (Thailand)		100%
DVI Financial Services (Australia) Ltd. (Australia)		100%
Oferil Sociedad Anonima (Uruguay)		100%
DVI (Malaysia) SDN.BHD (Malaysia)		100%
DVI International (Deutschland) GmbH (Germany)		100%
DVI Servicios de Renting, S.A. (Spain)		100%
DVI Italia, S.r.l. (Italy)		100%
MSF Holding Ltd. (Bahamas)		59%

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<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-K
FOR FISCAL YEAR ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY
REFERENCE TO SAME.
</LEGEND>
<MULTIPLIER> 1,000
<CURRENCY> U.S. DOLLARS

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<OTHER-SE>                                       191,576
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<CGS>                                                  0
<TOTAL-COSTS>                                     60,850
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<EPS-DILUTED>                                       1.30
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