FORM S-3/A

Registration statement for specified transactions by certain issuers [amend]

Filing Date: **1997-09-11**
SEC Accession No. 0000950144-97-009981

FILER

MEDPARTNERS INC

CIK:**1000736**| IRS No.: **631151076** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **S-3/A** | Act: **33** | File No.: **333-30923** | Film No.: **97679174**
SIC: **8093** Specialty outpatient facilities, nec

Mailing Address
3000 GALLERIA TOWER
SUITE 1000
BIRMINGHAM AL 35244

Business Address
3000 GALLERIA TOWER
STE 1000
BIRMINGHAM AL 35244
2057338996

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 11, 1997

REGISTRATION NO. 333-30923

==========

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MEDPARTNERS, INC.
(Exact Name of Registrant as Specified in its Charter)

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

DELAWARE	8099	63-1151076
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

</TABLE>

3000 GALLERIA TOWER, SUITE 1000, BIRMINGHAM, ALABAMA 35244-2331
(205) 733-8996
(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

J. BROOKE JOHNSTON, JR., ESQ.
SENIOR VICE PRESIDENT AND
GENERAL COUNSEL
MEDPARTNERS, INC.
3000 GALLERIA TOWER, SUITE 1000
BIRMINGHAM, ALABAMA 35244-2331
(205) 733-8996
(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

COPIES TO:

<TABLE>
<C> <C>

FREDERICK W. KANNER, ESQ.	ROBERT E. LEE GARNER, ESQ.
DEWEY BALLANTINE	F. HAMPTON MCFADDEN, JR., ESQ.
1301 AVENUE OF THE AMERICAS	HASKELL SLAUGHTER & YOUNG, L.L.C.
NEW YORK, NEW YORK 10019-6092	1200 AMSOUTH/HARBERT PLAZA
(212) 259-7300	1901 SIXTH AVENUE NORTH
	BIRMINGHAM, ALABAMA 35203
	(205) 251-1000

</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and

list the Securities Act registration statement number of earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED SEPTEMBER 11, 1997

PROSPECTUS

$350,000,000

[MEDPARTNERS(TM) LOGO]

% SENIOR SUBORDINATED NOTES DUE 2000

INTEREST PAYABLE AND

The % Senior Subordinated Notes due 2000 (the "Notes") are being offered by MedPartners, Inc. ("MedPartners" or the "Company"). Interest on the Notes will be payable semi-annually on and of each year, commencing , 1998, at the rate of % per annum. The Notes will mature on , 2000. The Notes will not be redeemable by the Company prior to maturity and will not be entitled to the benefit of any mandatory sinking fund.

The Notes will be general unsecured obligations of the Company and are subordinate to all present and future Senior Indebtedness (as defined herein) and will be effectively subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. As of June 30, 1997, after giving effect to the offering being made hereby and the use of proceeds therefrom as described in "Use of Proceeds", the Company and its subsidiaries would have had approximately $601 million of indebtedness outstanding to which the Notes would have been subordinated. Except as set forth under "Description of the Notes -- Restrictions on Subsidiary Indebtedness", the Indenture will not limit the amount of indebtedness, including Senior Indebtedness, which the Company or its subsidiaries may create, incur, assume or guarantee. See "Capitalization" and "Description of the Notes".

The Notes will be issued in fully registered form only in denominations of $1,000 or integral multiples thereof. The Notes initially will be represented by one or more Global Notes registered in the name of The Depository Trust Company (the "Depositary") or its nominee. Beneficial interests in the Notes will be shown on, and transfers thereof will be effected only through, records maintained by the Depositary and its participants. Owners of beneficial interests in the Notes will be entitled to physical delivery of Notes in certificated form equal in principal amount to their respective beneficial interests only under the limited circumstances described herein. Settlement for the Notes will be made in immediately available funds. The Notes will trade in the Depositary's Same-Day Funds Settlement System until maturity, and secondary market trading activity for the Notes therefore will settle in immediately available funds. All payments of principal and interest will be made by the Company in immediately available funds. See "Description of the Notes -- Global Notes; Form, Exchange and Transfer".

SEE "RISK FACTORS" BEGINNING ON PAGE 8 OF THIS PROSPECTUS FOR A DESCRIPTION OF CERTAIN FACTORS TO BE CONSIDERED BY INVESTORS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
<CAPTION>

	PRICE TO PUBLIC(1)	UNDERWRITING DISCOUNTS AND COMMISSIONS(2)	PROCEEDS TO COMPANY(3)
<S>	<C>	<C>	<C>
Per Note	%	%	%
Total	$	$	$

</TABLE>

(1) Plus accrued interest, if any, from the date of initial issuance.
(2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting".
(3) Before estimated expenses of $ payable by the Company.

The Notes are being offered by the Underwriters named herein, subject to prior sale, when, as and if accepted by them and subject to certain conditions. It is expected that delivery of the Notes will be made on or about , 1997 through the facilities of the Depositary.

SMITH BARNEY INC. CREDIT SUISSE FIRST BOSTON
MERRILL LYNCH & CO.
J.P. MORGAN & CO.
NATIONSBANC CAPITAL MARKETS, INC.
, 1997

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS

FORWARD-LOOKING STATEMENTS. This Prospectus contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of the Company. Statements in this document that are not historical facts are hereby identified as "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 27A of the Securities Act of 1933 (the "Securities Act"). The Company cautions readers that such "forward-looking statements", including without limitation, those relating to the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income, wherever they occur in this Prospectus or in other statements attributable to the Company, are necessarily estimates reflecting the best judgment of the Company's senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the "forward-looking statements". Such "forward-looking statements" should, therefore, be considered in light of various important factors, including those set forth in this Prospectus and other factors set forth from time to time in the Company's reports and registration statements filed with the Securities and Exchange Commission (the "SEC").

The words "estimate", "project", "intend", "expect" and similar expressions are intended to identify forward-looking statements. These "forward-looking statements" are found at various places throughout this document. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

The Company disclaims any intent or obligation to update "forward looking statements". Moreover, the Company, through senior management, may from time to time make "forward-looking statements" about the matters described herein or other matters concerning the Company. Additionally, the discussions herein under the captions "Risk Factors", "Use of Proceeds" and "Business", are particularly susceptible to the risks and uncertainties discussed below.

FACTORS THAT MAY AFFECT FUTURE RESULTS. The healthcare industry in general

and the physician practice management business in particular are in a state of significant flux. This, together with the circumstances that the Company has a relatively short operating history and is the nation's largest physician practice management consolidator, makes the Company particularly susceptible to various factors that may affect future results such as the following:

risks relating to the Company's growth strategy; risks relating to integration in connection with acquisitions and risks relating to the capitated nature of revenues; control of healthcare costs; risks relating to certain legal matters; risks relating to exposure to professional liability; liability insurance; risks relating to government regulation; risks relating to pharmacy licensing and operation; risks relating to healthcare reform; and proposed legislation.

For a more detailed discussion of these factors and others and their potential impact on future results, see the applicable discussions herein.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE NOTES, INCLUDING OVER-ALLOTMENT, ENTERING STABILIZING BIDS, EFFECTING SYNDICATE COVERING TRANSACTIONS, AND IMPOSING PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING".

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and consolidated financial statements, including the notes thereto, appearing elsewhere in this Prospectus and in the documents incorporated herein by reference. Unless the context otherwise requires, references in this Prospectus to "MedPartners" or the "Company" include the Company and its subsidiaries and affiliates.

THE COMPANY

MedPartners is the largest physician practice management ("PPM") company in the United States, based on revenues. The Company develops, consolidates and manages comprehensive integrated healthcare delivery systems, consisting of primary care and specialty physicians, as well as the nation's largest group of physicians engaged in the delivery of emergency medicine and other hospital-based services. MedPartners provides services to prepaid managed care enrollees and fee-for-service patients in 37 states through its network of over 13,128 affiliated physicians. As an integral part of its PPM business, MedPartners operates one of the nation's largest independent pharmacy benefit management ("PBM") programs and provides disease management services and therapies for patients with certain chronic conditions. See "Business -- General".

The Company affiliates with physicians who are seeking the resources necessary to function effectively in healthcare markets that are evolving from fee-for-service to managed care payor systems. The Company enhances clinic operations by centralizing administrative functions and introducing management tools, such as clinical guidelines, utilization review and outcomes measurement. The Company provides affiliated physicians with access to capital and advanced management information systems. In addition, the Company contracts with health maintenance organizations and other third-party payors that compensate the Company and its affiliated physicians on a prepaid basis (collectively, "HMOs"), as well as hospitals and outside providers on behalf of its affiliated physicians. These relationships provide physicians with the opportunity to operate under a variety of payor arrangements and increase their patient flow. MedPartners also operates the largest hospital-based physician ("HBP") group in the country with over 2,200 physicians providing emergency medicine, radiology, anesthesiology, primary care and other hospital-based physician services. In addition, the Company provides comprehensive medical care for inmates at various correctional institutions and for military personnel and their dependents at facilities owned by the Department of Defense. See "Business -- Operations".

The Company manages outpatient prescription drug benefit programs for clients throughout the United States, including corporations, insurance companies, unions, government employee groups and managed care organizations. The Company dispenses over 43,000 prescriptions daily through four mail service pharmacies and manages patients' immediate prescription needs through a network of retail pharmacies. The Company is in the process of integrating its PBM program with the PPM business by providing pharmaceutical services to affiliated physicians, clinics and HMOs. The Company's disease management services are intended to meet the healthcare needs of individuals with chronic diseases or conditions. These services include the design, development and management of comprehensive programs that comprise drug therapies, physician support and patient education. The Company currently provides therapies and services for individuals with such conditions as hemophilia, growth disorders, immune deficiencies, genetic emphysema, cystic fibrosis and multiple sclerosis. See

"Business -- Operations".

SIGNIFICANT HISTORICAL EVENTS

The Company has experienced substantial growth through acquisitions since 1995. The Company's strategy is to develop locally prominent, integrated healthcare delivery networks that provide high quality, cost-effective healthcare in selected geographic markets. The Company implements this strategy through growth in its existing markets, expansion into new markets through acquisitions and affiliations and through the implementation of comprehensive healthcare solutions for patients, physicians and payors. In pursuing its acquisition strategy, the Company creates strategic alliances with hospital partners and HMOs. As an integral element of these alliances, the Company utilizes sophisticated information systems to improve the operational efficiency of, and to reduce the operating costs associated with, the Company's networks and the practices of affiliated physicians. The Company's principal methods of expansion are the acquisition of PPM businesses and affiliations with physician and medical groups, including the acquisition of HBP groups and contract management companies providing emergency department and other hospital-based services.

The Company acquired Mullikin Medical Enterprises, L.P. ("MME") in November 1995 for $413 million in Common Stock, marking the Company's initial move towards global capitation. In February 1996, the Company acquired Pacific Physician Services, Inc. ("PPSI") for $342 million in Common Stock, which provided the Company with HBP operations through PPSI's previously acquired subsidiary, Team Health, Inc. ("Team Health"). In September 1996, the Company acquired Caremark International Inc. ("Caremark") for $1.8 billion in Common Stock, creating the largest PPM business in the United States and providing MedPartners with PBM operations. In May 1997, the Company acquired the assets and operations of Aetna Professional Management Corporation ("APMC"), a PPM company and an affiliate of Aetna Inc., and simultaneously entered into a nationwide 10-year master network agreement with Aetna U.S. Healthcare. In June 1997, the Company acquired InPhyNet Medical Management Inc. ("InPhyNet") for $413 million in Common Stock creating the largest HBP group in the country. On August 20, 1997, the Company commenced a cash tender offer to purchase all of the common stock of Talbert Medical Management Holdings Corporation ("Talbert") at an aggregate acquisition price of approximately $200 million. Talbert is a physician practice management company representing 282 primary and specialty care physicians and operating 52 clinics in five southwestern states.

The following table summarizes the significant acquisition and financing milestones of the Company since its initial public offering ("IPO") in February 1995.

<TABLE>
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THREE MONTHS ENDED	NET REVENUE(1)	EBITDA(2)	CUMULATIVE NUMBER OF PHYSICIANS(3)	SIGNIFICANT EVENTS(4)
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
12/31/94 (5)	$ 31,467	$ 1,169	190	*
03/31/95	45,667	2,164	248	- IPO of $66 million of Common Stock.
06/30/95	57,272	3,056	354	- Establishment of $150 million line of credit.
09/30/95	76,019	4,886	496	*
12/31/95	197,172	14,483	4,092	- Acquisition of Mullikin Medical Enterprises, L.P.
03/31/96	332,549	24,529	5,077	- Acquisition of Pacific Physician Services, Inc. - Public offering of $250 million of Common Stock.
06/30/96	360,398	24,040	5,777	*
09/30/96	1,182,015	82,691	7,975	- Acquisition of Caremark International Inc. - Establishment of $1 billion line of credit.
12/31/96	1,267,782	90,734	8,875	- Public offering of $450 million of senior notes.
03/31/97	1,332,271	100,431	9,538	*
06/30/97	1,560,600	121,418	13,128	- Acquisition of assets and business of Aetna Professional Management Corporation. - Acquisition of InPhyNet Medical Management Inc.
09/30/97	**	**	**	- Acquisition of Talbert (pending).

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* During these periods the Company continued its physician practice acquisition activities.
** Information not yet available.
(1) As originally reported, without restatement for subsequent acquisitions accounted for as pooling of interests.
(2) EBITDA is defined as earnings before net interest expense, taxes, non-recurring items, extraordinary items, depreciation and amortization and minority interest.
(3) At end of period.
(4) The acquisitions of MME, PPSI, Caremark and InPhyNet were accounted for as poolings of interests. The acquisition of APMC was accounted for as a purchase. The acquisition of Talbert is expected to be accounted for as a purchase.
(5) Pro forma for initial acquisitions and service agreements.

RISK FACTORS

Certain factors to be considered in connection with an investment in the Notes offered hereby are set forth under "Risk Factors".

SUMMARY CONDENSED FINANCIAL INFORMATION AND OPERATING DATA

The following summary condensed financial information and operating data for the Company is derived from the financial statements incorporated by reference herein. All of the following summary condensed financial information should be read in conjunction with the historical financial information, including the notes thereto, incorporated herein by reference.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Net revenue	$2,909,024	$3,908,717	$5,222,019	$2,524,407	$3,028,533
Operating expenses:					
Clinic expenses	1,200,291	1,785,564	2,683,107	1,292,898	1,591,774
Non-clinic goods and services	1,365,203	1,688,075	2,019,895	985,531	1,121,538
General and administrative expenses	169,273	172,896	173,428	85,587	85,561
Depreciation and amortization	44,384	62,394	86,579	44,019	54,457
Net interest expense	16,214	19,114	24,715	11,188	22,330
Merger expenses	--	69,064	308,945	34,698	59,434
Loss on investments	--	86,600	--	--	--
Other, net	(143)	(192)	(1,075)	(56)	--
Net operating expenses	2,795,222	3,883,515	5,295,594	2,453,865	2,935,094
Income (loss) before income taxes and discontinued operations	113,802	25,202	(73,575)	70,542	93,439
Income tax expense (benefit)	50,292	(6,987)	3,215	28,149	46,994
Income (loss) from continuing operations	63,510	32,189	(76,790)	42,393	46,445
Income (loss) from discontinued operations	25,902	(136,528)	(68,698)	(68,698)	(75,434)
Net income (loss)	$ 89,412	$ (104,339)	$ (145,488)	$ (26,305)	$ (28,989)
Net income (loss) per share(1)	$ 0.61	$ (0.66)	$ (0.83)	$ (0.15)	$ (0.15)
Number of shares used in net income (loss) per share calculations(1)	146,773	158,109	174,269	171,889	187,192
OTHER FINANCIAL DATA:					
EBITDA(2)	$ 174,400	$ 262,374	$ 346,664	$ 160,447	$ 229,660
Capital expenditures(3)	106,156	128,428	126,873	72,120	37,373
Income per share, excluding merger expense, loss on investment and discontinued operations	$ 0.43	$ 0.70	$ 0.84	$ 0.39	$ 0.51
Ratio of earnings to fixed charges(4)	3.91x	4.21x	4.70x	4.36x	4.18x
CERTAIN OPERATING DATA (AT PERIOD END):					
Group physicians	900	1,264	2,604	2,506	2,988
Total physicians	2,027	7,596	10,580	9,336	13,128
Prepaid enrollees	834,855	1,134,999	1,702,695	1,515,205	1,957,515

</TABLE>

<TABLE>
<CAPTION>

	JUNE 30, 1997	
	ACTUAL	AS ADJUSTED(5)
	(IN THOUSANDS)	
<S>	<C>	<C>
BALANCE SHEET DATA:		
Cash and cash equivalents	$ 134,162	$ 134,162
Working capital	277,766	277,766
Total assets	2,661,509	2,661,509
Long-term debt, less current portion	926,524	926,524
Total stockholders' equity	853,061	853,061(6)

</TABLE>

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(1) Net income (loss) per share is computed by dividing net income (loss) by the number of common equivalent shares outstanding during the periods in accordance with the applicable rules of the SEC. All stock options and warrants issued have been considered as outstanding common share equivalents for all the periods presented, even if anti-dilutive, under the treasury stock method. Shares of Common Stock issued in February 1995 upon conversion of the then outstanding MedPartners convertible preferred stock are assumed to be common share equivalents for all periods presented.

(2) EBITDA is defined as earnings before net interest expense, non-recurring items, extraordinary items, taxes, depreciation and amortization and minority interest. The Company has presented EBITDA because it is commonly used by investors to analyze and compare companies on the basis of operating performance. The Company believes EBITDA is helpful in understanding cash flow generated from operations that is available for debt service, taxes and capital expenditures. EBITDA should not be considered in isolation or as substitute for net income or other consolidated statement of operations or

cash flow data prepared in accordance with generally accepted accounting principles ("GAAP") as a measure of the profitability or liquidity of the Company.

(3) Excludes capital expenditures related to acquisitions.

(4) The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings from continuing operations before income taxes plus fixed charges. Fixed charges include interest, expensed or capitalized, amortization of debt issuance costs and the interest component of rent expense (approximately 1/3 of rental expense).

(5) Adjusted to reflect the offering of the Notes and the application of the net proceeds therefrom as set forth in "Use of Proceeds".

(6) Excludes the effect on stockholders' equity that will occur both upon the issuance and upon the final settlement of the Company's Threshold Appreciation Price Securities (approximately $354 million).

THE OFFERING

Securities Offered.....	$350,000,000 aggregate principal amount of % Senior Subordinated Notes due 2000 (the "Notes").
Maturity Date.....	, 2000
Interest Rate and Payment Dates.....	The Notes will bear interest at a rate of % per annum. Interest on the Notes will accrue from the date of issuance and will be payable semi-annually on and of each year, commencing , 1998.
Subordination.....	The Notes will be general unsecured obligations of the Company and are subordinate to all present and future Senior Indebtedness and will be effectively subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. As of June 30, 1997, after giving effect to the offering being made hereby and the use of proceeds therefrom as described in "Use of Proceeds", the Company and its subsidiaries would have had approximately $601 million of indebtedness outstanding to which the Notes would have been subordinated. Except as set forth under "Description of the Notes -- Restrictions on Subsidiary Indebtedness", the Indenture will not limit the amount of indebtedness, including Senior Indebtedness, which the Company or its subsidiaries

	may create, incur, assume or guarantee. See "Capitalization" and "Description of the Notes".
Redemption.....	The Notes will not be redeemable by the Company prior to maturity.
Certain Covenants.....	The Indenture will contain certain covenants with respect to, among others, the following matters: (i) restriction on sale and leaseback transactions, (ii) restrictions on additional subsidiary indebtedness and (iii) restrictions on consolidations, mergers and sales of all or substantially all of the assets of the Company. These covenants are subject to important exceptions and qualifications. See "Description of the Notes -- Certain Covenants" and "-- Consolidation, Merger and Disposition of Assets".
Use of Proceeds.....	To repay indebtedness outstanding under the Credit Facility (as defined herein). See "Use of Proceeds".

THE COMPANY

The Company was incorporated under the laws of Delaware in August 1995 as "MedPartners/Mullikin, Inc." to be the surviving corporation in the combination of the businesses of the original MedPartners, Inc., incorporated under the laws of Delaware in 1993, and MME, a California limited partnership which, directly or through its predecessor entities, had operated since 1957. In September 1996, the Company changed its name to "MedPartners, Inc." The executive offices of the Company are located at 3000 Galleria Tower, Suite 1000, Birmingham, Alabama 35244, and its telephone number is (205) 733-8996. See "Business".

RISK FACTORS

Prospective purchasers of the Notes offered hereby should consider carefully, in addition to the other information contained or incorporated by reference in this Prospectus, the following factors in evaluating the Company and its business and an investment in such Notes. This Prospectus (including the documents incorporated by reference herein) contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below, as well as those discussed elsewhere in this Prospectus.

RISKS RELATING TO THE COMPANY'S GROWTH STRATEGY; INTEGRATION IN CONNECTION WITH ACQUISITIONS AND IDENTIFICATION OF GROWTH OPPORTUNITIES

The Company believes that its recent acquisitions of InPhyNet and APMC represent additional steps in the Company's consolidation initiative in the PPM business to develop integrated healthcare delivery systems through affiliation with individual physicians, physician practices, hospitals and third-party payors. The Company is still integrating these and other acquired businesses. While the business plans of these acquired companies are generally similar, their histories, geographical location, business models and cultures are different in many respects. The Company's Board of Directors and senior management of the Company face a significant challenge in their efforts to integrate the businesses of the acquired companies so that the different cultures and the varying emphases on managed care and fee-for-service can be effectively managed to continue to grow the enterprise. The dedication of management resources to such integration may detract attention from the day-to-day business of the Company. There can be no assurance that there will not be substantial costs associated with such activities or that there will not be other material adverse effects as a result of these integration efforts. Such effects could have a material adverse effect on the operating results and financial condition of the Company.

Integration Risks. Acquisitions of PPM companies and physician practices entail the risk that such acquisitions will fail to perform in accordance with expectations and that the Company will be unable to successfully integrate such acquired businesses and physician practices into its operations. The profitability of the Company is largely dependent on its ability to develop and integrate networks of physicians, to manage and control costs and to realize economies of scale from acquisitions of PPM companies and physician practices. The histories, geographic location, business models, including emphasis on managed care and fee-for-service, and cultures of acquired PPM businesses and physician practices may differ from the Company's past experiences. Dedicating management resources to the integration process may detract attention from the day-to-day business of the Company. Moreover, the integration of the acquired businesses and physician practices may require substantial capital and financial investments. These, together with other risks described herein, could result in

the incurrence of substantial costs in connection with acquisitions that may never achieve revenue and profitability levels comparable to the Company's existing physician networks, which could have a material adverse effect on the operating results and financial condition of the Company.

The major acquisitions carried out by the Company since January 1995 have been structured as poolings of interests. As a result, the operating income of the Company has been reduced by the merger expenses incurred in connection with those acquisitions, resulting in a net loss for the year ended December 31, 1996. Included in pre-tax loss for the six months ended June 30, 1997, are merger costs totaling $59.4 million, $50 million of which is related to the business combination with InPhyNet. See Note 5 to the financial statements

included in the Form 10-Q for the quarter ended June 30, 1997, incorporated herein by reference. There can be no assurance that future merger expenses will not result in further net losses, nor can there be any assurance that: there will not be substantial future costs associated with integrating acquired companies; MedPartners will be successful in integrating such companies; or the anticipated benefits of such acquisitions will be realized fully. The unsuccessful integration of such companies or the failure of MedPartners to realize such anticipated benefits fully could have a material adverse effect on the operating results and financial condition of the Company. See "-- Risks Relating to Capital Requirements".

Risks Relating to Capital Requirements. The Company's growth strategy requires substantial capital for the acquisition of PPM businesses and physician practice assets and for their effective integration, operation and expansion. Affiliated physician practices may also require capital for renovation, expansion and additional medical equipment and technology. The Company believes that its existing cash resources, including the net proceeds from the sale of the Notes, the use of Common Stock for selected practice and other acquisitions and available borrowings under the $1.0 billion credit facility (the "Credit Facility" or the "Bank Credit Agreement") with NationsBank, National Association (South), as administrative bank to a group of lenders, or any successor credit facility, will be sufficient to meet the Company's anticipated acquisition, expansion and working capital needs for the next twelve months. The Company expects from time to time to raise additional capital through the issuance of long-term or short-term indebtedness or the issuance of additional equity securities in private or public transactions, at such times as management deems appropriate and the market allows in order to meet the capital needs of the Company. There can be no assurance that acceptable financing for future acquisitions or for the integration and expansion of existing networks can be obtained. Any of such financings could result in increased interest and amortization expense, decreased income to fund future expansion and dilution of existing equity positions.

Ability to Pursue New Growth Opportunities. The Company intends to continue to pursue an aggressive growth strategy for the foreseeable future through acquisitions and internal development. The Company's successful pursuit of new growth opportunities will depend on many factors, including, among others, the Company's ability to identify suitable targets and to integrate its acquired practices and businesses. There can be no assurance that the Company will anticipate all of the changing demands that expanding operations will impose on its management, management information systems and physician network. Any failure by the Company to adapt its systems and procedures to those changing demands could have a material adverse effect on the operating results and financial condition of the Company.

Competition for Expansion Opportunities. The Company is subject to the risk that it will be unable to identify and recruit suitable acquisition candidates in the future. The Company competes for acquisition, affiliation and other expansion opportunities with national, regional and local PPM companies and other physician management entities. In addition, certain companies, including hospital management companies, hospitals and insurers, are expanding their presence in the PPM market. The Company's failure to compete successfully for expansion opportunities or to attract and recruit suitable acquisition candidates could have a material adverse effect on the operating results and financial condition of the Company. The Company is also subject to the risk that it will be unable to recruit and retain qualified physicians and other healthcare professionals to serve as employees or independent contractors of MedPartners and its affiliates. See "Business -- Competition".

Different Business Operations. The PPM business of the Company includes the provision of PBM and disease management services which are provided by subsidiaries of the Company. The PBM services provided by the Company accounted for approximately 33% and 36% of the Company's net revenue and operating expenses, respectively, for the six months ended June 30, 1997. Specialty Services, which include disease management comprised 8% of the Company's net revenue and 8% of the Company's operating expenses for the six months ended June 30, 1997.

Physician Compensation. Approximately 70% of the Company's PPM revenue for the six months ended June 30, 1997, was derived from or through contracts between the Company and hospitals or HMOs. The balance of the Company's PPM revenue is generated through professional corporations ("PCs") that have entered into contracts directly with HMOs or have the right to receive payment directly from HMOs for the

provision of medical services. The Company has a controlling financial interest in these PCs by virtue of a long-term management agreement that also provides for physician compensation.

The most significant clinic expense, physician compensation, accounted for 39% of total expenses in the Company's PPM service area in the first six months of 1997. Physicians that generated 7% of PPM revenue in the first six months of 1997 received a fixed-dollar amount plus a discretionary bonus based on performance criteria goals. Physician compensation expense was 51% of this first category of PCs' total net revenue in the first six months of 1997. Physicians that were compensated on a fee-for-service basis produced approximately 15% of the Company's PPM revenue in the first six months of 1997. Physician compensation expense pursuant to such agreements represented 48% of this second category of PCs' total net revenue in the first six months of 1997. The remaining 8% of PPM revenues were generated by physicians who were provided a salary, bonus and profit-sharing payment based on the PC's net income. Physician compensation expense pursuant to such agreements represented 39% of this third category of PCs' total net revenue in the first six months of 1997. Under each of these arrangements, revenue is assigned to MedPartners by the PC, and MedPartners is responsible and at risk for all clinic expenses. See "Business -- Operations". The profitability of the Company is largely dependent on its ability to develop and integrate networks of physicians from the affiliated practices, to manage and control costs and to realize economies of scale. The Company's operating results could be adversely affected in the event the Company incurs costs associated with developing networks without generating sufficient revenues from such networks.

Dependence on HMO Enrollee Growth. The Company is also largely dependent on the continued increase in the number of HMO enrollees who use its physician networks. This growth may come from development or acquisition of other PPM entities, affiliation with additional physicians, increased enrollment in HMOs currently contracting with MedPartners through its affiliated physicians and additional agreements with HMOs. There can be no assurance that the Company will be successful in identifying, acquiring and integrating additional medical groups or other PPM companies or in increasing the number of enrollees. A decline in enrollees in HMOs could have a material adverse effect on the operating results and financial condition of the Company.

Dependence on Affiliated Physicians. MedPartners' revenue depends on revenues generated by the physicians with whom MedPartners has practice management agreements. These agreements define the responsibilities of the physicians and MedPartners and govern all terms and conditions of their relationship. The practice management agreements have terms generally of 20 to 40 years, subject to termination for cause, which includes bankruptcy or a material breach. Practice management agreements with certain of the affiliated practices contain provisions giving the physician practice the option to terminate the agreement without cause, subject to significant limitations. Because MedPartners cannot control the provision of medical services by its affiliated physicians contractually or otherwise under the laws of California and most other states in which MedPartners operates, affiliated physicians may decline to enter into HMO agreements that are negotiated for them by MedPartners or may enter into contracts for the provision of medical services or make other financial commitments which are not intended to benefit MedPartners and which could have a material adverse effect on the operating results and financial condition of MedPartners. See "Business -- Operations -- Affiliated Physicians".

RISKS RELATING TO CAPITATED NATURE OF REVENUES; CONTROL OF HEALTHCARE COSTS

A substantial portion of MedPartners' revenue is derived from agreements with HMOs that provide for the receipt of capitated fees. Under these agreements, the Company, through its affiliated physicians, is generally responsible for the provision of all covered outpatient benefits, regardless of whether the affiliated physicians directly provide the medical services associated with the covered benefits. MedPartners is statutorily and contractually prohibited from controlling any medical decisions made by any healthcare provider. To the extent that enrollees require more care than is anticipated or require supplemental medical care that is not otherwise reimbursed by the HMO, aggregate capitation rates may be insufficient to cover the costs associated with the treatment of enrollees. If revenue is insufficient to cover costs, the operating results and financial condition of the Company could be materially adversely affected. As a result, MedPartners' success will depend in large part on the effective management of healthcare costs through

various methods,

including utilization management, competitive pricing for purchased services and favorable agreements with payors. Recently, many providers, including MedPartners, have experienced pricing pressures with respect to negotiations with HMOs. In addition, employer groups are becoming increasingly successful in negotiating reductions in the growth of premiums paid for their employees' health insurance, which tends to depress the reimbursement for healthcare services. At the same time, employer groups are demanding higher accountability from payors and providers of healthcare services with respect to measurable accessibility, quality and service. If these trends continue, the cost of providing physician services could increase while the level of reimbursement could grow at a lower rate or could decrease. There can be no assurance that these pricing pressures will not have a material adverse effect on the operating results and financial condition of MedPartners. In addition, changes in healthcare practices, inflation, new technologies, major epidemics, natural disasters and numerous other factors affecting the delivery and cost of healthcare could have a material adverse effect on the operating results and financial condition of the Company.

The Company's financial statements include estimates of costs for covered medical benefits incurred by HMO enrollees, but not yet reported. While these estimates are based on information available at the time of calculation, there can be no assurance that actual costs will approximate the estimates of such amounts. If the actual costs significantly exceed the amounts estimated and accrued, such additional costs could have a material adverse effect on the operating results and financial condition of the Company.

The HMO agreements often contain shared-risk provisions under which additional revenue can be earned or economic penalties can be incurred based upon the utilization of hospital and non-professional services by HMO enrollees. MedPartners' financial statements contain accruals for estimates of shared-risk amounts receivable from or payable to the HMOs that contract with their affiliated physicians. These estimates are based upon inpatient utilization and associated costs incurred by HMO enrollees compared to budgeted costs. Differences between actual contract settlements and amounts estimated as receivable or payable relating to HMO risk-sharing arrangements are generally reconciled annually. This may cause fluctuations from amounts previously accrued. To the extent that HMO enrollees require more care than is anticipated or require supplemental care that is not otherwise reimbursed by the HMOs, aggregate capitation rates may be insufficient to cover the costs associated with the treatment of enrollees. Any such insufficiency could have a material adverse effect on the operating results and financial condition of the Company.

Physician groups that render services on a fee-for-service basis (as opposed to a capitated plan) typically bill various third-party payors, such as governmental programs (e.g., Medicare and Medicaid), private insurance plans and managed care plans, for the healthcare services provided to their patients. A significant portion of the revenue of MedPartners is derived from payments made by these third-party payors. There can be no assurance that payments under governmental programs or from other third-party payors will remain at present levels. In addition, third-party payors can deny reimbursement if they determine that treatment was not performed in accordance with the cost-effective treatment methods established by such payors or was experimental or for other reasons. Any material decrease in payments received from such third-party payors could have a material adverse effect on the operating results and financial condition of the Company.

RISKS RELATING TO CERTAIN CAREMARK LEGAL MATTERS

OIG Settlement and Related Claims. Caremark agreed in June 1995 to settle with the Office of the Inspector General (the "OIG") of the United States Department of Health and Human Services (the "DHHS"), the United States Department of Justice (the "DOJ"), the Veteran's Administration, the Federal Employee Health Benefits Program ("FEHBP"), the Civilian Health and Medical Program of the Uniformed Services ("CHAMPUS") and related state investigative agencies in all 50 states and the District of Columbia a four-year-long investigation of Caremark (the "OIG Settlement"). Under the terms of the OIG Settlement, which covered allegations dating back to 1986, a subsidiary of Caremark pled guilty to two counts of mail fraud -- one each in Minnesota and Ohio -- resulting in the payment of civil penalties and criminal fines. The basis of these guilty pleas was Caremark's failure to provide certain information to CHAMPUS, FEHBP and federally funded healthcare benefit programs concerning financial relationships between Caremark and a physician in each of Minnesota and Ohio. See "Business -- Legal Proceedings".

In its agreement with the OIG and DOJ, Caremark agreed to continue to maintain certain compliance-related oversight procedures. Should these oversight procedures reveal credible evidence of legal or regulatory violations, Caremark is required to report such violations to the OIG and DOJ. Caremark is, therefore, subject to increased regulatory scrutiny and, in the event it commits legal or regulatory violations, Caremark may be subject to an increased risk of sanctions or penalties, including disqualification as a provider of Medicare or Medicaid services, which would have a material adverse effect on the operating results and financial condition of the Company.

In connection with the matters described above relating to the OIG Settlement, Caremark is a party to various non-governmental claims and may in the future become subject to additional OIG-related claims. Caremark is a party to, or the subject of, and may be subjected to in the future, various private suits and claims (including stockholder derivative actions and an alleged class action suit) being asserted in connection with matters relating to the OIG Settlement by Caremark's stockholders, patients who received healthcare services from Caremark and such patients' insurers. The Company cannot determine at this time what costs or liabilities may be incurred in connection with future disposition of non-governmental claims or litigation. Such additional costs or liabilities, if incurred, could have a material adverse effect on the operating results and financial condition of the Company. See "Business -- Legal Proceedings".

In August and September 1994, stockholders, each purporting to represent a class, filed complaints against Caremark and certain officers and employees of Caremark in the United States District Court for the Northern District of Illinois, alleging violations of the Securities Act and the Exchange Act, and fraud and negligence in connection with public disclosures by Caremark regarding Caremark's business practices and the status of the OIG investigation discussed above. The complaints seek unspecified damages, declaratory and equitable relief, and attorneys' fees and expenses. In June 1996, the complaint filed by one group of stockholders alleging violations of the Exchange Act only, was certified as a class. The parties continue to engage in discovery proceedings. The Company intends to defend these cases vigorously. Management is unable at this time to estimate the impact, if any, of the ultimate resolution of these matters.

In May 1996, three home infusion companies, purporting to represent a class consisting of all of Caremark's competitors in the alternate site infusion therapy industry, filed a complaint against Caremark, a subsidiary of Caremark, and two other corporations in the United States District Court for the District of Hawaii alleging violations of the federal conspiracy laws, the antitrust laws and of California's unfair business practices statute. The complaint seeks unspecified treble damages, and attorneys' fees and expenses. MedPartners intends to defend this case vigorously. Although management believes, based on information currently available, that the ultimate resolution of this matter is not likely to have a material adverse effect on the operating results and financial condition of the Company, there can be no assurance that the ultimate resolution of this matter, if adversely determined, would not have a material adverse effect on the operating results and financial condition of the Company.

Private Payor Settlements. In March 1996, Caremark agreed to settle all disputes with a number of private payors. These disputes relate to businesses that were covered by the OIG Settlement. The settlements resulted in an after-tax charge of approximately $43.8 million. In addition, Caremark paid $24.1 million after tax to cover the private payors' pre-settlement and settlement-related expenses. An after-tax charge for the above amounts was recorded in first quarter 1996 discontinued operations.

Coram Litigation. In September 1995, Coram Healthcare Corporation ("Coram") filed a complaint in the San Francisco Superior Court against Caremark, its subsidiary, Caremark Inc., and others. The complaint, which arose from Caremark's sale to Coram of Caremark's home infusion therapy business in April 1995 for approximately $209.0 million in cash and $100.0 million in securities, alleged breach of the sale agreement and made other related claims seeking compensatory damages, in the aggregate, of $5.2 billion. Caremark filed counterclaims against Coram and also filed a lawsuit in the United States District Court in Chicago against Coram, claiming securities fraud. On July 1, 1997, the parties to the Coram litigation announced that a settlement had been reached pursuant to which Caremark will return for cancellation all of the securities issued by Coram in connection with the acquisition and will pay to Coram $45 million in cash on or before September 1, 1997. The settlement agreement also provides for the termination and resolution of all disputes and issues between the parties and for the exchange of mutual releases. The Company recognized an after-tax

charge from discontinued operations of $75.4 million during the second quarter of 1997 related to this settlement.

RISKS RELATING TO EXPOSURE TO PROFESSIONAL LIABILITY; LIABILITY INSURANCE

In recent years, physicians, hospitals and other participants in the healthcare industry have become subject to an increasing number of lawsuits alleging medical malpractice and related legal theories. Many of these lawsuits involve large claims and substantial defense costs. Although the Company does not engage in the practice of medicine or provide medical services, and does not control the practice of medicine by its affiliated physicians or the compliance with regulatory requirements directly applicable to the affiliated physicians and physician groups, there can be no assurance that the Company will not become involved in such litigation in the future. Through the ownership and operation of Pioneer Hospital ("Pioneer Hospital"), U.S. Family Care Medical Center ("USFMC") and Friendly Hills Hospital ("Friendly Hills"), acute care hospitals located in Artesia, Montclair and La Habra, California, respectively, and its hospital-based operations, the Company is subject to allegations of negligence and wrongful acts by its hospital-based physicians or arising out of providing nursing care, hospital-based medical care, credentialing of medical staff members and other activities incident to the operation of an acute care hospital. In addition, through its management of clinic locations and provision of non-physician health care personnel, the Company could be named in actions involving care rendered to patients by physicians employed by or contracting with affiliated medical organizations and physician groups.

The Company maintains professional and general liability insurance and other coverage deemed necessary by the Company. Nevertheless, certain types of risks and liabilities are not covered by insurance and there can be no assurance that the limits of coverage will be adequate to cover losses in all instances. In addition, the Company's practice management agreements require the affiliated physicians to maintain professional liability and workers' compensation insurance coverage on the practice and on each employee and agent of the practice, and the Company generally is indemnified under each of the practice management agreements by the affiliated physicians for liabilities resulting from the performance of medical services. However, there can be no assurance that a future claim or claims will not exceed the limits of these available insurance coverages or that indemnification will be available for all such claims. See "Business -- Corporate Liability and Insurance".

RISKS RELATING TO GOVERNMENT REGULATION

Federal and state laws regulate the relationships among providers of healthcare services, physicians and other clinicians. These laws include the fraud and abuse provisions of the Medicare and Medicaid statutes, which prohibit the solicitation, payment, receipt or offering of any direct or indirect remuneration for the referral of Medicare or Medicaid patients or for recommendation, leasing, arranging, ordering or purchasing of Medicare or Medicaid covered services, as well as laws that impose significant penalties for false or improper billings for physician services. These laws also impose restrictions on physicians' referrals for designated health services to entities with which they have financial relationships. Violations of these laws may result in substantial civil or criminal penalties for individuals or entities, including large civil monetary penalties and exclusion from participation in the Medicare and Medicaid programs. Such exclusion and penalties, if applied to the Company's affiliated physicians, could result in significant loss of reimbursement.

Moreover, the laws of many states, including California (from which a significant portion of the Company's revenues are derived), prohibit physicians from splitting fees with non-physicians and prohibit non-physician entities from practicing medicine. These laws and their interpretations vary from state to state and are enforced by the courts and by regulatory authorities with broad discretion. The Company believes that it has perpetual and unilateral control over the assets and operations of the various affiliated professional corporations. There can be no assurance that regulatory authorities will not take the position that such control conflicts with state laws regarding the practice of medicine or other federal restrictions. Although the Company believes its operations as currently conducted are in material compliance with existing applicable laws, there can be no assurance that the existing organization of the Company and its contractual arrangements with affiliated physicians will not be successfully challenged as constituting the unlicensed

practice of medicine or that the enforceability of the provisions of such arrangements, including non-competition agreements, will not be limited. There can be no assurance that review of the business of the Company and its affiliates by courts or regulatory authorities will not result in a determination that could adversely affect their operations or that the healthcare regulatory environment will not change so as to restrict existing operations or expansion thereof. In the event of action by any regulatory authority limiting or prohibiting the Company or any affiliate from carrying on its business or from expanding the operations of the Company and its affiliates to certain jurisdictions, structural and organizational modifications of the

Company may be required, which could have a material adverse effect on the operating results and financial condition of the Company.

In addition to the regulations referred to above, significant aspects of MedPartners' operations are subject to state and federal statutes and regulations governing workplace health and safety, the operation of pharmacies, repackaging of drug products, dispensing of controlled substances and the disposal of medical waste. MedPartners' operations may also be affected by changes in ethical guidelines and operating standards of professional and trade associations and private accreditation commissions such as the American Medical Association and the Joint Commission on Accreditation of Healthcare Organizations. Accordingly, changes in existing laws and regulations, adverse judicial or administrative interpretations of such laws and regulations or enactment of new legislation could have a material adverse effect on the operating results and financial condition of MedPartners. See "-- Risks Relating to Pharmacy Licensing and Operation".

For the six months ended June 30, 1997, approximately 12% of the revenues of the Company's affiliated physician groups are derived from payments made by government-sponsored healthcare programs (principally, Medicare and state reimbursement programs). As a result, any change in reimbursement regulations, policies, practices, interpretations or statutes could adversely affect the operations of MedPartners. There are also state and federal civil and criminal statutes imposing substantial penalties (including civil penalties and criminal fines and imprisonment) on healthcare providers that fraudulently or wrongfully bill governmental or other third-party payors for healthcare services. The Company believes it is in material compliance with such laws, but there can be no assurance that MedPartners' activities will not be challenged or scrutinized by governmental authorities or that any such challenge or scrutiny would not have a material adverse effect on the operating results and financial condition of the Company.

Certain provisions of the Social Security Act, commonly referred to as the "Anti-Kickback Statute", prohibit the offer, payment, solicitation, or receipt of any form of remuneration in return for the referral of Medicare or state health program patients or patient care opportunities, or in return for the recommendation, arrangement, purchase, lease or order of items or services that are covered by Medicare or state health programs. Many states have adopted similar prohibitions against payments intended to induce referrals of Medicaid and other third-party payor patients. The Anti-Kickback Statute contains provisions prescribing civil and criminal penalties to which individuals or providers who violate such statute may be subjected. The criminal penalties include fines up to $25,000 per violation and imprisonment for five years or more. Additionally, the DHHS has the authority to exclude anyone, including individuals or entities, who has committed any of the prohibited acts from participation in the Medicare and Medicaid programs. If applied to the Company or any of its subsidiaries or affiliated physicians, such exclusion could result in a significant loss of reimbursement for the Company, up to a maximum of 12% of the revenues of the Company's affiliated physician groups, which could have a material adverse effect on the operating results and financial condition of the Company. Although the Company believes that it is not in violation of the Anti-Kickback Statute or similar state statutes, its operations do not fit within any of the existing or proposed federal safe harbors.

Significant prohibitions against physician referrals were enacted by the federal Omnibus Budget Reconciliation Act of 1993. Subject to certain exemptions, a physician or a member of his immediate family is prohibited from referring Medicare or Medicaid patients to an entity providing "designated health services" in which the physician has an ownership or investment interest or with which the physician has entered into a compensation arrangement. While the Company believes it is in compliance with such legislation, future regulations could require the Company to modify the form of its relationships with physician groups. Some states have also enacted similar self-referral laws, and the Company believes it is likely that more states will follow. MedPartners believes that its practices fit within exemptions contained in such statutes. Nevertheless,

expansion of the operations of MedPartners into certain jurisdictions may require structural and organizational modifications of MedPartners' relationships with physician groups to comply with new or revised state statutes. Such structural and organizational modifications could have a material adverse effect on the operating results and financial condition of the Company.

The Knox-Keene Health Care Service Plan Act of 1975 (the "Knox-Keene Act") and the regulations promulgated thereunder subject entities which are licensed as healthcare service plans in California to substantial regulation by the California Department of Corporations (the "DOC"). In addition, licensees under the Knox-Keene Act are required to file periodic financial data and other information (which generally become available to the public), maintain substantial tangible net equity on their balance sheets and maintain adequate

levels of medical, financial and operational personnel dedicated to fulfilling the licensee's statutory and regulatory requirements. The DOC is empowered by law to take enforcement actions against licensees that fail to comply with such requirements. In March 1996, the DOC issued to Pioneer Provider Network, Inc., a wholly-owned subsidiary of MedPartners, a healthcare service plan license (the "Restricted License"). Non-compliance by Pioneer Network with the Knox-Keene Act or other applicable laws and regulations could have a material adverse effect on the operating results and financial condition of the Company.

The assumption of risk on a prepaid basis is being reviewed by various state insurance commissioners as well as the National Association of Insurance Commissioners ("NAIC") to determine whether the practice constitutes the business of insurance. Any such determination could result in significant additional regulation of the Company's business. See "Business -- Government Regulation".

RISKS RELATING TO PHARMACY LICENSING AND OPERATION

The Company is subject to federal and state laws and regulations governing pharmacies. Federal controlled substance laws require the Company to register its pharmacies with the United States Drug Enforcement Administration and comply with security, record-keeping, inventory control and labeling standards in order to dispense controlled substances. State controlled substance laws require registration and compliance with the licensing, registration or permit standards of the state pharmacy licensing authority. State pharmacy licensing, registration and permit laws impose standards on the qualifications of the applicant's personnel, the adequacy of its prescription fulfillment and inventory control practices and the adequacy of its facilities. In general, pharmacy licenses are renewed annually. Pharmacists must also satisfy state licensing requirements. Any failure to satisfy such pharmacy licensing statutes and regulations could have a material adverse effect on the operating results and financial condition of the Company.

RISKS RELATING TO HEALTHCARE REFORM; PROPOSED LEGISLATION

As a result of the continued escalation of healthcare costs and the inability of many individuals to obtain health insurance, numerous proposals have been, and other proposals may be, introduced in the United States Congress and state legislatures relating to healthcare reform. There can be no assurance as to the ultimate content, timing or effect of any healthcare reform legislation, nor is it possible at this time to estimate the impact of potential legislation, which may be material, on the Company.

SUBORDINATION

The Notes will be general unsecured obligations of the Company and are subordinate to all present and future Senior Indebtedness and will be effectively subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. As of June 30, 1997, after giving effect to the offering being made hereby and the use of proceeds therefrom as described in "Use of Proceeds", the Company and its subsidiaries would have had approximately $601 million of indebtedness outstanding to which the Notes would have been subordinated. Except as set forth under "Description of the Notes -- Restrictions on Subsidiary Indebtedness", the Indenture will not limit the amount of indebtedness, including Senior Indebtedness, which the Company or its subsidiaries may create, incur, assume or guarantee. See "Capitalization" and "Description of the Notes".

ABSENCE OF PUBLIC MARKET FOR THE NOTES

The Notes are a new issue of securities for which there is currently no public market, and there can be no assurance as to the liquidity of the Notes, the ability of the holders to sell their Notes or the prices at which holders of the Notes would be able to sell their Notes. The Company does not intend to list the Notes on any securities exchange or to seek the admission thereof to trading on the NASDAQ. The Notes will be tradable in the over-the-counter market, but any such trading may be limited and sporadic. Each of the Underwriters has advised the Company that it currently intends to make a market for the Notes, but the Underwriters are not obligated to do so. Any such market-making may be discontinued by the Underwriters at any time without notice in their sole discretion. If a market for the Notes does develop, the Notes may trade at a discount from their initial public offering price depending on prevailing interest rates, the market for similar securities, performance of the Company, performance of the PPM industry and other factors. No assurance can be given that there will be a liquid trading market for the Notes or that any trading market that does develop will continue. See "Underwriting".

USE OF PROCEEDS

The net proceeds from the offering made hereby are expected to be

approximately $347.9 million. The Company intends to apply the net proceeds of the offering to repayment of indebtedness then outstanding under the Credit Facility, which was approximately $383 million as of June 30, 1997. Borrowings under the Credit Facility have been, and will be, used to finance the acquisition of certain PPM companies and physician and medical practices, to fund deferred purchase price obligations and for working capital and other general corporate purposes. The Company is continuously in discussions with several potential acquisition candidates; however, there can be no assurance that any pending acquisitions will be successfully concluded.

The Credit Facility bears interest at the rate of LIBOR plus 35 basis points, which rate was 6.0375% as of June 30, 1997. See "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources".

Affiliates of J.P. Morgan Securities Inc. and NationsBanc Capital Markets, Inc. are lenders under the Credit Facility. As of June 30, 1997, $34.1 million was owed under the Credit Facility to Morgan Guaranty Trust Company of New York, a wholly-owned subsidiary of J.P. Morgan Securities Inc., and $38.0 million was owed to NationsBank, National Association (South), an affiliate of NationsBanc Capital Markets, Inc.

CAPITALIZATION

The following table sets forth as of June 30, 1997, (i) the actual capitalization of the Company and (ii) the as adjusted capitalization that gives effect to the offering made hereby and the concurrent offering of the Company's Threshold Appreciation Price Securities. (Neither the sale of the Notes nor the sale of the Company's Threshold Appreciation Price Securities is dependent on the consummation of the other sale.)

<TABLE>
<CAPTION>

	JUNE 30, 1997	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
<S>	<C>	<C>
Short-term debt and current portion of long-term debt.....	$ 24,953	$ 24,953
Senior Subordinated Notes due 2000.....	--	350,000
7 3/8% Senior Notes due 2006.....	450,000	450,000
Credit Facility.....	383,000	33,000
Other long-term debt.....	93,524	93,524
Stockholders' equity:		
Preferred stock, $.001 par value, 9,500 shares authorized; no shares issued and outstanding.....	--	--
Series C Junior Participating Preferred Stock, $.001 par value; 500 shares authorized; no shares issued and outstanding.....	--	--
Common Stock, $.001 par value; 400,000 shares authorized; 192,309 shares issued and outstanding(1).....	192	192
Additional paid-in capital.....	904,030	904,030
Shares held in trust.....	(150,200)	(150,200)
Notes receivable from stockholders.....	(1,505)	(1,505)
Retained earnings.....	100,544	100,544
Total stockholders' equity.....	853,061	853,061(2)
Total capitalization.....	$1,804,538	$1,804,538

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(1) Excludes approximately 22.9 million shares of Common Stock reserved for issuance pursuant to outstanding stock options as of June 30, 1997.

(2) Excludes the effect on stockholders' equity that will occur both upon the issuance and upon the final settlement of the Company's Threshold Appreciation Price Securities (approximately $354 million).

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data of the Company for, and as of the end of, each of the periods indicated in the five-year period ended December 31, 1996, have been derived from the audited consolidated financial statements of the Company. The selected consolidated financial data for each of the six months ended June 30, 1996 and 1997, and as of June 30, 1997, have been derived from the unaudited consolidated financial statements of the Company, which reflect, in the opinion of management of the Company, all adjustments (which include only normal recurring adjustments) necessary for the fair presentation of the financial data for such periods. The results for such interim periods are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with the consolidated financial statements of the Company and the notes thereto which have been incorporated by reference herein.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:							
Net revenue.....	$1,484,027	$1,980,967	$2,909,024	$3,908,717	$5,222,019	$2,524,407	$3,028,533
Income (loss) from continuing operations.....	$ 25,351	$ 55,017	$ 63,510	$ 32,189	$ (76,790)	$ 42,393	$ 46,445
Income (loss) from discontinued operations.....	$ 5,858	$ 30,808	$ 25,902	$ (136,528)	$ (68,698)	$ (68,698)	$ (75,434)
Net income (loss).....	$ 31,209	$ 85,825	$ 89,412	$ (104,339)	$ (145,488)	$ (26,305)	$ (28,989)
Income (loss) per share from continuing operations(1).....	$ 0.24	$ 0.42	$ 0.43	$ 0.20	$ (0.44)	$ 0.25	$ 0.25
Income (loss) per share from discontinued operations(1).....	$ 0.05	$ 0.24	$ 0.18	$ (0.86)	$ (0.39)	$ (0.40)	$ (0.40)
Net income (loss) per share(1).....	$ 0.29	$ 0.66	$ 0.61	$ (0.66)	$ (0.83)	$ (0.15)	$ (0.15)
Number of shares used in net income (loss) per share calculations.....	107,460	130,903	146,773	158,109	174,269	171,889	187,192

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 31,					JUNE 30,
	1992	1993	1994	1995	1996	1997
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:						
Cash and cash equivalents.....	$ 40,249	$ 44,852	$ 101,101	$ 87,581	$ 127,397	$ 134,162
Working capital.....	158,634	251,736	180,198	286,166	226,409	277,766
Total assets.....	832,671	1,117,557	1,682,345	1,964,130	2,423,120	2,661,509
Long-term debt, less current portion.....	92,873	177,141	394,811	541,391	715,996	926,524
Total stockholders' equity.....	395,441	491,039	644,918	674,442	837,408	853,061

</TABLE>

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(1) Income (loss) per share amounts are computed by dividing income (loss) by the number of common equivalent shares outstanding during the periods presented in accordance with the applicable rules of the Commission. All stock options issued have been considered as outstanding common equivalent shares for all periods presented, even if anti-dilutive, under the treasury stock method. Shares of Common Stock issued in February 1995 upon conversion of the then outstanding convertible preferred stock are assumed to be common equivalent shares for all periods presented.

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

The purpose of the following discussion is to facilitate the understanding and assessment of significant changes and trends related to the results of operations and financial condition of the Company, including changes arising from recent acquisitions by the Company, the timing and nature of which have significantly affected the Company's results of operations. This discussion

should be read in conjunction with the consolidated financial statements of the Company and the notes thereto incorporated herein by reference. See "-- Recent Developments".

GENERAL

In February and September of 1996, the Company combined with PPSI and Caremark, respectively. In June of 1997 the Company combined with InPhyNet. These business combinations were accounted for as poolings of interests. The financial information referred to in this discussion reflects the combined operations of these entities and several additional immaterial entities accounted for as poolings of interests.

The Company is the largest PPM company in the United States. The Company develops, consolidates and manages integrated healthcare delivery systems. Through its network of affiliated group and IPA physicians, the Company provides primary and specialty healthcare services to prepaid enrollees and fee-for-service patients in the United States. The Company also operates independent PBM programs and furnishes disease management services and therapies for patients with certain chronic conditions.

The Company affiliates with physicians who are seeking the resources necessary to function effectively in healthcare markets that are evolving from fee-for-service to prepaid payor systems. The Company enhances clinic operations by centralizing administrative functions and introducing management tools such as clinical guidelines, utilization review and outcomes measurement. The Company provides affiliated physicians with access to capital and advanced management information systems. The Company's PPM revenue is derived primarily from the contracts with HMOs that compensate the Company and its affiliated physicians on a prepaid basis. In the prepaid arrangements, the Company typically is paid by the HMO a fixed amount per member ("enrollee") per month ("professional capitation") or a percentage of the premium per member per month ("percent of premium") paid by employer groups and other purchasers of healthcare coverage to the HMOs. In return, the Company is responsible for substantially all of the medical services required by enrollees. In many instances, the Company and its affiliated physicians accept financial responsibility for hospital and ancillary healthcare services in return for payment from HMOs on a capitated or percent of premium basis ("institutional capitation"). In exchange for these payments (collectively, "global capitation"), the Company, through its affiliated physicians, provides the majority of covered healthcare services to enrollees and contracts with hospitals and other healthcare providers for the balance of the covered services. These relationships provide physicians with the opportunity to operate under a variety of payor arrangements and increase their patient flow.

The Company offers medical group practices and independent physicians a range of affiliation models which are described in the notes to the consolidated financial statements of the Company incorporated herein by reference. These affiliations are carried out by the acquisition of PPM entities or practice assets, either for cash or through equity exchange, or by affiliation on a contractual basis. In all instances, the Company enters into long-term practice management agreements with the affiliated physicians that provide for both the management of their practices by the Company and the clinical independence of the physicians.

The Company also organizes and manages physicians and other healthcare professionals engaged in the delivery of emergency, radiology and teleradiology services, hospital-based primary care and temporary staffing and support services to hospitals, clinics, managed care organizations and physician groups. Under contracts with hospitals and other clients, the Company identifies and recruits physicians and other healthcare professionals for admission to a client's medical staff, monitors the quality of care and proper utilization of services and coordinates the ongoing scheduling of staff physicians who provide clinical coverage in designated areas of care.

The Company also manages outpatient prescription drug benefit programs for clients throughout the United States, including corporations, insurance companies, unions, government employee groups and managed care organizations. The Company dispenses approximately 43,000 prescriptions daily through four mail service pharmacies and manages patients' immediate prescription needs through a network of national retail pharmacies. The Company is integrating its PBM program with the PPM business by providing PBM services to the affiliated physicians, clinics and HMOs. The Company's disease management services are intended to meet the healthcare needs of individuals with chronic diseases or conditions. These services include the design, development and management of comprehensive programs that comprise drug therapies, physician support and patient education. The Company currently provides therapies and services for individuals with such conditions as hemophilia, growth disorders, immune deficiencies, genetic emphysema, cystic fibrosis and multiple sclerosis.

RESULTS OF OPERATIONS

Through the Company's network of affiliated group and IPA physicians, the Company provides primary and specialty healthcare services to prepaid enrollees and fee-for-service patients. The Company also fills in excess of 50 million prescriptions on an annual basis through its mail service and retail pharmacies and provides services and therapies to patients with certain chronic conditions, primarily hemophilia and growth disorders. The following table sets forth the earnings summary by service area for the periods indicated:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
			(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>
Physician Services					
Net revenue	$1,323,889	$1,989,068	$2,964,162	$1,424,343	$1,783,634
Operating income	48,577	103,528	158,771	71,480	118,377
Margin	3.7%	5.2%	5.4%	5.0%	6.6%
Pharmaceutical Services					
Net revenue	$1,097,315	$1,432,250	$1,784,319	$ 865,154	$1,001,463
Operating income	46,236	56,022	75,788	33,514	41,249
Margin	4.2%	3.9%	4.2%	3.9%	4.1%
Specialty Services					
Net revenue	$ 487,820	$ 487,399	$ 473,538	$ 234,910	$ 243,436
Operating income	75,139	70,762	56,006	29,626	28,314
Margin	15.4%	14.5%	11.8%	12.6%	11.6%
Corporate Services					
Operating loss	$ (40,079)	$ (30,524)	$ (31,555)	$ (18,248)	$ (12,737)
Percentage of total net revenue	(1.4)%	(0.8)%	(0.6)%	(0.7)%	(0.4)%

</TABLE>

Physician Practice Management Services

The Company's PPM revenues have increased substantially over the past three years primarily due to growth in prepaid enrollment, existing practice growth and new practice affiliations. Of the total 1996 PPM revenue, $1.7 billion can be attributed to acquisitions (accounted for as either poolings of interests or purchase transactions) made during the year. The Company's PPM operations in the western region of the country function in a predominantly prepaid environment. MedPartners' PPM operations in the other regions of the country are in predominantly fee-for-service environments with limited but increasing managed care

penetration. The following table sets forth the breakdown of net revenue for the PPM services area for the periods indicated:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
			(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>
Prepaid	$ 714,112	$1,096,789	$1,593,538	$ 649,449	$ 928,089
Fee-for-Service	585,791	872,653	1,356,084	766,239	845,894
Other	23,986	19,626	14,540	8,655	9,651
Total net revenue from PPM service area	$1,323,889	$1,989,068	$2,964,162	$1,424,343	$1,783,634

</TABLE>

The Company's prepaid revenue reflects the number of HMO enrollees for whom it receives monthly capitation payments. The Company receives professional capitation to provide physician services and institutional capitation to provide hospital care and other non-professional services. The table below reflects the growth in enrollment for professional and global capitation:

<TABLE>
<CAPTION>

	AT DECEMBER 31,	AT JUNE 30,

	1994	1995	1996	1996	1997
<S>	<C>	<C>	<C>	<C>	<C>
Professional enrollees.....	548,821	603,391	983,543	867,753	998,380
Global enrollees (professional and institutional).....	286,034	531,608	719,152	647,452	959,135
Total enrollees.....	834,855	1,134,999	1,702,695	1,515,205	1,957,515

</TABLE>

During 1996, prepaid revenues increased 45.3% while prepaid enrollees increased 50%. The reason for this difference relates to the mix of professional capitation enrollment to total enrollment (which includes institutional capitation). Therefore, the higher percentage of professional capitation enrollment accounts for the lower percentage increase in prepaid revenue as compared to the percentage increase in total enrollment. The percentage of professional capitation enrollment to total enrollment was 57.8% at December 31, 1996, compared to 53.2% at December 31, 1995. Revenue per enrollee for professional capitation is substantially lower than for global capitation as discussed below.

The Company has developed strong relationships with many of the national and regional managed care organizations and has demonstrated its ability to deliver high-quality, cost-effective care. The Company is strategically positioned to capitalize on the industry's continued evolution toward a prepaid environment, specifically by increasing the number of prepaid enrollees and converting existing enrollees from professional to global capitation. These changes have resulted in significant internal growth. During the first six months of 1997, the Company converted approximately 225,000 lives from professional capitation to global capitation.

The Company has consolidated the majority of its acquisitions into its management infrastructure, eliminating substantial overhead expenses and improving integration of medical, administrative and operational management. The integration of various acquisitions into existing networks has allowed the conversion of thousands of prepaid enrollees from professional capitation to global capitation. This integration has been a significant factor in increasing operating margins in the PPM service area from 3.7% at year end 1994 to 6.6% at June 30, 1997.

The Company operates the largest hospital-based physician group in the United States with over 2,200 physicians providing services at over 320 sites, primarily hospitals, nationwide. The Company provides emergency medicine, radiology, anesthesiology, primary care and other hospital-based physician services. The Company also provides comprehensive medical services to inmates in various state and local correctional institutions. As of June 30, 1997, the Company had contracts with 45 correctional institutions. The Company provides physicians, nurses and clerical support services for active duty and retired military personnel and their dependents in emergency departments, ambulatory care centers and primary care clinics operated by the Department of Defense. At June 30, 1997, the Company's military medical services were provided under 15 contracts with the Department of Defense.

In addition to the increased revenues and operational efficiencies realized through acquisition and consolidation, the Company is profiting from synergies produced by the exchange of ideas among physicians and managers across geographical boundaries and varied areas of specialization. The PPM service area, for example, has established medical management committees that meet monthly to discuss implementation of the best medical management techniques to assist the Company's affiliated physicians in delivering the highest quality of care at lower costs in a consistent fashion. The Company is capitalizing on the knowledge of its Western groups, which have significant experience operating in a prepaid environment, to transfer the best practices to other groups in markets with increasing managed care penetration. Through interaction between physicians and managers from various medical groups, significant cost savings continue to be identified at several of the Company's larger affiliated groups.

The PPM service area has also created a national medical advisory committee, which is developing procedures for the identification, packaging and dissemination of the best clinical practices within the Company's medical groups. The committee also provides the Company's affiliated physicians a forum to discuss innovative ways to improve the delivery of healthcare.

The Company has also initiated integration efforts between the PPM, PBM and disease management areas. A project is in process to integrate patient care data from several of the Company's affiliated clinics with the PBM's healthcare information system. Through this database, which combines medical and claims data with the prescription information tracked by the PBM area, the Company will have access to the industry's most complete and detailed collection of

information on successful treatment patterns. Another synergy arising from integration is the opportunity which the existing PBM infrastructure affords to affiliated physician groups to further expand services by providing pharmacy services ranging from fee-for-service retail claims processing to full drug capitation programs. The Company is also beginning to integrate the disease management area's expertise in an effort to formulate and implement disease management programs for the Company.

Pharmacy Benefit Management Services

Pharmaceutical Services revenues continue to exhibit sustained growth reflecting increases in both mail and retail related services. Revenue for the six months ended June 30, 1997 increased 15.8% over the same period in 1996. This growth was due to increased pharmacy transaction volume (6.1%), drug cost inflation, product mix and pricing (9.7%). Key factors contributing to this growth include high customer retention, additional penetration of retained customers and new customer contracts, such as the National Association of Letter Carriers which became effective January 1, 1997. The majority of Pharmaceutical Services revenue is earned on a fee-for-service basis through contracts covering one to three-year periods. Revenues for selected types of services are earned based on a percentage of savings achieved or on a per-enrollee or per-member basis; however, these revenues are not material to total revenues.

Operating income increased 23.1% in the first six months of 1997 compared to the same period of 1996. Operating margins increased from 3.9% to 4.1% for the six months ended June 30, 1996 and 1997, respectively. Lower margin retail service revenue continues to grow at a faster rate than mail related revenue. However, reductions in operating expenses along with the termination of accounts with unacceptable levels of profitability have offset any impact on operating margins and have contributed to the overall growth in operating income.

Operating income experienced accelerated growth in 1995 and 1996 while margins fell slightly from 4.2% in 1994 to 3.9% in 1995 but returned to a 4.2% level in 1996. Operating income and margins in 1996 were enhanced by reduced information systems costs achieved through renegotiation of a contract with an outsource service vendor, continued improvements in the acquisition costs of drugs, increased penetration of higher margin value-oriented services and an overall 13% reduction in selling and administrative expenses. Partially offsetting these cost reductions were continued declines in prices to customers.

Margins in Pharmaceutical Services are also affected by the mix between mail and retail service revenues. Margins on mail-related service revenues currently are higher than those on retail service revenues. Revenues in both mail and retail services continue to grow; although, the growth rate of retail services in 1995

and 1996 was greater than the growth rate of mail services. In 1996, retail service revenues grew to represent nearly 49% of PBM revenues. The Company has little or no influence over certain other factors, including demographics of the population served and plan design, which can affect the mix between mail and retail services. Consequently, margin percentage trends alone are not a sufficient indication of progress. The Company's pricing and underwriting strategies are closely linked to its working capital and asset management strategies and focus on return on investment and overall improvements in return on capital deployed in the business.

The Company has recently reorganized its sales and corporate accounts management activities into eight geographic and two additional specialty areas. This will enable the Company to improve its account retention, client service and growth initiatives even further as a result of increased accountability and focus. As mentioned under Physician Practice Management Services, the Company is pursuing a number of PPM and PBM integration opportunities.

Specialty Services

Specialty services concentrates on providing high quality products and services in the home. Domestically, these services focus on low incidence chronic diseases. Internationally, the Company has established home care businesses in Canada, Germany, the Netherlands, and the United Kingdom. Revenue growth is due primarily to sales of the Company's new multiple sclerosis drug, Copaxone, and other products. Margins for specialty services had been declining slightly as a result of managed care pricing pressures, restructuring of benefit plans by payors and reduced reimbursement for Medicaid and other state agency payors. However, margins have increased slightly from the first quarter of 1997 to the second quarter of 1997. This increase can be attributed to the reduction in operating expenses through increased efficiencies. Cost of service expenses rose due to programs targeted at launching the Company's sale of the drug Copaxone.

Discontinued Operations

During 1995, Caremark divested its Caremark Orthopedic Services, Inc. subsidiary as well as its clozaril patient management system, home infusion business and oncology management services business. The Company's consolidated financial statements present the operating income and net assets of these discontinued operations separately from continuing operations. Prior periods have been restated to conform with this presentation. Discontinued operations for 1995 reflect the net after-tax gain on the disposal of the clozaril patient management system, the home infusion business and a $154.8 million after-tax charge for the settlement discussed in the notes to the audited consolidated financial statements incorporated herein by reference related to the OIG investigation. Discontinued operations for 1996 reflects a $67.9 million after-tax charge related to settlements with private payors discussed in the notes to the audited consolidated financial statements incorporated herein by reference and an after-tax gain on disposition of the nephrology services business, net of disposal costs, of $2.5 million. During the second quarter of 1997, the Company settled a dispute with Coram Health Corporation arising from Caremark's sale of its home infusion therapy business to Coram, also discussed in Note 4 of the unaudited financial statements included in the Company's Quarterly Report for the quarter ended June 30, 1997, incorporated herein by reference. In accordance with APB 30, which addresses the reporting for disposition of business segments, the Company's consolidated financial statements present the operating income of these discontinued operations separately from continuing operations.

Results of Operations -- Six Months Ended June 30, 1997 and 1996

For the six months ended June 30, 1997, net revenue was $3,028.5 million, compared to $2,524.4 million for the same period in 1996, an increase of 20.0%. The increase in net revenue primarily resulted form affiliations with new physician practices and the increase in pharmaceutical services net revenue, which accounted for $109.0 million and $136.3 million of the increase in net revenue, respectively. Additional increases resulted from the shift of enrollees from professional only to global capitation (approximately 225,000 enrollees shifted in the six months ended June 30, 1997). The majority of the remainder of the increase in PPM net revenue can be attributed to growth in existing physician practices.

Income from continuing operations, excluding merger expenses, for the physician services and pharmaceutical services areas grew for the six months ended June 30, 1997, as compared to the same period of 1996, 65.6% and 23.1%, respectively. The increase in the physician services area is the result of higher net revenue and increases in operating margins resulting from the spreading of fixed overhead expenses over a larger revenue base and continued integration of operations. The pharmaceutical services area's increase in operating income was primarily due to reductions in operating expenses, more efficient use of system resources and higher net revenue. Operating income and margins declined in the corresponding periods for the specialty services area as a result of continued pricing pressures for certain products.

Included in pre-tax loss for the six months ended June 30, 1997 and 1996 were merger expenses totaling $59.4 and $34.7 million. The major components of the $59.4 million, $50 million of which relates to the business combination with InPhyNet, are listed in Note 5 of the unaudited consolidated financial statements included in the Company's Quarterly Report for the quarter ended June 30, 1997, incorporated herein by reference. The $34.7 million relates primarily to the business combination with Pacific Physician Services, Inc. in 1996. Also included in the pre-tax loss for the six months ended June 30, 1997 were other non-recurring charges from discontinued operations of $75.4 million, which are discussed in Note 4 of the unaudited consolidated financial statements included in the Company's Quarterly Report for the quarter ended June 30, 1997, incorporated herein by reference.

Results of Operations for the Years Ended December 31, 1996 and 1995

For the year ended December 31, 1996, net revenue was $5,222.0 million, compared to $3,908.7 million for 1995, an increase of 33.6%. The increase in net revenue resulted primarily from affiliations with new physician practices and the increase in PBM net revenue, which accounted for $339.9 million and $352.1 million of the increase in net revenue, respectively. The most significant physician practice acquisition during this period was the CIGNA Medical Group which was acquired in January 1996. This acquisition accounted for 92% of the new practice revenue. The increase in PBM net revenue is attributable to pharmaceutical price increases, the addition of new customers, further penetration of existing customers and the sale of new products.

Operating income for the PPM and PBM services areas increased 53.4% and 35.3%, respectively, for 1996 compared to 1995. This growth was the result of higher net revenues in both areas and increases in operating margins resulting from the spreading of fixed overhead expenses over a larger revenue base and

continued integration of operations in the PPM services area. Operating income and margins declined in the corresponding periods for the specialty services area as a result of lower volumes in the hemophilia business and continued pricing pressures for growth hormone products.

Included in the pre-tax loss for 1996 were merger expenses totaling $308.9 million related to the business combinations with Caremark, PPSI and several other entities, the major components of which are listed in notes to the audited consolidated financial statements incorporated herein by reference.

Results of Operations for the Years Ended December 31, 1995 and 1994

Net revenue for the year ended December 31, 1995 was $3,908.7 million, an increase of $999.7 million, or 34.4%, over the year ended December 31, 1994. The increase in net revenue resulted primarily from affiliation with new physician practices and the increase in PBM net revenue, which accounted for $240.1 million, and $334.9 million of the increase in net revenue, respectively. Additional increases resulted from an increase in prepaid enrollees at existing affiliated physician practices. The most significant physician practice acquisition affecting this period was the Friendly Hills Healthcare Network which was acquired in May 1995. This acquisition accounted for 53% of the new practice revenue. The increase in PBM net revenue resulted from increases in covered lives due to new customer contracts and greater penetration of existing customers.

Operating income grew 113.1% and 21.2% for 1995, compared to 1994, for the PPM and PBM service areas, respectively. This growth is the result of higher net revenues in both areas. The PPM service area also had a significant increase in operating margin, from 3.7% in 1994 to 5.2% in 1995, which resulted from the leveraging of fixed overhead expenses over a substantially larger revenue base, integration of operations and

the impact of the varying margins of new physician practice affiliations. Operating income and margins declined in the corresponding periods for the specialty services areas as a result of pricing pressures for growth hormone products.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The future operating results and financial condition of the Company are dependent on the Company's ability to market its services profitably, successfully increase market share and manage expense growth relative to revenue growth. The future operating results and financial condition of the Company may be affected by a number of additional factors, including: the Company's growth strategy, which involves the ability to raise the capital required to support growth, competition for expansion opportunities, integration risks and dependence on HMO enrollee growth; efforts to control healthcare costs; exposure to professional liability; and pharmacy licensing, healthcare reform and government regulation. Changes in one or more of these factors could have a material adverse effect on the future operating results and financial condition of the Company.

The Company completed the acquisition of Caremark in September 1996. There are various Caremark legal matters which, if materially adversely determined, could have a material adverse effect on the Company's operating results and financial condition.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 1997, and December 31, 1996, the Company had working capital of $277.8 and $226.4 million, respectively, including cash and cash equivalents of $134.2 and $127.4 million, respectively. For the six-month period ended June 30, 1997, cash flow from continuing operations was $101.2 million. Cash flow from continuing operations for the fiscal years ended December 31, 1996, 1995 and 1994 was $176.5 million, $147.0 million and $52.4 million, respectively.

For the six-month period ended June 30, 1997 and the fiscal year ended December 31, 1996, respectively, the Company invested $150.5 and $160.5 million, respectively, in acquisitions of the assets of physician practices and $37.4 and $126.9 million, respectively, in property and equipment. These expenditures were funded by approximately $39.5 and $271.9 million, respectively, derived from equity proceeds and $149.4 and $124.4 million, respectively, in net incremental borrowings. For the six months ended June 30, 1996 the Company invested $104.3 million in acquisitions of the assets of physician practices and $72.1 million in property and equipment. These expenditures were funded by a portion of the $224.1 million derived from a stock offering in March 1996. For the year ended December 31, 1995, the Company invested $212.1 million in acquisitions of the assets of physician practices and $128.4 million in property and equipment. These expenditures were funded by approximately $100.4 million derived from equity proceeds and $69.5 million in net incremental borrowings. For the year

ended December 31, 1994, the Company's investing activities totaled $261.0 million, which was composed primarily of $134.7 million related to practice acquisitions and $106.2 million related to the purchase of property and equipment. These expenditures were funded by $150.1 million derived from equity proceeds and $225.0 million in net incremental borrowings. Investments in acquisitions and property and equipment are anticipated to continue to be substantial uses of funds in future periods.

The Company entered into the $1 billion Credit Facility, which became effective simultaneously with the closing of the Caremark acquisition, on September 5, 1996, replacing its then existing credit facility. At the Company's option, pricing on the Credit Facility is based on either a debt to cash flow test or the Company's senior debt ratings. No principal is due on the facility until its maturity date of September 2001. As of June 30, 1997, there was $383.0 million outstanding under the facility. The Credit Facility contains affirmative and negative covenants which include requirements that the Company maintain certain financial ratios (including minimum net worth, minimum fixed charge coverage ratio and maximum indebtedness to cash flow), and establishes certain restrictions on investments, mergers and sales of assets. Additionally, the Company is required to obtain bank consent for acquisitions with an aggregate purchase price in excess of $75 million and for which more than half of the consideration is to be paid in cash. The Credit Facility is unsecured but

provides a negative pledge on substantially all assets of the Company. As of June 30, 1997, the Company was in compliance with the covenants in the Credit Facility.

Effective October 8, 1996, the Company completed a $450 million senior note offering. These ten-year notes carry a coupon rate of 7 3/8%. The notes are not redeemable by the Company prior to maturity and are not entitled to the benefit of any mandatory sinking fund. The notes are general unsecured obligations of the Company ranking senior in right of payment to all existing and future subordinated indebtedness of the Company and pari passu in right of payment with all existing and future unsubordinated and unsecured obligations of the Company. The notes are effectively subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. The notes are rated BBB/Baa3 by Standard & Poors and Moody's Investor Services, respectively. The Company is the only physician practice management company to earn an investment grade debt rating. Net proceeds from the offering were used to reduce amounts under the Credit Facility.

In connection with the offerings of the Threshold Appreciation Price Securities and the Notes, Standard & Poors affirmed its BBB corporate credit rating on the Company and on the Company's 7 3/8% Senior Notes due 2006 and assigned a rating of BBB-r to the Threshold Appreciation Price Securities, a rating of BBB- to the Notes and a rating of BBB to the Company's Credit Facility. In connection with the issuance of its ratings, Standard & Poors revised its outlook for the Company to negative from stable. Standard & Poors stated that its revised outlook reflects the challenges of controlling and further growing the Company, the Company's susceptibility to reimbursement changes and increases in medical need and cost and increasing competition. Also in connection with the offerings of the Threshold Appreciation Price Securities and the Notes, Moody's Investors Service confirmed its Baa3 rating on the Company's unsecured senior notes and assigned a Baa3 rating to the Company's Credit Facility, a Baa2 rating to the Threshold Appreciation Price Securities and a Ba2 rating to the Notes. A security rating is not a recommendation to buy, sell or hold securities, may be subject to revision or withdrawal at any time by the assigning rating organization and should be evaluated independently of any other rating.

On October 30, 1996, the Company completed its tender offer for Caremark's $100 million 6 7/8% notes due August 15, 2003. Of the $100 million principal amount of such notes outstanding, $99.9 million principal amount were tendered and purchased. The total consideration for each $1,000 principal amount of outstanding notes tendered was $1,017.72.

The Company's growth strategy requires substantial capital for the acquisition of PPM businesses and assets of physician practices, and for their effective integration, operation and expansion. Affiliated physician practices may also require capital for renovation, expansion and additional medical equipment and technology. The Company believes that its existing cash resources, the use of the Company's Common Stock for selected practice and other acquisitions, the issuances of the Threshold Appreciation Price Securities and the Notes and available borrowings under the $1.0 billion Credit Facility or any successor credit facility, will be sufficient to meet the Company's anticipated acquisition, expansion and working capital needs for the next twelve months. The Company expects from time to time to raise additional capital through the issuance of long-term or short-term indebtedness or the issuance of additional equity securities in private or public transactions, at such times as management deems appropriate and the market allows in order to meet the capital needs of

the Company. There can be no assurance that acceptable financing for future acquisitions or for the integration and expansion of existing networks can be obtained. Any of such financings could result in increased interest and amortization expense, decreased income to fund future expansion and dilution of existing equity positions.

RECENT DEVELOPMENTS

On August 20, 1997, the Company commenced a cash tender offer to purchase all of the issued and outstanding common stock, par value $.01 per share, of Talbert at a price of $63.00 net per share, in cash, or an aggregate acquisition price of approximately $200 million. Talbert is a physician practice management company representing 282 primary and specialty care physicians and operating 52 clinics in five southwestern states. The Talbert acquisition will be accounted for as a purchase transaction, and is subject to the normal

conditions for a transaction of this kind, including the tender of a minimum number of shares of Talbert common stock and compliance with the Hart-Scott-Rodino Anti-Trust Improvements Act of 1976.

On July 1, 1997, the Company announced that a settlement had been reached in the Coram litigation pursuant to which Caremark will return for cancellation all of the securities issued by Coram in connection with its acquisition of Caremark's home infusion therapy business and will pay to Coram $45 million in cash on or before September 1, 1997. The settlement agreement also provides for the termination and resolution of all disputes and issues between the parties and for the exchange of mutual releases. The Company recognized an after-tax charge of $75.4 million during the second quarter of 1997 related to this settlement. See "Business -- Legal Proceedings".

In June 1997, the Company acquired InPhyNet, a publicly traded PPM company based in Fort Lauderdale, Florida and specializing in HBP operations and correctional care in exchange for approximately 19.3 million shares of the Company's Common Stock having a total value of approximately $413 million, creating the largest HBP group in the United States with over 2,200 physicians.

In June 1997, the Company also acquired Fischer Mangold, a California-based contract management group providing administrative management and physician staffing to 28 hospital clients in 11 states. This acquisition is being accounted for as a pooling of interests.

In May 1997, the Company acquired the business assets and assumed the liabilities of most of the operations of APMC, a PPM Company and affiliate of Aetna Inc. based in Glastonbury, Connecticut. For accounting purposes, this acquisition is being treated as an asset purchase. As a part of this acquisition, the Company entered into a 10-year Master Network Agreement with Aetna U.S. Healthcare, pursuant to which the members of the Company's networks of affiliated physicians will be authorized providers for many of the 14 million members of Aetna U.S. Healthcare's health plan.

QUARTERLY RESULTS (UNAUDITED)

The following tables set forth certain unaudited quarterly financial data for 1995, 1996 and the first two quarters of 1997. In the opinion of the Company's management, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of normal recurring items) necessary to present fairly the information set forth therein. The operating results for any quarter are not necessarily indicative of results for any future period.

<TABLE>
<CAPTION>

	QUARTER ENDED						
	MARCH 31, 1995	JUNE 30, 1995	SEPTEMBER 30, 1995	DECEMBER 31, 1995	MARCH 31, 1996	JUNE 30, 1996	SEPTEMBER 30, 1996
				(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net revenue.....	$876,747	$ 961,290	$1,016,228	$ 1,054,452	$1,237,715	$1,286,692	$1,313,019
Operating expenses....	836,052	915,796	963,265	993,816	1,181,064	1,226,971	1,246,846
Net interest expense.....	6,551	2,549	5,883	4,131	7,030	4,158	5,395
Merger expenses.....	--	1,051	3,473	64,540	34,448	250	263,000
Losses on investments.....	--	--	--	86,600	--	--	--
Other, net.....	(406)	5	(27)	236	(107)	51	328

Income (loss) from continuing operations before income taxes.....	34,550	41,889	43,634	(94,871)	15,280	55,262	(202,550)
Income tax expense (benefit).....	12,876	15,729	17,644	(53,236)	8,878	19,271	(53,423)
Income (loss) from continuing operations.....	21,674	26,160	25,990	(41,635)	6,402	35,991	(149,127)
Discontinued operations:							
Income (loss) from discontinued operations.....	(2,605)	(144,011)	(5,791)	(15,935)	(71,221)	--	--
Net gains (losses) on sales of discontinued operations.....	10,895	(3,810)	--	24,729	2,523	--	--
Income (loss) from discontinued operations.....	8,290	(147,821)	(5,791)	8,794	(68,698)	--	--
Net income (loss).....	$ 29,964	$(121,661)	$ 20,199	$ (32,841)	$ (62,296)	$ 35,991	$ (149,127)

<CAPTION>

	QUARTER ENDED		
	DECEMBER 31, 1996	MARCH 31, 1997	JUNE 30, 1997
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Net revenue.....	$1,384,593	$1,467,933	$1,560,600
Operating expenses....	1,308,128	1,386,301	1,467,029
Net interest expense.....	8,132	9,781	12,549
Merger expenses.....	11,247	--	59,434
Losses on investments.....	--	--	--
Other, net.....	(1,347)	--	--
Income (loss) from continuing operations before income taxes.....	58,433	71,851	21,588
Income tax expense (benefit).....	28,489	27,454	19,540
Income (loss) from continuing operations.....	29,944	44,397	2,048
Discontinued operations:			
Income (loss) from discontinued operations.....	--	--	(75,434)
Net gains (losses) on sales of discontinued operations.....	--	--	--
Income (loss) from discontinued operations.....	--	--	(75,434)
Net income (loss).....	$ 29,944	$ 44,397	$ (73,386)

</TABLE>

The Company's historical unaudited quarterly financial data have been restated to include the results of all businesses acquired prior to June 30, 1997 that were accounted for as poolings of interests (collectively, the "Mergers"). The Company's Quarterly Reports on Form 10-Q set forth below were filed prior to the Mergers and thus, differ from the amounts for the quarters included herein. The differences caused solely by the operation of the merged companies are summarized as follows:

<TABLE>

<CAPTION>

	QUARTER ENDED							
	MARCH 31, 1996		JUNE 30, 1996		SEPTEMBER 30, 1996		MARCH 31, 1997	
	FORM 10-Q	AS RESTATED	FORM 10-Q	AS RESTATED	FORM 10-Q	AS RESTATED	FORM 10-Q	AS RESTATED
				(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net revenue.....	$332,549	$1,237,715	$360,398	$1,286,692	$1,182,015	$1,313,019	$1,332,271	$1,467,933
Income (loss) from continuing operations before income taxes....	(21,435)	15,280	16,153	55,262	(207,168)	(202,550)	65,411	71,851
Income tax expense (benefit).....	(5,935)	8,878	6,129	19,271	(55,634)	(53,423)	24,925	27,454
Loss from discontinued operations.....	--	(68,698)	--	--	--	--	--	--
Net income (loss).....	$(15,500)	$ (62,296)	$ 10,024	$ 35,991	$ (151,534)	$ (149,127)	$ 40,486	$ 44,397

</TABLE>

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BUSINESS

GENERAL

The Company is the largest PPM company in the United States, based on revenues. The Company develops, consolidates and manages comprehensive integrated healthcare delivery systems, consisting of primary care and specialty physicians, as well as the nation's largest group of physicians engaged in the delivery of emergency medicine and other hospital-based services. MedPartners provides services to prepaid managed care enrollees and fee-for-service patients in 37 states through its network of approximately 13,128 physicians. The Company also operates one of the nation's largest independent pharmacy benefit management ("PBM") programs and provides disease management services and therapies for patients with certain chronic conditions. As of June 30, 1997, the Company operated its PBM program in all 50 states.

The Company affiliates with physicians who are seeking the resources necessary to function effectively in healthcare markets that are evolving from fee-for-service to managed care payor systems. The Company enhances clinic operations by centralizing administrative functions and introducing management tools, such as clinical guidelines, utilization review and outcomes measurement. The Company provides affiliated physicians with access to capital and to advanced management information systems. In addition, the Company contracts with health maintenance organizations and other third-party payors that compensate the Company and its affiliated physicians on a prepaid basis (collectively "HMOs"), hospitals and outside providers on behalf of its affiliated physicians. These relationships provide physicians with the opportunity to operate under a variety of payor arrangements and to increase their patient flow.

The Company offers medical group practices and independent physicians a range of affiliation models. These affiliations are carried out by the acquisition of PPM entities or practice assets, either for cash or through an equity exchange, or by affiliation on a contractual basis. In all instances, the Company enters into long-term practice management agreements that provide for the management of the affiliated physicians by the Company while assuring the clinical independence of the physicians.

The Company's PPM revenue is derived from contracts with HMOs that compensate the Company and its affiliated physicians on a prepaid basis and from the provision of fee-for-service medical services. In the prepaid arrangements, the Company, through its affiliated physicians, typically is paid by the HMO a fixed amount per member ("enrollee") per month ("professional capitation") or a percentage of the premium per member per month ("percent of premium") paid by employer groups and other purchasers of healthcare coverage to the HMOs. In return, the Company, through its affiliated physicians, is responsible for substantially all of the medical services required by enrollees. In many instances, the Company and its affiliated physicians accept financial responsibility for hospital and ancillary healthcare services in return for payment from HMOs on a capitated or percent of premium basis ("institutional capitation"). In exchange for these payments (collectively, "global capitation"), the Company, through its affiliated physicians, provides the majority of covered healthcare services to enrollees and contracts with hospitals and other healthcare providers for the balance of the covered services. In March 1996, the DOC issued the Restricted License to Pioneer Network, in accordance with the requirements of the Knox-Keene Act which authorizes Pioneer Network to operate as a healthcare service plan in the state of California. The Company intends to utilize the Restricted License for a broad range of healthcare services. See "-- Government Regulation".

The Company operates the largest HBP group in the country with over 2,200

physicians providing services at over 320 sites, primarily hospitals, nationwide. The Company provides emergency medicine, radiology, anesthesiology, primary care and other hospital-based physician services. The Company also provides comprehensive medical services to inmates in various state and local correctional institutions. As of June 30, 1997, the Company had contracts with 45 correctional institutions providing healthcare services to approximately 44,000 inmates at 65 sites. The Company provides physicians, nurses and clerical support services for active duty and retired military personnel and their dependents in emergency departments, ambulatory care centers and primary care clinics operated by the Department of Defense. At June 30, 1997, the Company's military medical services were provided under 15 contracts with the Department of Defense.

The Company manages outpatient prescription drug benefit programs for clients throughout the United States, including corporations, insurance companies, unions, government employee groups and managed care organizations. The Company dispenses 43,000 prescriptions daily through four mail service pharmacies and manages patients' immediate prescription needs through a national network of retail pharmacies. The Company is in the process of integrating the PBM program with the PPM business by providing pharmaceutical services to affiliated physicians, clinics and HMOs. The Company's disease management services are intended to meet the healthcare needs of individuals with chronic diseases or conditions. These services include the design, development and management of comprehensive programs comprising drug therapy, physician support and patient education. The Company currently provides therapies and services for individuals with such conditions as hemophilia, growth disorders, immune deficiencies, genetic emphysema, cystic fibrosis and multiple sclerosis.

ACQUISITION PROGRAM

The Company's strategy is to develop locally prominent, integrated healthcare delivery networks that provide high quality, cost-effective healthcare in selected geographic markets. The Company implements this strategy through growth in its existing markets, expansion into new markets through acquisitions and affiliations and through the implementation of comprehensive healthcare solutions for patients, physicians and payors. In connection with pursuing its strategy, the Company creates strategic alliances with hospital partners and HMOs. As an integral element of these alliances, the Company utilizes sophisticated information systems to improve the operational efficiency of, and reduce the costs associated with, operating the Company's network and the practices of the affiliated physicians. The Company's principal methods of expansion are acquisitions of PPM businesses and affiliations with physician and medical groups.

In November 1995, MedPartners acquired MME in exchange for 13.5 million shares of Common Stock having a total value of approximately $413 million. The acquisition of MME was accounted for as a pooling-of-interests. MME was a significant factor in the Southern California managed care market and provided MedPartners with its first steps towards global capitations.

In February 1996, the Company acquired PPSI, a publicly traded PPM company based in Redlands, California, in exchange for approximately 11.0 million shares of Common Stock having a total value of approximately $342 million. The acquisition of PPSI was accounted for as a pooling of interests. PPSI, through its previously acquired subsidiary Team Health, established MedPartners in the HBP and hospital contract management industry.

In September 1996, the Company acquired Caremark International Inc., a publicly traded PPM and PBM company based in Northbrook, Illinois, in exchange for approximately 90.5 million shares of Common Stock having a total value of approximately $1.8 billion (the "Caremark Acquisition"), creating the largest PPM company in the United States and providing MedPartners with its initial PBM operations. The Caremark Acquisition was accounted for as a pooling of interests.

In May 1997, the Company acquired the business assets and assumed the liabilities of most of the operations of APMC, a PPM company and affiliate of Aetna Inc. based in Glastonbury, Connecticut. For accounting purposes, this acquisition is being treated as an asset purchase. As a part of this acquisition, the Company entered into a 10-year nationwide master network agreement with Aetna U.S. Healthcare, pursuant to which the members of the Company's networks of affiliated physicians will be authorized providers for many of the 14 million members of Aetna U.S. Healthcare's health plan.

In June 1997, the Company acquired InPhyNet, a publicly traded PPM company based in Fort Lauderdale, Florida and specializing in HBP operations and correctional care, in exchange for approximately 19.3 million shares of Common Stock having a total value of approximately $413 million, creating the largest HBP group in the United States. The acquisition of InPhyNet was accounted for as a pooling of interests.

In August 1997, the Company commenced a cash tender offer to purchase all of the common stock of Talbert at an aggregate acquisition price of approximately $200 million. Talbert is a physician practice

management company representing 282 primary and specialty care physicians and operating 52 clinics in five southwestern states. The Talbert acquisition will be accounted for as a purchase transaction.

The Company's successful pursuit of new growth opportunities will depend on many factors including, among others, the Company's ability to identify suitable targets and to integrate its acquired practices and businesses. The Company's efforts in this regard could be adversely affected by competition from other PPM businesses and companies as well as hospital management companies, hospitals and insurers who are also expanding into the PPM market. The Company's rapid consolidation makes integration a significant challenge. The dedication of management resources to integration may detract attention from the day-to-day operations of the Company. There can be no assurance that the Company will be able to continue its growth or successfully integrate its acquisitions. Such failures could have a material adverse effect on the operating results and financial condition of the Company.

The Company's major acquisitions since January 1995 have been structured as poolings of interests. As a result, the Company's operating income has been reduced by the related merger expenses resulting in a net loss for the year ended December 31, 1996. Such merger expenses as well as integration costs may result in future losses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Through December 31, 1994, the Company had affiliated with 190 physicians (without giving effect to physicians who became affiliated with the Company pursuant to acquisitions that were accounted for as poolings of interests). The Company is currently affiliated with approximately 13,128 physicians.

INDUSTRY

The Health Care Financing Administration ("HCFA") estimates that national healthcare spending in 1995 was in excess of $1 trillion, with physicians controlling more than 80 percent of the overall expenditures. The American Medical Association reports that approximately 613,000 physicians are actively involved in patient care in the United States, with a growing number participating in multi-specialty or single-specialty groups. Expenditures directly attributable to physicians are estimated at $246 billion.

Concerns over the cost of healthcare have resulted in the rapid growth of managed care in the past several years. As markets evolve from traditional fee-for-service medicine to managed care, HMOs and healthcare providers confront market pressures to provide high quality healthcare in a cost-effective manner. Employer groups have begun to bargain collectively in an effort to reduce premiums and to bring about greater accountability of HMOs and providers with respect to accessibility, choice of provider, quality of care and other matters that are fundamental to consumer satisfaction. The increasing focus on cost-containment has placed small to mid-sized physician groups and solo practices at a disadvantage. They typically have higher operating costs and little purchasing power with suppliers, they often lack the capital to purchase new technologies that can improve quality and reduce costs and they do not have the cost accounting and quality management systems necessary for entry into sophisticated risk-sharing contracts with payors.

Industry experts expect that the healthcare delivery system may evolve to the point where the primary care physician manages and directs healthcare expenditures. Consequently, primary care physicians have increasingly become the conduit for the delivery of medical care by acting as "case managers" and directing referrals to certain specialists, hospitals, alternate-site facilities and diagnostic facilities. By contracting directly with payors, organizations such as the Company that control primary care physicians are able to reduce the administrative overhead expenses incurred by HMOs and insurers and thereby reduce the cost of delivering medical services.

As HMO enrollment and physician membership in group medical practices have continued to increase, healthcare providers have sought to reorganize themselves into healthcare delivery systems that are better suited to the managed care environment. Physician groups and IPAs are joining with hospitals, pharmacies and other institutional providers in various arrangements to create vertically integrated delivery systems that provide medical and hospital services ranging from community-based primary medical care to specialized inpatient services. These healthcare delivery systems contract with HMOs to provide hospital and medical services to enrollees pursuant to full risk contracts. Under these contracts, providers assume the obligation to

provide both the professional and institutional components of covered healthcare services to the HMO enrollees.

In order to compete effectively in this evolving environment, the Company believes many physicians are concluding that they must obtain control over the delivery and financial impact of a broader range of healthcare services through global capitation. To this end, groups of independent physicians and medium to large medical groups are taking steps to assume the responsibility and the risk associated with healthcare services that they do not provide, such as hospitalization and pharmacy services. Physicians are increasingly abandoning traditional private practice in favor of affiliations with larger organizations such as the Company that offer skilled and innovative management, sophisticated information systems and significant capital resources. Many payors and their intermediaries, including governmental entities and HMOs, are also looking to outside providers of physician and pharmacy services to develop and maintain quality outcomes, management programs and patient care data. In addition, such payors and their intermediaries look to share the risk of providing healthcare services through capitation arrangements that fix payments for patient care at a specified amount over a specified period of time. Medical groups and independent physicians seem to be concluding that while the acceptance of greater responsibility and risk affords the opportunity to retain and enhance market share and to operate at a higher level of profitability, the acceptance of global capitation carries with it significant requirements for enhanced infrastructure, information systems, capital, network resources and financial and medical management. As a result, physicians are turning to organizations such as the Company to provide the resources necessary to function effectively in a managed care environment.

STRATEGY

The Company's strategy is to develop locally prominent, integrated healthcare delivery networks that provide high quality, cost-effective healthcare in selected geographic markets. The key elements of this strategy are as follows:

Expansion of Existing Markets. The Company's principal strategy for expanding its existing markets is through the acquisition of, or affiliation with, physicians and medical groups within those markets. The Company seeks to acquire or otherwise affiliate with physician groups, IPAs and other providers that have significant market share in their local markets and have established reputations for providing quality medical care. The Company also develops multi-specialty physician networks that are designed to meet the specific medical needs of a targeted geographic market. The Company seeks to further enhance its existing market share by increasing enrollment and fee-for-service business and by moving to global capitation where possible in its existing affiliated practices and IPAs. The Company anticipates further internal growth by expanding more of its payor contracts to global capitation through Pioneer Network and otherwise. Moreover, the Company believes that increasing marketing activities, enhancing patient service and improving the accessibility of care will also increase the Company's market share.

Expansion into New Markets. The Company expands into new markets through the acquisition of or affiliation with other PPM entities and medical groups. The Company believes that the acquisition of MME was the first major consolidation in the industry. That acquisition was followed by the merger with PPSI, Caremark and, most recently, the acquisitions of InPhyNet, Fischer Mangold and APMC and the recently announced cash tender offer for Talbert. As a result of the consolidation of physician practices and the entry of other PPM companies into the market, the Company's management has determined that it is important for the Company to continue its rate of expansion through acquisitions and mergers. The Company believes that by concentrating on larger acquisitions and by continuing to expand its core of physician groups and IPAs, as well as its affiliations with hospitals, it will create vertically integrated healthcare delivery systems that enhance its competitive position. The Company continually reviews potential acquisitions and physician affiliations and is currently in preliminary negotiations with various candidates.

Movement to Global Capitation. The Company, which has been providing healthcare services for capitated payments (through its predecessors) since the mid-1970's, possesses significant experience and

expertise in the managed care business. The Company intends to leverage this experience and the managed care systems developed in its western

operations in all of its markets as it continues to develop its comprehensive integrated healthcare delivery system. The Company has capitated agreements with over 84 payors and intends to pursue a strategy toward the implementation of global capitation in all of its markets. This will be accomplished through the conversion of fee-for-service arrangements to capitation, the conversion of professional capitation to global capitation, where practicable, and the entry into new capitation arrangements with payors. In this connection, the Company has a national network agreement with Aetna, Inc. and is pursuing the establishment of national and regional capitated provider agreements with other payors. The Company has also embarked on a program called "best clinical practices" pursuant to which it will help its affiliated physician develop the most cost efficient protocols that provide the most favorable patient outcomes and will make them available to all of its affiliated practices.

Integration of PPM and PBM Services. The Company believes that there is significant opportunity for growth through the integration of the PBM program and the PPM business. The Company expects PBM activity to increase as payors seek to shift the responsibility for pharmacy services to PPM entities and physician groups, and those entities look to prescription benefit managers to control pharmaceutical costs. The Company expects its PBM program to grow as enrollees and fee-for-service patients use the Company's mail-order and retail pharmacy networks. In addition, the Company expects to expand its PBM contracts with managed care organizations to provide capitated pharmaceutical services for its prepaid enrollees.

Strategic Alliances. The Company believes that strategic alliances with hospitals and health plans improve the delivery of managed healthcare. The Company has entered into arrangements with various hospitals under which a portion of the capitation revenue received from HMOs for institutional care of enrollees assigned to designated Company clinics and IPA physicians is deposited into "subcapitated risk pools" managed by the Company. The Company believes that such arrangements can be enhanced through the implementation of the Restricted License held by Pioneer Network. Under these arrangements, the hospital is at risk in the event that the costs of institutional care exceed the available funds, and the Company shares in cost savings and revenue enhancements. The Company believes that through these and other similar alliances, providers will devote greater resources to ensuring the wellness of HMO enrollees, to enhancing high-quality and cost-effective care and to retaining and expanding their respective market shares. As a result, it is anticipated that the overall cost of delivering healthcare services will be contained, rendering both the Company and the participating providers more appealing to both HMOs and medical care consumers. The Company and its affiliated physicians have also established relationships with HMOs pursuant to which the Company and the HMOs share proportionately in the risks and rewards of local market factors.

Sophisticated Information Systems. The Company believes that information technology is critical to the growth of integrated healthcare delivery systems and that the availability of detailed clinical data is fundamental to quality control and cost containment. The Company develops and maintains sophisticated management information systems that collect and analyze clinical and administrative data. These systems allow the Company to control overhead expenses, maximize reimbursement and provide utilization management more effectively. The Company evaluates the administrative and clinical functions of affiliated practices and re-engineers these functions as appropriate in conjunction with the implementation of the Company's management information systems to maximize the benefits of those systems.

The Company also utilizes a sophisticated database to provide pharmaceutical-related information to participating physicians, payors, affiliated physician practices and other specialty service entities. The database is designed to provide an effective method for distributing and administering drugs and drug therapies.

Increased Operational Efficiencies and Cost Reductions. The Company is seeking to increase its operating efficiency through expansion of its market area and number of HMO enrollees, increased specialization, development of additional in-house services and increased emphasis on outpatient care. The Company is also refining its utilization management programs that deliver information used by

participating physicians to monitor and improve their practice patterns. The Company's physician networks attempt to achieve economies of scale through centralizing billing, scheduling, information management and other functions.

OPERATIONS

Prior to the acquisition of MME in November 1995, the Company concentrated its PPM development efforts in the southeastern United States, affiliating primarily with physician groups that practiced on a fee-for-service basis. The Company acquired additional business models specifically designed to operate efficiently in the capitated environment with the acquisition of the MME, PPSI, Caremark and InPhyNet organizations. These business models, which are replicable and flexible, allow the Company to take advantage of the full range of market opportunities in the PPM industry and enable the Company to build integrated physician networks attractive to payors of all types. The Company currently has networks under development in 37 states.

To meet payor demand for price competitive, quality services, the Company utilizes a market-based approach that incorporates primary care and specialty physicians into a network of providers serving a targeted geographic area. The Company engages in research and market analysis to determine the best network configuration for a particular market. Primary care includes family practice, internal medicine, pediatrics and obstetrics/gynecology. Key specialties include orthopedics, cardiology, oncology, radiology, neurosciences, urology, surgery, ophthalmology and ear, nose and throat. At certain locations, affiliated physicians and support personnel operate centers for diagnostic imaging, urgent care, cancer management, mental health treatment and health education. Network physicians also treat fee-for-service patients on a per-occurrence basis. After-hours care is available in several of the Company's clinics. Each network is configured to contain, when complete, the physician services necessary to capture at least a ten percent market share and to provide at least 90 percent of the physician services required by payors. The Company markets its networks to managed care and third-party payors, referring physicians and hospitals.

Affiliated Physicians. The relationship between the Company and its affiliated physicians is set forth in asset purchase and practice management agreements. Through the asset purchase agreements, the Company acquires the assets utilized in the practices and may also assume certain leases and other contracts of the physician practices. Under the practice management agreements, the Company provides administrative, management and support functions to physician practices as necessary in connection with their respective medical practices. The Company also provides its physician practices with the equipment and facilities necessary for the medical practices, manages practice operations and employs substantially all of the practices' non-physician personnel, except certain allied health professionals, such as nurses and physical therapists.

The Company consolidates physician practices that have directly entered into contracts with HMOs or that have the right to receive payment directly from HMOs for the provision of medical services in the Company's clinics, because it obtains a controlling financial interest solely by virtue of a long-term practice management agreement with physician practices. The revenue earned by these physician practices represented 30% of PPM revenue (18% of consolidated revenue) during the first six months of 1997. The balance of the Company's PPM revenue (70%) is derived from contracts directly between the Company, or a wholly owned subsidiary, and HMOs. Practice management agreements with physician practices that hold HMO contracts or the right to receive payment directly from HMOs provide three general types of financial arrangements regarding the compensation of the physician-stockholders of those physician practices:

(i) Physician practices that contributed 7% of PPM revenues (4% of consolidated revenue) during the first six months of 1997 have practice management agreements that provide the physician-stockholders a negotiated fixed dollar amount. The physicians may be eligible to receive a discretionary bonus based on performance criteria and goals. The amount of any such bonus is determined solely by the Company's management and is not directly correlated to clinic revenue or gross profit. To the extent the clinic's net revenue increases or decreases under these practice management agreements, physician compensation will also increase or decrease, pro rata, based on the practices' compensation as a percentage of the clinic's net revenue;

(ii) Physician practices that contributed 15% of PPM revenue (9% of consolidated revenue) during the first six months of 1997 have practice management agreements that compensate the physician-stockholder on a fee-for-service basis. The respective clinics generally earn revenue on a fee-for-service basis, and physician compensation typically represents between 40 and 70 percent of the clinic's net revenue; or

(iii) Physician practices that contributed 8% of PPM revenue (5% of consolidated revenue) during the first six months of 1997 provided physician-stockholders with a salary, plus bonus, and a profit-sharing payment of a percentage of the clinic's net income (i.e., contractual revenue less base physician compensation, bonus and clinic expenses).

Under these various types of agreements, revenue is assigned to the Company by the physician practice. The Company is responsible for the billing and collection of all revenue for services provided at its clinics, as well as for paying all expenses, including physician compensation. The Company is not reimbursed for the clinic expenses, rather it is responsible and at risk for all such expenses. In effect the Company retains any residual from operations of its physician practices (and funds any deficit). No earnings accumulate in its physician practices or are available for the payment of dividends to the physician-stockholders. In addition, the legal owners of its physician practices do not have a substantive capital investment that is at risk and the Company has substantially all of the capital at risk. Based on the terms of the practice management agreement, in almost all cases, there is no economic value attributable to the capital stock of those physician practices.

The Company's practice management agreements with its physician practices are long-term and provide the Company with unilateral control over its physician practices. The practice management agreements include the following provisions: (i) the initial term is 20 to 40 years; (ii) renewal provisions call for automatic and successive extension periods; (iii) the physician practices cannot unilaterally terminate their agreements with the Company unless the Company fails to cure a breach of its contractual responsibilities thereunder within 30 days after notification of such breach; (iv) the Company is obligated to maintain a continuing investment of capital; (v) the Company employs the non-physician personnel of its physician practices; and (vi) the Company assumes full responsibility for the operating expenses of the physician practice in return for an assignment of the physician practice's revenue.

The Company works closely with affiliated physicians in targeting and recruiting additional physicians and in merging sole practices or single specialty practices into the already-affiliated physician practices. The Company seeks to recognize and develop opportunities to provide services throughout a market by positioning its practices so that the entire market is covered geographically. This approach provides patients with convenient medical facilities and services and responds to coverage criteria that are essential to payors.

IPAs. The Company's networks include approximately 7,700 primary care and specialist IPA physicians serving approximately 378,000 HMO enrollees. An IPA allows individual practitioners to access patients in their respective areas through contracts with HMOs without having to join a group practice or sign exclusive contracts. An IPA also coordinates utilization review and quality assurance programs for its affiliated physicians. Additionally, an IPA offers other benefits to physicians seeking to remain independent, including economies of scale in the marketplace, enhanced risk-sharing arrangements and access to other strategic alliances. The Company identifies IPAs that need access to capitated HMO contracts, and such IPA organizations typically agree to assign their existing HMO contracts to the Company. The Company believes that the expansion of its IPAs will enable it to increase its market share with relatively low risk due to the low incremental investment required to recruit additional physicians.

HMOs. The Company, through its affiliated physicians, began contracting with HMOs to provide healthcare on a capitated reimbursement basis in 1975 (through predecessors). Under these contracts, which typically are automatically renewed on an annual basis, the Company provides virtually all covered medical services and receives a fixed monthly capitation payment from HMOs for each member who chooses an affiliated physician as his or her primary care physician. The capitation amount may be fixed, based upon a percentage of premium, or adjustable based on the age and/or sex of the HMO enrollee. Contracts for prepaid healthcare with HMOs accounted for approximately 31% of the Company's net revenue for the six months ended June 30, 1997.

To the extent that enrollees require more care than is anticipated or require supplemental medical care that is not otherwise reimbursed by HMOs or other payors, aggregate capitation payments may be insufficient to cover the costs associated with the treatment of enrollees. Stop-loss coverage is maintained, which mitigates the effect of occasional high utilization of healthcare services. As of June 30, 1997, approximately 2.0 million prepaid HMO enrollees were covered beneficiaries for services in the Company's networks. These patients are covered under either commercial (typically employer-sponsored) or senior (Medicare-funded) HMOs. Higher capitation rates are typically received for senior patients because their medical needs are generally greater. Consequently, the cost of their covered care is higher. As of June 30, 1997, the Company's HMO enrollees comprised approximately 1.6 million commercial enrollees and approximately 164,000 senior (over age 65) enrollees and approximately 211,000 Medicaid and other enrollees. As of June 30, 1997, the Company was receiving institutional capitation payments for approximately 959,000 enrollees. The Company is largely dependent on continued growth in the number of HMO enrollees. This growth may come from the acquisition of other PPM

entities, affiliation with additional physicians or increased enrollment in HMO's currently contracting with the Company. There can be no assurance that the Company will be successful in continuing the growth of HMO enrollees.

Hospitals. The Company operates Pioneer Hospital ("Pioneer Hospital"), a 99-bed acute care hospital located in Artesia, California, U.S. Family Care Medical Center ("USFMC"), a 102-bed acute care hospital in Montclair, California, and Friendly Hills Hospital ("Friendly Hills"), a 274-bed acute care hospital in La Habra, California. Many of the physicians on the professional staff rosters of these hospitals are either employed by an affiliated professional corporation or are under contract with the Company's IPAs. Other physicians that are traditionally hospital-based, such as emergency room physicians, anesthesiologists, pathologists, radiologists and cardiologists provide services through contractual arrangements with the Company. Several of the Company's medical clinics are located sufficiently close to hospitals where these physicians are based to allow enrollees who use the clinics to also use those hospitals. Under the HMO contracts, the Company, through its affiliated medical practices or Knox-Keene licensee, is obligated to pay for inpatient hospitalization and related services. Over 50 percent of Pioneer Hospital's, approximately 85 percent of USFMC's and approximately 87 percent of Friendly Hills' daily censuses are made up of the Company's affiliated medical group enrollees. In April 1997, the Company and Tenet signed a letter of intent pursuant to which the parties intend to form a complete healthcare contracting network in southern California. Under the terms of the proposed agreement, Tenet will acquire Pioneer Hospital. The Company, through its Knox-Keene licensee or affiliated medical groups, has entered into agreements with other hospitals in California for the delivery of hospital services to the remainder of its enrollees. In each instance, the institutional capitation payments received from HMOs are placed at risk for the benefit of the applicable hospital, the Company and its affiliated physicians, to the extent such services have not reached a stop-loss threshold. The Company and these providers split any savings realized if hospital utilization declines due to the success of the Company's programs for early intervention, wellness and outpatient treatment.

Hospital-Based Physician Operations. The Company's HBP operations organize and manage physicians and other healthcare professionals engaged in the delivery of emergency, radiology and teleradiology services, other hospital-based services and temporary staffing and support services to hospitals, clinics, managed care organizations and physician groups. The Company currently provides HBP services at over 320 sites including hospital emergency and radiology departments in 28 states. Under contracts with hospitals and other clients, the Company's HBP operations identify and recruit physicians and other healthcare professionals for admission to a client's medical staff, monitor the quality of care and proper utilization of services and coordinate the ongoing scheduling of staff physicians who provide clinical coverage in designated areas of care. Hospitals have found it increasingly difficult to recruit, schedule, retain and appropriately compensate hospital-based physician specialists required to operate hospital emergency, radiology and other departments. As a consequence, a large number of hospitals have turned to contract management firms, such as Team Health, as a more cost-effective and reliable alternative to the development of in-house physician staffing.

Correctional Care. The Company provides comprehensive medical services, including mental health and dental services, to inmates in various state and local correctional institutions. The Company provides primary care physician services directly and typically subcontracts other services with hospitals and medical specialists on either a capitated or discounted fee-for-service basis. At June 30, 1997, the Company had

contracts with 45 correctional institutions and managed the healthcare services provided to approximately 44,000 inmates at 65 sites. Under correctional care contracts, the Company is paid monthly on the basis of each correctional institution's average daily inmate population. Typically, the Company is also entitled to additional reimbursement for any healthcare related expenditures incurred above a certain dollar amount of outside medical expenses per inmate per year, as well as reimbursement for the cost of treating inmates in connection with certain extraordinary events.

Department of Defense. The Company provides physicians, nurse and clerical support services for active duty and retired military personnel and their dependents in emergency departments, ambulatory care centers and primary care clinics operated by the Department of Defense. Under Department of Defense contracts, the Company is generally paid a fixed amount, per patient visit or per hour of service, without regard to the scope of professional services provided. Under per patient fixed fee arrangements, the Company assumes the risk if patient volume is below expectations. At June 30, 1997, the Company's military medical services were provided under 15 contracts with the Department of Defense.

Pharmaceutical Services. The Company manages outpatient PBM programs

throughout the United States for corporations, insurance companies, unions, government employee groups and managed care organizations. Prescription drug benefit management involves the design and administration of programs for reducing the costs and improving the safety, effectiveness and convenience of prescription drugs. The Company has one of the nation's largest independent PBM programs, dispensing 43,000 prescriptions daily from four mail service pharmacies. The Company also manages patients' immediate prescription needs through a national network of retail pharmacies. Under the Company's PBM quality assurance program, the Company maintains rigorous quality assurance and regulatory policies and procedures. A computerized order processing system reviews each prescription order for a variety of potential concerns, including reactions with other drugs known to be prescribed to that patient, reactions with a patient's known allergies, duplication of therapies, appropriateness of dosage and early refill requests that may indicate overutilization or fraud. Each prescription is verified by a licensed pharmacist before shipment. The Company has retained the services of an independent national advisory panel of physician specialists that advises it on the clinical analyses of its intervention strategies and on cost-effective clinical procedures. The Company offers a full range of drug cost and clinical management services, including clinical case management, drug utilization review, formulary management and customized prescription programs for senior citizens. The pharmacy business is subject to heavy government regulation. Any failure to satisfy pharmacy licensing requirements could have a material adverse effect on the operating results and financial condition of the Company.

Disease Management. The Company delivers comprehensive long-term support for high-cost, chronic illnesses in an effort to improve outcomes for patients and to lower costs. The Company believes that these programs efficiently provide for a patient's entire healthcare needs. The programs utilize advanced protocols and eliminate unnecessary procedural steps. The Company provides therapies and services to individuals with such conditions as hemophilia, growth disorders, immune deficiencies, genetic emphysema, cystic fibrosis and multiple sclerosis. The Company estimates that there are over 200,000 patients in the United States suffering from these diseases. The Company's disease management services utilize the Company's integrated health data to develop therapies to manage the high cost of treating these patients.

International. The Company also has operations in several European countries, Canada and Japan.

INFORMATION SYSTEMS

The Company develops and maintains integrated information systems to support its growth and acquisition plans. The Company's overall information systems design is open, modular and flexible. The Company is implementing a flexible individual patient electronic medical record ("EMR") that is continually updated to complement primary practice management and billing functions. The Company has configured its systems to give affiliated physicians and their staff efficient and rapid access to complex clinical data. The Company's use of the EMR enhances operational efficiencies through automation of many routine clinical functions, as well as the capacity to link "physician-specific" treatment protocols by diagnosis. This allows physicians to have treatments checked against pre-defined protocols at the time of service. The Company also

utilizes a sophisticated database to provide pharmaceutical-related information to participating physicians, payors, affiliated physician practices and other specialty service entities. The database is designed to provide a safe and effective method for distributing and administering drugs and drug therapies.

Effective and efficient access to key clinical patient and pharmaceutical data is critical in obtaining quality outcomes and improving costs as the Company enters into more capitation contracts. The Company utilizes its existing information systems to measure patient care satisfaction and outcomes of care, improve productivity, manage complex reimbursement procedures and integrate information from multiple facilities throughout the care spectrum. These systems allow the Company to analyze clinical and cost data to determine thresholds of profitability under various capitation arrangements.

COMPETITION

The PPM industry is highly competitive and is subject to continuing changes in the provision of services and the selection and compensation of providers. The Company competes for acquisition, affiliation and other expansion opportunities with national, regional and local PPM companies and other PPM entities including HBP groups and hospital contract management companies. In addition, certain companies, including hospitals and insurers, are expanding their presence in the PPM market. The Company also competes with prescription drug benefit programs, prescription drug claims processors, regional claims processors, providers of disease management services and insurance companies.

GOVERNMENT REGULATION

General. As a participant in the healthcare industry, the Company's operations and relationships are subject to extensive and increasing regulation by a number of governmental entities at the federal, state and local levels. The Company believes its operations are in material compliance with applicable laws. Nevertheless, because the structure of the relationship with the physician groups is unique, many aspects of the Company's business operations have not been the subject of state or federal regulatory interpretation. Thus, there can be no assurance that a review of the Company's or the affiliated physicians' businesses by courts or regulatory authorities will not result in a determination that could adversely affect the operations of the Company or of its affiliated physicians. Nor can there be any assurance that the healthcare regulatory environment will not change so as to restrict the Company's or the affiliated physicians' existing operations or their expansion. Any significant restriction could have a material adverse effect on the operating results and financial condition of the Company.

Federal Reimbursement, Fraud and Abuse and Referral Laws. Approximately 12 percent of the revenues of the Company's affiliated physician practices are derived from payments made by government-sponsored healthcare programs (principally, medicare and state reimbursement programs). As a result, the Company is subject to the laws and regulations that govern reimbursement under Medicare and Medicaid. Any change in reimbursement regulations, policies, practices, interpretations or statutes could adversely affect the operations of the Company. There are also state and federal civil and criminal statutes imposing substantial penalties (including civil penalties and criminal fines and imprisonment) on healthcare providers that fraudulently or wrongfully bill governmental or other third-party payors for healthcare services. The Company believes it is in material compliance with such laws, but there can be no assurance that the Company's activities will not be challenged or scrutinized by governmental authorities or that any such challenge or scrutiny would not have a material adverse effect on the operating results and financial condition of the Company.

Certain provisions of the Social Security Act, commonly referred to as the "Anti-Kickback Statute", prohibit the offer, payment, solicitation, or receipt of any form of remuneration in return for the referral of Medicare or state health program patients or patient care opportunities, or in return for the recommendation, arrangement, purchase, lease or order of items or services that are covered by Medicare or state health programs. Many states have adopted similar prohibitions against payments intended to induce referrals of Medicaid and other third-party payor patients. The Anti-Kickback Statute contains provisions prescribing civil and criminal penalties to which individuals or providers who violate such statute may be subjected. The

criminal penalties include fines up to $25,000 per violation and imprisonment for five years or more. Additionally, the DHHS has the authority to exclude anyone, including individuals or entities, who has committed any of the prohibited acts from participation in the Medicare and Medicaid programs. If applied to the Company or any of its subsidiaries or affiliated physicians, such exclusion could result in a significant loss of reimbursement for the Company, up to a maximum of the approximately 12 percent of the revenues of the Company's affiliated physician groups, which could have a material adverse effect on the operating results and financial condition of the Company. Although the Company believes that it is not in violation of the Anti-Kickback Statute or similar state statutes, its operations do not fit within any of the existing or proposed federal safe harbors.

Federal law prohibits, with some exceptions, an entity from filing a claim for reimbursement under the Medicare or Medicaid programs for certain designated services if the entity has a financial relationship with the referring physician. Federal law (the "Medicare Referral Payments Law") also prohibits the solicitation or receipt of remuneration in exchange for, or the offer or payment of remuneration to induce, the referral of Medicare or Medicaid beneficiaries. Significant prohibitions against physician referrals were enacted by the United States Congress in the Omnibus Budget Reconciliation Act of 1993. Subject to certain exemptions, a physician is prohibited from referring Medicare or Medicaid patients to an entity providing "designated health services" in which the physician has an ownership or investment interest or with which the physician has entered into a compensation arrangement. The provisions of the Anti-Kickback Statute and the Medicare Referral Payments Law are complex, and the future interpretations of these provisions and their applicability to the Company's operations cannot be predicted or analyzed in such a way as to predict with certainty the effect of such rules and regulations on the Company. Although the Company seeks to arrange its business relationships to comply with these healthcare rules and regulations, its operations do not fit within any of the existing or published proposed federal safe harbors. As a result, there can be no assurance that the Company's present or future operations will not be

challenged under such provisions. The Company does not believe it is in violation of the Anti-Kickback Statute of the Medicare Referral Payment law and associated regulations because the revenues which are assigned to the Company pursuant to the management agreements between the Company and its affiliated physician practices represent payments made by the HMO to satisfy claims submitted through the Company on behalf of the affiliated physician for the furnishing of healthcare services by the physician to an individual. The monies retained by the Company do not exceed the aggregate amount due the Company for the reasonable and necessary physician practice management services provided by the Company pursuant to the management agreement between the Company and the affiliated physician or physician practice, i.e., transfer agreement or management services agreement. The Company believes that such payments do not fall within the scope or the intent of such rules and regulations. Further, the Company does not believe it is in violation of the Anti-Kickback Statute and the Medicare Referral Payment Law because the Company does not refer, or influence the referral of, patients or services reimbursed under governmental programs to the physician practices. While the Company believes it is in compliance with such legislation, future regulations and interpretations of existing regulations could require the Company to modify the form of its relationship with physician groups which could have a material adverse effect on the operating results and financial condition of the Company.

The OIG of the DHHS has promulgated regulatory "safe harbors" under the Medicare Referral Payments Law that describe payment practices between healthcare providers and referral sources that will not be subject to criminal prosecution and that will not provide the basis for exclusion from the Medicare and Medicaid programs. The Company retains healthcare professionals to provide advice and non-medical services to the Company in return for compensation pursuant to employment, consulting or service contracts. The Company also enters into contracts with hospitals under which the Company provides products and administrative services for a fee. Many of the parties with whom the Company contracts refer or are in a position to refer patients to the Company. The breadth of these federal laws, the paucity of court decisions interpreting these laws, the limited nature of regulatory interpretations and the absence of court decisions interpreting the safe harbor regulations have resulted in ambiguous and varying interpretations of these federal laws and regulations. The OIG or the DOJ could seek a determination that the Company's past or current policies and practices regarding contracts and relationships with healthcare providers violate federal law. In such event, no assurance can be given that the Company's interpretation of these laws will prevail, except with

respect to those matters that were the subject of the OIG investigation. See "-- Legal Proceedings". The failure of the Company's interpretation of these laws to prevail could materially adversely affect the operating results and financial condition of the Company.

Caremark agreed, in its settlement agreement with the OIG and DOJ prior to the Caremark Acquisition, to continue to enforce certain compliance-related oversight procedures. Should the oversight procedures reveal violations of federal law, Caremark would be required to report such violations to the OIG and DOJ. Caremark is therefore subject to increased regulatory scrutiny and, in the event that Caremark commits legal or regulatory violations, it may be subject to an increased risk of sanctions or penalties, including disqualification as a provider of Medicare or Medicaid services which could have a material adverse effect on the operating results and financial condition of the Company.

State Referral Payment Laws. The Company is also subject to state statutes and regulations that prohibit payments for referral of patients and referrals by physicians to healthcare providers with whom the physicians have a financial relationship. State statutes and regulations generally apply to services reimbursed by both governmental and private payors. Violations of these laws may result in prohibition of payment for services rendered, loss of pharmacy or health provider licenses as well as fines and criminal penalties. State statutes and regulations that may affect the referral of patients to healthcare providers range from statutes and regulations that are substantially the same as the federal laws and the safe harbor regulations to a simple requirement that physicians or other healthcare professionals disclose to patients any financial relationship the physicians or healthcare professionals have with a healthcare provider that is being recommended to the patients. These laws and regulations vary significantly from state to state, are often vague, and, in many cases, have not been interpreted by courts or regulatory agencies. Management believes the Company's operations are in material compliance with existing law, but there can be no assurance that the Company's existing business arrangements will not be successfully challenged in one or more states. The Company is not materially dependent upon revenues derived from any single state. Adverse judicial or administrative interpretations of such laws in several states, taken together, could, however, have a material adverse effect on the operating results and financial condition of the Company. In addition, expansion of the Company's operations to new jurisdictions could require structural and organizational modifications of the Company's relationships with physician groups in order to

comply with new or revised state statutes. Such structural and organizational modifications could have a material adverse effect on the operating results and financial condition of the Company.

Corporate Practice of Medicine Laws. The laws of many states prohibit physicians from splitting fees with non-physicians and prohibit non-physician entities from practicing medicine. These laws and their interpretations vary from state to state and are enforced by the courts and by regulatory authorities with broad discretion. The Company believes that it has perpetual and unilateral control over the assets and operations of the various affiliated professional corporations. However, there can be no assurance that regulatory authorities will not take the position that such control conflicts with state laws regarding the practice of medicine or other federal restrictions. Although the Company believes its operations as currently conducted are in material compliance with existing applicable laws, there can be no assurance that the existing organization of the Company and its contractual arrangements with affiliated physicians will not be successfully challenged as constituting the unlicensed practice of medicine or that the enforceability of the provisions of such arrangements, including non-competition agreements, will not be limited. There can be no assurance that review of the business of the Company and its affiliates by courts or regulatory authorities will not result in a determination that could adversely affect their operations or that the healthcare regulatory environment will not change so as to restrict existing operations or expansion thereof. In the event of action by any regulatory authority limiting or prohibiting the Company or any affiliate from carrying on its business or from expanding the operations of the Company and its affiliates to certain jurisdictions, structural and organizational modifications of the Company may be required, which could have a material adverse effect on the operating results and financial condition of the Company.

Antitrust Laws. In connection with the corporate practice of medicine laws referred to above, the physician practices with which the Company is affiliated necessarily are organized as separate legal entities. As such, the physician practice entities may be deemed to be persons separate both from the Company and

from each other under the antitrust laws and, accordingly, subject to a wide range of laws that prohibit anticompetitive conduct among separate legal entities. The Company believes it is in compliance with these laws and intends to comply with any state and federal laws that may affect its development of integrated healthcare delivery networks. There can be no assurance, however, that a review of the Company's business by courts or regulatory authorities would not adversely affect the operations of the Company and its affiliated physician groups.

Insurance Laws. The assumption of risk on a prepaid basis by health provider networks is occurring with increasing frequency, and the practice is being reviewed by various state insurance commissioners as well as the NAIC to determine whether the practice constitutes the business of insurance. The Company believes that it is currently in material compliance with the insurance laws in the states where it is operating, and it intends to comply with interpretative and legislative changes as they may develop. There can be no assurance, however, that the Company's activities will not be challenged or scrutinized by governmental authorities or that future interpretations of the insurance laws by such governmental authorities will not require licensure or restructuring of some or all of the Company's operations in any such state. In the event that the Company is required to become licensed under these laws, the licensure process can be lengthy and time consuming and, unless the regulatory authority permits the Company to continue to operate while the licensure process is progressing, the Company could experience a material adverse change in its operating results and financial condition while the licensure process is pending. In addition, many of the licensing requirements mandate strict financial and other requirements which the Company may not be able to meet. Further, once licensed, the Company would be subject to continuing oversight by and reporting to the respective regulatory agency.

The NAIC recently adopted the Managed Care Plan Network Adequacy Model Act (the "Model Act") which is intended to establish standards for the creation and maintenance of networks by health carriers. The Model Act is also intended to establish requirements for written agreements between health carriers offering managed care plans, participating providers and intermediaries, like the Company, which negotiate provider contracts. An NAIC model insurance act does not carry the force of law unless it is adopted by applicable state legislatures. The Company does not know which states, if any, will adopt the Model Act. There can be no assurance that the Company will be able to comply with the Model Act if it is adopted in any state in which the Company does business.

Other State and Local Regulation. In March 1996, the DOC issued the Restricted License to Pioneer Network in accordance with the requirements of the Knox-Keene Act. The Restricted License authorizes Pioneer Network to operate as

a healthcare service plan in the State of California. The Company, through Pioneer Network, utilizes the Restricted License to contract with HMOs for a broad range of healthcare services, including both institutional and professional medical services. The Knox-Keene Act and the regulations promulgated thereunder subject entities that are licensed as healthcare service plans in California to substantial regulation by the DOC. In addition, licensees under the Knox-Keene Act must file periodic financial data and other information (that generally become available to the public), maintain substantial tangible net equity on their balance sheets and maintain adequate levels of medical, financial and operational personnel dedicated to fulfilling the licensee's statutory and regulatory requirements. The DOC is empowered to take enforcement actions against licensees that fail to comply with such requirements.

The operation of Pioneer Hospital, USFMC and Friendly Hills is highly regulated, and each is accredited by the Joint Commission on Accreditation of Healthcare Organizations. Accreditation from the Joint Commission on Accreditation of Healthcare Organizations allows Pioneer Hospital to serve Medicare patients and provides authorization from the California Department of Health Services and the Los Angeles County Department of Health to operate as a licensed hospital facility. Each of Pioneer Hospital, USFMC and Friendly Hills is licensed and regulated as a general acute care hospital by the State of California Department of Health Services. Additionally, each of Pioneer Hospital, USFMC and Friendly Hills has a clinical laboratory license from the State of California Department of Health Services, a clinical laboratory license for its cardio-pulmonary laboratory and a pharmacy license for its inpatient pharmacy.

Pharmacy Licensing and Operation. The Company is subject to federal and state laws and regulations governing pharmacies. Federal controlled substance laws require the Company to register its pharmacies with

the United States Drug Enforcement Administration and comply with security, record-keeping, inventory control and labeling standards in order to dispense controlled substances. State controlled substance laws require registration and compliance with the licensing, registration or permit standards of the state pharmacy licensing authority. State pharmacy licensing, registration and permit laws impose standards on the qualifications of an applicant's personnel, the adequacy of its prescription fulfillment and inventory control practices and the adequacy of its facilities. In general, pharmacy licenses are renewed annually. Pharmacists employed by each branch must also satisfy state licensing requirements.

Several states have enacted legislation that requires mail service pharmacies located outside such state to register with the state board of pharmacy prior to mailing drugs into the state and to meet certain operating and disclosure requirements. These statutes generally permit a mail service pharmacy to operate in accordance with the laws of the state in which it is located. In addition, various pharmacy associations and state boards of pharmacy have promoted enactment of laws and regulations directed at restricting or prohibiting the operation of out-of-state mail service pharmacies by, among other things, requiring compliance with all laws of certain states into which the mail service pharmacy dispenses medications whether or not those laws conflict with the laws of the state in which the pharmacy is located. To the extent that such laws or regulations are found to be applicable to the Company's operations, the Company would be required to comply with them. Some states have enacted laws and regulations which, if successfully enforced, would effectively limit some of the financial incentives available to plan sponsors that offer mail service prescription programs. The United States Department of Labor has commented that such laws and regulations are pre-empted by the Employee Retirement Income Security Act of 1974, as amended. The Attorney General in one state has reached a similar conclusion and has raised additional constitutional issues. Finally, the Bureau of Competition of the Federal Trade Commission ("FTC") has concluded that such laws and regulations may be anticompetitive and not in the best interests of consumers. To date, there have been no formal administrative or judicial efforts to enforce any of such laws against the Company. To the extent that any of the foregoing laws or regulations prohibit or restrict the operation of mail service pharmacies and are found to be applicable to the Company, they could have an adverse effect on the Company's prescription mail service operations. United States Postal Service regulations expressly permit the transmission of prescription drugs through the postal system. The United States Postal Service has authority to restrict such transmission.

The PBM and disease management services of the Company are subject to state and federal statutes and regulations governing the operation of pharmacies, repackaging of drug products, dispensing of controlled substances, reimbursement under federal and state medical assistance programs, financial relationships between healthcare providers and potential referral sources, medical waste disposal, risk sharing by non-insurance companies and workplace health and safety. The Company's operations may also be affected by changes in ethical guidelines and changes in operating standards of professional and trade

associations and private accreditation commissions such as the American Medical Association, the National Committee for Quality Assurance and the Joint Commission on Accreditation of Healthcare Organizations.

Future Legislation, Regulation and Interpretation. As a result of the continued escalation of healthcare costs and the inability of many individuals to obtain health insurance, numerous proposals have been or may be introduced in the United States Congress and state legislatures relating to healthcare reform. There can be no assurance as to the ultimate content, timing or effect of any healthcare reform legislation, nor it is possible at this time to estimate the impact of potential legislation, which may be material, on the Company. Further, although the Company exercises care in structuring its arrangements with physicians to comply in all material respects with the above-referenced laws, there can be no assurance that (i) government officials charged with responsibility for enforcing such laws will not assert that the Company or certain transactions in which the Company is involved are in violation thereof and (ii) such laws will ultimately be interpreted by the courts in a manner consistent with the Company's interpretation.

EMPLOYEES

As of June 30, 1997, the Company, including its affiliated professional entities, employed approximately 26,000 people on a full-time equivalent basis.

CORPORATE LIABILITY AND INSURANCE

The Company's business entails an inherent risk of claims of physician professional liability. In recent years participants in the healthcare industry have become increasingly subject to large claims based on theories of medical malpractice that entail substantial defense costs. Through the ownership and operation of Pioneer Hospital, USFMC and Friendly Hills, all acute care hospitals, the Company could also be subject to allegations of negligence and wrongful acts. To protect its overall operations from such potential liabilities, the Company has a multi-tiered corporate structure and preserves the operational integrity of each of its operating subsidiaries. In addition, the Company maintains professional liability insurance, general liability and other customary insurance on a claims-made and modified occurrence basis, in amounts deemed appropriate by management based upon historical claims and the nature and risks of the business, for many of the affiliated physicians, practices and operations. There can be no assurance that a future claim will not exceed the limits of available insurance coverage or that such coverage will continue to be available.

Moreover, the Company requires each physician group with which it affiliates to obtain and maintain professional liability and workers' compensation insurance coverage. Such insurance may provide additional coverage, subject to policy limits, in the event the Company were held liable as a co-defendant in a lawsuit for professional malpractice against a physician. In addition, generally, the Company is indemnified under the practice management agreements by the affiliated physician groups for liabilities resulting from the performance of medical services. However, there can be no assurance that any future claim or claims will not exceed the limits of these available insurance coverages or that indemnification will be available for all such claims.

PROPERTIES

The Company's corporate headquarters is located at 3000 Galleria Tower in Birmingham, Alabama. Additionally, the Company has corporate offices in Long Beach, California, Knoxville, Tennessee, Fort Lauderdale, Florida and Northbrook, Illinois. The Company currently owns or leases facilities providing medical services in 37 states, Puerto Rico and five other countries. The Company also leases, subleases or occupies, pursuant to certain acquisition agreements, the clinic facilities of the affiliated physician groups. The Company anticipates that as the affiliated practices continue to grow and add new services, expanded corporate facilities will be required.

LEGAL PROCEEDINGS

The Company is named as a defendant in various legal actions arising primarily out of services rendered by physicians and others employed by its affiliated physician entities and Pioneer Hospital, USFMC and Friendly Hills, as well as personal injury and employment disputes. In addition, certain of its affiliated medical groups are named as defendants in numerous actions alleging medical negligence on the part of their physicians. In certain of these actions, the Company's and the medical group's insurance carrier has either declined to provide coverage or has provided a defense subject to a reservation of rights. Management does not view any of these actions as likely to result in an uninsured award which would have a material adverse effect on the operating results and financial condition of the Company.

In June 1995, Caremark agreed to settle an investigation with the DOJ, OIG, the Veterans Administration, the Federal Employee Health Benefits Program ("FEHBP"), the Civilian Health and Medical Program of the Uniformed Services ("CHAMPUS") and related state investigative agencies in all 50 states and the District of Columbia (the "OIG Settlement"). Under the terms of the OIG Settlement, which covered allegations dating back to 1986, a subsidiary of Caremark pled guilty to two counts of mail fraud -- one each in Minnesota and Ohio. The basis of these guilty pleas was Caremark's failure to provide certain information to CHAMPUS and FEHBP, federally funded healthcare benefit programs, concerning financial relationships between Caremark and a physician in each of Minnesota and Ohio. The OIG Settlement allows Caremark to continue participating in Medicare, Medicaid and other government healthcare programs. Under the OIG Settlement, Caremark agreed to make civil payments of $85.3 million to the federal government in installments and $44.6 million to the states. The plea agreement imposed $29.0 million in federal criminal fines. In addition, Caremark contributed $2.0 million to a grant program set up under the Ryan White

Comprehensive AIDS Resources Emergency (CARE) Act. Caremark took an after-tax charge of $154.8 million in 1995 for these settlement payments, costs to defend ongoing derivative, security and other lawsuits, and other related costs. This charge has been reflected in Caremark's discontinued operations and will not materially affect the Company's ability to pursue its long-term business strategy. There can be no assurance, however, that the ultimate costs related to the OIG Settlement will not exceed these estimates or that additional costs, claims and damages will not occur, or if they occur, will not have a material adverse effect on the operating results and financial condition of the Company.

In its agreement with the OIG and DOJ, Caremark agreed to continue to maintain certain compliance-related oversight procedures. Should these oversight procedures reveal credible evidence of legal or regulatory violations, Caremark is required to report such violations to the OIG and DOJ. Caremark is, therefore, subject to increased regulatory scrutiny and, in the event it commits legal or regulatory violations, Caremark may be subject to an increased risk of sanctions or penalties, including disqualification as a provider of Medicare or Medicaid services, which would have a material adverse effect on the operating results and financial condition of the Company.

In March 1996, Caremark agreed to settle all disputes with a number of private payors. These disputes relate to businesses that were covered by the OIG Settlement. The settlements resulted in an after-tax charge of approximately $43.8 million. In addition, Caremark paid $24.1 million after tax to cover the private payors' pre-settlement and settlement-related expenses. An after-tax charge for the above amounts was recorded in first quarter 1996 discontinued operations.

In connection with the matters described above relating to the OIG Settlement, Caremark is a party to various non-governmental claims and may in the future become subject to additional OIG-related claims. Caremark is a party to, or the subject of, and may be subjected to in the future, various private suits and claims being asserted in connection with matters relating to the OIG Settlement by Caremark's stockholders, patients who received healthcare services from Caremark and such patients' insurers. The Company cannot determine at this time what costs or liabilities may be incurred in connection with future disposition of non-governmental claims or litigation. Such additional costs or liabilities, if incurred, could have a material adverse effect on the operating results and financial condition of the Company.

In August and September 1994, stockholders of Caremark, each purporting to represent a class, filed complaints against Caremark and certain officers and employees of Caremark in the United States District Court for the Northern District of Illinois, alleging violations of the Securities Act and the Exchange Act and fraud and negligence and various state law claims in connection with public disclosures by Caremark regarding Caremark's business practices and the status of the OIG investigation. The complaints seek unspecified damages, declaratory and equitable relief, and attorneys fees and expenses. In June 1996, the complaint filed by one group of stockholders alleging violations of the Exchange Act only, was certified as a class. The parties continue to engage in discovery proceedings. Although management believes, based on information currently available, that the ultimate resolution of this matter is not likely to have a material adverse effect on the operating results and financial condition of the Company, there can be no assurance that the ultimate resolution of this matter, if adversely determined, would not have a material adverse effect on the operating results and financial condition of the Company.

In late August 1994, certain patients of a physician who prescribed human growth hormone distributed by Caremark and the sponsor of the health insurance

plan of one of those patients filed complaints against Caremark, employees of Caremark and others in the United States District Court for the District of Minnesota. Each complaint purported to be on behalf of a class and alleged violations of the federal mail and wire fraud statutes, the federal conspiracy statute and the state consumer fraud statute, as well as conspiracy to breach a fiduciary duty, negligence and fraud. Each complaint sought unspecified treble damages, and attorneys fees and expenses. In July 1996, these plaintiffs also served a separate lawsuit in the Minnesota State Court in the County of Hennepin against a subsidiary of Caremark purporting to be on behalf of a class and alleging all of the claims contained in the complaint filed with the Minnesota federal court other than the federal claims contained therein. The state complaint seeks unspecified damages, attorneys' fees and expenses

and an award of punitive damages. In November 1996, in response to a motion by the plaintiffs, the Court dismissed the United States District Court cases without prejudice. On March 27, 1996, the Minnesota state court lawsuit was dismissed with prejudice. The plaintiffs appealed this decision and the matter is scheduled for oral argument. In July 1995, another patient of this same physician filed a separate complaint in the District Court of South Dakota against the physician, Caremark and another corporation alleging violations of the federal laws prohibiting payment of remuneration to induce referral of Medicare and Medicaid beneficiaries, and the federal mail fraud and conspiracy statutes. The complaint also alleges the intentional infliction of emotional distress and seeks trebling of at least $15.9 million in general damages, attorneys fees and costs, and an award of punitive damages. In August 1995, the parties to the case filed in South Dakota agreed to a stay of all proceedings until final judgment has been entered in a criminal case that is presently pending against this physician. The Company intends to defend these cases vigorously. Although management believes, based on information currently available, that the ultimate resolution of this matter is not likely to have a material adverse effect on the operating results and financial condition of the Company, there can be no assurance that the ultimate resolution of this matter, if adversely determined, would not have a material adverse effect on the operating results and financial condition of the Company.

In May 1996, three home infusion companies, purporting to represent a class consisting of all of Caremark's competitors in the alternate site infusion therapy industry, filed a complaint against Caremark, a subsidiary of Caremark, and two other corporations in the United States District Court for the District of Hawaii alleging violations of the federal conspiracy laws, the antitrust laws and of California's unfair business practices statute. The complaint seeks unspecified treble damages and attorneys' fees and expenses. The Company intends to defend this case vigorously. Although management believes, based on information currently available, that the ultimate resolution of this matter is not likely to have a material adverse effect on the operating results and financial condition of the Company, there can be no assurance that the ultimate resolution of this matter, if adversely determined, would not have a material adverse effect on the operating results and financial condition of the Company.

In September 1995, Coram filed a complaint in the San Francisco Superior Court against Caremark, its subsidiary, Caremark Inc., and others. The complaint, which arose from Caremark's sale to Coram of Caremark's home infusion therapy business in April 1995, for approximately $209.0 million in cash and $100.0 million in securities, alleged breach of the sale agreement and made other related claims seeking compensatory damages, in the aggregate, of $5.2 billion. Caremark filed counterclaims against Coram and also filed a lawsuit in the U.S. District Court in Chicago against Coram claiming securities fraud. On July 1, 1997, the parties to the Coram litigation announced that a settlement had been reached pursuant to which Caremark will return for cancellation all of the securities issued by Coram in connection with the acquisition and will pay to Coram $45 million in cash on or before September 1, 1997. The settlement agreement also provides for the termination and resolution of all disputes and issues between the parties and for the exchange of mutual releases. The Company recognized an after-tax charge of $75.4 million during the second quarter of 1997 related to this settlement.

Beginning in September 1994, Caremark was named as a defendant in a series of lawsuits added to a pending group of actions (including a class action) brought in 1993 under the antitrust laws by local and chain retail pharmacies against brand name pharmaceutical manufacturers, wholesalers and prescription benefit managers other than Caremark. The lawsuits, filed in federal district courts in at least 38 states (including the United States District Court for the Northern District of Illinois), allege that at least 24 pharmaceutical manufacturers provided unlawful price and service discounts to certain favored buyers and conspired among themselves to deny similar discounts to the complaining retail pharmacies (approximately 3,900 in number). The complaints charge that certain defendant prescription benefit managers, including Caremark, were favored buyers who knowingly induced or received discriminatory prices from

the manufacturers in violation of the Robinson-Patman Act. Each complaint seeks unspecified treble damages, declaratory and equitable relief and attorneys fees and expenses. All of these actions have been transferred by the Judicial Panel for Multidistrict Litigation to the United States District Court for the Northern District of Illinois for coordinated pretrial procedures. Caremark was not named in the class action. In April 1995, the Court entered a stay of pretrial proceedings as to certain Robinson-Patman Act claims in this litigation, including the Robinson-Patman Act claims brought against Caremark, pending the conclusion of a first trial of certain of such claims

brought by a limited number of plaintiffs against five defendants not including Caremark. On July 1, 1996, the district court directed entry of a partial final order in the class action approving an amended settlement with certain of pharmaceutical manufacturers. The amended settlement provides for a cash payment by the defendants in that action of approximately $351.0 million to class members in settlement of conspiracy claims as well as a commitment from the settling manufacturers to abide by certain injunctive provisions. All class action claims against non-settling manufacturers as well as all opt out and other claims generally, including all Robinson-Patman Act claims against Caremark, remain unaffected by the settlement. The district court also certified to the court of appeals for interlocutory review certain orders relating to non-settled conspiracy claims against the pharmaceutical manufacturers and wholesalers. These interlocutory orders do not relate to any of the claims brought against Caremark. The Company intends to defend these cases vigorously. Although management believes, based on information currently available, that the ultimate resolution of this matter is not likely to have a material adverse effect on the operating results and financial condition of the Company, there can be no assurance that the ultimate resolution of this matter, if adversely determined, would not have a material adverse effect on the operating results and financial condition of the Company.

In December 1994, Caremark was notified by the FTC that it was conducting a civil investigation of the PBM industry concerning whether acquisitions, alliances, agreements or activities between prescription benefit managers and pharmaceutical manufacturers, including Caremark's alliance agreements with certain drug manufacturers, violate Sections 3 or 7 of the Clayton Act or Section 5 of the Federal Trade Commission Act. The specific nature, scope, timing and outcome of the investigation are not currently determinable. Under the statutes, if violations are found, the FTC could seek remedies in the form of injunctive relief to set aside or modify Caremark's alliance agreements and an order to cease and desist from certain marketing practices and from entering into or continuing with certain types of agreements. Although management believes, based on information currently available, that the ultimate resolution of this matter is not likely to have a material adverse effect on the operating results and financial condition of the Company, there can be no assurance that the ultimate resolution of this matter, if adversely determined, would not have a material adverse effect on the operating results and financial condition of the Company.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information about the executive officers and directors of the Company:

<TABLE>
<CAPTION>

NAME	AGE	POSITION WITH THE COMPANY
<S>	<C>	<C>
Larry R. House	53	Chairman of the Board and Chief Executive Officer and Director
Mark L. Wagar	45	President and Chief Operating Officer
John J. Gannon	58	President -- Physician Practice Management
H. Lynn Massingale, M.D.	44	President -- Team Health
Harold O. Knight, Jr.	39	Executive Vice President and Chief Financial Officer
Tracy P. Thrasher	34	Executive Vice President, Chief Administrative Officer and Corporate Secretary
Edward J. Novinski	38	Executive Vice President -- Managed Care
John M. Deane	42	Executive Vice President -- Information Services
J. Brooke Johnston, Jr.	57	Senior Vice President and General Counsel
Charles C. Clark	47	Senior Vice President and Chief Tax Officer
Peter J. Clemens, IV	32	Vice President of Finance and Treasurer
Mark S. Weeks	34	Vice President of Finance and Controller

Richard M. Scrushy	44	Director
Larry D. Striplin, Jr.(1)	67	Director
Charles W. Newhall, III(1)	52	Director
Ted H. McCourtney(2)	58	Director
Walter T. Mullikin, M.D.	79	Director
John S. McDonald, J.D.(1)	64	Director
Rosalio J. Lopez, M.D.	44	Chief Medical Officer and Director
C.A. Lance Piccolo(2)	56	Director
Roger L. Headrick(1)	60	Director
Harry M. Jansen Kraemer, Jr.	42	Director

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(1) Member of the Compensation Committee
(2) Member of the Audit Committee

Larry R. House has been Chief Executive Officer of the Company since August 1993, and has been Chairman of the Board since January 1993. Mr. House also served as President from August 1993 until June 1997. From 1985 to 1992, he was Chief Operating Officer of HEALTHSOUTH Rehabilitation Corporation, now HEALTHSOUTH Corporation ("HEALTHSOUTH"). From 1992 to 1993, Mr. House was President of HEALTHSOUTH International, Inc. Mr. House is a member of the Board of Directors of each of HEALTHSOUTH, Capstone Capital Corporation, a publicly traded real estate investment trust ("Capstone"), the American Sports Medicine Institute, UAB Research Foundation and Monitor MedX.

Mark L. Wagar has been President and Chief Operating Officer of the Company since June 1997. From January 1996 until June 1997, Mr. Wagar was President -- Western Operations of the Company. From January 1995 through December 1995, Mr. Wagar was Chief Operating Officer of MME. From March 1994 to December 1994, he was the President of CIGNA HealthCare of California, a healthcare plan serving enrollees in California, Oregon and Washington, from January 1993 through February 1994, was a Vice President of CIGNA HealthCare of California, an HMO. From November 1989 to December 1992, he was

the President of Managed Care Partners, Inc., a private consulting management company specializing in managed care services. He has been involved in healthcare management for over 20 years, including 10 years in managed care companies.

John J. Gannon has been President -- Physician Practice Management of the Company since June 1997. From July 1996 to June 1997, Mr. Gannon was President -- Eastern Operations. For 23 years, Mr. Gannon was a Partner with KPMG Peat Marwick. His most recent position with KPMG was that of National Partner-in-Charge of Strategy and Marketing, Healthcare and Life Sciences. He served as one of the firm's designated industry review specialists for healthcare financial feasibility studies.

H. Lynn Massingale, M.D. has been President of Team Health since its formation in March 1994. Dr. Massingale has served as President of Southeastern Emergency Physicians, Inc., a subsidiary of Team Health, since 1981. A graduate of the University of Tennessee Center for Health Sciences in Memphis, Dr. Massingale is certified by the National Board of Medical Examiners, Tennessee Board of Medical Examiners and American Board of Emergency Medicine. Dr. Massingale's professional memberships include the Knoxville Academy of Medicine, Tennessee Medical Association, American Medical Association and American College of Emergency Physicians.

Harold O. Knight, Jr. has been Executive Vice President and Chief Financial Officer of the Company since November 1994. Mr. Knight was Senior Vice President of Finance and Treasurer of the Company from August 1993 to November 1994, and from March 1993 to August 1993, Mr. Knight served as Vice President of Finance of the Company. From 1980 to 1993, Mr. Knight was with Ernst & Young LLP, most recently as Senior Manager. Mr. Knight is a member of the Alabama Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

Tracy P. Thrasher was named Chief Administrative Officer of the Company in June 1997 and has been Executive Vice President of the Company since November 1994 and Corporate Secretary since March 1994. Ms. Thrasher was Senior Vice President of Administration from March 1994 to November 1994, and from January 1993 to March 1994, she served as Corporate Comptroller and Vice President of Development. From 1990 to 1993, Ms. Thrasher was the Audit and Health Care Management Advisory Service Manager with Burton, Canady, Moore & Carr, P.C., independent public accountants. Ms. Thrasher began her career with Ernst & Young LLP in 1985, and became a certified public accountant in 1986.

Edward J. Novinski has been Executive Vice President of Managed Care for the Company since September 1996. Prior to joining the Company, Mr. Novinski was

most recently Vice President of Network Management for United HealthCare Corporation in their corporate office and held various positions from August 1986 to August 1996. Mr. Novinski was responsible for United HealthCare's network strategies for physician and hospital relationships which supported United HealthCare's diverse managed care product line. From 1977 to 1986, Mr. Novinski was with Lutheran General Health System in managerial and administrative positions including Director of Physician Practice Management for a large multi-specialty group.

John M. Deane has been Executive Vice President, Information Services of the Company since January 1997. From January 1995 through December 1996, Mr. Deane was Vice President Information Services and CIO of Caremark Pharmaceutical Services Group, based in Northbrook, Illinois. Prior to 1995, Mr. Deane was Director, Information Services -- Planning and Consulting for the Whirlpool Corporation and a Senior Manager on large IS projects for Price Waterhouse's Management Consulting Services practice in the Midwest, where he led large IS engagements for various Fortune 100 companies.

J. Brooke Johnston, Jr. has been Senior Vice President and General Counsel of the Company since April 1996. Prior to that, Mr. Johnston was a senior principal of the law firm of Haskell Slaughter Young & Johnston, Professional Association, Birmingham, Alabama, where he practiced corporate and securities law for over seventeen years. Prior to that Mr. Johnston was engaged in the practice of law in New York, New York and at another firm in Birmingham. Mr. Johnston is a member of the Alabama State Bar and the New York and American Bar Associations. Mr. Johnston is a member of the Board of Directors of United Leisure Corporation, a publicly traded leisure time services company.

Charles C. Clark has been Senior Vice President and Chief Tax Officer of the Company since January 1997. Prior to that, Mr. Clark was a Partner with KPMG Peat Marwick, having served as Tax Partner in Charge of the Birmingham, Alabama office and leader of tax services for the Health Care & Life Sciences practice in the Southeast. Mr. Clark was with KPMG Peat Marwick for 21 years. Mr. Clark is a Certified Public Accountant holding memberships in the American Institute of Certified Public Accountants and the Alabama and Mississippi Societies of Certified Public Accountants.

Peter J. Clemens, IV has been Vice President of Finance and Treasurer of the Company since April 1995. From 1991 to 1995, Mr. Clemens worked in Corporate Banking with Wachovia Bank of Georgia, N.A. Mr. Clemens began his career with AmSouth Bank, N.A. in 1987, and received a Masters Degree in Business Administration from Vanderbilt University in 1991.

Mark S. Weeks has been Vice President of Finance and Controller of the Company since June 1994. From 1985 to 1994, Mr. Weeks was with Ernst & Young LLP, most recently as Senior Manager. Mr. Weeks is a certified public accountant and a member of the American Institute of Certified Public Accountants.

Richard M. Scrushy has been a member of the Company's Board of Directors since January 1993. Since 1984, Mr. Scrushy has been Chairman of the Board and Chief Executive Officer of HEALTHSOUTH. Mr. Scrushy is also a member of the Board of Directors of Capstone.

Larry D. Striplin, Jr. has been a member of the Company's Board of Directors since January 1993. Since December 1995, Mr. Striplin has been the Chairman and Chief Executive Officer of Nelson-Brantley Glass Contractors, Inc. and Chairman and Chief Executive Officer of Clearview Properties, Inc. Until December 1995, Mr. Striplin had been Chairman of the Board and Chief Executive Officer of Circle "S" Industries, Inc., a privately owned bonding wire manufacturer. Mr. Striplin is a member of the Board of Directors of Kulicke & Suffa, Inc., a publicly traded manufacturer of electronic equipment, and of Capstone.

Charles W. Newhall, III has been a member of the Company's Board of Directors since September 1993. He has been a general partner of New Enterprise Associates, a venture capital firm, since 1978. Mr. Newhall is a member of the Board of Directors of HEALTHSOUTH, Integrated Health Services, Inc. and OPTA Food Ingredients, Inc., all publicly traded companies. He is founder and Chairman of the Mid-Atlantic Venture Association, which was organized in 1988.

Ted H. McCourtney has been a member of the Company's Board of Directors since August 1993. He has been a general partner of Venrock Associates, a venture capital firm, since 1970. Mr. McCourtney is a member of the Board of Directors of Cellular Communications, Inc., Cellular Communications of Puerto Rico, Inc., Cellular Communications International, Inc., International CabelTel Incorporated, SBSF, Inc. and Structural Dynamics Research Corporation, each of which is publicly traded.

Walter T. Mullikin, M.D., a surgeon, has been a member of the Company's Board of Directors since November 1995. Dr. Mullikin was Chairman of the Board

of the general partner of MME from 1989 to 1995. He founded Pioneer Hospital and the predecessors to MME's principal professional corporation in 1957. He was also the Chairman of the Board, President and a stockholder of Mullikin Independent Practice Association ("MIPA"), until November 1995. Dr. Mullikin is a member of the Board of Directors of Health Net, a publicly traded HMO, and was one of the founders and a past chairman of the Unified Medical Group Association.

John S. McDonald, J.D. has been a member of the Company's Board of Directors since November 1995. Mr. McDonald was the Chief Executive Officer of the general partner of MME from March 1994 to 1995, and he has been an executive of Pioneer Hospital and its related entities since 1967. Mr. McDonald was also a director, the Secretary and a stockholder of MME's general partner. Mr. McDonald is on the Board of Directors of the Truck Insurance Exchange and is a past president of the Unified Medical Group Association.

Rosalio J. Lopez, M.D. has been a member of the Company's Board of Directors since November 1995 and became Chief Medical Officer of the Company in June 1997. Dr. Lopez had been a director of the general partner of MME since 1989. Dr. Lopez joined MME's principal professional corporation in 1984 and serves as the Chairman of its Medical Council and Family Practice and Managed Care committees. He also acted as a

director and a Vice President of MME's principal professional corporation. He is also a director and stockholder of MIPA.

C.A. Lance Piccolo has been Vice Chairman of the Company's Board of Directors since September 1996. From August 1992 to September 1996, he was Chairman of the Board of Directors and Chief Executive Officer of Caremark. From 1987 until November 1992, Mr. Piccolo was an Executive Vice President of Baxter and from 1988 until November 1992, he served as a director of Baxter. Mr. Piccolo also serves as a director of Crompton & Knowles Corporation ("CKC"), which is publicly traded.

Roger L. Headrick has been a member of the Company's Board of Directors since September 1996 and has been President and Chief Executive Officer of the Minnesota Vikings Football Club since 1991. Additionally, since June 1989, Mr. Headrick has been President and Chief Executive Officer of ProtaTek International, Inc., a bio-process and biotechnology company that develops and manufactures animal vaccines. Prior to 1989, he was Executive Vice President and Chief Financial Officer of The Pillsbury Company, a food manufacturing and processing company. Mr. Headrick also serves as a director of CKC.

Harry M. Jansen Kraemer, Jr. has been a member of the Company's Board of Directors since September 1996, and is President of Baxter, having served in that capacity since April 1997. Mr. Kraemer served as senior vice president and chief financial officer of Baxter from November 1993 to April 1997. He was promoted to Baxter's three-member Office of the Chief Executive in June 1995, and appointed to Baxter's Board of Directors in November 1995. Mr. Kraemer has been an employee of Baxter since 1982 serving in a variety of positions, including Vice President, Group Controller for Baxter's hospital and alternate-site businesses, president of Baxter's Hospitex Division and Vice President Finance and Operations for Baxter's global-business group.

DESCRIPTION OF THE NOTES

The Notes will be issued under an indenture to be dated as of , 1997 (the "Indenture") between the Company and PNC Bank, Kentucky, Inc., a Kentucky banking corporation, as trustee (the "Trustee"). The following summary of certain provisions of the Indenture does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture (the form of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part), including the definitions of certain terms contained therein and those terms made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended, as in effect on the date of the Indenture.

GENERAL

The Notes will be general unsecured obligations of the Company limited to $350,000,000 aggregate principal amount. The Notes will mature on , 2000. Interest on the Notes will accrue at the rate of % per annum and will be payable semi-annually on and of each year, commencing , 1998, to the Holders of record of Notes at the close of business on the and immediately preceding such interest payment date. Interest on the Notes will accrue from the most recent date to which

interest has been paid or, if no interest has been paid, from the original date of issuance of the Notes. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Notes are not redeemable prior to maturity and will not be entitled to the benefit of any mandatory sinking fund.

The Notes will be issued only in registered form without coupons, in denominations of $1,000 and integral multiples thereof. The Notes will be initially issued in the form of one or more book-entry notes (each, a "Global Note"). Principal of and interest on the Global Notes will be payable, and the Global Notes will be transferable and exchangeable, only as provided for below under the caption "-- Global Notes; Form, Exchange and Transfer". Principal of and interest on Notes subsequently issued in a form other than as a Global Note will be payable, and such Notes will be transferable and exchangeable, at the corporate trust office of the Trustee. In addition, interest payable with respect to Notes subsequently issued in a form other than as a Global Note may be paid, at the option of the Company, by check mailed to the Person entitled thereto as shown on the security register of the Notes. No service charge will be made for any transfer or exchange of Notes, except in certain circumstances for any tax or other governmental charge that may be imposed in connection therewith.

SUBORDINATION

Payment of the principal of, premium, if any, and interest, on the Notes is expressly subordinated in right of payment, as set forth in the Indenture, to payment when due of all Senior Indebtedness of the Company. "Senior Indebtedness" is defined as (a) all indebtedness of the Company under the Credit Facility dated September 5, 1996, as amended, by and among the Company and NationsBank, National Association (South), as administrative agent for a group of lenders, and any successor credit facilities thereto, whether outstanding on the date of execution of the Indenture or thereafter created, incurred or assumed, (b) the Company's 7 3/8% Senior Notes due 2006 (the "1996 Notes") issued pursuant to that certain Indenture dated as of October 8, 1996, between the Company and The First National Bank of Chicago, as trustee, (c) any promissory notes (other than any referred to in the foregoing clauses (a) and (b)) issued by the Company pursuant to any agreement between the Company and any bank or banks and any commercial paper issued by the Company, (d) all indebtedness incurred by the Company after the date of the Indenture for money borrowed which is, in the discretion of the Company, specifically designated by the Company as superior to subordinated debt (senior debt) of the Company in the instruments evidencing said indebtedness at the time of the issuance thereof, (e) all indebtedness of the Company in addition to the indebtedness referred to in the preceding clauses (a) through (d) for money borrowed from or guaranteed to persons, firms or corporations which engage in lending money, including, without limitation, banks, trust companies, insurance companies and other financing institutions and charitable trusts, pension trusts and other investing organizations, evidenced by notes or similar obligations, unless such indebtedness shall, in the instrument evidencing the

same, be specifically designated as not being superior to the Notes and (f) any amendments, modifications, supplements, deferrals, renewals or extensions of any such Senior Indebtedness.

No payment on account of principal, premium, if any, or interest on the Notes may be made, nor may any property or assets of the Company be applied to the purchase or other acquisition or retirement of the Notes, unless full payment of amounts then due for principal, premium, if any, and interest on Senior Indebtedness has been made or duly provided for in money or money's worth. No payment by the Company on account of principal, premium, if any, or interest on the Notes may be made, nor may any property or assets of the Company be applied to the purchase or other acquisition or retirement of the Notes, if, at the time of such payment or application or immediately after giving effect thereto, there exists under any Senior Indebtedness or any agreement pursuant to which such Senior Indebtedness is issued any event of default permitting the holders of such Senior Indebtedness (or a trustee on behalf of such holders) to accelerate the maturity thereof provided, however, that in the case of such an event of default (other than in payment of such Senior Indebtedness when due) the foregoing will not prevent any such payment or application for a period longer than 90 days after the date on which the holders of such Senior Indebtedness (or such trustee) shall have first obtained written notice of such event of default from the Company or the holder of any Notes, if the maturity of such Senior Indebtedness is not so accelerated within such 90-day period.

Subject to the foregoing, if there shall have occurred any Event of Default on the Notes as described below under "Events of Default", other than with respect to certain events of bankruptcy, insolvency or reorganization, then

unless and until either such Event of Default shall have been cured or waived or shall have ceased to exist or the principal of, premium, if any, and interest on all Senior Indebtedness shall have been paid in full in money or money's worth, no payment shall be made by the Company on account of the principal of, premium, if any, or interest on the Notes or on account of the purchase or other acquisition of Notes, except (a) payments at the expressed maturity of the Notes (subject to the next paragraph), (b) current interest payments as provided in the Notes and (c) payments for the purpose of curing any such Event of Default.

Upon any payment or distribution of assets of the Company to creditors upon any dissolution or winding-up or total or partial liquidation or reorganization of the Company or similar proceeding relating to the Company or its property, whether voluntary or involuntary and whether or not the Company is a party thereto, or in bankruptcy, insolvency, receivership or other proceedings, all principal, premium, if any, and interest due upon all Senior Indebtedness must be paid in full before the holders of the Notes are entitled to receive or retain any assets so paid or distributed. Subject to the payment in full of all Senior Indebtedness, the holders of the Notes are to be subrogated to the rights of holders of Senior Indebtedness to receive payments or distributions of assets of the Company or other payments applicable to Senior Indebtedness to the extent of the application to Senior Indebtedness of moneys or other assets which would have been received by the holders of the Notes but for the subordination provisions contained in the Indenture until the Notes are paid in full.

The Notes are obligations exclusively of the Company. The operations of the Company are currently conducted principally through subsidiaries, which are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available therefor, whether by dividends, loans or other payments. In addition, the payment of dividends and certain loans and advances to the Company by such subsidiaries may be subject to certain statutory or contractual restrictions, are contingent upon the earnings of such subsidiaries and are subject to various business considerations.

The Notes will be effectively subordinated to all indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Company's subsidiaries to the extent of the assets of such subsidiaries. Any right of the Company to receive assets of any such subsidiary upon the liquidation or reorganization of any such subsidiary (and the consequent right of the Holders of the Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that the Company is itself recognized as a creditor of such subsidiary, in which case the claims of the

Company would still be subordinate to any security in the assets of such subsidiary and any indebtedness of such subsidiary senior to that held by the Company.

Except as set forth under "Restrictions on Subsidiary Indebtedness" below, the Indenture does not contain any restrictions on the incurrence of indebtedness by the Company or its subsidiaries or the payment of dividends or financial covenants. As of June 30, 1997, after giving effect to the offering being made hereby and the use of proceeds therefrom as described in "Use of Proceeds", the Company and its subsidiaries would have had approximately $601 million in indebtedness outstanding to which the Notes would have been subordinated. The Company also expects to incur Senior Indebtedness, and that its subsidiaries will incur indebtedness, to which the Notes will be effectively subordinated, from time to time in the future.

By reason of the subordination provisions contained in the Indenture, in the event of insolvency, creditors of the Company who are holders of Senior Indebtedness, as well as certain general creditors of the Company, may recover more, ratably, than the holders of the Notes.

The Indenture does not contain provisions which would afford the holders of Notes protection in the event of a decline in the Company's credit quality resulting from highly leveraged or other similar transactions involving the Company.

GLOBAL NOTES; FORM, EXCHANGE AND TRANSFER

The Notes will be initially issued in the form of fully registered Global Notes deposited with or on behalf of, and registered in the name of, The Depository Trust Company (the "Depositary") or a nominee thereof. Unless and until it is exchanged in whole or in part for Notes in definitive registered form, a Global Note may not be transferred, except as a whole: (i) by the Depositary to a nominee of such Depositary, or (ii) by a nominee of such Depositary to such Depositary or another nominee of such Depositary or (iii) by such Depositary or any such nominee to a successor of such Depositary or a nominee of such successor.

Ownership of beneficial interests in a Global Note will be limited to Persons that have accounts with the Depositary ("participants") or Persons that may hold interests through participants. Upon the issuance of a Global Note, the Depositary will credit, on its book-entry registration and transfer system, the participants' accounts with the respective principal amounts of the Notes represented by such Global Note beneficially owned by such participants. The accounts to be credited will initially be designated by the Underwriters. Ownership of beneficial interests in such Global Note will be shown on, and the transfer of such ownership interests will be effected only through, records maintained by the Depositary or its nominee (with respect to interests of participants) and on the records of participants (with respect to interests of Persons holding through participants). The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in Global Notes.

So long as the Depositary, or its nominee, is the owner of record of a Global Note, the Depositary or such nominee, as the case may be, will be considered the sole record owner or holder of Notes represented by such Global Note for all purposes under the Indenture. Except as set forth below, owners of beneficial interests in a Global Note will not be entitled to have Notes represented by such Global Note registered in their names, and will not receive or be entitled to receive physical delivery of such Notes in definitive form and will not be considered the record owners or holders thereof under the Indenture. Accordingly, each Person owning a beneficial interest in a Global Note must rely on the procedures of the Depositary and, if such Person is not a participant, on the procedures of the participant through which such Person owns its interest, to exercise any rights of a holder of record under the Indenture. The Company understands that under existing industry practices, if the Company requests any action of holders, or if any owner of a beneficial interest in a Global Note desires to give or take any action which a holder is entitled to give or take under the Indenture, the Depositary would authorize the participants holding the relevant beneficial interests to give or take such action, and such participants would authorize beneficial owners owning through such participants to give or take such action or would otherwise act upon the instruction of beneficial owners holding through them. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with the Depositary's applicable procedures, in addition to those provided for in the Indenture.

Payments of principal and interest on Notes represented by a Global Note registered in the name of the Depositary or its nominee will be made to the Depositary or its nominee, as the case may be, as the registered owner of such Global Note. None of the Company, the Trustee or any other agent of the Company or agent of the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in such Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that the Depositary or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Note as shown on the records of the Depositary or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants.

If the Depositary notifies the Company that it is at any time unwilling or unable to continue as Depositary or ceases to be eligible under applicable law, and a successor Depositary eligible under applicable law is not appointed by the Company within 90 days, the Company will issue Notes in definitive form in exchange for Global Notes representing such Notes. In addition, the Company may at any time and in its sole discretion determine not to have any of the Notes represented by one or more Global Notes and, in such event, will issue Notes in definitive form in exchange for Global Notes representing such Notes. Any Notes issued in definitive form in exchange for any Global Notes will be registered in such name or names as the Depositary shall instruct the Trustee. It is expected that such instructions will be based upon directions received by the Depositary from participants with respect to ownership of beneficial interests in such Global Note.

The Depositary has advised the Company as follows: the Depositary is a limited-purpose trust company organized under the Banking Law of the State of New York, a "banking organization" within the meaning of the Banking Law of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a

"clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The Depositary holds securities that its participants deposit with the Depositary. The Depositary also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. The Depositary is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange Inc. and the National Association of Securities Dealers, Inc. Access to the Depositary's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to the Depositary and its participants are on file with the Commission.

Although the Depositary and its participants are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Company nor the Trustee will have any responsibility for the performance by the Depositary or the participants of their respective obligations under the rules and procedures governing their operations.

SAME-DAY SETTLEMENT IN RESPECT OF GLOBAL NOTES

So long as any Notes are represented by Global Notes registered in the name of the Depositary or its nominee, such Notes will trade in the Depositary's Same-Day Funds Settlement System, and secondary market trading activity in such Notes will therefore be required by the Depositary to settle in immediately available funds.

CERTAIN COVENANTS

Restrictions on Sale and Leaseback Transactions

The Indenture will contain a covenant providing that so long as any of the Notes are outstanding, the Company will not, nor will it permit any Subsidiary to, enter into any arrangement with any Person (other than the Company or a Subsidiary) providing for the leasing by the Company or any Subsidiary of any property or assets, whether now owned or hereafter acquired, which has been or is to be sold or transferred by the Company or such Subsidiary to such Person with the intention of taking back a lease on such property or assets and which arrangement would be characterized or qualified as either a Capital Lease or Off-Balance Sheet Liability (a "Sale and Leaseback Transaction"), if, at the time of entering into such Sale and Leaseback Transaction, and after giving effect thereto, the amount of Attributable Debt in respect of such Sale and Leaseback Transaction, together with all such other Attributable Debt outstanding exceeds the greater of (i) $25,000,000 or (ii) together with all Indebtedness of Subsidiaries (not including Indebtedness permitted to be issued, assumed, incurred or guaranteed under clauses (a) through (j) under "Restrictions on Subsidiary Indebtedness" below), 15% of Consolidated Net Worth of the Company.

Restrictions on Subsidiary Indebtedness

The Indenture will provide that so long as any of the Notes are outstanding, the Company will not permit any of its Subsidiaries to issue, assume, incur or guarantee any Indebtedness, except that the foregoing restrictions shall not apply to:

(a) Indebtedness existing as of the date of the Indenture, including all existing or available borrowings under the Bank Credit Agreement and the 1996 Notes;

(b) Indebtedness of a corporation or other entity existing at the time it becomes a Subsidiary and not incurred as a result of, or in connection with or in anticipation of, such Subsidiary becoming a Subsidiary;

(c) Indebtedness of a corporation or other entity assumed at the time of its acquisition by a Subsidiary (including acquisition through merger or consolidation) and not incurred as a result of, or in connection with or in anticipation of, such acquisition;

(d) unsecured intercompany Indebtedness of a Subsidiary for loans or advances made to such Subsidiary by the Company or another Subsidiary provided that upon either (i) the transfer or other disposition by the Company or a Subsidiary of any Indebtedness so permitted to a Person other

than the Company or another Subsidiary or (ii) the issuance, sale, transfer or other disposition (other than a pledge of the shares of such Subsidiary) of shares of capital stock (including acquisition through merger or consolidation) of such Subsidiary to a Person other than the Company or another Subsidiary which, after giving effect thereto, results in such Subsidiary ceasing to be a Subsidiary of the Company, the provisions of this clause (d) shall no longer be applicable to such Indebtedness and such Indebtedness shall be deemed to have been issued, assumed, incurred or guaranteed at the time of such transfer or other disposition;

(e) the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(f) Purchase Money Indebtedness and Capital Leases incurred or entered into by a Subsidiary not to exceed an aggregate outstanding principal amount at any time of $25,000,000 provided, however, that the aggregate outstanding principal amount of Purchase Money Indebtedness and Capital Leases permissible under this clause (f) shall be increased or decreased to such amount as is permissible under the Bank Credit Agreement;

(g) Permitted Receivables Securitizations;

(h) Off-Balance Sheet Liabilities (other than Permitted Receivables Securitizations) not to exceed an aggregate outstanding principal amount of $25 million reduced by the amount, if any, of secured

Indebtedness of a Subsidiary; provided, however, that the aggregate outstanding principle amount of Off-Balance Sheet Liabilities shall be increased or decreased to such amount as is permitted from time to time under the Bank Credit Agreement;

(i) Indebtedness arising from Rate Hedging Obligations incurred to limit risks of currency or interest rate fluctuations to which a Subsidiary is otherwise subject by virtue of the operations of its business, and not for speculative purposes provided, however, that the aggregate notional amount of all such Rate Hedging Obligations shall not exceed at any time $500,000,000 and, provided further, that the aggregate outstanding principal amount of Indebtedness arising from Rate Hedging Obligations under this clause (i) shall be increased or decreased to such amount as is permissible under the Bank Credit Agreement; and

(j) the extension, renewal, refinancing or replacement (or successive extensions, renewals, refinancings or replacements), in whole or in part, of any Indebtedness referred to in the foregoing clauses (a) through (i) provided, however, (i) that the Indebtedness so issued has (A) a principal amount not in excess of the principal amount of the Indebtedness being extended, renewed, refinanced or replaced (which amount shall be deemed to include the amount of any undrawn or available amounts under any committed credit or lease facility to be so extended, renewed, refinanced or replaced), (B) a final redemption date later than the final stated maturity or final redemption date, if any, of the Indebtedness being extended, renewed, refinanced or replaced and (C) an Average Life at the time of issuance of such Indebtedness that is greater than the Average Life of the Indebtedness being extended, renewed refinanced or replaced; (ii) the group of direct or contingent obligors on such Indebtedness shall not be expanded as a result of any such action; and (iii) immediately prior to and immediately after giving effect to any such extension, renewal or replacement, no Event of Default shall have occurred and be continuing.

Notwithstanding the foregoing, any Subsidiary may issue, assume, incur or guarantee Indebtedness which otherwise would be subject to the foregoing restrictions in an aggregate amount, that together with all other such Indebtedness of any Subsidiaries outstanding which would otherwise be subject to the foregoing restrictions (not including Indebtedness permitted to be issued, assumed, incurred or guaranteed under clauses (a) through (j) above), that does not exceed 15% of Consolidated Net Worth of the Company.

Certain Definitions

"Attributable Debt" in respect of a Sale and Leaseback Transaction means, at the time of determination, the then present value (discounted at the actual rate of interest of such transaction) of the obligation of the lessee for net rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended or may, at the option of the lessor, be extended).

"Average Life" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (i) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness multiplied by the amount of such principal payment by (ii) the sum of all such principal payments.

"Bank Credit Agreement" means the Credit Agreement, dated as of September 5, 1996 and as amended by Amendment No. 1 and Amendment No. 2 thereto, by and among MedPartners, Inc. and NationsBank, National Association (South), as administrative agent for a group of lenders, as such agreement may be amended, renewed, extended, substituted, refinanced, restructured, replaced or supplemented or otherwise modified from time to time (including without limitation, any successive renewals, extensions, substitutions, refinancings, restructurings, replacements or supplementations or other modifications of the foregoing).

"Capital Leases" means all leases which have been or should be capitalized in accordance with GAAP as in effect from time to time including the provisions of FAS No. 13 and any successor thereof.

"Consolidated Net Worth" means the excess of (i) the consolidated net book value of the assets of the Company and its Subsidiaries after all appropriate deductions in accordance with GAAP as in effect on the

date of the Indenture (including without limitation, reserves for doubtful receivables, obsolescence, depreciation and amortization) less (ii) the consolidated liabilities (including tax and other proper accruals, but excluding, if applicable, the accumulated postretirement benefit obligation resulting from the application of the provisions of FAS No. 106 "Employers' Accounting for Postretirement Benefits Other than Pensions") of the Company and its Subsidiaries, in each case computed and consolidated in accordance with GAAP in effect on the date of the Indenture.

"GAAP" means, unless otherwise specified in the Indenture, such accounting principles as are generally accepted in the United States as of the date of the relevant calculation.

"Indebtedness" with respect to any Person is defined to mean, at any time, without duplication, (i) any debt (a) for money borrowed, or (b) evidenced by a bond, note, debenture, or similar instrument for the payment of which such Person is responsible or liable, or (c) which is a direct or indirect obligation which arises as a result of banker's acceptances; (ii) any Off-Balance Sheet Liability, (iii) any debt of others described in the preceding clause (i) which such Person has guaranteed or for which it is otherwise directly liable; (iv) the obligation of such Person as lessee under any lease of property which is reflected on such Person's balance sheet as a capitalized lease; (v) to the extent not otherwise included in this definition, net obligations under any Rate Hedging Obligations; and (vi) any deferral, amendment, renewal, extension, supplement or refunding of any liability of the kind described in any of the preceding clauses (i), (ii), (iii), (iv) and (v) provided, however, that, in computing the Indebtedness of any Person, there shall be excluded any particular Indebtedness if, upon or prior to the maturity thereof, there shall have been deposited with a depository in trust money (or evidence of Indebtedness if permitted by the instrument creating such Indebtedness) in the necessary amount to pay, redeem or satisfy such Indebtedness as it becomes due, and the amount so deposited shall not be included in any computation of the assets of such Person.

"Off-Balance Sheet Liabilities" means, with respect to any Person, (i) any repurchase obligation or liability of such Person with respect to accounts or notes receivable sold by such Person, (ii) the face amount of accounts receivable pursuant to a Permitted Receivables Securitization, (iii) any repurchase obligation or liability of such Person with respect to property leased by such Person as lessee, (iv) obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheets of such Person excluding therefrom operating leases which do not require payment by or due from such Person: (a) at the scheduled termination of such operating lease, (b) pursuant to a required purchase by such Person of the leased property, or (c) under any guaranty by such Person of the value of the leased property, or (v) net liabilities under any Rate Hedging Obligations.

"Permitted Receivables Securitization" means limited recourse or non-recourse sales and assignments of accounts receivable of a Person to one or more entities, the proceeds of which shall be made available to such Person provided, however, that the maximum face amount of accounts receivable which may be sold is $100,000,000 and the minimum price which shall be paid for receivables is 70% of the face amount thereof; provided, further that notwithstanding the immediately preceding proviso the maximum face amount of

accounts receivable which may be sold and the minimum price which shall be paid for receivables shall be increased or decreased to such amount and percentages as is permissible under the Bank Credit Agreement.

"Purchase Money Indebtedness" means Indebtedness incurred to finance all or any part of the purchase price or cost of construction of improvements in respect of property or assets acquired by a Person after the date of the Indenture and incurred prior to, at the time of, or within 90 days after, the acquisition of any such property or assets or the completion of any such construction or improvements.

"Rate Hedging Obligations" means any and all obligations of any Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, Dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options,

puts, warrants and those commonly known as interest rate "swap" agreements; and (ii) any and all cancellations, buybacks, reversals, terminations or assignments of any of the foregoing.

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

CONSOLIDATION, MERGER AND DISPOSITION OF ASSETS

The Company may not consolidate with or merge into, or convey, transfer or lease its properties and assets substantially as an entirety to, any Person, and may not permit any Person, to consolidate with or merge into, or convey, transfer or lease its properties and assets substantially as an entirety to, the Company, unless (a) the successor, if other than the Company, is a Person organized and validly existing under the laws of the United States of America or any jurisdiction thereof and such successor, if other than the Company, expressly assumes the Company's obligations under the Indenture and the Notes, (b) immediately after giving effect to such transaction, no Event of Default under the Indenture or event which, after notice or lapse of time or both, would become an Event of Default thereunder would exist and be continuing, and (c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such transaction complies with the Indenture. Upon compliance with these provisions, the successor Person will succeed to, and be substituted for, the Company under the Indenture, and the Company will be relieved (except in the case of a lease) of its obligations under the Indenture and the Notes.

EVENTS OF DEFAULT

Each of the following will constitute an "Event of Default" under the Indenture with respect to the Notes: (a) default in the payment of principal on any Note, (b) default in the payment of any interest upon any Note when due, which default continues for 30 days, (c) default in the performance, or breach, of any other covenant or warranty contained in the Indenture, which default continues for 60 days after written notice to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Notes, (d) default in the payment of principal at maturity (subject to any applicable grace period) of any Indebtedness for money borrowed by the Company or any Subsidiary in an aggregate principal amount of $25 million or more or the acceleration of such indebtedness, if such acceleration is not rescinded or annulled within 30 days after written notice as specified in clause (c) and requiring the Company to cause such indebtedness to be discharged or cause such acceleration to be rescinded or annulled, and (e) certain events of bankruptcy, insolvency or reorganization.

If an Event of Default (other than an Event of Default described in clause (e) above) with respect to the Outstanding Notes shall occur and be continuing, either the Trustee or the Holders of not less than 25% in aggregate principal amount of the Outstanding Notes may, by notice in writing to the Company (and to the Trustee if given by Holders), declare the principal amount of all Notes to be due and payable immediately. If an Event of Default described in clause (e) above with respect to the Notes shall occur, the principal amount of all the

Notes will automatically, and without any action by the Trustee or any Holder, become immediately due and payable. After any such acceleration, but before a judgment or decree for payment of the money due has been obtained by the Trustee, the Holders of a majority in aggregate principal amount of the Outstanding Notes may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture.

The Indenture will provide that the Trustee shall, within 90 days after the occurrence of a default with respect to the Notes, give to the Holders of the Notes notice of such default known to it, unless such default shall have been cured or waived provided, however, that, except in the case of a default in the payment of the principal of or interest on any of the Notes, the Trustee shall be protected in withholding such notice if in good faith it determines that the withholding of such notice is in the interest of such Holders. The Indenture

provides that, subject to the duty of the Trustee during a default to act with the required standard of care, the Trustee will not be under an obligation to exercise any right or power under the Indenture at the request or direction of any of the Holders, unless the Holders shall have offered to the Trustee reasonable security or indemnity. The Indenture provides that the Holders of a majority in aggregate principal amount of the Outstanding Notes may direct the time, method and place of conducting proceedings for remedies available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes.

No Holder of any Note will have any right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless (a) such Holder shall have previously given to the Trustee written notice of a continuing Event of Default with respect to the Notes, (b) the Holders of not less than 25% in aggregate principal amount of the Outstanding Notes shall have made written request to the Trustee to institute proceedings as Trustee, (c) such Holder or Holders shall have offered to the Trustee reasonable security or indemnity, (d) the Trustee shall have failed to institute such proceeding within 60 days thereafter and (e) the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the Outstanding Notes a direction inconsistent with such request. However, such limitations do not apply to a suit instituted by a Holder of a Note for the enforcement of payment of the principal of or interest on such Note on or after the applicable due date specified in such Note.

The Company will be required to furnish to the Trustee annually a statement as to the performance by the Company of its obligations under the Indenture and as to any default in such performance.

MODIFICATION AND WAIVERS

Modifications and amendments of the Indenture may be made by the Company and the Trustee without the consent of the Holders to: (a) evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Notes; (b) add to the covenants of the Company for the benefit of the Holders or an additional Event of Default or surrender any right or power conferred upon the Company; (c) secure the Notes; (d) cause the Notes to comply with applicable law; (e) evidence and provide for the acceptance of appointment by a successor Trustee with respect to the Notes; and (f) cure any defect or ambiguity or correct or supplement any provision which may be defective or inconsistent with any other provision, or make any other provisions with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture provided, however, that no such modification or amendment may adversely affect the interest of the Holders in any material respect.

Modifications and amendments of the Indenture may be made by the Company and the Trustee, with the consent of the Holders of at least a majority in aggregate principal amount of the Outstanding Notes, by executing supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or modifying in any manner the rights of the Holders of the Outstanding Notes provided that no such modification or amendment may, without the consent of the Holders of each Outstanding Note affected thereby, (a) change the Stated Maturity of the principal of, or any installment of interest on, any Note, (b) reduce the principal amount of or interest on, any Note, (c) change the place or currency of payment of principal of, or any interest on, any Note, (d) impair the right to institute suit for the enforcement of any payment on or with respect to any Note when due, (e) modify the subordination provisions in a manner adverse to the Holders, (f) reduce the percentage of aggregate principal amount of Outstanding Notes necessary to modify or amend the Indenture or for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults, or (g) modify certain provisions of the Indenture with respect to modification and waiver.

The Holders of at least a majority in aggregate principal amount of the Outstanding Notes may waive compliance by the Company with certain restrictive provisions of the Indenture. The Holders of at least a majority in aggregate principal amount of the Outstanding Notes may waive any past default under the Indenture, except a default in the payment of the principal of or interest on any Note and certain covenants and provisions of the Indenture which cannot be modified or amended without the consent of the Holder of each Outstanding Note.

SATISFACTION AND DISCHARGE; DEFEASANCE AND COVENANT DEFEASANCE

The Indenture will provide that the Company may discharge its obligations under the Indenture while Notes remain Outstanding if all Outstanding Notes will become due and payable at their scheduled maturity within one year and the Company has deposited with the Trustee an amount sufficient to pay and discharge all Outstanding Notes on the date of their scheduled maturity. The Indenture will further provide that the Company, at its option, (a) will be discharged from any and all obligations with respect to the Notes (except for certain obligations which include exchanging or registering the transfer of the Notes, replacing stolen, lost or mutilated Notes, maintaining paying agencies and holding monies for payment in trust) ("defeasance"), or (b) need not comply with certain restrictive covenants of the Indenture ("covenant defeasance"), and the occurrence of certain events which would otherwise be or result in an Event of Default will be deemed not to be or result in an Event of Default with respect to the Notes, upon the deposit with the Trustee, in trust for the benefit of the Holders of the Notes, of money or U.S. Government Obligations, or both, which through the payment of principal of and interest in respect thereof in accordance with their terms will provide money in an amount sufficient to pay principal of and interest on the Notes on the dates such payments are due in accordance with the terms of the Indenture. To establish such defeasance or covenant defeasance, the Company will be required to meet certain conditions, including delivery to the Trustee of an Opinion of Counsel to the effect that the Holders of the Notes will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred. In the case of defeasance pursuant to clause (a), such Opinion of Counsel must refer to and be based upon either (i) a ruling received by the Company from, or published by, the Internal Revenue Service or (ii) a change in applicable federal income tax law after the date of the Indenture.

INFORMATION CONCERNING THE TRUSTEE

The Indenture will provide that, except during the continuance of an Event of Default, the Trustee thereunder will perform only such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will exercise such rights and powers vested in it under the Indenture and use the same degree of care and skill in its exercise as a prudent Person would exercise under the circumstances in the conduct of such Person's own affairs.

The Indenture and provisions of the Trust Indenture Act of 1939, as amended, incorporated by reference therein, contain limitations on the rights of the Trustee thereunder, should it become a creditor of the Company, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company provided, however, that if it acquires any conflicting interest (as defined in the Trust Indenture Act of 1939, as amended) it must eliminate such conflict or resign. The Company and its subsidiaries may maintain deposit accounts and conduct other banking transactions with the Trustee in the ordinary course of business.

GOVERNING LAW

The Indenture and the Notes will be governed by the laws of the State of New York, without regard to principles of conflicts of law.

UNDERWRITING

Under the terms and subject to the conditions of the Underwriting Agreement, each Underwriter named below has severally agreed to purchase, and the Company has agreed to sell to each Underwriter, the principal amount of Notes set forth opposite the name of such Underwriter below:

<TABLE>

<CAPTION>

NAME	PRINCIPAL AMOUNT OF NOTES
<S>	<C>
Smith Barney Inc.	$
Credit Suisse First Boston Corporation.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated.	
J.P. Morgan Securities Inc.	
NationsBanc Capital Markets, Inc.	
Total.	$350,000,000

</TABLE>

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Notes are subject to approval of certain legal matters by counsel and to certain other conditions. The Underwriters are obligated to take and pay for all of the Notes offered hereby if any such Notes are taken.

The Underwriters have advised the Company that they propose initially to offer part of the Notes directly to the public at the public offering price set forth on the cover page of this Prospectus and part to certain dealers at a price that represents a concession not in excess of % of the public offering price of the Notes. The Underwriters may allow, and such dealers may reallow, a concession not in excess of % of the public offering price of the Notes to certain other dealers. After the offering, the public offering price and such concessions may be changed from time to time by the Underwriters.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act.

In connection with this offering and in compliance with applicable law, the Underwriters may effect transactions which stabilize, maintain or otherwise affect the market price of the Notes at levels above those which might otherwise prevail in the open market. Such transactions may include placing bids for the Notes at levels above those which might otherwise prevail in the open market. Such transactions may include placing bids for the Notes or effecting purchases of the Notes for the purpose of pegging, fixing or maintaining the price of the Notes or for the purpose of reducing a short position created in connection with the offering. In addition, the contractual arrangements among the Underwriters include a provision whereby, if the Underwriters purchase Notes in the open market for the account of the underwriting group and the Notes purchased can be traced to a particular Underwriter or selling group member, the Underwriters may require the Underwriter or selling group member in question to purchase the Notes in question at the cost price to the Underwriters or may recover from (or decline to pay to) the Underwriter or selling group member in question the selling concession applicable to the Notes in question. The Underwriters are not required to engage in any of these activities and any such activities, if commenced, may be discontinued at any time.

The Underwriters have informed the Company that the Underwriters intend to make a market in the Notes, as permitted by applicable laws and regulations; however, the Underwriters are not obligated to do so, and any such market activity may be terminated at any time without notice to the Holders. No assurance can be given as to the liquidity of or the trading market for the Notes. See "Risk Factors -- Absence of Public Market for the Notes".

The net proceeds from the offering are expected to be used to repay outstanding indebtedness under the Credit Facility under which affiliates of J.P. Morgan Securities Inc. and NationsBanc Capital Markets, Inc. are lenders. See "Use of Proceeds".

In the ordinary course of their respective businesses, the Underwriters or their affiliates have engaged and may in the future engage, in commercial banking or investment banking transactions with the Company and its affiliates.

LEGAL MATTERS

The validity of the Notes offered hereby will be passed upon for the Company by Haskell Slaughter & Young, L.L.C., Birmingham, Alabama, and for the Underwriters by Dewey Ballantine, New York, New York.

EXPERTS

The consolidated financial statements of MedPartners, Inc. appearing in

MedPartners, Inc.'s Annual Report on Form 10-K/A and the Current Report on Form 8-K dated August 27, 1997, for the year ended December 31, 1996, each have been audited by Ernst & Young LLP, as set forth in their reports included therein and incorporated herein by reference. Such consolidated financial statements referred to above are incorporated herein by reference in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

AVAILABLE INFORMATION

The Company has filed a Registration Statement (the "Registration Statement") on Form S-3 under the Securities Act with the SEC covering the Notes. This Prospectus does not contain all the information set forth in the Registration Statement which the Company has filed with the SEC. Certain portions have been omitted pursuant to the rules and regulations of the SEC, and reference is hereby made to such portions for further information with respect to the Company and the Notes. Statements contained herein concerning certain documents are not necessarily complete, and in each instance, reference is made to the copies of such documents filed as exhibits to the Registration Statement or incorporated therein by reference. Each such statement is qualified in its entirety by such reference.

The Company is subject to the information requirements of the Exchange Act (SEC File No. 0-27276), and in accordance therewith, files periodic reports, proxy statements and other information with the SEC relating to its business, financial statements and other matters. The Registration Statement, as well as such reports, proxy statements and other information, may be inspected and copied at prescribed rates at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549 and the regional offices of the SEC located at 7 World Trade Center, Suite 1300, New York, New York 10048 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained at prescribed rates by writing to the SEC, Public Reference Section, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549. The SEC also maintains a Web site that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. The address of such site is http://www.sec.gov. The Company's Common Stock is listed on the NYSE. The Registration Statement, reports, proxy statements and certain other information with respect to the Company can be inspected at the office of the NYSE, 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The following documents are hereby incorporated by reference in this Prospectus all of which were previously filed by the Company with the SEC:

1. The Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996.

2. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

3. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.

4. The Company's Current Report on Form 8-K filed August 27, 1997 (containing audited consolidated financial statements of the Company at December 31, 1996 and for the three years then ended reflecting the combined operations of the Company and InPhyNet Medical Management Inc.)

5. The description of the Company's Common Stock contained in the Company's Registration Statement filed with the SEC on Form 8-B under the Exchange Act and declared effective on November 29, 1995, including any amendment or reports filed for the purpose of updating such description.

Additionally, all documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Prospectus and prior to the termination of the offering made hereby shall be deemed to be incorporated by reference into this Prospectus. Any statement contained in a previously filed document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in a subsequently filed document modifies or replaces such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or replaced, to constitute a part of this Prospectus.

The Company undertakes to provide to any person to whom a copy of this Prospectus has been delivered, upon the written or oral request of any such person, without charge, by first class mail or other equally prompt means within one business day of receipt of such request, a copy of any or all of the documents which have been or may be incorporated by reference into this Prospectus, other than exhibits to such documents. Written or oral requests for such copies should be directed to the Company at 3000 Galleria Tower, Suite 1000, Birmingham, Alabama 35244, Attention: Corporate Secretary (telephone (205) 733-8996).

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NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

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$350,000,000

% SENIOR SUBORDINATED
NOTES DUE 2000

[MEDPARTNERS, INC. LOGO]

PROSPECTUS

, 1997

SMITH BARNEY INC.

CREDIT SUISSE FIRST BOSTON

MERRILL LYNCH & CO.

J.P. MORGAN & CO.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Set forth below is an estimate of the fees and expenses to be incurred in connection with the issuance and distribution of the Notes offered hereby.

<TABLE>

<S>	<C>
Securities and Exchange Commission Registration Fee.....	$121,970
Trustee's Fees.....	$ 6,000
Blue Sky Fees and Expenses.....	$ 15,000
Legal Fees and Expenses.....	$ 75,000
Accounting Fees.....	$ 25,000
Printing Costs.....	$150,000
Miscellaneous Expenses.....	$ 7,030
Total.....	$400,000

</TABLE>

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* Actual amount.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 102(b)(7) of the General Corporation Law of the State of Delaware ("DGCL") grants corporations the right to limit or eliminate the personal liability of their directors in certain circumstances in accordance with provisions therein set forth. The Company's Third Restated Certificate of Incorporation contains a provision eliminating or limiting director liability to the Company and its stockholders for monetary damages arising from acts of omissions in the director's capacity as a director. The provision does not, however, eliminate or limit the personal liability of a director (i) for any breach of such director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Delaware statutory provision making directors personally liable, under a negligence standard, for unlawful dividends or unlawful stock purchases or redemptions, or (iv) for any transaction from which the director derived an improper personal benefit. This provision offers persons who serve on the Board of Directors of the Company protection against awards of monetary damages resulting from breaches of their duty of care (except as indicated above). As a result of this provision, the ability of the Company or a stockholder thereof to successfully prosecute an action against a director for a breach of his duty of care is limited. However, the provision does not affect the availability of equitable remedies such as an injunction or rescission based upon a director's breach of his duty of care. The Commission has taken the position that the provision will have no effect on claims arising under the federal securities laws.

Section 145 of the DGCL grants corporations the right to indemnify their directors, officers, employees and agents in accordance with the provisions therein set forth. The Company's Second Amended and Restated By-laws provide for mandatory indemnification rights, subject to limited exceptions, to any director, officer, employee, or agent of the Company who, by reason of the fact that he or she is a director, officer, employee, or agent of the Company, is involved in a legal proceeding of any nature. Such indemnification rights include reimbursement for expenses incurred by such director, officer, employee, or agent in advance of the final disposition of such proceeding in accordance with the applicable provisions of the DGCL.

The Company has agreed to indemnify all of its directors and executive officers against liability incurred by them by reason of their services as a director to the fullest extent allowable under applicable law. In addition, the Company has purchased insurance containing customary terms and conditions as permitted by Delaware law on behalf of its directors and officers, which may cover liabilities under the Securities Act.

ITEM 16. FINANCIAL STATEMENTS AND EXHIBITS

(a) Exhibits:

<TABLE>
<CAPTION>

EXHIBIT NO.		DESCRIPTION
<C>	<C>	<S>
(1)	--	Form of Underwriting Agreement.
(2)-1	--	Agreement and Plan of Merger, dated as of January 20, 1997 as amended by Amendment No. 1 dated as of May 21, 1997, among MedPartners, Inc., SeaBird Merger Corporation and InPhyNet Medical Management Inc., filed as Exhibit (2)-1 to the Company's Registration Statement on Form S-4 (Registration No. 333-24639), is hereby incorporated herein by reference.
(3)-1	--	MedPartners, Inc. Third Restated Certificate of Incorporation, filed as Exhibit (3)-1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, is hereby incorporated herein by reference.
(3)-2	--	MedPartners, Inc. Second Amended and Restated Bylaws, filed as Exhibit (3)-2 to the Company's Registration Statement on Form S-1 (Registration No. 333-12465), is hereby incorporated herein by reference.
(4)-1	--	MedPartners, Inc. Rights Agreement, filed as Exhibit (4)-1 to the Company's Registration Statement on Form S-4 (Registration No. 33-00774), is hereby incorporated herein by reference.
(4)-2	--	Amendment No. 1 to the Rights Plan of MedPartners, Inc., filed as Exhibit (4)-2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996, is hereby incorporated herein by reference.
(4)-3	--	Amendment No. 2 to the Rights Agreement of MedPartners, Inc., filed as Exhibit (4)-2 to the Company's Registration Statement on Form S-3 (Registration No. 333-17339), is hereby incorporated herein by reference.
(4)-4	--	Form of Trust Indenture.
(5)	--	Opinion of Haskell Slaughter & Young L.L.C., as to the legality of the Notes.
(12)	--	Statement re: computation of ratios.
(23)-1	--	Consent of Ernst & Young LLP filed as Exhibit 23 to the Company's Current Report on Form 8-K filed August 27, 1997, is hereby incorporated by reference.
(23)-2	--	Consent of Haskell Slaughter & Young L.L.C. (included in the opinion filed as Exhibit (5)).
(24)	--	Powers of Attorney.+
(25)	--	Statement of Eligibility of Trustee.

</TABLE>

+ Previously filed.

(b) Financial Statements Schedule:

None are applicable.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to Item 14 hereof, or otherwise,the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against

public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497 (h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Birmingham, State of Alabama on September 11, 1997.

MEDPARTNERS, INC.

By: /s/ LARRY R. HOUSE
Larry R. House
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 2 to the Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

SIGNATURE	CAPACITY	DATE
<C>	<S>	<C>
/s/ LARRY R. HOUSE Larry R. House	Chairman of the Board and Chief Executive Officer and Director	September 11, 1997
/s/ HAROLD O. KNIGHT, JR. Harold O. Knight, Jr.	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 11, 1997
/s/ RICHARD M. SCRUSHY Richard M. Scrushy	Director	September 11, 1997
/s/ LARRY D. STRIPLIN, JR. Larry D. Striplin, Jr.	Director	September 11, 1997

/s/ CHARLES W. NEWHALL, III Charles W. Newhall, III	Director	September 11, 1997
/s/ TED H. MCCOURTNEY Ted H. McCourtney	Director	September 11, 1997
/s/ WALTER T. MULLIKIN, M.D. Walter T. Mullikin, M.D.	Director	September 11, 1997
/s/ JOHN S. MCDONALD, J.D. John S. McDonald, J.D.	Director	September 11, 1997
/s/ ROSALIO J. LOPEZ, M.D. Rosalio J. Lopez, M.D.	Director	September 11, 1997

SIGNATURE	CAPACITY	DATE
/s/ C.A. LANCE PICOLO C.A. Lance Picolo	Director	September 11, 1997
/s/ ROGER L. HEADRICK Roger L. Headrick	Director	September 11, 1997
/s/ HARRY M. JANSEN KRAEMER, JR. Harry M. Jansen Kraemer, Jr.	Director	September 11, 1997

EXHIBIT 1

Draft of 09/10/97

$350,000,000

MEDPARTNERS, INC.

___% SENIOR SUBORDINATED NOTES DUE _____, 2000

UNDERWRITING AGREEMENT

September ___, 1997

SMITH BARNEY INC.
CREDIT SUISSE FIRST BOSTON CORPORATION
MERRILL LYNCH, PIERCE,
FENNER & SMITH INCORPORATED
J.P. MORGAN SECURITIES INC.
NATIONSBANC CAPITAL MARKETS, INC.

c/o SMITH BARNEY INC.
388 Greenwich Street
New York, New York 10013

Dear Sirs:

MedPartners, Inc., a Delaware corporation (the "Company"), proposes, upon the terms and conditions set forth herein, to issue and sell $350,000,000 aggregate principal amount of its ___% Senior Subordinated Notes due _____, 2000 (the "Notes") to Smith Barney Inc., Credit Suisse First Boston Corporation, Merrill Lynch, Pierce Fenner & Smith Incorporated, J.P. Morgan Securities Inc. and NationsBanc Capital Markets, Inc. (collectively, the "Underwriters"). The Notes will be issued pursuant to the provisions of an Indenture to be dated as of September ___, 1997 (the "Indenture") between the Company and PNC Bank, Kentucky, Inc., as Trustee (the "Trustee").

The Company wishes to confirm as follows its agreement with the Underwriters, in connection with the several purchases by the Underwriters of the Notes.

1. Registration Statement and Prospectus.

The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") in accordance with the provisions of the

Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Act"), a registration statement on Form S-3 (File No. 333-30923)

under the Act (the "registration statement"), including a prospectus subject to completion relating to the Notes. The term "Registration Statement" as used in this Agreement means the registration statement (including all financial schedules and exhibits), as amended at the time it becomes effective, or, if the registration statement became effective prior to the execution of this Agreement, as supplemented or amended prior to the execution of this Agreement. If it is contemplated, at the time this Agreement is executed, that a post-effective amendment to the registration statement will be filed and must be declared effective before the offering of the Notes may commence, the term "Registration Statement" as used in this Agreement means the registration statement as amended by said post-effective amendment. If an additional registration statement is prepared and filed with the Commission in accordance with Rule 462(b) under the Act (an "Additional Registration Statement"), the term "Registration Statement" as used in this Agreement includes the Additional Registration Statement.

The term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement, or, if the prospectus included in the Registration Statement omits information in reliance on Rule 430A under the Act and such information is included in a prospectus filed with the Commission pursuant to Rule 424(b) under the Act, the term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement as supplemented by the addition of the Rule 430A information contained in the prospectus filed with the Commission pursuant to Rule 424(b). The term "Prepricing Prospectus" as used in this Agreement means the prospectus subject to completion in the form included in the registration statement at the time of the initial filing of the registration statement with the Commission, and as such prospectus shall have been amended from time to time prior to the date of the Prospectus. Any reference herein to the registration statement, the Registration Statement, any Prepricing Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Form S-3 under the Act, as of the date of the registration statement, the Registration Statement, such Prepricing Prospectus or the Prospectus, as the case may be, and any reference to any amendment or supplement to the registration statement, the Registration Statement, any Prepricing Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after such date under the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Exchange Act") and deemed incorporated by reference pursuant to Form S-3 under the Act. As used herein, the term "Incorporated Documents" means the documents which at the time are incorporated by reference in the registration statement, the Registration Statement, any Prepricing

Prospectus, the Prospectus or any amendment or supplement thereto.

2. Agreements to Sell and Purchase. The Company hereby agrees, subject to all the terms and conditions set forth herein, to issue and sell to the Underwriters and, upon the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions set forth herein, each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price of ___% of the principal amount thereof, the principal amount of the Notes set forth opposite the name of such Underwriter in Schedule I hereto (or such principal amount of Notes increased as set forth in Section 10 hereof).

3. Terms of Public Offering. The Company has been advised by the Underwriters that the Underwriters propose to make a public offering of their respective portions of the Notes as soon after the Registration Statement and this Agreement have become effective as in their judgment is advisable and initially to offer the Notes upon the terms set forth in the Prospectus.

4. Delivery of the Notes and Payment Therefor. Delivery to the Underwriters of and payment for the Notes shall be made at the office of Smith Barney Inc., 388 Greenwich Street, New York, New York 10013, at 10:00 A.M., New York City time, on September ___, 1997 (the "Closing Date"). The place of closing for the Notes and the Closing Date may be varied by agreement between the Underwriters and the Company.

The Notes will be delivered to the Underwriters against payment of the purchase price therefor specified in Section 2 hereof by wire transfer to an account previously designated to Smith Barney Inc. by the Company of Federal (same day) funds and registered in such names and in such denominations as the Underwriters shall request prior to 1:00 P.M., New York City time, on the second business day preceding the Closing Date. The Notes to be delivered to the Underwriters shall be made available to the Underwriters in New York City for inspection and packaging not later than 9:30 A.M., New York City time, on the business day next preceding the Closing Date.

5. Agreements of the Company. The Company agrees with the several Underwriters as follows:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or a post-effective amendment thereto or any Additional Registration Statement to be declared effective before the offering of the Notes may commence, the Company will endeavor to cause the Registration Statement or such post-effective amendment to become effective as soon as possible and will advise the Underwriters promptly and, if requested by

the Underwriters, will confirm such advice in writing, when the Registration Statement or such post-effective amendment has become effective.

(b) The Company will advise the Underwriters promptly and, if requested by the Underwriters, will confirm such advice in writing: (A) of any request by the Commission for amendment of or a supplement to the Registration Statement, any Prepricing Prospectus or the Prospectus or for additional information; (B) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the suspension of qualification of the Notes for offering or sale in any jurisdiction or the initiation of any proceeding for such purpose; and (C) within the period of time referred to in paragraph (f) below, of any change in the Company's condition (financial or other), business, prospects, properties, net worth or results of operations, or of the happening of any event, including the filing of any information, documents or reports pursuant to the Exchange Act, that makes any statement of a material fact made in the Registration Statement or the Prospectus (as then amended or supplemented) untrue or

which requires the making of any additions to or changes in the Registration Statement or the Prospectus (as then amended or supplemented) in order to state a material fact required by the Act or the regulations thereunder to be stated therein or necessary in order to make the statements therein not misleading, or of the necessity to amend or supplement the Prospectus (as then amended or supplemented) to comply with the Act or any other law. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, the Company will make every reasonable effort to obtain the withdrawal of such order at the earliest possible time.

(c) The Company will furnish to the Underwriters, without charge (A) six signed copies of the registration statement as originally filed with the Commission and of each amendment thereto, including financial statements and all schedules, exhibits and Incorporated Documents thereto, to the registration statement, (B) such number of conformed copies of the registration statement as originally filed and of each amendment thereto, but without exhibits and Incorporated Documents, as the Underwriters may request and (C) such number of copies of the Indenture as the Underwriters may request.

(d) The Company will not (A) file any amendment to the Registration Statement or make any amendment or supplement to the Prospectus of which the Underwriters shall not previously have been advised or to which the Underwriters shall object after being so advised or (B) so long as, in the opinion of counsel for the Underwriters, a Prospectus is required to be delivered in connection with sales by any Underwriter or dealer, file any information, documents or reports pursuant to the Exchange Act which upon

filing will become an Incorporated Document, without delivering a copy of such information, documents or reports to the Underwriters, prior to or concurrently with such filing.

(e) Prior to the execution and delivery of this Agreement, the Company has delivered to the Underwriters, without charge, in such quantities as the Underwriters have requested, copies of each form of the Prepricing Prospectus. The Company consents to the use, in accordance with the provisions of the Act and with the securities or Blue Sky laws of the jurisdictions in which the Notes are offered by the several Underwriters and by dealers, prior to the date of the Prospectus, of each Prepricing Prospectus so furnished by the Company.

(f) As soon after the execution and delivery of this Agreement as possible and thereafter from time to time for such period as in the opinion of counsel for the Underwriters a prospectus is required by the Act to be delivered in connection with sales by any Underwriter or dealer, the Company will expeditiously deliver to each Underwriter and each dealer, without charge, as many copies of the Prospectus (and of any amendment or supplement thereto) as the Underwriters may request. The Company consents to the use of the Prospectus (and of any amendment or supplement thereto) in accordance with the provisions of the Act and with the securities or Blue Sky laws of the jurisdictions in which the Notes are offered by the several Underwriters and by all dealers to whom the Notes may be sold, both in connection with the offering and sale of the Notes and for such period of time thereafter as the Prospectus is required by the Act to be delivered in connection with sales by any Underwriter or dealer. If during such period of

time any event shall occur that in the judgment of the Company or in the opinion of counsel for the Underwriters is required to be set forth in the Prospectus (as then amended or supplemented) or should be set forth therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary to supplement or amend the Prospectus or to file under the Exchange Act any document which upon filing becomes an Incorporated Document, to comply with the Act or any other law, the Company will forthwith prepare and, subject to the provisions of paragraph (d) above, file with the Commission an appropriate supplement or amendment thereto or Incorporated Document, and will expeditiously furnish to the Underwriters and dealers a reasonable number of copies thereof. In the event that the Company and the Underwriters agree that the Prospectus should be amended or supplemented or that a document should be filed under the Exchange Act that upon filing becomes an Incorporated Document, the Company, if requested by the Underwriters, will promptly issue a press release announcing or disclosing the matters to be covered by the proposed amendment or supplement

or such document.

(g) The Company will cooperate with the Underwriters and with counsel for the Underwriters in connection with the registration or qualification of the Notes for offering and sale by the several Underwriters and by dealers under the securities or Blue Sky laws of such jurisdictions as the Underwriters may designate and will file such consents to service of process or other documents necessary or appropriate in order to effect such registration or qualification; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now otherwise required to be so qualified or to take any action which would subject it to service of process in suits, other than those arising out of the offering or sale of the Notes, in any jurisdiction where it is not now so subject.

(h) The Company will make generally available to its security holders a consolidated earnings statement, which need not be audited, covering a twelve-month period commencing after the effective date of the Registration Statement and ending not later than 15 months thereafter, as soon as practicable after the end of such period, which consolidated earnings statement shall satisfy the provisions of Section 11(a) of the Act.

(i) So long as any of the Notes are outstanding, the Company will furnish to the Underwriters (A) as soon as available, a copy of each report of the Company mailed to stockholders or Noteholders or filed with the Commission or the New York Stock Exchange and (B) from time to time such other information concerning the Company as the Underwriters may request.

(j) If this Agreement shall terminate or shall be terminated after execution pursuant to any provisions hereof (otherwise than pursuant to the second paragraph of Section 10 hereof or by notice given by the Underwriters terminating this Agreement pursuant to Section 10 or Section 11 hereof) or if this Agreement shall be terminated by the Underwriters because of any failure or refusal on the part of the Company to comply with the terms or fulfill any of the conditions of this Agreement, the Company agrees to reimburse the Underwriters for all out-of-pocket expenses (including

fees and expenses of counsel for the Underwriters) incurred by the Underwriters in connection herewith.

(k) The Company will apply the net proceeds from the sale of the Notes in accordance with the description set forth in "Use of Proceeds" in the Prospectus.

(l) If Rule 430A of the Act is employed, the Company will timely file the

Prospectus pursuant to Rule 424(b) under the Act and will advise the Underwriters of the time and manner of such filing.

(m) Except as stated in this Agreement and in the Prepricing Prospectus and Prospectus, the Company has not taken, nor will it take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Notes to facilitate the sale or resale of the Notes.

6. Representations and Warranties of the Company. The Company represents and warrants to each Underwriter that:

(a) The execution and delivery of, and the performance by the Company of its obligations under, this Agreement have been duly and validly authorized by the Company, and this Agreement has been duly executed and delivered by the Company and constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except as enforcement of rights to indemnity and contribution hereunder may be limited by federal or state securities laws or principles of public policy and subject to the qualification that the enforceability of the Company's obligations hereunder may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally, and by general equitable principles.

(b) Each Prepricing Prospectus included as part of the registration statement as originally filed or as part of any amendment or supplement thereto, or filed pursuant to Rule 424 under the Act, complied when so filed in all material respects with the provisions of the Act. The Commission has not issued any order preventing or suspending the use of any Prepricing Prospectus.

(c) The Company meets the requirements for use of Form S-3 under the Act. The registration statement in the form in which it became or becomes effective and also in such form as it may be when any post-effective amendment thereto or any Additional Registration Statement shall become effective, and the Prospectus and any supplement or amendment thereto when filed with the Commission under Rule 424(b) under the Act, complied or will comply in all material respects with the provisions of the Act and did not or will not at any such times contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, except that this representation and warranty does not apply to statements in or omissions from the registration statement or the Prospectus made in reliance upon and in conformity with (A) information relating to any Underwriter furnished to the Company in writing by or on behalf of any Underwriter expressly for use

therein or (B) the Trustee's Statement of Eligibility and Qualification (Form T-1) under the Trust Indenture Act of 1939, as amended (the "1939 Act").

(d) The Company has not distributed and, prior to the later to occur of (A) the Closing Date and (B) completion of the distribution of the Notes, will not distribute any offering material in connection with the offering and sale of the Notes other than the Registration Statement, the Prepricing Prospectus, the Prospectus or other materials, if any, permitted by the Act.

(e) The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and to conduct its business as presently conducted and as disclosed in the Registration Statement and the Prospectus, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not and will not have a material adverse effect on the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company and the Subsidiaries (as hereinafter defined) taken as a whole (a "Material Adverse Effect").

(f) All the Company's subsidiaries (as defined in the Act but excluding those subsidiaries which when considered in the aggregate as a single subsidiary would not constitute a "significant subsidiary" (as defined in the Act)) are referred to herein individually as a "Subsidiary" and collectively as the "Subsidiaries". Each Subsidiary that is a corporation is duly organized, validly existing and in good standing in the jurisdiction of its incorporation, and each Subsidiary that is a partnership, association or business organization is legally formed and validly existing under the laws of the jurisdiction of its organization. Each Subsidiary has full corporate or organizational power and authority to own, lease and operate its properties and to conduct its business as presently conducted. Each Subsidiary is duly registered and qualified to conduct its business (and, if a corporation, is in good standing) in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not and will not have a Material Adverse Effect; all the outstanding shares of capital stock of each Subsidiary which is a corporation have been duly authorized and validly issued, are fully paid and nonassessable, and all ownership interests in each Subsidiary which is not a corporation have been validly created pursuant to the partnership or other agreements or organizational documents of each such Subsidiary, and, except as disclosed in the Prospectus, the shares or other interests owned by the Company are owned by the Company directly, or indirectly through one of the other Subsidiaries, free and clear of any lien, adverse claim, security interest, equity or other encumbrance.

(g) The Indenture has been duly and validly authorized and, upon its execution and delivery by the Company and assuming due execution and delivery

by the Trustee, will be a valid and binding agreement of the Company, enforceable in accordance with its terms, except to the extent that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or

affecting creditors' rights generally, and by general equitable principles; and the Indenture has been duly qualified under the 1939 Act and conforms to the description thereof in the Registration Statement and the Prospectus.

(h) The Notes have been duly authorized and, when executed by the Company and authenticated by the Trustee in accordance with the Indenture and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will have been validly issued and delivered, and will constitute valid and binding obligations of the Company entitled to the benefits of the Indenture and enforceable in accordance with their terms, except to the extent that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally, and by general equitable principles; and the Notes will conform to the description thereof in the Registration Statement and the Prospectus.

(i) The authorized and outstanding capital stock of the Company is as set forth under the caption "Capitalization" in the Prospectus and all the outstanding shares of Common Stock, par value $.001 per share, of the Company (A) have been duly authorized and validly issued, (B) are fully paid and nonassessable, (C) are free of any preemptive or similar rights and (D) have been issued and sold in compliance with all applicable federal and state securities laws.

(j) Except as disclosed in the Prospectus, there are no outstanding options, warrants or other rights calling for the issuance of, nor any commitment, plan or arrangement to issue, any shares of capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company.

(k) No holder of any security of the Company or any other person has the right, contractual or otherwise, which right has not been fully complied with or waived in writing by the holder thereof with evidence of such waiver heretofore delivered to the Underwriters, (A) to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, the Notes, (B) to have any securities of the Company included in the registration statement or (C) as a result of the filing of the registration statement or consummation of the transactions contemplated by this Agreement, to require registration under the Act of any securities of the Company.

(l) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened, against the Company or any of the Subsidiaries, or to which the Company or any of the Subsidiaries, or to which any of their respective properties is subject, that are required to be disclosed in the Registration Statement or the Prospectus but are not disclosed as required, and there are no agreements, indentures, leases or other instruments that are required to be disclosed in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement or an Incorporated Document that are not disclosed or filed as required by the Act or the Exchange Act.

(m) Neither the Company nor any of the Subsidiaries is (A) in violation of its respective certificate or articles of incorporation or by-laws, or other organizational

documents; (B) in violation of any statute, law, regulation, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Subsidiaries or of any order, ruling, judgment, injunction, order or decree of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties; or (C) in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, and no condition or state of facts exists, which with the passage of time or the giving of notice or both, would constitute such a default, except in the case of (B) and (C) above, for such violations or defaults which, individually or in the aggregate, would not have a Material Adverse Effect.

(n) Neither (i) the issuance, offer, sale or delivery of the Notes, the execution, delivery or performance of this Agreement and the Indenture by the Company, the compliance by the Company with the provisions hereof and thereof nor (ii) the consummation by the Company of the transactions contemplated hereby and thereby (A) requires any consent, approval, authorization or other order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as may be required for the registration of the Notes under the Act and the Exchange Act, the qualification of the Indenture under the 1939 Act and compliance with the securities or Blue Sky laws of various jurisdictions, all of which have been or will be effected in accordance with this Agreement); (B) conflicts or will conflict with or constitutes or will constitute a breach or violation of, or a default under, the certificate or articles of incorporation or by-laws, or other organizational documents, of the Company or any of the

Subsidiaries; (C) conflicts or will conflict with or constitutes or will constitute a breach or violation of, or a default under, any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound; (D) violates or will violate any statute, law, regulation, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Subsidiaries or any order, ruling, judgment, injunction, or decree of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties; or (E) will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to the terms of any agreement or instrument to which any of them is a party or by which any of them may be bound or to which any of the property or assets of any of them is subject.

(o) The conduct of the business of the Company and each of the Subsidiaries as presently conducted and as disclosed in the Prospectus complies with all applicable laws, ordinances and administrative or governmental rules or regulations applicable to the Company and each Subsidiary and with all orders, rulings, judgments or decrees of any courts or governmental agencies or bodies having jurisdiction over the Company and each Subsidiary. To the Company's knowledge, each affiliated physician group, affiliated medical group and independent practice association (as such terms are used in the Prospectus and hereinafter referred to collectively, as the "Affiliated Groups")

is operating in material compliance with all applicable health care laws, rules and regulations, including, without limitation, those relating to reimbursement by government agencies and fraudulent or wrongful billings, and no physician in an Affiliated Group is practicing in conflict with or violation of any such laws, rules or regulations.

(p) Except as disclosed in the Prospectus, to the Company's knowledge, none of the Company, any of the Subsidiaries, any employee or agent of the Company or any Subsidiary or any physician in any Affiliated Group has made any payment of funds or received or retained any funds in violation of any law, rule or regulation, including laws and regulations prohibiting fee-splitting or fees for the referral of patients.

(q) Except as disclosed in the Prospectus, there are no Medicare, Medicaid, or any other managed care recoupment or recoupments of any third-party payor being sought, threatened, requested or claimed against the Company, any of the Subsidiaries or to the Company's knowledge, any Affiliated Group or any physician in any Affiliated Group, which individually or in the aggregate could result in a Material Adverse Effect.

(r) No labor dispute with the employees of the Company or any of the Subsidiaries exists or, to the knowledge of the Company, is imminent.

(s) All employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) established, maintained or contributed to by the Company or any of the Subsidiaries (the "Plans") comply in all material respects with requirements of ERISA and the Internal Revenue Code of 1986, as amended (the "Code"). With respect to the Plans, neither the Company nor any of the Subsidiaries has any liability, contingent or otherwise, under ERISA or the Code, nor does the Company expect that any such liability will be incurred, that could, singly or in the aggregate, have a Material Adverse Effect and no employee pension benefit plan (as defined in Section 3(2) of ERISA) has incurred or assumed an "accumulated funding deficiency" within the meaning of Section 302 of ERISA or has incurred or assumed any material liability (other than for the payment of premiums) to the Pension Benefit Guaranty Corporation.

(t) The Company and each of the Subsidiaries has good and marketable title to all property (real and personal) disclosed in the Prospectus as being owned by it, free and clear of all liens, claims, security interests or other encumbrances, except such as are disclosed in the Registration Statement and the Prospectus or in a document filed as an exhibit to the Registration Statement or an Incorporated Document and all the property disclosed in the Prospectus as being held under lease by the Company and each of the Subsidiaries is held by it under valid, subsisting and enforceable leases.

(u) The Company and each of the Subsidiaries, and to the Company's knowledge, each Affiliated Group has such consents, approvals, permits, licenses, franchises and authorizations of governmental or regulatory authorities ("permits") as are necessary to own its respective properties and to conduct its business as presently

conducted, subject to such qualifications as may be set forth in the Prospectus; the Company and each of the Subsidiaries, and to the Company's knowledge, each Affiliated Group has fulfilled and performed all of its material obligations with respect to such permits and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or result in any other material impairment of the rights of the holder of any such permit, subject in each case to such qualification as may be set forth in the Prospectus; and, except as disclosed in the Prospectus, none of such permits contains any restriction that is materially burdensome to the Company, any of the Subsidiaries or any Affiliated Group.

(v) The Company and the Subsidiaries own or possess all patents, trademarks, trademark registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights disclosed in the Prospectus as being owned by them or any of them or necessary for the conduct of their respective businesses, and the Company is not aware of any claim to the contrary or any challenge by any other person to the rights of the Company and the Subsidiaries with respect to the foregoing.

(w) The Company and each of the Subsidiaries, and to the Company's knowledge, each of the Affiliated Groups is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are customary in the businesses or professions in which they are engaged; all policies of insurance insuring the Company and/or the Subsidiaries or their respective businesses, assets, employees, officers and directors and to the Company's knowledge, the Affiliated Groups are in full force and effect; the Company and each of the Subsidiaries, and to the Company's knowledge, each of the Affiliated Groups are in compliance with the terms of such policies and instruments in all material respects; and there are no claims by the Company or any of the Subsidiaries, or to the Company's knowledge, any of the Affiliated Groups under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause.

(x) Except as disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), neither the Company nor any of the Subsidiaries has incurred any liability or obligation, direct or contingent, or entered into any transaction, not in the ordinary course of business, that is material to the Company and the Subsidiaries taken as a whole, and there has not been any change in the capital stock, or material increase in the short-term debt or long-term debt, of the Company or any of the Subsidiaries, or any material adverse change, or any development having or which may reasonably be expected to have a Material Adverse Effect.

(y) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (C)

access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is

taken with respect to any differences.

(z) The Company and each of the Subsidiaries have duly filed with appropriate governmental authorities all tax returns required to be filed, which returns are complete and correct, and neither the Company nor any Subsidiary is in default in the payment of any taxes which were payable pursuant to said returns or any assessments with respect thereto and there is no tax deficiency that has been asserted against the Company or any Subsidiary that would, if adversely determined, have a Material Adverse Effect.

(aa) The historical financial statements, together with related schedules and notes included and incorporated by reference in the Registration Statement and the Prospectus (and any amendment or supplement thereto), present fairly the information shown therein on the basis stated therein at the respective dates or for the respective periods to which they apply; such statements and related schedules and notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein;[the pro forma financial statements and other pro forma financial information included and incorporated by reference in the Registration Statement and the Prospectus (and any amendment or supplement thereto) present fairly the information shown therein, have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and have been properly compiled on the pro forma bases described therein and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions or circumstances referred to therein;] and the other financial and statistical information and data included in the Registration Statement and the Prospectus (and any amendment or supplement thereto) are accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Company and the Subsidiaries.

(ab) The accountants Ernst & Young LLP who have certified or shall certify the consolidated financial statements of the Company [and InPhyNet Medical Management Inc.] included and incorporated by reference in the Registration Statement and the Prospectus (or any amendment or supplement thereto) are independent public accountants as required by the Act and the Exchange Act.

(ac) There has been no storage, disposal, generation, manufacture, refinement, transportation, handling or treatment of medical wastes or hazardous substances by the Company or any of the Subsidiaries (or, to the knowledge of the Company, any of its predecessors in interest) at, upon or from any of the property now or previously owned or leased by the Company or any of the Subsidiaries, in violation of any applicable law, ordinance, rule, regulation, order, judgment, decree or permit or which would require remedial action under any applicable law, ordinance, rule, regulation, order, judgment, decree or permit, except for any violation or remedial action which would not have, or could not be reasonably likely to have, singularly or in the aggregate with all such violations and remedial actions, a Material Adverse Effect; there has been no material spill, discharge, leak, emission, injection, escape, dumping or release of any kind onto such property or of any medical wastes or hazardous substances due to or caused by the Company or any of the Subsidiaries

or with respect to which the Company or any of the Subsidiaries had knowledge, except for any such spill, discharge, leak, emission, injection, escapes, dumpings or releases which would not have or would not be reasonably likely to have, singularly or in the

aggregate with all such spills, discharges, leaks, emissions, injections, escapes, dumpings or releases, a Material Adverse Effect; and the terms "hazardous substances" and "medical wastes" shall have the meanings specified in any applicable local, state, federal and foreign laws or regulations with respect to environmental protection.

(ad) The Company is not now, and after sale of the Notes to be sold by it hereunder and application of the net proceeds from such sale as disclosed in the Prospectus under the caption "Use of Proceeds" will not be, an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act").

(ae) The Company has complied with all provisions of Florida Statutes, Section 517.075, relating to issuers doing business with Cuba.

(af) The Incorporated Documents heretofore filed were filed in a timely manner and, when they were filed (or, if any amendment with respect to any such document was filed, when such amendment was filed), conformed in all material respects to the requirements of the Exchange Act and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and any further Incorporated Documents will, when so filed, be filed in a timely manner and conform in all material respects to the requirements of the Exchange Act and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(ag) Neither the Company nor any of the Subsidiaries (A) employs any of the physicians in any Affiliated Group, (B) exercises any influence or control over the practice of medicine by such physicians, or (C) represents to the public that it offers medical services; and the Company and each of the Subsidiaries contracts with the physicians or Affiliated Groups as independent contractors to provide medical services and is not engaged in the practice of medicine.

(ah) Each of the practice management agreements, to which the Company and/or any of its subsidiaries is a party and which is currently in effect (each a "Practice Management Agreement") has been duly authorized, executed and delivered by the Company and each Subsidiary which is a party to said agreement

and is a valid, legal and binding agreement of the Company and each such Subsidiary enforceable against the Company and such Subsidiary in accordance with its terms; and the business of the Company and the Subsidiaries as presently conducted, and the terms of each of the Practice Management Agreements and the performance thereof by the Company and the

Subsidiaries which are party thereto, do not violate any statute, administrative or governmental rule or regulation applicable to the Company or such Subsidiaries or laws prohibiting the corporate practice of medicine, fee-splitting or fees for the referral of patients, or any orders, rulings, judgments or decrees of any courts or governmental agencies or bodies having jurisdiction over the Company and/or the Subsidiaries.

7. Indemnification and Contribution.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, and the agents, employees, officers and directors of each Underwriter and each such controlling person, from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Prepricing Prospectus or in the Registration Statement or the Prospectus or in any amendment or supplement thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon any untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to such Underwriter furnished in writing to the Company by or on behalf of any Underwriter through the Underwriters expressly for use in connection therewith; provided, however, that the indemnification contained in this paragraph (a) with respect to any Prepricing Prospectus shall not inure to the benefit of any Underwriter (or to the benefit of any person controlling such Underwriter or any agent, employee, officer or director of such Underwriter or such controlling person) on account of any such loss, claim, damage, liability or expense arising from the sale of the Notes by such Underwriter to any person if a copy of the Prospectus shall not have been delivered or sent to such person within the time required by the Act and the regulations thereunder, and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such Prepricing Prospectus was corrected in the Prospectus, provided that the Company has

delivered the Prospectus to the several Underwriters in requisite quantity on a timely basis to permit such delivery or sending. The foregoing indemnity agreement shall be in addition to any liability which the Company may otherwise have.

(b) If any action, suit or proceeding shall be brought against any person (the "indemnified party") entitled to indemnification pursuant to the preceding paragraph in respect of which indemnity may be sought against the Company pursuant to the provisions of the preceding paragraph, such indemnified party shall promptly notify the Company, and the Company shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses. Such indemnified party shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (A) the Company has agreed in writing to pay such fees and expenses, (B) the Company has failed to assume the defense and

employ counsel, or (C) the named parties to any such action, suit or proceeding (including any impleaded parties) include both such indemnified party and the Company and such indemnified party shall have been advised by its counsel that representation of such indemnified party and any the Company by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the Company shall not have the right to assume the defense of such action, suit or proceeding on behalf of such indemnified party). It is understood, however, that the Company shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local counsel) at any time for all such indemnified parties not having actual or potential differing interests with the Underwriters or among themselves, which firm shall be designated in writing by Smith Barney Inc., and that all such fees and expenses shall be reimbursed as they are incurred. The Company shall not be liable for any settlement of any such action, suit or proceeding effected without its written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, suit or proceeding, the Company agrees to indemnify and hold harmless any indemnified party, to the extent provided in the preceding paragraph, from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment.

(c) Each Underwriter agrees, severally and not jointly, to indemnify and

hold harmless the Company, its directors, its officers who sign the Registration Statement, and any person who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, and the agents and employees of the Company and each such controlling person, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with respect to information relating to such Underwriter furnished in writing by or on behalf of such Underwriter through the Underwriters expressly for use in the Registration Statement, the Prospectus or any Prepricing Prospectus, or any amendment or supplement thereto. If any action, suit or proceeding shall be brought against the Company, any of its directors, any such officer, or any such controlling person or any agent or employee of the Company or any such controlling person, based on the Registration Statement, the Prospectus or any Prepricing Prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against any Underwriter pursuant to this paragraph (c), such Underwriter shall have the rights and duties given to the Company by paragraph (b) above (except that if the Company shall have assumed the defense thereof such Underwriter shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at such Underwriter's expense), and the Company, any of its directors, any such officer, and any such controlling person, and any agents and employees of the Company and each such controlling person, shall have the rights and duties given to the Underwriters by paragraph (b) above.

(d) If the indemnification provided for in this Section 7 is unavailable to an indemnified party under paragraphs (a) or (c) hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein, then an indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses (A) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Notes, or (B) if the allocation provided by clause (A) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (A) above but also the relative fault of the Company on the one hand and the Underwriters on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other hand shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company

on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by the Underwriters on the other hand and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by a pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in paragraph (d) above shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating any claim or defending any such action, suit or proceeding. Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total principal amount of the Notes underwritten by it and distributed to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 7 are several in proportion to the respective principal amounts of Notes set forth opposite their names in Schedule I hereto (or such principal amounts of Notes increased as set forth in Section 10 hereof) and not joint.

(f) No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

(g) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 7 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The

indemnity and contribution agreements contained in this Section 7 and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect, regardless of (A) any investigation made by or on behalf of any indemnified party, the Company, its directors and officers, and any person who controls the Company, and the agents and employees of the Company and each such controlling person, (B) acceptance of any Notes and payment therefor hereunder, and (C) any termination of this Agreement. A successor to any Underwriter or any person controlling any Underwriter, or to the Company, its directors or officers, any person who controls the Company, and the agents and employees of the Company and each such controlling person shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 7.

8. Conditions of Underwriters' Obligations. The several obligations of the Underwriters to purchase the Notes hereunder are subject to the following conditions:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto or an Additional Registration Statement to be declared effective before the offering of the Notes may commence, the registration statement or such post-effective amendment or Additional Registration Statement shall have become effective not later than 5:30 P.M., New York City time, on the date hereof, or at such later date and time as shall be consented to in writing by the Underwriters, and all filings, if any, required by Rules 424 and 430A under the Act shall have been timely made; no stop order suspending the effectiveness of the registration statement shall have been issued and no proceeding for that purpose shall have been instituted or, to the knowledge of the Company or any Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the registration statement or the prospectus or otherwise) shall have been complied with to the Underwriters satisfaction.

(b) Subsequent to the effective date of this Agreement, there shall not have occurred (A) any change, or any development involving a prospective change, in or affecting the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company or the Subsidiaries not contemplated by the Prospectus, which in the Underwriters' opinion would materially adversely affect the market for the Notes, or (B) any event or development relating to or involving the

Company or any officer or director of the Company which makes any statement made in the Prospectus untrue or which, in the opinion of the Company and its counsel or the Underwriters and their counsel, requires the making of any

addition to or change in the Prospectus in order to state a material fact required by the Act or any other law to be stated therein or necessary in order to make the statements therein not misleading, if amending or supplementing the Prospectus to reflect such event or development would, in the opinion of the Underwriters materially adversely affect the market for the Notes.

(c) The Underwriters shall have received on the Closing Date an opinion of Haskell Slaughter & Young, L.L.C., counsel for the Company, dated the Closing Date and addressed to the Underwriters to the effect that:

(i) The Company is a corporation duly incorporated and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and to conduct its business as presently conducted and as disclosed in the Registration Statement and the Prospectus, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not and will not have a Material Adverse Effect;

(ii) To the best knowledge of such counsel, after reasonable inquiry, the Company has no subsidiaries other than the Subsidiaries. Each Significant Subsidiary (as defined in Schedule II hereto) is duly organized, validly existing and in good standing in the jurisdiction of its incorporation, if a corporation, and is legally formed and validly existing under the laws of the jurisdiction of its organization, if a partnership, association or business organization, with full corporate or organizational power and authority to own, lease and operate its properties and to conduct its business as presently conducted. Each Significant Subsidiary is duly registered and qualified to conduct its business (and, if a corporation, is in good standing) in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not and will not have a Material Adverse Effect; all the outstanding shares of capital stock of each Significant Subsidiary which is a corporation have been duly authorized and validly issued, are fully paid and nonassessable, and all ownership interests in each Significant Subsidiary which is not a corporation have been validly created pursuant to the partnership or other agreements or organizational documents of each such Significant Subsidiary, and, except as disclosed in the Prospectus, the shares or other interests owned by the Company are owned by the Company directly, or indirectly through one of the other Subsidiaries, free and clear of any lien, adverse claim, security interest, equity or other encumbrances;

(iii) The authorized and outstanding capital stock of the Company is as set forth under the caption "Capitalization" in the Prospectus;

(iv) All the outstanding shares of capital stock of the Company (A) have been duly authorized and validly issued, (B) are fully paid and nonassessable,

(C) are free of any preemptive or similar rights and (D) have been issued and sold in compliance with all applicable federal and state securities laws;

(v) The Indenture has been duly and validly authorized, executed and delivered by the Company and assuming due execution and delivery by the Trustee, is a valid and binding agreement of the Company, enforceable in accordance with its terms, except to the extent that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally, and by general equitable principles; and the Indenture has been duly qualified under the 1939 Act and conforms in all material respects to the description thereof in the Registration Statement and the Prospectus;

(vi) The Notes have been duly authorized and executed by the Company and, assuming due authentication of the Notes by the Trustee in accordance with the Indenture, upon delivery to the Underwriters against payment therefor in accordance with the terms hereof, have been validly issued and delivered, and will constitute valid and binding obligations of the Company entitled to the benefits of the Indenture and enforceable in accordance with their terms, except to the extent that enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally, and by general equitable principles; and the Notes conform in all material respects to the description thereof in the Registration Statement and the Prospectus;

(vii) Except as disclosed in the Prospectus, there are no outstanding options, warrants or other rights calling for the issuance of, and such counsel does not know of any commitment, plan or arrangement to issue, any shares of capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company;

(viii) No holder of any security of the Company or any other person has the right, contractual or otherwise, which right has not been fully complied with or waived in writing by the holder thereof, (A) to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, the Notes, (B) to have any securities of the Company included in the registration statement or (C) as a result of the filing of the registration statement, to require registration under the Act of any securities of the Company;

(ix) The Company has full corporate power and authority to enter into this Agreement and to perform its obligations hereunder, including to issue, sell and deliver the Notes to be sold by it to the Underwriters as provided herein, and this Agreement has been duly and validly authorized, executed and delivered by the Company and is a legal, valid and binding agreement of the

Company, enforceable against the Company in accordance with its terms, except as enforcement of rights to indemnity and contribution hereunder may be limited by federal or state securities laws or principles of public policy and subject to the qualification that the enforceability of the Company's obligations hereunder may be limited by bankruptcy, insolvency, reorganization,

moratorium and other laws relating to or affecting creditors' rights generally, and by general equitable principles;

(x) No consent, approval, authorization or other order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official is required on the part of the Company (except as have been obtained under the Act, the Exchange Act or the 1939 Act, and such as may be required under state securities or Blue Sky laws governing the purchase and distribution of the Notes) for the valid issuance and sale of the Notes to the Underwriters as contemplated by this Agreement or the performance by the Company of its other obligations hereunder;

(xi) Neither (a) the issuance, offer, sale or delivery of the Notes, the execution, delivery or performance of this Agreement or the Indenture by the Company, the compliance by the Company with the provisions hereof and thereof nor (b) the consummation by the Company of the transactions contemplated hereby and thereby (A) conflicts or will conflict with, or constitutes or will constitute a breach or violation of, or a default under, the certificate or articles of incorporation or by-laws, or other organizational documents, of the Company or any of the Significant Subsidiaries; (B) conflicts or will conflict with or constitutes or will constitute a breach or violation of, or a default under, any agreement, indenture, lease or other instrument to which the Company or any of the Significant Subsidiaries is a party or by which any of them or any of their respective properties is bound that is an exhibit to the Registration Statement or any Incorporated Document, or is known to such counsel after reasonable inquiry; (C) violates or will violate any statute, law, regulation, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Significant Subsidiaries (assuming compliance with all applicable state securities and Blue Sky laws) or any order, ruling, judgment, injunction, or decree of any court or governmental agency or body having jurisdiction over the Company or any of the Significant Subsidiaries or any of their respective properties; or (D) will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Significant Subsidiaries pursuant to the terms of any agreement or instrument that is an exhibit to the Registration Statement or any Incorporated Document, or is known to such counsel after reasonable inquiry;

(xii) To the best knowledge of such counsel after reasonable inquiry, neither the Company nor any of the Significant Subsidiaries is (A) in violation of its respective certificate or articles of incorporation or by-laws, or other organizational documents; (B) in violation of any statute, law, regulation, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Significant Subsidiaries or any order, ruling, judgment, injunction or decree of any court or governmental agency or body having jurisdiction over the Company or any of the Significant Subsidiaries or any of their respective properties; or (C) in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture, lease or other instrument to which the Company or any of the Significant Subsidiaries is a party or by which any of them or any of their respective

properties may be bound, and no condition or state of facts exists, which with the passage of time or the giving of notice or both, would constitute such a default, except in the case of (B) and (C) above, for such violations or defaults which, individually or in the aggregate, would not have a Material Adverse Effect;

(xiii) To the best knowledge of such counsel after reasonable inquiry, neither the Company nor any of the Significant Subsidiaries is in violation of, any health care statute, administrative or governmental rule or regulation applicable to the Company or any of the Significant Subsidiaries, including, without limitation, those relating to reimbursement by government agencies and fraudulent or wrongful billings, or any health care judgment, injunction, order or decree of any court or government entity or instrumentality of the United States of America having jurisdiction over the Company or any of the Significant Subsidiaries;

(xiv) To the best knowledge of such counsel after reasonable inquiry, neither the Company nor any of the Significant Subsidiaries nor any employee or agent of the Company or any Significant Subsidiary has made any payment of funds or received or retained any funds in violation of any law, rule or regulation, including, without limitation, any law, rule or regulation prohibiting fee-splitting or fees for the referral of patients;

(xv) The Company and each of the Significant Subsidiaries is duly licensed or authorized in each jurisdiction where it is required to be so licensed or authorized to conduct its respective businesses; the Company and each of the Significant Subsidiaries has all other necessary consents, approvals, permits, licenses, franchises and authorizations of and from all regulatory authorities to conduct its respective businesses as presently

conducted, and, to the best of such counsel's knowledge after reasonable inquiry, neither the Company nor any of the Significant Subsidiaries has received any notification from any regulatory authority, including, without limitation, any health care regulatory authority, to the effect that any additional approval is required to be obtained by the Company or any of the Significant Subsidiaries;

(xvi) To the best knowledge of such counsel after reasonable inquiry, neither the Company nor any of the Significant Subsidiaries (A) employs any of the physicians in any Affiliated Group, (B) exercises any influence or control over the practice of medicine by such physicians, or (C) represents to the public that it offers medical services; and the Company and each of the Significant Subsidiaries contracts with the physicians or Affiliated Groups as independent contractors to provide medical services and is not engaged in the practice of medicine;

(xvii) Each Practice Management Agreement has been duly authorized, executed and delivered by the Company and each Significant Subsidiary which is a party thereto and each such Practice Management Agreement is a valid, legal and binding agreement of the Company and each such Significant Subsidiary, enforceable against the Company and such Significant Subsidiary in accordance with its terms, subject to the qualification that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, and other laws relating to or affecting creditors'

rights generally and by general equitable principles; and the business of the Company and the Significant Subsidiaries as presently conducted, and the terms of each Practice Management Agreement and the performance thereof by the Company and the Significant Subsidiaries which are party thereto, do not violate any statute, administrative or governmental rule or regulation applicable to the Company or such Significant Subsidiaries or laws prohibiting the corporate practice of medicine, fee-splitting or fees for the referral of patients, or any ruling, judgment, injunction, order or decree of any court or government entity or instrumentality having jurisdiction over the Company and/or the Significant Subsidiaries;

(xviii) To the best knowledge of such counsel there are no legal or governmental proceedings pending or threatened, against the Company or any of the Significant Subsidiaries, or to which the Company or any of the Significant Subsidiaries, or to which any of their respective properties is subject, that are required to be disclosed in the Registration Statement or the Prospectus but are not disclosed as required;

(xix) Except as disclosed in the Prospectus, the Company and the Significant Subsidiaries own all patents, trademarks, trademark registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights disclosed in the Prospectus as being owned by them or any of them or necessary for the conduct of their respective businesses, and such counsel is not aware of any claim to the contrary or any challenge by any other person to the rights of the Company and the Significant Subsidiaries with respect to the foregoing;

(xx) The statements in the Registration Statement and Prospectus insofar as such statements constitute summaries of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein;

(xxi) Such counsel does not know of any agreements, indentures, leases or other instruments required to be disclosed in the Registration Statement or the Prospectus (or any amendment or supplement thereto) or to be filed as an exhibit to the Registration Statement or any Incorporated Document that are not so disclosed or filed as required by the Act or the Exchange Act, and such agreements, indentures, leases or other instruments as are summarized in the Registration Statement or the Prospectus are fairly summarized in all material respects;

(xxii) The Registration Statement and the Prospectus and any supplements or amendments thereto (except for the financial statements and the notes thereto and the schedules and other financial and statistical data included or incorporated by reference therein and the Statement of Eligibility on Form T-1, as to which such counsel need not express any opinion) comply as to form in all material respects with the requirements of the Act;

(xxiii) The Registration Statement and all post-effective amendments and Additional Registration Statements, if any, have become effective under the Act and, to the best knowledge of such counsel after reasonable inquiry, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose are pending before or contemplated by the Commission; and any required filing of the Prospectus pursuant to Rule 424(b) has been made in accordance with Rule 424(b);

(xxiv) Each Incorporated Document, at the time it was filed with the Commission, complied as to form in all material respects with the requirements of the Exchange Act; and

(xxv) The Company is not, and after the sale of the Notes and the application of the net proceeds therefrom as disclosed in the Prospectus under the caption "Use of Proceeds" will not be, an "investment company" within the meaning of the 1940 Act.

In addition, such counsel shall state that they have participated in the preparation of the Registration Statement and the Prospectus, including review and discussion of the contents thereof, and nothing has come to the attention of such counsel that has caused them to believe that the Registration Statement at the time the Registration Statement became or becomes effective contained or contains an untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus or any amendment or supplement to the Prospectus, as of their respective dates, and as of the Closing Date contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were or are made, not misleading (it being understood that such counsel need express no opinion with respect to the financial statements and the notes thereto and the schedules and other financial and statistical data included or incorporated by reference in the Registration Statement or the Prospectus or with respect to the Statement of Eligibility on Form T-1).

In rendering their opinions as aforesaid, such counsel may rely upon an opinion or opinions, each dated the Closing Date, of other counsel retained by them or the Company as to laws of any jurisdiction other than the United States and the States of Delaware and Alabama, provided that (A) each such local counsel is acceptable to the Underwriters, (B) such reliance is expressly authorized by each opinion so relied upon and a copy of each such opinion is delivered to the Underwriters and is in form and substance satisfactory to them and their counsel, and (C) counsel shall state in their opinion that they believe that they and the Underwriters are justified in relying thereon.

(d) The Underwriters shall have received on the Closing Date an opinion of Dewey Ballantine, counsel for the Underwriters, dated the Closing Date and addressed to the Underwriters with respect to certain of the matters referred to in paragraph (c) of this Section 8 (including the penultimate paragraph thereof) and such other related matters as the Underwriters may request.

(e) The Underwriters shall have received letters addressed to the Underwriters and dated the date hereof and the Closing Date from Ernst & Young LLP, independent certified public accountants, substantially in the forms heretofore approved by the Underwriters.

(f) (A) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company, shall be contemplated by the Commission at or prior to the Closing Date; (B) there shall not have been any change in the capital stock of the Company or any material increase in the short-term or long-term debt of the Company (other than in the ordinary course of business) from that set forth or contemplated in the Registration Statement or the Prospectus (or any amendment or supplement thereto); (C) there shall not have been, since the respective dates as of which information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), except as may otherwise be stated in the Registration Statement and the Prospectus (or any amendment or supplement thereto), any material adverse change in the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company and the Subsidiaries taken as a whole; (D) the Company and the Subsidiaries shall not have any liabilities or obligations, direct or contingent (whether or not in the ordinary course of business), that are material to the Company and the Subsidiaries, taken as a whole, other than those reflected in the Registration Statement or the Prospectus (or any amendment or supplement thereto); and (E) all the representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date, and the Underwriters shall have received a certificate, dated the Closing Date and signed by the chief executive officer and the chief financial officer of the Company (or such other officers as are acceptable to the Underwriters), to the effect set forth in this Section 8(f) and in Sections 8(h) and 8(j) hereof.

(g) The Underwriters shall have received a certificate dated the Closing Date signed by the chief accounting officer of the Company substantially in the form heretofore approved by the Underwriters, respecting the Company's compliance with the financial covenants set forth in the Company's credit agreement with NationsBank, National Association (South) (the "Credit Agreement"), and certain other agreements of the Company.

(h) There shall not have been any announcement by any "nationally recognized statistical rating organization", as defined for purposes of Rule 436(g) under the Act, that (A) it is downgrading its rating assigned to any class of securities of the Company or (B) except as disclosed in the Registration Statement and the Prospectus, it is reviewing its rating assigned to any class of securities of the Company with a view to possible downgrading, or with negative implications, or direction not determined.

(i) Prior to the date of this Agreement, the Company shall have received and shall have furnished to the Underwriters copies of the written consent of the

lenders party to the Credit Agreement to the consummation by the Company of the transactions contemplated by the Prospectus and this Agreement.

(j) The Company shall not have failed at or prior to the Closing Date to have performed or complied with any of its agreements herein contained and required to be performed or complied with by it hereunder at or prior to the Closing Date.

(k) The Company shall have furnished or caused to be furnished to the Underwriters such further certificates and documents as the Underwriters shall have reasonably requested.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are satisfactory in form and substance to the Underwriters and counsel to the Underwriters.

Any certificate or document signed by any officer of the Company and delivered to the Underwriters, or to counsel for the Underwriters, shall be deemed a representation and warranty by the Company to each Underwriter as to the statements made therein.

9. Expenses. The Company agrees to pay the following costs and expenses and all other costs and expenses incident to the performance by it of its obligations hereunder: (A) the preparation, printing or reproduction, and filing with the Commission of the registration statement (including the financial statements and exhibits thereto), each Prepricing Prospectus, the Prospectus, and each amendment or supplement to any of them, this Agreement, the Indenture and the Statement of Eligibility and Qualification of the Trustee; (B) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the registration statement, each Prepricing Prospectus, the Prospectus, the Incorporated Documents and all amendments or supplements to any of them as may be reasonably requested for use in connection with the offering and sale of the Notes; (C) the preparation, printing, authentication, issuance and delivery of certificates for the Notes, including any stamp taxes in connection with the original issuance and sale of the Notes; (D) the printing (or reproduction) and delivery of this Agreement, the preliminary and supplemental Blue Sky Memoranda and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Notes; (E) the registration or qualification of the Notes for offer and sale under the securities or Blue Sky laws of the several states as provided in Section 5(g) hereof (including the reasonable fees, expenses and disbursements of counsel for the Underwriters relating to the preparation, printing or reproduction, and delivery of the preliminary and supplemental Blue Sky Memoranda and such registration and qualification); (F) the filing fees and the fees and expenses of counsel for the Underwriters in connection with any filings required to be made with the National Association of Securities Dealers, Inc.; (G) the transportation and other expenses incurred by or on behalf of representatives of the Company in connection with presentations to prospective purchasers of the Notes; (H) the

fees and expenses of the Trustee; (I) the fees and expenses associated with obtaining ratings for the Notes from nationally recognized statistical rating organizations; (J) the

fees and expenses of the Company's accountants; and (K) the fees and expenses of counsel (including local and special counsel) for the Company.

10. Effective Date of Agreement. This Agreement shall become effective: (A) upon the execution and delivery hereof by the parties hereto; or (B) if, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto to be declared effective before the offering of the Notes may commence, when notification of the effectiveness of the registration statement or such post-effective amendment has been released by the Commission. Until such time as this Agreement shall have become effective, it may be terminated by the Company, by notifying the Underwriters, or by the Underwriters by notifying the Company.

If any one or more of the Underwriters shall fail or refuse to purchase Notes which it or they have agreed to purchase hereunder, and the aggregate principal amount of the Notes which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate principal amount of Notes, each non-defaulting Underwriter shall be obligated, severally, in the proportion which the aggregate principal amount of Notes set forth opposite its name in Schedule I hereto bears to the aggregate principal amount of Notes set forth opposite the names of all non-defaulting Underwriters or in such other proportion as the Underwriters may specify in accordance with Section 20 of the Master Agreement Among Underwriters of Smith Barney, Harris Upham & Co. Incorporated (predecessor to Smith Barney Inc.), to purchase the Notes which such defaulting Underwriter or Underwriters agreed, but failed or refused, to purchase. If any Underwriter or Underwriters shall fail or refuse to purchase Notes and the aggregate principal amount of Notes with respect to which such default occurs is more than one-tenth of the aggregate principal amount of Notes and arrangements satisfactory to the Underwriters and the Company for the purchase of such Notes are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company. In any such case which does not result in termination of this Agreement, either the Underwriters or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and the Prospectus or any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any such default of any such Underwriter under this Agreement. The term "Underwriter" as used in this Agreement includes, for all purposes of this Agreement, any party not listed in Schedule I hereto who, with the approval of the Underwriters and the approval of the Company, purchases Notes which a defaulting Underwriter is obligated, but fails or refuses, to purchase.

Any notice under this Section 10 may be given by telegram, telecopy or telephone but shall be subsequently confirmed by letter.

11. Termination of Agreement. This Agreement shall be subject to termination in absolute discretion of the Underwriters, without liability on the part of any Underwriter to the Company, by notice to the Company, if prior to the Closing Date (A)

trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the Nasdaq National Market shall have been suspended or materially limited, (B) a general moratorium on commercial banking activities in New York shall have been declared by either Federal or state authorities, or (C) there shall have occurred any outbreak or escalation of hostilities or other international or domestic calamity, crisis or change in political, financial or economic conditions, the effect of which on the financial markets of the United States is such as to make it, in the Underwriters' judgment, impracticable or inadvisable to commence or continue the offering of the Notes at the offering price to the public set forth on the cover page of the Prospectus or to enforce contracts for the resale of the Notes by the Underwriters. Notice of such termination may be given to the Company by telegram, telecopy or telephone and shall be subsequently confirmed by letter.

12. Information Furnished by the Underwriters. The statements set forth in the last paragraph of the cover page, the stabilization legend on the inside cover page, and the statements in the first and third paragraphs under the caption "Underwriting" in any Prepricing Prospectus and in the Prospectus, constitute the only information furnished by or on behalf of any Underwriter through the Underwriters as such information is referred to in Sections 6(b) and 7 hereof.

13. Miscellaneous. Except as otherwise provided in Sections 5, 10 and 11 hereof, notice given pursuant to any provision of this Agreement shall be in writing and shall be delivered (A) if to the Company, at the office of the Company at 3000 Galleria Tower, Suite 1000, Birmingham, AL 35244, Attention: J. Brooke Johnston, Jr., Esq., with a copy to Haskell Slaughter & Young, L.L.C., 1200 AmSouth/Harbert Plaza, 1901 Sixth Avenue North, Birmingham, AL 35203, Attention: Robert E. Lee Garner, Esq. and F. Hampton McFadden, Jr., Esq. and (B) if to the Underwriters, care of Smith Barney Inc., 388 Greenwich Street, New York, NY 10013, Attention: Manager, Investment Banking Division, with a copy to Dewey Ballantine, 1301 Avenue of the Americas, New York, NY 10019, Attention: Frederick W. Kanner, Esq.

This Agreement has been and is made solely for the benefit of the several Underwriters, the Company, its directors and officers, and the other controlling persons and agents and employees referred to in Section 7 hereof and their respective successors and assigns, to the extent provided herein, and no other person shall acquire or have any right under or by virtue of this Agreement. Neither the term "successor" nor the term "successors and assigns" as used in this Agreement shall include a purchaser from any Underwriter of any of the Notes in his status as such purchaser.

14. Applicable Law; Counterparts. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

This Agreement may be signed in various counterparts which together constitute one and the same instrument. If signed in counterparts, this Agreement shall not become effective unless at least one counterpart hereof shall have been executed and delivered on behalf of each party hereto.

Please confirm that the foregoing correctly sets forth the agreement between the Company and the several Underwriters.

Very truly yours,

MEDPARTNERS, INC.

By:

Name:
Title:

Confirmed as of the date first above mentioned on behalf of themselves and the other several Underwriters named in Schedule I hereto.

SMITH BARNEY INC.
CREDIT SUISSE FIRST BOSTON CORPORATION
MERRILL LYNCH, PIERCE,
FENNER & SMITH INCORPORATED
J.P. MORGAN SECURITIES INC.
NATIONSBANC CAPITAL MARKETS, INC.
As Representatives of the Several Underwriters

By: SMITH BARNEY INC.

By:

Managing Director

SCHEDULE I

MEDPARTNERS, INC.

<TABLE>
<CAPTION>

Underwriter	Principal Amount of Notes
<S>	<C>
Smith Barney Inc.....	
Credit Suisse First Boston Corporation.....	
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	
J.P. Morgan Securities Inc.....	
NationsBanc Capital Markets, Inc.....	
Total.....	$350,000,000

</TABLE>

EXHIBIT 4.4

Draft of 09/09/97

MEDPARTNERS, INC., AS ISSUER

AND

PNC BANK, KENTUCKY, INC., AS TRUSTEE

INDENTURE

DATED AS OF SEPTEMBER ___, 1997

$350,000,000

_____% SENIOR SUBORDINATED NOTES DUE 2000

MEDPARTNERS, INC.

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

<TABLE>
<CAPTION>

Trust Indenture Act Section				Indenture Section
310	(a)	(1)		609
310	(a)	(2)		609
	(a)	(3)		Not Applicable
	(a)	(4)		Not Applicable
	(b)			608, 610
311	(a)			613
	(b)			613
312	(a)			701, 702 (1)
	(b)			702 (2)
	(c)			702 (3)
313	(a)			703
	(b)			703
	(c)			703
	(d)			703
314	(a)			704
	(a)	(4)		1004
	(b)			Not Applicable
	(c)	(1)		102
	(c)	(2)		102
	(c)	(3)		Not Applicable

	(d)							Not Applicable
	(e)							102
315	(a)							601
	(b)							602
	(c)							601
	(d)							601
	(e)							514
316	(a)	(1)	(A)					502, 512
	(a)	(1)	(B)					513
	(a)	(2)						Not Applicable
	(b)							508
	(c)							104 (3)
317	(a)	(1)						503
	(a)	(2)						504
	(b)							1003
318	(a)							107

</TABLE>

NOTE: THIS RECONCILIATION AND TIE SHALL NOT, FOR ANY PURPOSE, BE DEEMED TO BE A PART OF THE INDENTURE.

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INDENTURE, dated as of September ___, 1997, between MEDPARTNERS, INC., a corporation duly organized and existing under the laws of the State of Delaware (the "Company"), having its principal office at 3000 Galleria Tower, Suite 1000, Birmingham, AL 35244 and PNC Bank, Kentucky, Inc., a Kentucky banking corporation, as Trustee, having its principal office at 500 West Jefferson Street, Louisville, KY 40202 (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of its _____% Senior Subordinated Notes due 2000 (the "Securities") of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of this Indenture.

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

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

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

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.01. Definitions.

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

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

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

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP; and

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

"Act" when used with respect to any Holder, has the meaning specified in Section 1.04.

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

"Attributable Debt" in respect of a Sale and Leaseback Transaction means, at the time of determination, the then present value (discounted at the actual rate of interest of such transaction) of the obligation of the lessee for net rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended or may, at the option of the lessor, be extended).

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 6.14 to act on behalf of the Trustee to authenticate Securities.

"Average Life" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (i) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness multiplied by the amount of such principal payment by (ii) the sum of all such principal payments.

"Bank Credit Agreement" means the Credit Agreement, dated as of September 5, 1996 and as amended by Amendment No.1 and Amendment No. 2 thereto, by and among MedPartners, Inc. and Nationsbank, National Association (South), as administrative agent for a group of lenders, as such agreement may be amended, renewed, extended, substituted, refinanced, restructured, replaced or supplemented or otherwise modified from time to time (including, without limitation, any successive renewals, extensions, substitutions, refinancings, restructurings, replacements or supplementations or other modifications of the

foregoing).

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of that board to which the powers of that board have been lawfully delegated.

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

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York or the State of Alabama are authorized or obligated by law, regulation or executive order to close.

"Capital Leases" means all leases which have been or should be capitalized in accordance with GAAP as in effect from time to time including the provisions of FAS No. 13 and any successor thereof.

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

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

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

"Consolidated Net Worth" means the excess of (i) the consolidated net book value of the assets of the Company and its subsidiaries after all appropriate deductions in accordance with GAAP as in effect on the date of the Indenture (including, without limitation, reserves for doubtful receivables, obsolescence, depreciation and amortization) less (ii) the consolidated liabilities (including tax and other proper accruals, but excluding, if applicable, the accumulated postretirement benefit obligation resulting from the application of the provisions of FAS No. 106 "Employers' Accounting for Postretirement Benefits Other than Pensions") of the Company and its Subsidiaries, in each case computed and consolidated in accordance with GAAP in effect on the date of the Indenture.

"Corporate Trust Office" means the principal corporate trust office of the Trustee at which, at any particular time, its corporate trust business shall be administered, which office, at the date hereof is located at 500 West Jefferson Street, Louisville, KY 40202, Attention: Corporate Trust Department.

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

"Covenant Defeasance" has the meaning specified in Section 11.03.

"Defaulted Interest" has the meaning specified in Section 3.07.

"Defeasance" has the meaning specified in Section 11.02.

"Depositary" means, with respect to Securities issuable or issued in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as Depositary for such Securities, which Depositary initially shall be The Depository Trust Company, a limited-purpose trust company organized under the Banking Law of the State of New York ("DTC").

"Event of Default" has the meaning specified in Section 5.01.

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"GAAP" means, unless otherwise specified in this Indenture, such accounting principles as are generally accepted in the United States as of the date of the relevant calculation.

"Global Security" means a Security that evidences all or part of the Securities, is registered in the name of the Depositary or its nominee and bears the legend set forth in Section 2.05.

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

"Indebtedness" with respect to any Person means, at any time, without duplication, (i) any debt (a) for money borrowed, or (b) evidenced by a bond, note, debenture, or similar instrument for the payment of which such Person is responsible or liable, or (c) which is a direct or indirect obligation which arises as a result of banker's acceptances; (ii) any Off-Balance Sheet Liability; (iii) any debt of others described in the preceding clause (i) which such Person has guaranteed or for which it is otherwise directly liable; (iv) the obligation of such Person as lessee under any lease of property which is reflected on such Person's balance sheet as a capitalized lease; (v) to the extent not otherwise included in this definition, net obligations under any Rate Hedging Obligations; and (vi) any deferral, amendment, renewal, extension, supplement or refunding of any liability of the kind described in any of the preceding clauses (i) through (v); provided, however, that, in computing the Indebtedness of any Person, there shall be excluded any particular Indebtedness if, upon or prior to the maturity thereof, there shall have been deposited with a depository in trust money (or evidence of Indebtedness if permitted by the instrument creating such Indebtedness) in the necessary amount to pay, redeem or satisfy such Indebtedness as it becomes due, and the amount so deposited shall not be included in any computation of the assets of such Person.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of

this instrument and any such supplemental indenture, the terms of the Securities and the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively.

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

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

"Off-Balance Sheet Liabilities" means, with respect to any Person, (i) any repurchase obligation or liability of such Person with respect to accounts or notes receivable sold by such Person, (ii) the face amount of accounts receivable pursuant to a Permitted Receivables Securitization, (iii) any repurchase obligation or liability of such Person with respect to property leased by such Person as lessee, (iv) obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheets of such Person excluding therefrom operating leases which do not require payment by or due from such Person: (a) at the scheduled termination of such operating lease, (b) pursuant to a required purchase by such Person of the leased property, or (c) under any guarantee by such person of the value of the leased property, or (v) net liabilities under any Rate Hedging Obligations.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company. One of the officers signing an Officers' Certificate given pursuant to Section 10.04 shall be the principal executive, financial or accounting officer of the Company.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company, and who shall be acceptable to the Trustee.

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

(a) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation:

(b) Securities for whose payment money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities;

(c) Securities as to which Defeasance has been effected pursuant to

Section 11.02; and

(d) Securities which have been paid pursuant to Section 3.06 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice,

consent or waiver, only Securities which a Responsible Officer of the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

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

"Permitted Receivables Securitization" means limited recourse or non-recourse sales and assignments of accounts receivable of a Person to one or more entities, the proceeds of which shall be made available to such Person; provided, however, that the maximum face amount of accounts receivable which may be sold is $100,000,000 and the minimum price which shall be paid for receivables is 70% of the face amount thereof; provided, further, that notwithstanding the immediately preceding proviso the maximum face amount of accounts receivable which may be sold and the minimum price which shall be paid for receivables shall be increased or decreased to such amount and percentage as is permissible under the Bank Credit Agreement.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.06 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Purchase Money Indebtedness" means Indebtedness incurred to finance

all or any part of the purchase price or cost of construction of improvements in respect of property or assets acquired by a Person after the date of the Indenture and incurred prior to, at the time of, or within 90 days after, the acquisition of any such property or assets or the completion of any such construction or improvements.

"Rate Hedging Obligations" means any and all obligations of any Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitution therefor), under (i) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, Dollar-denominated or cross-currency agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts, warrants and those commonly known as interest rate "swap" agreements; and (ii) any and all cancellations, buybacks, reversals, terminations or assignments of any of the foregoing.

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

"Responsible Officer" when used with respect to the Trustee, means any officer of the Trustee with direct responsibility for the administration of this Indenture and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Sale and Leaseback Transaction" has the meaning specified in Section 10.09.

"Securities" means the ____% Senior Subordinated Notes due 2000 of the Company authenticated and delivered under this Indenture.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 3.05.

"Senior Indebtedness" means (a) all indebtedness of the Company under the Bank Credit Agreement, and any successor credit facilities thereto, whether outstanding on the date of execution of this Indenture or thereafter created, incurred or assumed, (b) the Company's 7-3/8% Senior Notes due 2006 (the "1996 Notes") issued pursuant to that certain Indenture dated as of October 8, 1996 between the Company and The First National Bank of Chicago, as trustee, (c) any promissory notes (other than any referred to in the foregoing clauses (a) and (b)) issued by the Company pursuant to any agreement between the Company and any bank or banks and any commercial paper issued by the Company, (d) all indebtedness incurred by the Company after the date of this Indenture for money borrowed which is, in the discretion of the Company, specifically designated by the Company as superior to subordinated debt (senior debt) of the Company

in the instruments evidencing said indebtedness at the time of the issuance thereof, (e) all indebtedness of the Company in addition to the indebtedness referred to in the preceding clauses (a) through (d) for money borrowed from or guaranteed to persons, firms or corporations which engage in lending money, including, without limitation, banks, trust companies, insurance companies and other financing institutions and charitable trusts, pension trusts and other investing organizations, evidenced by notes or similar obligations unless such indebtedness shall, in the instrument evidencing the same, be specifically designated as not being superior to the Securities and (f) any amendments, modifications, supplements, deferrals, renewals or extensions of any such Senior Indebtedness.

"Significant Subsidiary" has the meaning ascribed to it under Regulation C promulgated under the Securities Act of 1933, as amended.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 3.07.

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

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

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

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

"U.S. Government Obligation" has the meaning specified in Section 11.04.

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

SECTION 1.02. Compliance Certificates and Opinions.

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

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

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

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

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

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

SECTION 1.03. Form of Documents Delivered to Trustee.

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

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or

representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company,

unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

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

SECTION 1.04. Acts of Holders; Record Dates.

(1) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(2) The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may be proved in any manner which the Trustee deems sufficient.

(3) The Company may, in the circumstances permitted by the Trust Indenture Act, fix any day as the record date for the purpose of determining the Holders entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other Act, or to vote on any Act, authorized or permitted to be given or taken by Holders. If not set by the Company prior to the first solicitation of a Holder made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders required to be provided pursuant to Section 7.01) prior to such first solicitation or vote, as the case may be. With regard to any record date, only the Holders on such date (or their duly designated proxies) shall be entitled to give or take, or vote on, the relevant action.

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

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

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SECTION 1.05. Notices, Etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

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

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

SECTION 1.06. Notice to Holders; Waiver.

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

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

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SECTION 1.07. Conflict with Trust Indenture Act.

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

SECTION 1.08. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of

Contents are for convenience only and shall not affect the construction hereof.

SECTION 1.09. Successors and Assigns.

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

SECTION 1.10. Separability Clause.

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

SECTION 1.11. Benefits of Indenture.

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

SECTION 1.12. Governing Law.

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

SECTION 1.13. Legal Holidays.

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

SECTION 1.14. No Security Interest Created.

Except as provided in Section 6.07, nothing in this Indenture or in the Securities, express or implied, shall be construed to create or constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect in any jurisdiction where property of the Company or its Subsidiaries is or may be located.

SECTION 1.15. Limitation on Individual Liability.

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

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

ARTICLE II

SECURITY FORMS

SECTION 2.01. Forms Generally.

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

The definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner permitted by the rules of any securities exchange on which the Securities may be listed, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities. Unless required by the Depositary, any securities exchange on which the Securities may be listed or any rule, regulation or law, Securities issued in the form of Global Securities need not be printed, lithographed or engraved on steel engraved borders, but shall be in such form as is acceptable to the Depositary.

SECTION 2.02. Form of Face of Security.

The form of the face of the Global Securities shall be as set forth below and include the legend(s) set forth in Section 2.05 (if a Security is issued in definitive form, the form of such definitive security will be in substantially the form of the face of the Global Security, except that the legend(s) set forth in Section 2.05 shall be omitted):

MEDPARTNERS, INC.

_____% Senior Subordinated Notes due 2000

No. R-
CUSIP No. _____ $

MEDPARTNERS, INC., a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars ($_____) on _____,

2000 and to pay interest thereon from the date of original issuance of Securities pursuant to the Indenture or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on _____ and _____ in each year, commencing _____, 1998, at the rate of _____% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the _____ or _____ (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

Payment of the principal of and interest on this Security will be made (i) in respect of Securities held of record by the Depositary or its nominee in same day funds and (ii) in respect of Securities held of record by Holders other than the Depositary or its nominee at the Corporate Trust Office or at such other office or agency of the Company maintained for that purpose pursuant to the Indenture, in each case, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest in respect of Securities held of record by Holders other than the Depositary or its nominee may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

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

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

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

Dated:

MEDPARTNERS, INC.

By:

Attest:

SECTION 2.03. Form of Reverse of Security.

The form of the reverse of the Securities shall be as set forth below:

This Security is one of a duly authorized issue of securities of the Company designated as its _____% Senior Subordinated Notes due 2000 (herein called the "Securities"), limited in aggregate principal amount to $350,000,000, issued and to be issued under an Indenture, dated as of September ___, 1997 (herein called the "Indenture"), between the Company and PNC Bank, Kentucky, Inc., as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered.

This Security is not redeemable in whole or in part at any time prior to the Stated Maturity of its principal amount.

The Indenture contains provisions for defeasance of (i) the entire indebtedness of this Security or (ii) certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance by the Company with certain conditions set forth in the Indenture.

The Indenture contains certain covenants with respect to, among other things, the following matters: (i) restrictions on sale and leaseback transactions,

(ii) restrictions on additional subsidiary indebtedness, and (iii) restrictions on consolidations, mergers and sales of all or substantially all of the assets of the Company. These covenants are subject to important exceptions and qualifications.

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

If an Event of Default shall occur and be continuing, the principal of all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities under the Indenture at any time by the Company and the Trustee with the consent of the Holders of at least 50% in aggregate principal amount of the Securities at the time Outstanding, and, under certain limited circumstances, by the Company and the Trustee without the consent of the Holders. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

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

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the Corporate Trust Office or at such other office or agency of the Company maintained for that purpose pursuant to the Indenture duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

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

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

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

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

SECTION 2.04. Form of Trustee's Certificate of Authentication.

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

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

PNC BANK, KENTUCKY, INC.,
as Trustee

By:

Authorized Officer

SECTION 2.05. Global Securities.

Except as provided in Section 3.05, the Securities shall be issued in the form of one or more Global Securities. Every Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form, in capital letters and bold-face type:

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A

SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

If the Depositary is the Depository Trust Company, the Global Security authenticated and delivered hereunder shall also bear a legend in substantially the following form, in capital letters and bold-face type:

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED SIGNATORY OF THE DEPOSITORY TRUST COMPANY ("DTC") TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

ARTICLE III

THE SECURITIES

SECTION 3.01. Title and Terms.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is limited to $350,000,000, except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 3.04, 3.05, 3.06 or 9.06.

The Securities shall be known and designated as the "_____% Senior Subordinated Notes due 2000" of the Company. Their Stated Maturity shall be _____, 2000 and they shall bear interest at the rate of _____% per annum, from the date of original issuance of Securities pursuant to this Indenture or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually on _____ and _____, commencing _____, 1998, to the Person in whose name the Security or any Predecessor Security is registered at the close of business on the _____ or the _____ next preceding such Interest Payment Date, until the principal thereof is paid or made available for payment.

The principal of and interest on the Securities shall be payable (i) in respect of Securities held of record by the Depositary or its nominee in same day funds

and (ii) in respect of Securities held of record by Holders other than the Depositary or its nominee at the Corporate Trust Office or at such other office or agency maintained by the Company for such purpose pursuant to this Indenture; provided, however, that at the option of the Company, payment of

interest to Holders of record other than the Depositary or its nominee may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

The Securities, in whole or any specified part, shall be defeasible pursuant to Section 11.02 or Section 11.03 or both such Sections.

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

Except as may be otherwise provided for by Section 3.05, the Securities shall be issuable in the form of one or more Global Securities, shall bear the legend specified in Section 2.05 and shall be registered in the name of The Depository Trust Company or its nominee, as Depositary.

SECTION 3.02. Denominations.

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

SECTION 3.03. Execution, Authentication, Delivery and Dating.

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

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

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities; and the Trustee in accordance with such Company Order shall authenticate and deliver such Securities as provided in this Indenture and not otherwise. The aggregate principal amount of Securities Outstanding at any time may not exceed $350,000,000 except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 3.04, 305, 306 or 906.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. The Trustee may appoint an Authenticating Agent pursuant to the terms of Section 6.14.

SECTION 3.04. Temporary Securities.

Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver,

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

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities may be exchangeable for definitive Securities upon surrender of the temporary Securities at any office or agency of the Company designated pursuant to Section 10.02, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

SECTION 3.05. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency designated pursuant to Section 10.02 being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security at an office or agency of the Company designated pursuant to Section 10.02 for such purpose, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized

denominations and of a like aggregate principal amount.

At the option of the Holder, Securities may be exchanged for other Securities of any authorized denominations and of a like aggregate principal amount and of a like Stated Maturity and with like terms and conditions, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

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

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a

sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 3.04 or 9.06 not involving any transfer.

The provisions of clauses (1), (2), (3) and (4) below shall apply only to Global Securities:

(1) Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated for such Global Security or a nominee thereof and delivered to such Depositary or a nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

(2) Notwithstanding any other provision in this Indenture, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (A) such Depositary (i) has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security and is not replaced by a successor Depositary approved by the Trustee within 90 days or (ii) at any time has ceased to be a clearing agency registered under the Exchange Act, or (B) the Company in its sole discretion determines not to have all of the Securities represented by a Global Security and notifies the Trustee thereof.

(3) Subject to clause (2) above, any exchange of a Global Security for

other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depositary for such Global Security shall direct.

(4) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to this Section, Section 3.04, 3.06 or 9.06 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Security is registered in the name of a Person other than the Depositary for such Global Security or a nominee thereof.

SECTION 3.06. Mutilated, Destroyed, Lost and Stolen Securities.

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

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

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

Upon the issuance of any new Security under this Section, the

Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

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

SECTION 3.07. Payment of Interest; Interest Rights Preserved.

Interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest. Payment of interest will be made (i) in respect of Securities held by the Depositary or its nominee in same day funds and (ii) in respect of Securities held of record by Holders other than the Depositary or its nominee at the Corporate Trust Office or at such other office or agency of the Company as it shall maintain for that purpose pursuant to Section 10.02, provided, however, that, at the option of the Company, interest on any Security held of record by Holders other than the Depositary or its nominee may be paid by mailing checks to the addresses of the Holders thereof as such addresses appear in the Securities Register.

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

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities (or their respective

Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange

on which the Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

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

SECTION 3.08. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and (subject to Section 3.07) interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 3.09. Cancellation.

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

SECTION 3.10. Computation of Interest.

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

ARTICLE IV

SATISFACTION AND DISCHARGE

SECTION 4.01. Satisfaction and Discharge of Indenture.

This Indenture shall cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 3.06 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 10.03) have been delivered to the Trustee for cancellation; or

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

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, and the Company, in the case of (i) or (ii), has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity, as the case may be;

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

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

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 6.07, the obligations of the Company to any Authenticating Agent under Section 6.14 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section or if money or U.S. Government Obligations have been deposited with the Trustee pursuant to

Section 11.04, the obligations of the Trustee under Section 4.02 and the last paragraph of Section 1003 shall survive.

SECTION 4.02. Application of Trust Money.

Subject to the provisions of the last paragraph of Section 10.03, all money deposited with the Trustee pursuant to Section 4.01, all money and U.S. Government Obligations deposited with the Trustee pursuant to Section 11.02 or 11.03 and all money received by the Trustee in respect of U.S. Government Obligations deposited with the Trustee pursuant to Section 11.02 or 11.03, shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and interest for whose payment such money has been deposited with or received by the Trustee.

ARTICLE V

SECTION 5.01. Events of Default.

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

(1) default in the payment of the principal of any Security at its Stated Maturity; or

(2) default in the payment of any interest upon any Security when it becomes due and payable, and continuance of such default for a period of 30 days; or

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

(4) a default in the payment of principal at maturity (subject to any applicable grace period) of any Indebtedness for money borrowed by the Company or any Subsidiary in an aggregate principal amount of $25,000,000 or the acceleration of such

Indebtedness without such acceleration having been rescinded or annulled within a period of 30 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities a written notice specifying such default and requiring the Company to cause such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder; provided, however, that, subject to the provisions of Sections 6.01 and 6.02, the Trustee shall not be deemed to have knowledge of such default unless either (A) a Responsible Officer of the Trustee shall have actual knowledge of such default or (B) the Trustee shall have received written notice thereof from the Company, from any Holder, from the holder of any such indebtedness or from the trustee under any such mortgage, indenture or other instrument; or

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

(6) the commencement by the Company or any Significant

Subsidiary of a voluntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company or any Significant Subsidiary in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable federal or state law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or any Significant Subsidiary or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company or any Significant Subsidiary in furtherance of any such action.

SECTION 5.02. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default (other than an Event of Default specified in Section 501(5) or 501(6)) occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in aggregate principal amount of the Outstanding Securities may declare the principal of all the Securities to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal plus any interest accrued on the Securities to the date of declaration shall become immediately due and payable. If an Event of Default specified in Section 5.01(5) or 5.01(6) occurs, the principal amount of all the Securities shall automatically, and without any declaration or other action on the part of the Trustee or any Holder, become immediately due and payable.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of at least 50% in principal amount of the Outstanding Securities, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if:

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

(A) all overdue interest on all Securities,

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

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

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and all other amounts due the Trustee under Section 6.07;

and

(2) all Events of Default, other than the non-payment of the principal of Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

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

SECTION 5.03. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if:

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

(2) default is made in the payment of the principal of any Security at the Stated Maturity thereof, the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and interest, and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and on any overdue interest, at the rate borne by the Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

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

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

SECTION 5.04. Trustee May File Proofs of Claim.

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under

Section 6.07.

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

SECTION 5.05. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and all other amounts due the Trustee under Section 6.07, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 5.06. Application of Money Collected.

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

FIRST: To the payment of all amounts due the Trustee under Section 6.07; and

SECOND: Subject to Article XII, to the holders of Senior

Indebtedness; and

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

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

SECTION 5.07. Limitation on Suits.

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

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

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

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

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

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of 50% or more in principal amount of the Outstanding Securities; it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 5.08. Unconditional Right of Holders to Receive Principal and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and (subject to Section 3.07) interest on such Security on the respective Stated Maturities expressed in such Security and to institute suit for the enforcement of any such payment on or after such Stated Maturities, and such rights shall not be impaired without the consent of such Holder.

SECTION 5.09. Restoration of Rights and Remedies.

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

SECTION 5.10. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 3.06, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 5.11. Delay or Omission Not Waiver.

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

SECTION 5.12. Control By Holders.

The Holders of 50% or more in principal amount of the Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee; provided; that

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

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

SECTION 5.13. Waiver of Past Defaults.

The Holders of at least 50% in principal amount of the Outstanding Securities may on behalf of the Holders of all the Securities waive any past default hereunder and its consequences, except a default

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

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

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

SECTION 5.14. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; provided, that neither this Section nor the Trust Indenture Act shall be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Company; and provided, further, that the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or interest on any Security on or after the Stated Maturities expressed in such Security.

SECTION 5.15. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of

any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE VI

THE TRUSTEE

SECTION 6.01. Certain Duties and Responsibilities.

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability in not reasonably assured to it. Whether or not herein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 6.02. Notice of Defaults.

The Trustee shall give the Holders notice of any default hereunder as and to the extent provided by the Trust Indenture Act; provided, however, that in the case of any default of the character specified in Section 5.01(3), no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

SECTION 6.03. Certain Rights of Trustee.

Subject to the provision of Section 601:

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

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

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

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

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

request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(7) the Trustee shall not be liable for errors of judgment made in good faith unless it was negligent in ascertaining the pertinent facts; and

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

SECTION 6.04. Not Responsible for Recitals or Issuance of Securities.

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

SECTION 6.05. May Hold Securities.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 6.08 and 6.13, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 6.06. Money Held in Trust.

Money held by the Trustee or any Paying Agent in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee or any Paying Agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

SECTION 6.07. Compensation and Reimbursement.

The Company agrees:

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder as may be mutually agreed upon in writing by the Company and the Trustee (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with the performance of its duties under this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith;

and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense (other than any income or franchise tax attributable to compensation payable to the Trustee hereunder) incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Trustee shall notify the Company promptly of any action, suit or proceeding for which it may seek indemnity. The Company shall defend such action, suit or proceeding and the Trustee may have separate counsel, and, if the Company has failed to assume the defense and employ counsel, or if the named parties to any such action, suit or proceeding (including any impleaded parties) include both the Trustee and the Company and the Trustee shall have been advised by its counsel that representation of the Trustee and the Company by the same counsel would be inappropriate under applicable standards of professional conduct due to actual or potential differing interests between them, the Company shall pay the reasonable fees and expenses of such counsel. The Company need

not pay for any settlement made without its consent, which shall not be unreasonably withheld.

The indemnity provided for in this Section 6.07 shall survive the resignation or removal of any Trustee under this Indenture.

As security for the performance of the obligations of the Company under this Section the Trustee shall have a lien prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of or interest on particular Securities.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 5.01(5) or (6), the expenses and the compensation for the services are intended to constitute expenses of administration under any bankruptcy law.

SECTION 6.08. Disqualification; Conflicting Interests.

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

SECTION 6.09. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least $50,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus an set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 6.10. Resignation and Removal; Appointment of Successor.

(1) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 6.11.

(2) The Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(3) The Trustee may be removed at any time by Act of the Holders of 50% or more in principal amount of the Outstanding Securities, delivered to the Trustee and to the Company.

(4) If at any time:

(A) the Trustee shall fail to comply with Section 6.08 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(B) the Trustee shall cease to be eligible under Section 6.09 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(C) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, (i) the Company by a Board Resolution may remove the Trustee, or (ii) subject to Section 5.14, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(5) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company, by a Board Resolution, shall promptly appoint a successor Trustee and shall comply with the applicable requirements of Section 6.11. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of at least 50% in principal amount of the Outstanding Securities delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 6.11, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 6.11, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(6) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all Holders in the manner provided in Section 1.06. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

SECTION 6.11. Acceptance of Appointment by Successor.

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Trustee an

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

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

SECTION 6.12. Merger, Conversion, Consolidation or Succession to Business.

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

SECTION 6.13. Preferential Collection of Claims Against Company.

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

SECTION 6.14. Appointment of Authenticating Agent.

The Trustee may appoint an Authenticating Agent or Agents which shall be authorized to act on behalf of the Trustee to authenticate Securities issued upon original issue and upon exchange, registration of transfer or pursuant to Section 3.06, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any state thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by federal or state authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such

Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

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

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

Any Authenticating Agent by the acceptance of its appointment shall be deemed to have represented to the Trustee that it is eligible for appointment as Authenticating Agent under this Section and to have agreed with the Trustee that it will (i) perform and carry out the duties of an Authenticating Agent as herein set forth, including among other things the duties to authenticate Securities when presented to it in connection with the original issuance and with exchanges, registrations of transfer or pursuant to Section 3.06; (ii) keep and maintain, and furnish to the Trustee from time to time as requested by the Trustee, appropriate records of all transactions carried out by it as Authenticating Agent; (iii) furnish the Trustee such other information and reports as the Trustee may reasonably require; and (iv) notify the Trustee promptly if it shall cease to be eligible to act as Authenticating Agent in accordance with the provisions of this Section. Any Authenticating Agent by the acceptance of its appointment shall be deemed to have agreed with the Trustee to indemnify the Trustee against any loss, liability or expense incurred by the Trustee and to defend any claim asserted against the Trustee by reason of any acts or failures to act of such Authenticating Agent, but such Authenticating Agent shall have no liability for any action taken by it in accordance with the specific written direction of the Trustee.

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

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

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

PNC BANK, KENTUCKY, INC.,

As Trustee

By:

As Authenticating Agent

By:

As Authorized Signatory

ARTICLE VII

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 7.01. Company to Furnish Trustee Names and Addresses of Holders.

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

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

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

Notwithstanding the foregoing, so long as the Trustee shall be the Security Registrar for the Securities, no such list need be furnished.

SECTION 7.02. Preservation of Information; Communications to Holders.

(1) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 7.01 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 7.01 upon receipt of a new list so furnished.

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

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

SECTION 7.03. Reports by Trustee.

Within 60 days following each May 15, the Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act, if any, at the times and in the manner provided pursuant thereto. A copy of each such report shall, at the time of such transmission to Holder, be filed by the Trustee with each stock exchange upon which the Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when the Securities are listed on any stock exchange.

SECTION 7.04. Reports by Company.

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

ARTICLE VIII

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 8.01. Company May Consolidate, Etc., Only on Certain Terms.

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

(1) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, partnership, limited liability company or trust, shall be organized and validly existing under the laws of the United States of America, any state thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed;

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

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

SECTION 8.02. Successor Substituted.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 8.01, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE IX

SECTION 9.01. Supplemental Indentures Without Consent of Holders.

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

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

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

(3) to secure the Securities; or

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

(5) to cause the Indenture and the Securities to comply with applicable law, including the Trust Indenture Act; or

(6) to cure any defect or ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture which shall not be inconsistent with the provisions of this Indenture; provided, however, that such action pursuant to this clause (6) shall not adversely affect the interests of the Holders in any material respect.

SECTION 9.02. Supplemental Indentures with Consent of Holders.

With the consent of the Holders of at least 50% in principal amount of the Outstanding Securities, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon, or change the place of payment where, or the coin or currency in which, any Security or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof, or

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

(3) modify any of the provisions of this Section, Section 5.13 or Section 10.11, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby, or

(4) modify any of the provisions of Article XII in a manner

adverse to the Holders.

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

SECTION 9.03. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to 6.01) shall be fully protected in relying upon, in addition to the Officer's Certificate and Opinion of Counsel required by Section 1.02, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 9.04. Effect of Supplemental Indentures.

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

SECTION 9.05. Conformity with Trust Indenture Act.

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

SECTION 9.06. Reference in Securities to Supplemental Indentures.

Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities.

SECTION 9.07. Notice of Supplemental Indenture.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to Section 9.02, the Company shall transmit to the Holders a notice setting forth the substance of such supplemental indenture.

ARTICLE X

COVENANTS

SECTION 10.01. Payment of Principal and Interest.

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

SECTION 10.02. Maintenance of Office or Agency.

The Company will maintain an office or agency (which may be the Corporate Trust Office of the Trustee and which in any event shall not be located outside the contiguous United States of America) where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company hereby appoints the Corporate Trust Office as its agent where Securities may be presented or surrendered for payment, whereby Securities may be surrendered for registration of transfer or exchange and the Corporate Trust Office as its agent where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company may also from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

SECTION 10.03. Money for Security Payments to Be Held in Trust.

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

Whenever the Company shall have one or more Paying Agents, it will, prior to each due date of the principal of or interest on any Securities, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by

the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (i) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (ii) during the continuance of any default by the Company (or any other obligor upon the Securities) in the making of any payment in respect of the Securities, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities.

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

respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or interest on any Security and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 10.04. Statement by Officers as to Default.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officer's Certificate complying with the requirements of Section 3.14(a)(4) of the Trust Indenture Act and stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

The Company shall promptly, and in any event within 10 days of the occurrence thereof, give notice to the Trustee of any default or Event of Default hereunder.

SECTION 10.05. Existence.

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

SECTION 10.06. Maintenance of Properties.

The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary and not disadvantageous in any material respect to the Holders.

SECTION 10.07. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the name shall become delinquent, (i) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

SECTION 10.08. Maintenance of Insurance.

The Company will maintain, and will cause each of its Subsidiaries to maintain, with insurers the Company reasonably believes to be financially sound and reputable, insurance deemed adequate by the Company with respect to its properties and business and the properties and business of its Subsidiaries against loss or damage of the kinds customarily insured against by corporations in the same or similar business. Such insurance may be subject to co-insurance, deductibility or similar clauses which, in effect, result in self-insurance of certain losses; provided that such self-insurance is in accord with the practices of corporations in the same or similar business and adequate insurance reserves are maintained in connection with such self-insurance.

SECTION 10.09. Restrictions on Sale and Leaseback Transactions.

So long as any of the Securities are outstanding, the Company will not, nor will it permit any Subsidiary to, enter into any arrangement with any Person (other than the Company or a Subsidiary) providing for the leasing by the Company or any Subsidiary of any property or assets, whether now owned or hereafter acquired, which has been or is to be sold or transferred by the Company or such Subsidiary to such Person with the intention of taking back a lease on such property or assets and which arrangement would be characterized or qualified as either a Capital Lease or Off-Balance Sheet Liability (a "Sale and Leaseback Transaction"), if, at the time of entering into such Sale and Leaseback Transaction, and after giving effect thereto, the amount of Attributable Debt in respect of such Sale and Leaseback Transaction, together with all such other Attributable Debt outstanding exceeds the greater of (i) $25,000,000 or (ii) together with all Indebtedness of Subsidiaries (not including Indebtedness permitted to be issued, assumed, incurred or guaranteed under clauses (1) through (10) under "Restrictions on Subsidiary Indebtedness" below), 15% of Consolidated Net Worth of the Company.

SECTION 10.10. Restrictions on Subsidiary Indebtedness.

So long as any of the Securities are outstanding, the Company will not permit any of its Subsidiaries to issue, assume, incur or guarantee any Indebtedness, except that the foregoing restrictions shall not apply to:

(1) Indebtedness existing as of the date of the Indenture, including, without limitation, all existing or available borrowings under the Bank Credit Agreement and the 1996 Notes;

(2) Indebtedness of a corporation or other entity existing at the time it becomes a Subsidiary and not incurred as a result of, or in connection with or in anticipation of, such Subsidiary becoming a Subsidiary;

(3) Indebtedness of a corporation or other entity assumed at the time of its acquisition by a Subsidiary (including acquisition through merger or consolidation) and not incurred as a result of, or in connection with or in anticipation of, such acquisition;

(4) unsecured intercompany Indebtedness of a Subsidiary for loans or advances made to such Subsidiary by the Company or another Subsidiary; provided that upon either (i) the transfer or other disposition by the Company or a Subsidiary of any Indebtedness so permitted to a Person other than the Company or another Subsidiary or (ii) the issuance, sale, transfer or other disposition (other than a pledge of the shares of such Subsidiary) of shares of capital stock (including acquisition through merger or consolidation) of such Subsidiary to a Person other than the Company or another Subsidiary which, after giving effect thereto, results in such Subsidiary ceasing to be a Subsidiary of the Company, the provisions of this clause (4) shall no longer be applicable to such Indebtedness and such indebtedness shall be deemed to have been issued, assumed, incurred or guaranteed at the time of such transfer or other disposition;

(5) the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(6) Purchase Money Indebtedness and Capital Leases incurred or entered into by a Subsidiary not to exceed an aggregate outstanding principal amount at any time of $25,000,000; provided, however, that the aggregate outstanding principal amount of Purchase Money Indebtedness and Capital Leases permissible under this clause (6) shall be increased or decreased to such amount as is permissible under the Bank Credit Agreement;

(7) Permitted Receivables Securitizations;

(8) Off-Balance Sheet Liabilities (other than Permitted Receivables Securitizations) not to exceed an aggregate outstanding principal amount of $25,000,000 reduced by the amount, if any, of secured Indebtedness of a Subsidiary; provided, however, that the aggregate outstanding principal amount of Off-Balance Sheet Liabilities shall be increased or decreased to such amount as is permitted from time to time under the Bank Credit Agreement;

(9) Indebtedness arising from Rate Hedging Obligations incurred to limit risks of currency or interest rate fluctuations to which a Subsidiary is otherwise subject by virtue of the operations of its business, and not for speculative purposes; provided, however, that the aggregate notional amount of all such Rate Hedging Obligations shall not exceed at any time $500,000,000; and provided, further, that the aggregate outstanding principal amount of Indebtedness arising from Rate Hedging Obligations under this clause (9) shall be increased or decreased to such amount as is permissible under the Bank Credit Agreement;

(10) the extension, renewal, refinancing or replacement (or successive extensions, renewals, refinancings or replacements), in whole or in part, of any

Indebtedness referred to in the foregoing clauses (1) through (9); provided, however, (i) that the Indebtedness so issued has (A) a principal amount not in excess of the principal amount of the Indebtedness being extended, renewed, refinanced or replaced (which amount shall be deemed to include the amount of any undrawn or available amounts under any committed credit or lease facility to be so extended, renewed, refinanced or replaced), (B) a final redemption date later than the final stated maturity or final redemption date, if any, of the Indebtedness being extended, renewed, refinanced or replaced and (C) an Average Life at the time of issuance of such Indebtedness that is greater than the Average Life of the Indebtedness being extended, renewed, refinanced or replaced; (ii) the group of direct or contingent obligors on such Indebtedness shall not be expanded as a result of any such action; and (iii) immediately

prior to and immediately after giving effect to any such extension, renewal or replacement, no Event of Default shall have occurred and be continuing.

Notwithstanding the foregoing, any Subsidiary may issue, assume, incur or guarantee Indebtedness which otherwise would be subject to the foregoing restrictions in an aggregate amount, that together with all other such Indebtedness of any Subsidiaries outstanding which would otherwise be subject to the foregoing restrictions (not including Indebtedness permitted to be issued, assumed, incurred or guaranteed under clauses (1) through (10) above), that does not exceed 15% of Consolidated Net Worth of the Company.

SECTION 10.11. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 10.09 and 10.10, if before the time for such compliance the Holders of at least 50% in principal amount of the Outstanding Securities shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE XI

DEFEASANCE AND COVENANT DEFEASANCE

SECTION 11.01. Company's Option to Effect Defeasance or Covenant Defeasance.

The Company may elect, at its option at any time, to have Section 11.02 or Section 11.03 applied to any Securities designated pursuant to Section 3.01 as being defeasible pursuant to such Sections 11.02 or 11.03, in accordance with any applicable requirements provided pursuant to Section 3.01 and upon compliance with the conditions set forth below in this Article. Any such election shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 3.01 for such Securities.

SECTION 11.02. Defeasance and Discharge.

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities the Company shall be deemed to have been discharged from its obligations with respect to such Securities as provided in this Section on and after the conditions set forth in Section 11.04 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of such Securities to receive, solely from the trust fund described in Section 11.04 and as more fully set forth in such Section, payments in respect of the principal and interest on such Securities when payments are due, (2) the Company's obligations with respect to such Securities under Sections 3.04, 3.05, 3.06, 10.02 and 10.03, (3) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (4) this Article. Subject to compliance with this Article, the Company may exercise its option (if any) to have this Section applied to any Securities notwithstanding the prior exercise of its option (if any) to have Section 11.03 applied to such Securities.

SECTION 11.03. Covenant Defeasance.

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities (1) the Company shall be released from its obligations under Section 8.01(3), Sections 10.06 through 10.10, inclusive, and any covenant provided pursuant to Section 9.01(2) for the benefit of the Holders of such Securities and (2) the occurrence of any event specified in Sections 5.01(3) (with respect to any of Section 801(3), Sections 10.06 through 10.10, inclusive, and any such covenants provided pursuant to Section 9.01(2) and 5.01(4) shall be deemed not to be or result in an Event of Default, in each case with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 11.04 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that, with respect to such Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 5.01(3)), whether directly or indirectly by reason of any reference elsewhere herein to any such Section or by reason of any reference in any such Section to any other provision herein or in any other document, but the remainder of this Indenture and such Securities shall be unaffected thereby.

SECTION 11.04. Conditions to Defeasance or Covenant Defeasance.

The following shall be the conditions to the application of Section 11.02 or Section 11.03 to any Securities:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee which satisfies the requirements contemplated by Section 6.09 and agrees to comply with the provisions of this Article applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, in each case sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal and interest on such Securities on the respective Stated Maturities, in accordance with the terms of this Indenture and such Securities. As used herein, "U.S. Government Obligation" means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any U.S. Government Obligation which is specified in clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any U.S. Government Obligation which is so specified and held; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(2) In the event of an election to have Section 11.02 apply to any Securities the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of this instrument, there has been a change in the applicable federal income tax law, in either case (A) or (B) to the effect that, and based thereon such

opinion shall confirm that, the Holders of such Securities will not recognize gain or loss for federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to such Securities and will be subject to federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(3) In the event of an election to have Section 11.03 apply to any Securities the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Securities will not recognize gain or loss for federal income tax purposes as a result of the deposit and Covenant Defeasance to be effected with respect to such Securities and will be subject to federal income tax on the name

amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(4) The Company shall have delivered to the Trustee an Officers' Certificate to the effect that such Securities, if then listed on any securities exchange, will not be delisted as a result of such deposit.

(5) No event which is, or after notice or lapse of time or both would become, an Event of Default with respect to such Securities or any other Securities shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified in Sections 5.01(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Securities are in default within the meaning of the Trust Indenture Act).

(7) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound.

(8) Such Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act unless such trust shall be registered under such Act or exempt from registration thereunder.

(9) The Company shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

SECTION 11.05. Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions.

Subject to the provisions of the last paragraph of Section 10.03, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee or other qualifying trustee (solely for purposes of this Section and Section 11.06, the Trustee and any such other trustee are referred to collectively as the "Trustee") pursuant to Section 11.04 in respect of any Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

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The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 11.04 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 11.04 with respect to any Securities which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Securities.

SECTION 11.06. Reinstatement.

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article with respect to any Securities by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations under this Indenture and such Securities from which the Company has been discharged or released pursuant to Section 11.02 or 1103 shall be revived and reinstated as though no deposit had occurred pursuant to this Article with respect to such Securities, until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 11.05 with respect to such Securities in accordance with this Article; provided, however, that if the Company makes any payment of principal of or interest on any such Security following such reinstatement of its obligations, the Company shall be subrogated to the rights (if any) of the Holders of such Securities to receive such payment from the money so held in trust.

ARTICLE XII

SUBORDINATION

SECTION 12.01. Agreement that Securities to be Subordinate.

The Company covenants and agrees, and each Holder of Securities issued hereunder by his acceptance thereof likewise covenants and agrees, that all Securities issued hereunder are issued subject to the following provisions and each Holder hereof, whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions.

As and to the extent hereinafter provided, all Securities shall, for all purposes and in all respects without limitation, including those hereinafter set forth, be expressly subordinated and subject in right of payment to the prior payment in full, in money or money's worth of the principal, premium, if any, or interest on all Senior Indebtedness; provided, however, that payments on account of principal, premium, if

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any, or interest on the Securities may be made from time to time, subject to the specific limitations set forth in this Article XII.

SECTION 12.02. Limitation During Certain Defaults on Senior Indebtedness.

No payments on account of principal, premium, if any, or interest on the Securities shall be made, nor shall any property or assets of the Company be applied to the purchase or other acquisition or retirement of

the Securities, unless and until full payment of amounts then due for principal, premium, if any, and interest on Senior Indebtedness has been made or duly provided for in money or money's worth. No payment on account of principal, premium, if any, or interest on the Securities shall be made, nor shall any property or assets of the Company be applied to the purchase or other acquisition or retirement of the Securities, if, at the time of such payment or application or immediately after giving effect thereto, there shall exist under any Senior Indebtedness or any agreement pursuant to which any such Senior Indebtedness is issued any event of default permitting the holders of such Senior Indebtedness (or a trustee on behalf of such holders) to accelerate the maturity thereof, provided, however, that in the case of such an event of default (other than in payment of such Senior Indebtedness when due) the foregoing shall not prevent any such payment or application for a period longer than 90 days after the date on which the holders of such Senior Indebtedness (or such trustee) shall have first obtained written notice of such event of default from the Company or the Holder of any Securities, if the maturity of such Senior Indebtedness is not so accelerated within such 90 day period. Subject to the above, if there shall have occurred any Event of Default specified in Section 5.01, other than of the nature referred to in Section 12.03 then and unless and until either such Event of Default shall have been cured or waived or shall have ceased to exist or the principal of, premium, if any, and interest on all Senior Indebtedness shall have been paid in full in money or money's worth, no payment shall be made by the Company on account of the principal of, premium, if any, or interest on the Securities, or on account of the purchase or other acquisition of Securities, except (i) payments at the expressed maturity of the Securities (subject to the next Section), (ii) current interest payments as provided in the Securities and (iii) payments for the purpose of curing any such Event of Default.

SECTION 12.03. Priority of Senior Indebtedness.

Upon any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution or winding-up or total or partial liquidation or reorganization of the Company or similar proceeding relating to the Company or its property, whether voluntary or involuntary, and whether or not the Company is a party thereto, or in bankruptcy, insolvency, receivership or other proceedings, all principal, premium, if any, and interest due upon all Senior Indebtedness shall first be paid in full, or payment thereof provided for in money or money's worth, before the Holders of the Securities shall be entitled to retain any assets so paid or distributed in respect thereof (for principal, premium, if any, or interest); and upon any such dissolution or winding-up or liquidation or reorganization or similar proceeding, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Securities would be entitled, except for the provisions herein set forth, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, or by the Holders of the Securities if received by them, direct to the holders of Senior Indebtedness (pro rata to each such holder on the basis of the respective amounts of Senior Indebtedness held by such holder) or their representatives or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior Indebtedness may have been issued, to the extent necessary to pay all Senior Indebtedness in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness, before any payment or distribution is made to the Holders of the Securities.

SECTION 12.04. Payment to Holders of Senior Indebtedness of Certain Amounts Received by Holders of Securities.

In the event that, notwithstanding the provisions of the prior two preceding Sections, any distribution of assets of the Company or payment by or on behalf of the Company of any kind or character, whether in cash, property

or securities, to which the Holders of the Securities or the Trustee would be entitled but for these subordination provisions, shall be received by the Trustee or the Holders of the Securities before the principal of, premium, if any, and interest on all Senior Indebtedness is paid in full in money or money's worth, or provision made for its payment, such distribution or payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of such Senior Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably as aforesaid, for application to the payment of all Senior Indebtedness remaining unpaid to the extent necessary to pay the principal of, premium, if any, and interest on all such Senior Indebtedness in full in money or money's worth, after giving effect to any concurrent distribution or payment, or provision therefor, to the holders of such Senior Indebtedness.

SECTION 12.05. Subrogation.

Subject to the payment in full of all Senior Indebtedness, in accordance with the terms of such Senior Indebtedness, the Holders of the Securities (together with the holders of any other indebtedness of the Company which is subordinated in right of payment to the payment of other indebtedness of the Company, but is not subordinate in right of payment to the Securities and by its terms grants such right of subrogation to the holders thereof) shall be subrogated to the rights of the holder or holders of Senior Indebtedness to receive payments or distributions of assets of the Company or other payments applicable to such Senior Indebtedness to the extent of the application thereto of moneys or other assets which would have been received by the Holders of the Securities but for the subordination provisions hereof until the principal of and interest on the Securities shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness of cash, property or securities to which the Holders of the Securities would be entitled except for the subordination provisions hereof, and no payment over pursuant to the provisions hereof to the holders of Senior Indebtedness by the Holders of the Securities shall, as between the Company, its creditors (other than holders of Senior Indebtedness) and the Holders of the Securities, be deemed a payment by the Company on account of such Senior Indebtedness; it being understood that the subordination provisions hereof are and are intended solely for the purpose of defining the relative rights of the Holders of the Securities on the one hand, and of the holders of Senior Indebtedness on the other hand, and nothing herein is intended to or shall alter or impair, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Holders of the Securities, the obligations of the Company, which are absolute and unconditional, subject only to the rights of the holders of Senior Indebtedness, to pay to the Holders of the Securities the principal of and interest on the Securities as and when the same shall become due and payable in accordance with the terms thereof, or to affect the relative rights of the Holders of the Securities and creditors of the Company other than holders of Senior Indebtedness, nor shall anything herein prevent the Holders of the Securities from exercising all remedies otherwise permitted hereby or, except as expressly limited hereby, by applicable law upon default under the Securities, subject, in any event, to the rights, if any, hereunder of the Holders of Senior Indebtedness in respect of any payment or distribution of cash, property or securities of the Company or any other payment in respect of the Securities received upon the exercise of any such remedy.

SECTION 12.06. Reliance by Senior Indebtedness on Subordination Provisions.

Each holder of any Security by his acceptance thereof acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration to each holder of any Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness and such holder of Senior Indebtedness shall be deemed conclusively to have relied on such

subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness.

SECTION 12.07. Certain Payments and Credits Permitted.

Nothing contained in these subordination provisions or elsewhere in this Indenture, or in any of the Securities, shall prevent at any time except under the conditions described above (a) the Company from making payment of the principal of, premium, if any, or interest on the Securities, or from depositing with the Trustee or any paying agent moneys for such payments, or (b) the application by the Trustee or any paying agent of any moneys deposited with it under and in accordance with this Indenture to the payment of or on account of the principal of, premium, if any, or interest on the Securities.

SECTION 12.08. Subordination Not to be Prejudiced by Certain Acts.

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

SECTION 12.09. Trustee Authorized to Effectuate Subordination.

Each Holder of Securities by his acceptance thereof authorizes and directs the Trustee in its behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination as provided in these subordination provisions and appoints the Trustee his attorney-in-fact for any and all such purposes.

SECTION 12.10. Trustee's Right regarding Senior Indebtedness Held by it.

The Trustee shall be entitled to all the rights set forth in these subordination provisions in respect of any Senior Indebtedness at any time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in Section 6.13 or elsewhere in this Indenture shall deprive the Trustee of any of its rights as such holder.

SECTION 12.11. Notice to Trustee of Specified Events.

The Company shall give prompt written notice to the Trustee of any dissolution, winding up, liquidation, reorganization, readjustment, arrangement or similar proceeding, assignment of the benefit of creditors, or any marshalling of assets and liabilities, in respect of the Company, and shall also give prompt written notice to the Trustee of any event which pursuant to these subordination provisions would prevent payment by the Company on account of the principal of, premium, if any, or interest on the Securities or on account of the purchase of Securities. The Trustee, subject to the provisions of Article VI, shall be entitled to assume that no such event has occurred unless the Company, or a holder of Senior Indebtedness, or any trustee therefor, has given such notice. Upon any distribution of assets of the Company or payment by or on behalf of the Company referred to in these subordination provisions, the Trustee and the Holders of the Securities shall be entitled to rely upon any order or decree of a court of competent jurisdiction in which any proceedings of the nature preferred to above are pending, and the Trustee, subject to the provisions of Article VI hereof, and the Holders of the

Securities shall be entitled to rely upon a certificate of the liquidating trustee or agent or other person making any distribution to the Trustee or to the Holders of the Securities for the purpose of ascertaining the persons entitled to participate in such distributions, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to these subordination provisions. In the event that the Trustee determines, in good faith, that further evidence is required with respect to the right of any person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to these subordination provisions, the Trustee may request such person to furnish evidence to the reasonable satisfaction of the trustee as to the amount of Senior Indebtedness held by such person, as to the extent to which such person is entitled to participate in such payment or distribution, and as to other facts pertinent to the rights of such person under these subordination provisions,and if such evidence is not furnished, the Trustee may defer any payment to such person pending judicial determination as to the right of such person to receive such payment. The Trustee, however, shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness but shall have such obligations to such holders as are expressly set forth in these subordination provisions.

SECTION 12.12. Trustee and Paying Agents Not Chargeable With Knowledge until Notice.

Notwithstanding any of these subordination provisions or any other provisions of this Indenture, the Trustee and any paying agent shall not at any time be charged with knowledge of the existence of any facts which would prohibit the making of any payment of moneys to or by the Trustee or any paying agent, unless and until the Trustee or such paying agent, as the case may be, shall have received written notice thereof from the Company or a holder of Senior Indebtedness, or any trustee therefor, and prior to the receipt of any such written notice, the Trustee, subject to the provisions of Article VI, and any paying agent shall be entitled to assume that no such facts exist. If at least twenty-four hours prior to the date upon which by the terms hereof any such moneys may become payable for any purpose (including, without limitation, the payment of either the principal of, premium, if any, or the interest on any Security) the Trustee or payment agent, as the case may be, shall not have received with respect to such moneys the notice provided for in this provision, then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such moneys and to apply the same to the purpose for which they may be received by it or on or after such date.

SECTION 12.13. Trustee Not Fiduciary for Holders of Senior Indebtedness.

The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness except as set forth in Section 12.04 but only if the Trustee has received notice as provided in Section 12.12.

* * *

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

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

MEDPARTNERS, INC.

By:

Name:
Title:

Attest:

By:

Name:
Title:

PNC BANK, KENTUCKY, INC.,
---
as Trustee

By:

Name:
Title:

Attest:

By:

Name:
Title:

EXHIBIT 5

[HASKELL SLAUGHTER & YOUNG, L.L.C. LETTERHEAD]

September 11, 1997

MedPartners, Inc.
3000 Galleria Tower, Suite 1000
Birmingham, Alabama 35244

Re: Registration Statement on Form S-3
Registration Statement No. 333-30923
Our File No.: 48367-073

Gentlemen:

We have served as counsel for MedPartners, Inc., a Delaware corporation (the "Company" or "MedPartners"), in connection with the registration under the Securities Act of 1933, as amended, pursuant to the Company's Registration Statement on Form S-3, filed with the Securities and Exchange Commission on September 11, 1997 (the "Registration Statement"), of $350,000,000 principal amount of its _____% Senior Notes due 2000 (the "Notes"). This opinion is furnished to you pursuant to the requirements of Form S-3.

In connection with this opinion, we have examined and are familiar with originals or copies (certified or otherwise identified to our satisfaction) of such documents, corporate records and other instruments relating to the formation of the Company and to the authorization and issuance of the Notes as we have deemed necessary and appropriate.

Based upon the foregoing, and having regard for such legal considerations as we have deemed relevant, it is our opinion that:

1. The Notes have been duly authorized; and

2. Upon issuance, sale and delivery of the Notes as contemplated by the Registration Statement, the Notes will be legally issued, fully paid and nonassessable and will constitute the valid and binding obligations of the Company.

We do hereby consent to the reference to our Firm under the heading "Legal

Matters" in the Prospectus which forms a part of the Registration Statement, and to the filing of this opinion as an Exhibit thereto.

Very truly yours,

HASKELL SLAUGHTER & YOUNG, L.L.C.

By:/s/ Robert E. Lee Garner

Robert E. Lee Garner

EXHIBIT 12

MEDPARTNERS, INC.

COMPUTATION OF RATIOS OF EARNINGS FROM CONTINUING OPERATIONS TO FIXED CHARGES

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,		
	1997	1996	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Earnings from continuing operations:					
Pre-tax income from continuing operations, excluding merger expenses and losses on investments	$152,873	$105,240	$235,370	$180,868	$113,802
Fixed charges (see computation below)	48,025	31,304	63,654	56,399	39,155
Total earnings available for fixed charges	$200,898	$136,544	$299,024	$237,265	$152,957
Fixed charges:					
Gross interest expense	$ 28,329	$ 17,352	$ 35,705	$ 32,406	$ 23,105
Rents(a)	19,696	13,952	27,949	23,993	16,050
	$ 48,025	$ 31,304	$ 63,654	$ 56,399	$ 39,155
Ratio of Earnings to Fixed Changes	4.18	4.36	4.70	4.21	3.91

</TABLE>

(a) These amounts represent 1/3 of rentals which approximate the interest factor applicable to such rentals of the Company.

EXHIBIT 25

Securities Act of 1933 File No. _____

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY
UNDER THE TRUST INDENTURE ACT OF 1939
OF A CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE ELIGIBILITY OF A TRUSTEE
PURSUANT TO SECTION 305 (b)(2) [ ]

PNC Bank, Kentucky, Inc.
(Exact name of trustee as specified in its charter)

Commonwealth of Kentucky	61-0191580
(State of Incorporation If Not a National Bank)	(I.R.S. Employer Identification No.)
500 W. Jefferson Street Louisville, Kentucky	40202
(Address of Principal Executive Offices)	(Zip Code)

Martha A. Ziskind
Vice President
PNC Bank, Kentucky, Inc.
500 W. Jefferson Street
Louisville, Kentucky 40202

(502) 581-3231
(Name, address, and telephone number of agent for service)

MEDPARTNERS, INC.

(Exact Name of Obligor as Specified in its Charter)

Delaware	58-2142899
(State of Incorporation)	(I.R.S. Employer Identification No.)

3000 Gallaria Tower, Suite 1000, Birmingham, Alabama	35244
(Address of Principal Executive Offices)	(Zip Code)

$350,000,000 Senior Subordinated Notes due 2000

(Title of the Indenture Securities)

1. General information. Furnish the following information as Trustee:

(a) Name and address of each examining or supervising authority to which it is subject.

Federal Reserve Bank of St. Louis
411 Locust Street, P. O. Box 442
St. Louis, Mo 63266

Department of Financial Institutions
Commonwealth of Kentucky
477 Versailles Road
Frankfort, Ky 40601

(b) Whether it is authorized to exercise corporate trust powers.

The Trustee is authorized to exercise corporate trust powers.

2. Affiliations with obligor. If the obligor is an affiliate of the Trustee, describe each such affiliation.

Not applicable.

3. Voting Securities of the trustee. Furnish the following information as to each class of voting securities of the trustee.

As of August 25, 1997

<TABLE>
<CAPTION>

Col. A (Title of Class)	Col. B (Amount Outstanding)
<S>	<C>
PNC Bank, Kentucky, Inc. Common Stock, par value $30 per share	2,000,000 shares
PNC Bank Corp. Common Stock, par value $5 per share	322,038,350 shares

</TABLE>

4. Trusteeships under other indentures. If the trustee is a trustee under another indenture under which any other securities, or certificates of interest or participation in any other securities, of the obligor are outstanding, furnish the following information:

(a) Title of the securities outstanding under each such other indenture.

Not applicable.

(b) A brief statement of the facts relied upon as a basis for the claim that no conflicting interest within the meaning of Section 310(b)(1) of the Act arises as a result of the trusteeship under any such other indenture, including a statement as to how the indenture securities will rank as compared with the securities issued under other such other indenture.

Not applicable.

5. Interlocking directorates and similar relationships with the obligor or

underwriters. If the trustee or any of the directors or executive officers of the trustee is a director, officer, partner, employee, appointee, or representative of the obligor or of any underwriter for the obligor, identify each such person having any such connection and state the nature of each such connection.

Not applicable.

6. Voting securities of the trustee owned by the obligor or its officials. Furnish the following information as to the voting securities of the trustee owned beneficially by the obligor and each director, partner and executive officer of the obligor:

As of August 25, 1997

<TABLE>
<CAPTION>

Column A	Column B	Column C	Column D
Name of Owner	Title of Class	Amount Owned Beneficially	Percentage of Voting Securities Represented by Amount Given in Column C
<S>	<C>	<C>	<C>
Not applicable.			

</TABLE>

7. Voting securities of the trustee owned by underwriter or their officials. Furnish the following information as to the voting securities of the trustee owned beneficially by each underwriter for the obligor and each director, partner, executive officer of each such underwriter:

As of August 25, 1997

<TABLE>
<CAPTION>

Column A	Column B	Column C	Column D
Name of Owner	Title of Class	Amount Owned Beneficially	Percentage of Voting Securities Represented by Amount Given in Column C

<S>	<C>	<C>	<C>
Not applicable.			

8. Securities of the obligor owned or held by the trustee. Furnish the following information as to securities of the obligor owned beneficially or held as collateral security for obligations in default by the trustee.

As of August 25, 1997

Column A	Column B	Column C	Column D
Title of Class	Whether the Securities are Voting or Nonvoting Securities	Amount Owned Beneficially of Held as Collateral Security for Obligations in Default	Percentage of Voting Securities Represented by Amount Given in Column C
<S>	<C>	<C>	<C>
Not applicable.			

9. Securities of the underwriters owned or held by the trustee. If the trustee owns beneficially of holds as collateral security for obligations in default any securities of an underwriter for the obligor, furnish the following information as to each class of securities of such underwriter any of which are so owned or held by the trustee:

Column A	Column B	Column C	Column D
Title of Issuer or Title of Class	Amount Outstanding	Amount Owned Beneficially of Held as Collateral Security for Obligations in Default	Percentage of Voting Securities Represented by Amount Given in Column C

<S>	<C>	<C>	<C>
Not applicable.			

10. Ownership or holdings by the trustee of voting securities of certain affiliates or security holders of the obligor. If the trustee owns beneficially or holds collateral security for obligations in default voting securities of a person who, to the knowledge of the trustee (1) owns 10% or more of the voting securities of the obligor or (2) is an affiliate, other than a subsidiary, of the obligor, furnish the following information as to the voting securities of such person:

As of August 25, 1997

Column A	Column B	Column C	Column D
Title of Issuer or Title of Class	Amount Outstanding	Amount Owned Beneficially of Held as Collateral Security for Obligations in Default	Percentage of Voting Securities Represented by Amount Given in Column C
<S>	<C>	<C>	<C>
Not applicable.			

11. Ownership or holdings by the trustee of any securities of a person owning 50 percent or more of the voting securities of the obligor. If the trustee owns beneficially or holds as collateral security for obligations in default any securities of a person who, to the knowledge of the trustee, owns 50 percent or more of the voting securities of the obligor, furnish the following information as to each class of securities of such person any of which are so owned or held by the trustee:

As of August 25, 1997

Column A	Column B	Column C	Column D
		Amount Owned Beneficially of Held as	Percentage of

Title of Issuer or Title of Class	Amount Outstanding	Collateral Security for Obligations in Default	Voting Securities Represented by Amount Given in Column C
<S>	<C>	<C>	<C>
Not applicable.			

</TABLE>

12. Indebtedness of the obligor to the trustee. Except as noted in the instructions, if the obligor is indebted to the trustee, furnish the following information:

As of August 25, 1997

<TABLE>
<CAPTION>

Column A	Column B	Column C
Nature of Indebtedness	Amount Outstanding	Due Date
<S>	<C>	<C>
Revolving Credit Facility	$1,000,000	9/5/2001

</TABLE>

13. Defaults by the obligor.

(a) State whether there is or has been a default with respect to the securities under this indenture. Explain the nature of any such default.

None.

(b) If the trustee is a trustee under another indenture under which any other securities, or certificates of interest or participation in any other securities, of the obligor are outstanding, or is the trustee for more than one outstanding series of securities under the indenture, state whether there has been a default under any such indenture or series, identify the indenture or series affected, and explain the nature of any such default.

Not applicable.

14. Affiliation with the Underwriters. If any underwriter is an affiliate of the trustee, describe each such affiliation.

Not applicable.

15. Foreign Trustee. Identify the order or rule pursuant to which the foreign trustee is authorized to act as sole trustee under indentures qualified or to be qualified under the Act.

Not applicable.

16. List of Exhibits. List below all exhibits filed as part of

this statement of eligibility.

1. A copy of the Articles of Incorporation of the Trustee now in effect is hereby incorporated by reference to Exhibit 1 to Amendment No. 1 to Form T-1 filed with Registration Statement No. 22-23572, dated as of February 24, 1993.

2. Certificate of authority of the Trustee to commence business, contained in the Articles of Incorporation is hereby incorporated by reference to Exhibit 1 to Amendment No. 1 to Form T-1 filed with Registration Statement No. 22-23572, dated as of February 24, 1993.

3. Authorization of the Trustee to exercise corporate trust powers, contained in the Articles of Incorporation is hereby incorporated by reference to Exhibit 1 to Amendment No. 1 to Form T-1 filed with Registration Statement No. 22-23572, dated as of February 24, 1993.

4. A copy of the existing By-Laws of the trustee is hereby incorporated by reference to Exhibit 1 to Amendment No. 1 to Form T-1 filed with Registration Statement No. 22-23572, dated as of February 24, 1993.

5. Copy of each indenture referred to in Item 4, if the obligor is in default. Not applicable.

6. The consent of United States institutional trustees required by Section 321(b) of the Act.

7. A copy of the latest report of condition of the trustee published pursuant to law or the requirements of its supervising or examining authority is hereby incorporated by reference to its Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and Quarterly Report on Form

10-Q for the Quarter ended June 30, 1997 which were previously filed with the Commission.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939, the Trustee, PNC Bank, Kentucky, Inc., a corporation organized and existing under the laws of the Commonwealth of Kentucky, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Louisville and State of Kentucky on the 25th day of August, 1997.

PNC BANK, KENTUCKY, INC.

By: /s/ DAVID G. METCALF

David G. Metcalf
Vice President