AMENDMENT NO. 3
TO
FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MEDIQ INCORPORATED
(Exact name of Registrant as specified in its charter)

DELAWARE 7352
51-0219413 (Primary Standard Industrial Classification Code Number)
(STate or Other Jurisdiction of Incorporation or Organization No.)

ONE MEDIQ PLAZA
PENNSAUKEN, NJ 08110
(609) 662-3200
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

THOMAS E. CARROLL
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MEDIQ INCORPORATED
ONE MEDIQ PLAZA
PENNSAUKEN, NJ 08110
(609) 662-3200
(Name, address including zip code, and telephone number,
including area code, of agent for service)
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WITH COPIES TO:

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<td>WILLIAM G. LAWLOR, ESQ.</td>
<td>F. DOUGLAS RAYMOND, III,</td>
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<td>Dechert Price &amp; Rhoads</td>
<td>Drinker Biddle &amp; Reath</td>
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<td>4000 Bell Atlantic Tower</td>
<td>Philadelphia National Bank</td>
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<td>1717 Arch Street</td>
<td>1345 Chestnut Street</td>
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<td>Philadelphia, PA 19103</td>
<td>Philadelphia, PA 19107-3496</td>
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<td>(215) 994-4000</td>
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective and the effective time of the merger (the "Merger") of MQ Acquisition Corporation ("MQ"), a corporation that has been organized by Bruckmann, Rosser, Sherrill & Co., L.P., with and into MEDIQ Incorporated ("MEDIQ" or the "Company"), pursuant to the Agreement and Plan of Merger (the "Merger Agreement") between MQ and the Company, dated as of January 14, 1998, as amended as of April 27, 1998 which is attached as Annex A to the Proxy Statement/Prospectus forming a part of this Registration Statement.

If any of the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, 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 number of the earlier effective registration statement for the same offering. / /

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

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES
Dear Fellow Stockholders:

You are cordially invited to attend a Special Meeting (including any adjournments or postponements thereof, the "Special Meeting") of the stockholders of MEDIQ Incorporated (the "Company") to vote on the proposed merger (the "Merger") of the Company with MQ Acquisition Corporation, a Delaware corporation ("MQ") that has been organized by Bruckmann, Rosser, Sherrill & Co., L.P. Details of the Merger are discussed in the enclosed Proxy Statement/Prospectus (the "Proxy Statement/Prospectus"), the forepart of which includes a summary of the terms of the Merger and certain other information relating to the proposed transactions.

At the Special Meeting, you will be asked to approve and adopt the Agreement and Plan of Merger, dated as of January 14, 1998, as amended as of April 27, 1998 (the "Merger Agreement"), and the transactions contemplated thereby. A copy of the Merger Agreement is attached as Annex A to the enclosed Proxy Statement/Prospectus. Please carefully read the accompanying Proxy Statement/Prospectus, which contains a detailed description of the Merger and the Merger Agreement.

On January 14, 1998, a Special Committee of the Board of Directors (the "Special Committee") and the Board of Directors of the Company, by unanimous vote (i) determined that the Merger, the Merger Agreement and the transactions contemplated thereby are fair to and in the best interests of the holders of the
common stock, par value $1.00 per share, of the Company (the "MEDIQ Common Stock"), (ii) determined that the Merger, the Merger Agreement and the transactions contemplated thereby are fair to and in the best interests of the holders of the Series A preferred stock, par value $.50 per share, of the Company (the "MEDIQ Preferred Stock"), and (iii) recommended that holders of MEDIQ Common Stock and holders of MEDIQ Preferred Stock each approve the Merger, the Merger Agreement and the transactions contemplated thereby.

The Merger requires the approval at the Special Meeting of (i) the holders of a majority of the outstanding voting power of the MEDIQ Common Stock and the MEDIQ Preferred Stock, voting together as a single class and (ii) the holders of a majority of the outstanding shares of MEDIQ Preferred Stock. Pursuant to stockholder agreements between MQ and certain stockholders of the Company, holders of 4,701,464 shares of Common Stock and 4,730,006 shares of MEDIQ Preferred Stock, representing approximately 24% of the outstanding MEDIQ Common Stock (without giving effect to the conversion of any shares of MEDIQ Preferred Stock into shares of MEDIQ Common Stock), approximately 75% of the outstanding MEDIQ Preferred Stock and approximately 63% of the total combined voting power of the MEDIQ Common Stock and the MEDIQ Preferred Stock voting together as a single class (in each case without giving effect to the exercise of any outstanding options to acquire MEDIQ Stock), have agreed to vote their shares in favor of the Merger, the Merger Agreement and the other actions contemplated thereby, subject to the terms and conditions thereof. The affirmative vote of the shares of MEDIQ Stock subject to the stockholder agreements will be sufficient to approve the Merger and the Merger Agreement.

On behalf of the Board of Directors, I wish to thank you for your support.

The Special Meeting will be held at the Company's corporate headquarters, One MEDIQ Plaza, Pennsauken, New Jersey, 08110-1460 on May 27, 1998, beginning at 9:00 a.m.

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

Very truly yours,

[LOGO]

Thomas E. Carroll
SPECIAL FACTORS

Holders of MEDIQ Stock should carefully consider the following factors in connection with their consideration of the Merger. See also "FORWARD-LOOKING STATEMENTS" and "RISK FACTORS" elsewhere in this Proxy Statement/Prospectus.

BACKGROUND OF THE MERGER

In November 1994, the Company formed a special committee of the Board of Directors for the purpose of exploring alternative ways to maximize stockholder value, including the possible sale or restructuring of the Company. The special committee consisted of Mr. Rotko, Chairman of the Company's Board of Directors, Mr. Miller, who had from time to time acted as a professional advisor to the Rotko family, Dr. Shipon, Mr. Rotko's brother-in-law, and Bernard Korman, the then-Chief Executive Officer of the Company. Other than Mr. Korman, who resigned from the special committee in December 1994, none of the special committee members were employees of the Company during their service as members of the special committee.

In January 1995, the Company retained a financial advisor to assist the special committee. Subsequently, in January 1995, a corporation that was organized by Archon Capital Partners, L.P. ("Archon"), in conjunction with certain members of management led by Mr. Korman and including Messrs. Carroll and Sandler, made an unsolicited offer to acquire the Company. Mr. Carroll's participation in the Archon offer ceased in March 1995. Mr. Carroll is the Chief Executive Officer of the Company and Messrs. Carroll and Sandler are members of the Board of Directors.

Archon offered to acquire the stock of the Company for a price of $5.00 per share to non-controlling shareholders and, with respect to controlling shareholders, alternatively either (i) $5.75 per share or (ii) $4.00 per share in cash and interests, then owned by the Company, in PCI Services, Inc. and NutraMax Products, Inc. ("NutraMax") valued at approximately $2.31 per MEDIQ share. Following receipt of the Archon offer, the special committee determined that the Company's financial advisor should conduct a market check to determine the interest of unrelated third parties in the Company.

Beginning in March 1995, the Company solicited, with the assistance of its financial advisor, indications of interest from potential buyers for the Company and received a number of proposals from interested parties. Potential buyers were selected based on their likely interest in, and financial ability to consummate, an acquisition of the Company. Fifty-two potential buyers were
In April 1995, the Board accepted the recommendation of the special committee, based on the assessment of the Company's financial advisor that the value of the Archon offer was below the low end of the value for the Company, to reject that offer as inadequate. Also in April 1995, the Company entered into agreements with certain key executives that provided for the payment of "success bonuses" upon the occurrence of certain strategic transactions involving the Company, including the sale of the Company. See "SPECIAL FACTORS--Interests of Certain Persons in the Merger." The success bonuses were adopted to create an additional incentive for management to remain with the Company and maximize shareholder value in the sale of the Company.

In June 1995, the special committee received five third-party proposals. Three of the proposals were for the acquisition of all of the stock of the Company, with the assets of the Company other than PRN Holdings, Inc. ("PRN") to be contributed to a liquidating trust, the equity interests in which would be distributed to the Company's stockholders. Under those proposals, the estimated distributable value per share of MEDIQ Stock ranged from $6.19 to $6.78. The fourth proposal, for only the assets of PRN, would have resulted in substantially less distributable value to the Company's stockholders. The fifth proposal, also for the assets of PRN, would have resulted in negative distributable value to the Company's stockholders.

After extensive review of the three proposals with the highest proposed aggregate financial return to the Company's stockholders, in July 1995 the special committee authorized its representatives to negotiate with the top two bidders (each of which required the establishment of a liquidating trust) and invite each to submit its best and final offer. Thereafter, one of the top two bidders withdrew its proposal.

By early September 1995, following extensive negotiations with the remaining bidder, the special committee had made substantial progress toward reaching an agreement for the sale of the Company. Subsequently, the remaining bidder reduced its valuation of the Company and, accordingly, its bid for the Company. In response, the special committee and its advisors concluded that the reduced valuation and bid were unsatisfactory. Thereafter, at the request of the special committee, its representatives contacted the two next highest bidders to
determine whether they remained interested in acquiring the Company. Discussions with those bidders were held in September and October 1995.

On October 18, 1995, one of the two final bidders submitted a written proposal to acquire the outstanding capital stock of PRN for an estimated total value per share of MEDIQ Stock of $5.40. The other bidder's proposal, to acquire the outstanding capital stock of PRN for an estimated total value per share of MEDIQ Stock of $5.74, was communicated orally to representatives of the special committee.

The special committee met on October 19, 1995 to consider the two proposals and discuss whether to recommend acceptance of one of the bids for PRN or to negotiate further with the prospective bidders and whether to continue with an auction process or, in light of the significant diversion of management time and resources required by the auction process, to cease further efforts to sell the Company at that time and continue to operate the Company as a stand-alone business, either without divestitures of non-core businesses or with divestitures that would enable management to focus its efforts on the Company's core PRN business. At that meeting, the special committee resolved to recommend to the Board that the Company terminate any further efforts to sell the Company at that time. It was the consensus of the special committee that the bids did not accord sufficient value to the potential of certain opportunities for the Company's PRN business. The higher of the two final bids was at the low end of the range of fair values of the Company prepared by the Company's financial advisor. The other bid was lower, and both bids were highly conditional. At a subsequent meeting of the Board, the special committee's recommendation was accepted and the Board determined to continue its strategy (first announced in November 1990) of divesting non-core assets and using the divestiture proceeds to reduce indebtedness. This program was substantially completed by the fall of 1996 and included the transactions discussed below.

In July 1996, PCI Services, Inc. ("PCI") agreed to be acquired by Cardinal Health, Inc. ("Cardinal"). In exchange for its 46% interest in PCI, the Company received shares of Cardinal stock which it subsequently sold for approximately $88.4 million.
In September 1996, the Company entered an agreement with NutraMax pursuant to which NutraMax agreed to repurchase all of the shares of NutraMax common stock (the "NutraMax Common Stock") owned by the Company for an aggregate purchase price of approximately $36.3 million.

Also in 1996, the Company agreed to sell its ownership interest in HealthQuest, Inc. for $75,000 and sold substantially all of the assets of MEDIQ Mobile X-Ray Services, Inc. ("Mobile X-Ray") for (i) approximately $5.3 million in cash, (ii) shares of Integrated Health Services common stock with an initial value of $5.2 million (which shares were subsequently sold) and (iii) the possibility of the Company receiving additional cash consideration based upon the occurrence of certain future events. In fiscal year 1997, the Company received approximately $1.1 million in additional cash consideration relating to the Mobile X-Ray transaction.

In May 1997, the Company sold the stock of Health Examinetics, Inc. for $1.7 million.

In November 1997, the Company sold to InnoServ Technologies ("InnoServ") all of the 2,026,438 shares of InnoServ common stock owned by it, as well as a warrant to acquire additional shares of InnoServ common stock. Under the terms of that agreement, no cash payment was made by InnoServ. The parties agreed, however, to terminate a non-compete covenant relating to maintenance and repair services. In addition, in the event of a change of control of InnoServ before September 30, 1998, the Company will be entitled to certain payments from the acquiring party.

In the fall of 1996, with the Company's strategic plan to dispose of non-core assets and apply the proceeds thereof to reduce indebtedness nearing completion, the Company engaged Salomon Smith Barney to advise the Company in respect of strategic alternatives, including the possible sale of the Company and the acquisition of companies with complementary businesses. The Company had identified Universal Hospital Services, Inc., a corporation that rents movable medical equipment to hospitals and other healthcare providers ("UHS"), as an attractive potential acquisition candidate which complemented the Company's core equipment rental business. Accordingly, Salomon Smith Barney was asked to assist
the Company in connection with a possible transaction with UHS.

In late 1996 and early 1997, the Company focused its efforts on a possible transaction with UHS and the potential growth in the Company's core equipment rental businesses that would have resulted from the acquisition of UHS. In February 1997, the Company agreed to acquire all of the outstanding shares of UHS for an aggregate purchase price (including refinancing of indebtedness) of approximately $138 million. In April 1997, the stockholders of UHS approved the acquisition subject to federal regulatory approval pursuant to the HSR Act. In July 1997, the Company and UHS were informed by the FTC that it had authorized its staff to take legal action to block the proposed transaction and, subsequently, the FTC filed a motion for a preliminary injunction to block the transaction. In September 1997, facing the likelihood of a protracted administrative proceeding before the FTC, the uncertainty of the outcome and the costs associated with continuing to defend against the efforts of the FTC to prevent the transaction, the Company and UHS mutually terminated their agreement.

During the summer of 1997, the Board of Directors also reviewed the implementation of the Company's strategic plan and its belief that the trading range of MEDIQ Stock did not necessarily reflect the value of the Company and the benefits the Company had realized and expected to realize from its focus on its core business and growth opportunities. At that time, the Board considered resuming a process designed to explore strategic alternatives and maximize stockholder value, but deferred any action pending resolution of the proposed transaction with UHS.

Following termination in September 1997 of the agreement between the Company and UHS, the Board determined to explore a possible sale of the Company and, on October 17, 1997, the Executive Committee of the Board (the "Executive Committee") met with executive management, the Company's legal counsel and Salomon Smith Barney. At that meeting, the Executive Committee assessed the Company's current market valuation and stock price performance and discussed the possibility of enhancing stockholder value through the sale of the Company. In addition, the Executive Committee discussed with the Company's legal and financial advisors the principal anticipated events and timing of an auction process. After discussion and evaluation of different transaction scenarios, the Executive Committee authorized Salomon Smith Barney to conduct an auction on
behalf of the Company, in which bids for the acquisition of the Company would be solicited with the goal of maximizing value for all stockholders. At that time, the Rotko Entities advised the Company that they did not intend to seek any treatment from any bidder different from that to be available to the Company's other stockholders.

On October 29, 1997, the Company issued a press release stating that the Company had authorized Salomon Smith Barney to explore strategic alternatives, including the possible sale of the Company. A confidential memorandum (the "Confidential Memorandum") was then prepared for distribution to potential buyers and a list of potential buyers to be contacted directly in respect of their interest in a possible transaction was assembled.

Between October 17 and November 17, 1997, approximately 50 potential buyers were contacted. Potential buyers were selected based on their likely interest in, and financial ability to consummate, an acquisition of the Company. In addition, following the October 29 press release, Salomon Smith Barney was contacted directly by a number of potential buyers, who were then considered for participation in the process. Confidentiality and standstill agreements were entered into with the 39 potential buyers that expressed an interest in the Company and, beginning on October 31, 1997, copies of the Confidential Memorandum, along with a letter setting forth the procedures of the auction process, the deadline for firm offers and other bidding requirements, were sent to such potential buyers.

By the week of November 17, 1997, 20 written indications of interest had been received from potential buyers. On November 21, 1997, at a regular meeting of the Executive Committee, the Executive Committee reviewed with executive management and the Company's legal and financial advisors the status of the auction process and the identities of various potential buyers. The Executive Committee was informed that the indications of interest submitted by 17 of the 20 potential buyers contemplated that the acquisition of the Company would be treated as a recapitalization for financial reporting purposes.

After conferring with executive management and the Company's legal and financial advisors, the Executive Committee authorized Salomon Smith Barney to contact the parties that had proposed the six highest prices for the Company, five of which were financial buyers. The five financial buyers were invited, after an opportunity for further due diligence and presentations from management, to make a definitive proposal to acquire the Company. The other potential buyer, an entity with an existing business in the Company's industry, was asked to ascertain its level of confidence regarding the antitrust issues
involved in a transaction with the Company. After further discussions with representatives of such potential buyer, that party elected not to pursue further negotiations with the Company. Another potential financial buyer subsequently was included in the final group after indicating that it expected to increase its bid to be competitive with the other remaining bidders.

On November 24, 1997, at a regular meeting of the Board of Directors, the Board, executive management and the Company's legal counsel discussed the results of the Company's requests for indications of interest and considered the six potential buyers that had been invited to proceed in the auction process. Also at that meeting, the Board affirmed the actions taken by the Executive Committee at its meeting on November 21 in authorizing the progress of the auction into a second round and selecting second round bidders.

The six potential buyers were informed of their invitation to proceed and given access to a special "Data Room" established by the Company that contained detailed information concerning the Company. The six potential buyers were also given the opportunity to meet with senior management of the Company and visit the Company's headquarters. From December 3, 1997 through January 8, 1998, each of the six potential buyers conducted extensive meetings with members of the Company's senior management, including the chief executive officer, chief financial officer and senior vice presidents, visited Company headquarters and had access to the Data Room.

By December 18, 1997, each of the six potential buyers had received a draft of a merger agreement prepared by the Company and its legal counsel, and a letter instructing that each bidder's "best and final" bid, indicating price per share and key terms and conditions, as well as any comments on or changes to the draft merger agreement, were due in January. This letter also stated that final bids should not be conditioned on financing or further due diligence.

On January 7 and 8, 1998, the Company received written offers to purchase the Company, together with written revisions to the draft merger agreement, from three of the six second-round bidders. The remaining three second-round bidders did not submit offers to purchase the Company.

A special meeting of the Board of Directors was held on January 9, 1998, at which the Board reviewed the three written offers with the Company's executive management and its legal and financial advisors. Following this review, the Board determined that the proposal from BRS, in which each share of MEDIQ Stock would be converted into $13.50 cash plus 0.1 of a share of Series A Preferred Stock, was economically and structurally superior to the other two offers. In
particular, the BRS proposal represented

the highest value per share of MEDIQ Stock and, in addition, the cash portion of
the BRS proposal alone was higher than the total value of either of the other
two offers. Furthermore, the BRS proposal was not contingent upon the completion
of further due diligence.

The BRS proposal contemplated, among other things, (i) that the Merger would
qualify for recapitalization treatment for financial reporting purposes, which
BRS proposed to achieve by requiring the Rotko Entities and certain key executives of the Company, including Messrs. Carroll and Kaplan, to acquire an
equity interest in the Surviving Corporation, (ii) that, in satisfaction of the
foregoing requirement as it related to the Rotko Entities, the Rotko Entities would be required to convert or exchange, prior to the Merger, between one
million and two million shares of their MEDIQ Preferred Stock into or for stock
of the Surviving Corporation, representing an equity interest of between 11.8%
and 23.6% in the Surviving Corporation, (iii) that, with respect to the other
shares of MEDIQ Stock owned by the Rotko Entities, the Rotko Entities would receive the same consideration in the Merger as the other stockholders, (iv) the
agreement of the Rotko Entities to vote in favor of the transaction and provide
MQ with an option to purchase, under certain circumstances, all of the shares of
MEDIQ Stock owned by them, (v) the receipt by MQ for use in the Merger of financing that, at that time, was described in draft commitment letters from MQ's lenders which MQ indicated would be executed prior to the execution of the
merger agreement, and (vi) significant restrictions on the Board's ability to terminate the merger agreement in the event of a superior proposal.

The second highest bidder, among other things, (i) offered an aggregate price lower than the cash portion of the BRS proposal, (ii) also required the
Rotko Entities and management to acquire an equity interest in the Surviving Corporation, (iii) sought to conduct additional due diligence and (iv) failed to assure the Company that it would have committed financing by the time of the execution of a definitive merger agreement. The proposal submitted by the third bidder offered a price lower than the cash portion of the BRS proposal and lower than the aggregate price offered by the second highest bidder. The third bidder's proposal also included, among other terms (i) elimination of the Company's ability to terminate the merger agreement in the event of a higher offer, (ii) a termination right in favor of the bidder in the event of a material adverse change in the Company's prospects, and (iii) a relatively weak
representation and warranty from the third bidder in respect of its financing.
The Board, after conferring with executive management and the Company's legal and financial advisors, determined, principally because of the lower bid price, that it was not desirable for the Company to continue discussions with the third bidder at that time.

The Board also discussed the fact that the BRS proposal was conditioned on the Stock Option Agreement, the Rollover Agreement, the Stockholder Agreements and an equity investment in the Surviving Corporation by certain members of management. The Board noted that Mark Levitan, a director since 1989, had no interest in any proposed transaction with BRS different from that of the Company's stockholders generally. The Board also considered the fact that, of its members, (i) Messrs. Rotko and Shipon are, with their families, beneficiaries of the Rotko Trust, (ii) Mr. Carroll would receive a success fee if the Company were sold and, as president of the Company, would be likely to invest in the Surviving Corporation, (iii) Mr. Sandler would receive a success fee if the Company were sold, (iv) Messrs. Bonovitz and Miller had from time to time acted as professional advisors to the Rotko family, and (v) each of the foregoing individuals possessed interests potentially different from, or in addition to, those of the Company's stockholders generally. Accordingly, after further discussion, the Board asked Mr. Levitan to serve as a Special Committee and evaluate independently the fairness of the proposed transactions.

The Company's legal counsel then reviewed the function of the Special Committee with the Board, which, after discussion with counsel, agreed that the Board would require the Special Committee's approval of the transactions proposed by BRS. The Special Committee was also advised that it should consider engaging separate counsel, to be independently selected by the Special Committee, to assist it in reviewing the BRS proposal. The Special Committee subsequently engaged the firm of Cozen and O'Connor to serve as its counsel. Cozen and O'Connor was selected independently by Mr. Levitan based on his past experience in dealing with the firm as his counsel in a number of matters and on the firm's general reputation and experience in corporate and securities transactions.

The Board discussed the terms proposed by BRS for the preferred stock in the surviving corporation to be distributed to the Company's stockholders, including
its liquidation preference and dividend accrual rate, and ways in which possibly
to improve its value. The Board also reviewed the comments of BRS on the draft
merger agreement, the probability of obtaining a break-up fee should BRS or its
acquisition subsidiary default after execution of a definitive merger agreement,
factors that could delay or prevent consummation of a merger after execution of
a definitive merger agreement, and the nature of the financing proposed to be
obtained by BRS. In addition, the Board reviewed the proposed sequence of events
for the next several days, including possible responses to each of the three final bidders.

At the conclusion of the January 9, 1998 Board meeting, the Board
directed executive management, with the assistance of the Company's legal and financial
advisors, to (i) commence negotiations with BRS, (ii) ascertain whether the second highest bidder would be willing to raise its bid and (iii) not hold further discussions with the third bidder at that time. The Board also instructed executive management and the Company's legal and financial advisors
to attempt to maximize the value of the BRS proposal and limit, to the extent possible, the contingencies that would allow BRS to terminate a merger agreement with the Company.

During the afternoon of January 9, 1998, the second highest bidder, after being contacted by the Company's legal and financial advisors, advised that it expected to require three to four days of further due diligence and would also require an additional period of time to conduct "background checks" on the Company's management. This bidder also informed the Company that it was not willing to increase its bid. BRS and its legal counsel were then contacted. BRS and the Company discussed a number of issues relating to its bid. After further negotiations that evening, BRS and the Company entered into an exclusivity agreement terminable at any time by either party and which expired in any event on January 15, 1998.

On January 10, 1998, the Company's legal counsel delivered to BRS a revised draft merger agreement.

On January 11, 1998, representatives of BRS and its legal counsel met with the Company's general counsel, outside legal counsel and representatives of Salomon Smith Barney. At that meeting, there were further negotiations regarding
the terms and conditions of the BRS offer. During these negotiations, BRS was asked to increase the value of its bid. In response, BRS indicated that it would be willing to reallocate a portion of the aggregate value of its bid from stock in the Surviving Corporation to cash, increasing the cash portion of its bid by $0.25 per share (from $13.50 to $13.75 per share) and decreasing by 0.025 of a share (from 0.1 to 0.075 of a share) the number of shares of Series A Preferred Stock of the Surviving Corporation to be received in the Merger in exchange for one share of MEDIQ Stock. BRS also agreed to increase the dividend rate on the Series A Preferred Stock to 13% from 12.5% and to provide for a premium in the event such Series A Preferred Stock was redeemed prior to January 1, 2002. The net effect of such reallocation was to increase the value of the BRS offer, which, giving effect to the reallocation, was estimated to be approximately $14.25 per share of MEDIQ Stock. Alternatively, BRS indicated during the negotiations that it would be willing to pay $14.00 cash per share of MEDIQ Stock, but in a cash-only transaction that would not provide the Company's stockholders with an equity interest in the Surviving Corporation. BRS would not, however, agree to an all-cash transaction at a price greater than $14.00. The value of the cash-only alternative, taking into account the proposed terms of the Series A Preferred Stock and its potentially limited liquidity, was estimated to be approximately $0.25 per share less than the combined cash and stock proposal. Accordingly, the cash-only alternative was not pursued and the Company continued to negotiate the Merger Agreement on the basis that the Merger Consideration would consist of $13.75 in cash and 0.075 of a share of Series A Preferred Stock. The parties also resolved most of the other significant issues with respect to the terms of the Merger Agreement. At this meeting, BRS reiterated that its offer remained subject to its reaching a satisfactory arrangement with the Rotko Entities and management in respect of their respective investments in the Surviving Corporation, and in respect of the Stock Option Agreement, the Rollover Agreement and the Stockholder Agreements.

On January 11, 1998, the Company's legal counsel discussed with the Special Committee and its counsel the terms of the BRS proposal, including those aspects that related to the arrangements among BRS, the Rotko Entities and management. During the period from January 12 through 14, 1998, the Company's legal counsel
and counsel to the Special Committee held a number of telephonic discussions in respect of the proposed transactions.

At a special meeting of the Board of Directors held on January 11, 1998, the Board was advised of the progress of the negotiations with BRS and of the result of discussions with the second highest bidder. Mr. Bonovitz, a director of the Company and partner in the law firm of Duane, Morris & Heckscher LLP, counsel to the Rotko Entities, also reported on discussions he had with counsel to BRS regarding the general form of the proposed arrangements between BRS and the Rotko Entities. Mr. Carroll also reported that he had engaged in general discussions with BRS in respect of the terms of management's investment in the Surviving Corporation and was awaiting a more specific proposal. At the conclusion of the meeting, the Board directed the Company’s executive management, with the assistance of its advisors, to seek to finalize the merger agreement with BRS on the terms described to the Board, and acknowledged that management and representatives of the Rotko Entities should begin to negotiate with BRS the arrangements requested by BRS. The Board then scheduled another special meeting for the following evening.

On January 12, 1998, the Company and its advisors continued to negotiate the terms of the Merger Agreement with BRS and its representatives, while Mr. Rotko, independently represented by Mr. Bonovitz and the firm of Duane, Morris & Heckscher LLP, on behalf of the Rotko Entities, separately negotiated with BRS the terms of the Stockholder Agreements, the Stock Option Agreement and the Rollover Agreement. During these negotiations, the advisors to the Rotko Entities advised BRS that the Rotko Entities would agree to invest one million shares of MEDIQ Preferred Stock owned by them, representing the minimum amount sought by BRS in its initial proposal of January 8, in securities of the Surviving Corporation.

Separately, Mr. Carroll, on behalf of himself and certain members of management, negotiated with BRS an understanding as to the basic terms governing management's participation in the Surviving Corporation, under which management would (i) use the after-tax cash proceeds from approximately $9.5 million in value received in respect of the Option Consideration (paid for options to acquire 1,000,000 shares of MEDIQ Common Stock) to purchase approximately 6.1% of the Surviving Corporation Common Stock, approximately 2.6% of the Series A Preferred Stock, approximately 1.9% of the Series B Preferred Stock and approximately 3.5% of the Series C Preferred Stock pursuant to the Management Investment and (ii) receive the opportunity to purchase or receive options to
acquire additional shares of the Surviving Corporation Common Stock, all at the same price at which BRS and the other investors would acquire securities of the same class and/or series pursuant to the Equity Contribution.

On the evening of January 12, 1998, the Board held a special meeting at which the Board reviewed with executive management and the Company's legal and financial advisors the results of the day's negotiations and certain issues remaining to be resolved, including the status of the commitments for the financing required by BRS, the status of the discussions between executive management and BRS with respect to management's investment in the Surviving Corporation, and the status of the discussions between BRS and the Rotko Entities. After a discussion, the Board authorized executive management, with the assistance of the Company's advisors, to seek to finalize the draft merger agreement on the terms discussed with the Board.

Negotiations in respect of the final terms of the Merger Agreement, the Stock Option Agreement, the Rollover Agreement, the Stockholder Agreements and the arrangements with management continued on January 13, 1998 and concluded on January 14, 1998.

On January 14, 1998, the Special Committee and its legal counsel met with Mr. Carroll and the Company's legal and financial advisors and discussed in detail the course of the negotiations with BRS and the proposed treatment of the Rotko Entities and Management Stockholders in the Merger. In the course of that discussion, the Special Committee compared the proposed treatment of the interests of the Rotko Entities and the Management Stockholders to the proposed treatment of the interests of the Company's other stockholders. The Special Committee discussed with its counsel and the Company's legal and financial advisors the fact that other than in respect of the Rolled Shares, the shares of MEDIQ Stock owned by the Rotko Entities would receive the same consideration in the Merger as the shares of MEDIQ Stock owned by the Company's other stockholders. The Special Committee also discussed with its counsel and the Company's advisors the fact that the Series A Preferred Stock was senior to the Series B Preferred Stock in respect of dividends, repurchase rights and liquidation preference, and that the Series B Preferred Stock, unlike the Series A Preferred Stock, would not possess optional or mandatory redemption features. The Special Committee also discussed with its counsel and the Company's advisors
the fact that the Rolled Shares to be converted or exchanged by the Rotko Entities into Surviving Corporation Common Stock and Series B Preferred Stock, as well as all purchases of securities of the Surviving Corporation by the Management Stockholders pursuant to the Management Investment and the other terms of their arrangements with BRS, would be made at the same prices at which the Investors would acquire securities of the same class and/or series pursuant to the Equity Contribution, and that the conversion or exchange of the Rolled Shares would not cause the Rotko Entities to recognize any taxable income in respect of the Rolled Shares.

After Mr. Carroll and the Company's legal and financial advisors were excused from the meeting, the Special Committee and its counsel reviewed the various aspects of the transaction, the results of the various negotiations with BRS and the treatment proposed to be received by the Rotko Entities, the Management Stockholders and the Company's other stockholders in the Merger.

On the evening of January 14, 1998, the Board held a special meeting, attended by all Board members, executive management, the Company's legal and financial advisors and counsel to the Special Committee. The Board reviewed with the Company's advisors the terms of the Merger Agreement and the other agreements and arrangements contemplated thereby and reviewed the structure of the Merger. In addition, counsel confirmed for the Board that BRS had stated that it would not enter into the Merger Agreement unless, contemporaneously with its execution and delivery, the Rotko Entities entered into the Stock Option Agreement, the Rollover Agreement and the Stockholder Agreements.

At the meeting, the Board also discussed, among other things, the agreements and other arrangements among the Rotko Entities, the Management Stockholders and BRS. In respect of the Stock Option Agreement, the Board discussed the fact that the exercise of the Rotko Option could, under certain circumstances, allow BRS to impede a third party bid for the Company. In reviewing the Stock Option Agreement, the Board also noted that the Stock Option Agreement was a requirement of the BRS bid and that without it the Company's stockholders would not be able to receive the Merger Consideration. The Board also discussed the terms on which the Rotko Entities and the Management Stockholders would acquire their equity interests in the Surviving Corporation, and noted that such persons would be acquiring their equity interests at the same prices at which the Investors would acquire securities of the same class and/or series pursuant to the Equity Contribution.
Salomon Smith Barney then reviewed with the Board (including the Special Committee) the financial analyses it performed in connection with its evaluation of the Merger Consideration from a financial point of view. (See "--Opinion of the Company's Financial Advisor.") The Board and counsel to each of the Company and the Special Committee discussed with Salomon Smith Barney such financial analysis and the underlying methodologies and assumptions utilized for purposes of such analysis. Salomon Smith Barney then rendered its oral opinion (which opinion was subsequently confirmed by delivery of a written opinion dated the date of this Proxy Statement/Prospectus) to the effect that, as of the date of such opinion and based upon and subject to certain matters stated therein, the Merger Consideration was fair, from a financial point of view, to the holders of MEDIQ Shares (other than the Rotko Entities and the Management Stockholders, as to which Salomon Smith Barney was not asked to opine). See "--Opinion of the Company's Financial Advisor."

The Special Committee then reported to the Board that the Special Committee, after reviewing the Merger Agreement, the Stock Option Agreement, the Rollover Agreement, the Stockholder Agreements and the proposed arrangements between the Management Stockholders and BRS, conferring with its counsel, and considering the presentations of the Company's legal and financial advisors, approved the Merger and the Merger Agreement, the Stock Option Agreement, the Rollover Agreement, the Stockholder Agreements and the transactions and agreements contemplated thereby and recommended that the Board approve the same.

Thereafter, the Board voted unanimously to approve the Merger and the Merger Agreement, the Stock Option Agreement, the Rollover Agreement, the Stockholder Agreements and the transactions and agreements contemplated thereby and to recommend them for approval by the Company's stockholders.

RECOMMENDATION OF THE SPECIAL COMMITTEE AND THE BOARD OF DIRECTORS; REASONS FOR THE MERGER

At its meeting on January 14, 1998, the Board and the Special Committee each unanimously determined, among other things, that the transactions contemplated by the Merger Agreement, including the Merger and the execution and delivery of
the Stock Option Agreement, the Rollover Agreement and the Stockholder
Agreements among MQ and the Rotko Entities, and the transactions and
agreements
contemplated thereby, taken together, are fair to, and in the best interests of,
the stockholders of the Company. The Special Committee and all of the members
of the Board recommend that holders of MEDIQ Stock vote FOR the Merger.

Other than the recommendations of the Special Committee and the Board of
Directors that the Company's stockholders vote for the Merger, none of BRS,
MQ, the Rotko Entities, the Management Stockholders or any of the persons or
entities set forth on Schedule I hereto has made any recommendation with respect
to the Merger or any transaction or agreement contemplated thereby.

The decisions of the Board and the Special Committee to approve the
Company's execution of the Merger Agreement were based, in large part, upon
balancing the risks and benefits of the Merger against the risks and benefits of
the other strategic alternatives available to the Company. After reviewing the
terms and conditions of the Merger Agreement and the transactions
contemplated thereby with their respective legal counsel and the Company's financial
advisor, the Board and the Special Committee deemed the Merger to be the alternative
that would be fair to, and in the best interests of, the stockholders of the
Company. See "-- Background of the Merger."

In the course of reaching the decision to approve the Merger Agreement and
the Merger, during a series of meetings and special meetings that began in
November 1997 and concluded with the special meeting held on January 14,
1998, each of the Board and the Special Committee consulted with executive
management, their respective legal counsel and the Company's financial advisor and
considered a number of factors, including, among others, the following:

- that BRS offered the greatest aggregate consideration for each share of
  MEDIQ Stock offered in the auction process and that the $13.75 cash
  portion of the Merger Consideration exceeded the aggregate value
  offered by the next highest bidder (which had been given the opportunity to
  increase its bid but declined);

- that the $13.75 per share cash portion of the Merger Consideration
  represents a premium of approximately 26% over the closing price of
  $10.9375 per share of the MEDIQ Common Stock on January 13, 1998 and
  approximately 20% over the closing price of $11.50 per share of the
  MEDIQ
Preferred Stock on December 16, 1997, the last day MEDIQ Preferred Stock was traded before public announcement of the execution of the Merger Agreement (the closing price of MEDIQ Common Stock on such date was $11.56), and approximately 62% over the closing price of $8.50 per share of the MEDIQ Common Stock and approximately 67% over the closing price of $8.25 per share of the MEDIQ Preferred Stock on October 29, 1997, the last trading day prior to the public announcement that the Company was evaluating strategic alternatives and had engaged Salomon Smith Barney to assist in that process;

- that the BRS offer was substantially greater than any offer received in connection with the process conducted in 1995;

- that, although the obligation of MQ to consummate the Merger is subject to, among other things, a funding condition, BRS had delivered to the Company commitments from its lenders for the entire amount of the debt financing needed to consummate the Merger transaction;

- the alternatives available to the Rotko Entities as the Company's majority stockholders, including the possibility that they could sell their control position without necessarily sharing any control premium with the Company's other stockholders;

- that the Special Committee and the Board agreed to the Merger only after a substantial number of potential buyers had been contacted over an extended period of time in a lengthy auction process designed to elicit third party proposals to acquire the Company and enhance stockholder value;

- that the auction process, which began in October 1997, was conducted in what the Board and the Special Committee believed to be an evenhanded manner and that third parties interested in the Company had been afforded the opportunity to submit a proposal had they wished to do so and had been given access to senior management and substantial amounts of information to assist in formulating a proposal;

- the opinion of Salomon Smith Barney to the effect that, as of the date of such opinion and based upon and subject to certain matters stated therein, the Merger Consideration was fair, from a financial point of view, to the holders of MEDIQ Shares (other than the Rotko Entities and the Management
Stockholders, as to which Salomon Smith Barney was not asked to opine);

- that the Rotko Entities were willing to agree to vote their shares of MEDIQ Stock in favor of the Merger and to enter into the Stock Option Agreement;

- that the Company may, subject to the provisions set forth in the Merger Agreement, terminate the Merger Agreement in order to pursue a superior proposal if the Board of Directors determines that doing so is required by its fiduciary duty to the stockholders of the Company; however, the Board and the Special Committee recognized that (i) certain terms of the Merger Agreement limit the ability of the Company to consider and act upon competing bids in certain situations and (ii) the existence of the Stockholder Agreements and Stock Option Agreement may have the effect of discouraging persons from making or consummating competing bids;

- that the amounts of the break-up fee and expense reimbursement under the Merger Agreement were reasonable in the judgment of the Special Committee and the Board in light of the value of the Merger Consideration to the Company's stockholders;

- the terms of the Series A Preferred Stock and the market and other risks associated with such securities and the fact that the holders of Series A Preferred Stock, unlike the holders of the Surviving Corporation Common Stock, will not participate in increases in the residual equity value of the Company;

- the presently favorable environment for merger transactions in the United States capital markets, which market condition is subject to change;

- that BRS had agreed to provide the Company with satisfactory financial assurances regarding the performance by MQ of its obligations under the Merger Agreement;

- that the Surviving Corporation agreed to honor the employment agreements of the Management Stockholders, who will therefore be able to continue the pursuit of their strategic view of the future of the Company; and
- the Special Committee's and the Board's belief that, in view of the foregoing considerations, the Merger and Merger Agreement and the transactions contemplated thereby are fair to, and in the best interests of, the Company's stockholders.

The foregoing discussion of the information and factors considered and given weight by the Special Committee and the Board is not intended to be exhaustive. In view of the variety of factors considered in connection with their evaluation of the Merger, the Special Committee and the Board did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching their determinations. In addition, the Special Committee and individual members of the Board may have given different weight to different factors.

The Special Committee and the Board evaluated the factors described above in light of their knowledge of the business and operations of the Company, and their business judgment, and concluded that the Merger and Merger Agreement and the transactions contemplated thereby are fair to, and in the best interests of, the Company and its stockholders.

The Special Committee and the Board believe that the decision to enter into the Merger is procedurally fair because: (i) management, with the assistance of the Company's advisors, conducted what they believed to be a thorough auction process; (ii) the Special Committee was disinterested and was appointed to represent the interests of the Company's stockholders; (iii) the Special Committee retained and was advised by Cozen and O'Connor, counsel separate from counsel for the Company; and (iv) the Board obtained an opinion concerning the fairness, from a financial point of view, of the Merger Consideration to be received by the holders of MEDIQ Shares (other than the Rotko Entities and the Management Stockholders, as to which the financial advisor was not asked to opine). In light of these approvals and factors, the Special Committee and the Board of Directors did not find it necessary to provide for the approval of the Merger Agreement by the affirmative vote of at least a majority of the unaffiliated stockholders of the Company.
Prior to the effective date of this Proxy Statement/Prospectus, the Board considered the operations of the Company following execution of the Merger Agreement on January 14, 1998 as well as other circumstances affecting the Company (including the proposed CHI Acquisition), and affirmed its approval of the Merger. In connection with the foregoing Salomon Smith Barney confirmed its opinion dated January 14, 1998 by delivery of a written opinion dated the date of this Proxy Statement/Prospectus to the effect that, as of the date of such opinion and based upon and subject to certain matters stated therein, that the Merger Consideration was fair, from a financial point of view, to the holders of MEDIQ Shares (other than the Rotko Entities and the Management Stockholders, as to which the financial advisor was not asked to opine).

PURPOSES AND REASONS OF BRS AND MQ FOR THE MERGER

The purposes of the Merger are to enable BRS through MQ to make an investment in, and obtain a controlling interest in, the Company, and to enable existing stockholders of the Company to realize a substantial premium on the shares of MEDIQ Stock owned by them. MQ was formed by BRS for the purpose of engaging in such transactions. MQ elected to proceed with the Merger for the same purpose that motivated BRS.

POSITION OF BRS AND MQ AS TO FAIRNESS OF THE MERGER

BRS and MQ have considered (i) the historical market prices for the MEDIQ Shares, including (x) the closing price on January 14, 1998, the last day MEDIQ Common Stock traded before public announcement of the execution of the Merger Agreement, as reported on the AMEX, of $11.00 per share of MEDIQ Common Stock and the closing price on December 16, 1997, the last day MEDIQ Preferred Stock traded before public announcement of the execution of the Merger Agreement, as reported on the AMEX, of $11.00 per share of MEDIQ Preferred Stock traded before public announcement of the Merger Agreement, as reported on the AMEX, of $11.50 per share of MEDIQ Preferred Stock (the closing price of MEDIQ Common Stock on such date was $11.56), and (y) the closing price of $8.50 per share of MEDIQ Common Stock and $8.25 per share of MEDIQ Preferred Stock on October 29, 1997, the last trading day prior to the public announcement that the Company was evaluating strategic alternatives, (ii) the premium the Merger Consideration represented in relation to the historical market prices for the MEDIQ Shares, (iii) the fact that the Company has advised BRS and MQ that its offer provided holders of the MEDIQ Shares aggregate...
consideration in excess of that offered by any of the other participants in the sale process and that the $13.75 cash portion of the Merger Consideration exceeded the aggregate value offered by any other bidder, (iv) the extent of the sale process described in "--Background of the Merger," (v) the establishment of the Special Committee, (vi) the unanimous recommendation of the Special Committee and the Board of the Directors, (vii) the agreement of the Rotko Entities to vote their shares of MEDIQ Stock in favor of the Merger, (viii) that the Board had received the written opinion of its independent financial advisor (see "-- Opinion of the Company's Financial Advisor"), (ix) the arm's length nature of the negotiations between BRS and MQ, on the one hand, and the Company, on the other, and (x) the other analyses of and factors examined by the Special Committee and the Board (described in detail in "--Recommendation of the Special Committee and the Board of Directors; Reasons for the Merger"). BRS and MQ believe these analyses and factors provide a reasonable basis for them to believe, as they do, that the Merger is fair to the stockholders of the Company. This belief should not, however, be construed as a recommendation to the Company's stockholders by BRS or MQ to vote to approve the Merger or the Merger Agreement. Neither BRS nor MQ has undertaken any formal evaluation of the fairness of the Merger to the stockholders of the Company and neither of them has assigned specific relative weights to the factors considered by them. BRS and MQ did not consider the net book value or liquidation value of the Company.

PURPOSES AND REASONS OF THE ROTKO ENTITIES AND MESSRS. CARROLL AND KAPLAN IN AGREEING TO THE MERGER

The purposes of the Rotko Entities in agreeing to the transactions contemplated by the Merger Agreement are to obtain substantial liquidity for their equity investment in the Company, to facilitate the diversification of their assets generally and to enable existing stockholders of the Company to realize a substantial premium on the MEDIQ Shares owned by them. The purposes of Messrs. Carroll and Kaplan in agreeing to the transactions contemplated by the Merger Agreement are to continue the pursuit of their strategic view of the future of the Company and to enable existing stockholders of the Company to realize a substantial premium on the shares of MEDIQ Stock owned by them. See "--Recommendation of the Special Committee and the Board of Directors; Reasons for the Merger" and "--Interests of Certain Persons in the Merger."

POSITION OF THE ROTKO ENTITIES AND MESSRS. CARROLL AND KAPLAN AS TO FAIRNESS OF THE MERGER
Each of the Rotko Entities and Messrs. Carroll and Kaplan believes that the Merger is fair to the stockholders of the Company. Neither the Rotko Entities nor Messrs. Carroll and Kaplan has undertaken any formal evaluation of the fairness of the Merger to the stockholders of the Company and did not find it practicable to quantify or otherwise attach relative weights to the various factors considered by them. However, in arriving at their belief that the Merger is fair to the stockholders of the Company, each of the Rotko Entities and Messrs. Carroll and Kaplan considered the fact that (i) the BRS offer reflected a multiple of the Company's estimated 1997 EBITDA of 8.0x (and estimated 1998 EBITDA of 7.4x), that was higher than was offered in the 1995 auction process and that compared favorably to selected latest 12-months EBITDA multiples ranging from 6.4x to 7.9x in recent, comparable transactions (see "--Opinion of the Company's Financial Advisor--Selected Merger and Acquisition Transactions Analysis"), (ii) the Merger Consideration represented a substantial premium over the market price, both current and historical, of MEDIQ Stock, (iii) the Company had conducted, with the assistance of its professional advisors, an extensive auction, (iv) the Board had received the written opinion of its independent financial advisor (see "--Opinion of the Company's Financial Advisor") and (v) the Board had appointed Mr. Levitan to serve as a Special Committee to evaluate the fairness of the proposed transaction with BRS. Finally, the Rotko Entities and Messrs. Carroll and Kaplan considered the presently favorable environment for merger transactions in the United States capital markets and the availability to BRS of financing, both of which market conditions were subject to change.

In light of the nature of the Company's business, neither the Rotko Entities nor Messrs. Carroll and Kaplan deemed net book value or liquidation value to be relevant measures of the value of the Company. Accordingly, such values were not considered.

In evaluating the fairness of the transaction, the Rotko Entities and Messrs. Carroll and Kaplan relied on the advice of the Company's advisors and did not accord any particular weight to interim negotiating positions, including the cash-only alternative, that were not reflected in the final offer from BRS.

Each of the Rotko Entities and Messrs. Carroll and Kaplan believes that the Merger is procedurally fair, although the approval of a majority of the
Company's stockholders other than the Rotko Entities and the Management Stockholders is not separately required. In reaching this conclusion, the Rotko Entities and Messrs. Carroll and Kaplan took into account a number of factors relevant to procedural fairness as described above, including the extensive auction process conducted by the Company, the establishment of the Special Committee, its retention of independent legal counsel and its deliberations.

INTERESTS OF CERTAIN PERSONS IN THE MERGER

In considering the recommendations of the Special Committee and the Board with respect to the Merger, stockholders should be aware that certain officers and directors of the Company and affiliates, and associates and persons related to the officers and directors have interests in connection with the Merger that are different from, or in addition to, the interests of the Company's stockholders generally. The Special Committee and the Board were aware of these interests and considered them among the other matters described under "SPECIAL FACTORS--Recommendation of the Board of Directors and the Special Committee; Reasons for the Merger."

ROTKO ENTITIES. The Rotko Entities, who as of the date hereof, collectively were the beneficial owners of approximately 24% of the outstanding MEDIQ Common Stock (without giving effect to the conversion of any shares of MEDIQ Preferred Stock into shares of MEDIQ Common Stock) and approximately 75% of the outstanding MEDIQ Preferred Stock, may be deemed to be affiliates of the Company. The Merger Agreement contemplates that the Rotko Entities, unlike other stockholders of the Company, will maintain a continued interest in the Surviving Corporation Common Stock. It is expected that immediately after the Effective Time, the Rotko Entities will own approximately 109,781 shares or approximately 11.0% of the outstanding Surviving Corporation Common Stock. The Rotko Entities will also be required to acquire approximately 1,340,219 shares of the Series B Preferred Stock. The Rotko Entities have entered into Stockholder Agreements pursuant to which they are, subject to certain limitations, contractually bound to vote all MEDIQ Shares owned by them in favor of the Merger. The affirmative vote of the shares of MEDIQ Stock subject to the Stockholder Agreements will be sufficient to approve the Merger and the Merger Agreement. See "THE STOCKHOLDER AGREEMENTS."
MQ has required, as a condition of its offer to purchase the Company, that the Rotko Entities enter into an agreement with MQ, pursuant to which the Rotko Entities must, immediately prior to the Merger, transfer the Rolled Shares to MQ in exchange for securities of MQ, which at the Effective Time will be converted into the Converted Shares. In the alternative, the Rolled Shares would be converted into the Converted Shares in the Merger. The Merger Agreement was amended as of April 27, 1998 in order to provide for the conversion of the Rolled Shares into the Converted Shares in the Merger. The conversion in the Merger of the Rolled Shares into such shares of Series B Preferred Stock and Surviving Corporation Common Stock will not cause the Rotko Entities to recognize federal taxable income upon such stock conversion. MQ, BRS and the Rotko Entities have also agreed to enter into a securities rollover and holders agreement with respect to the securities in the Surviving Corporation owned by the Rotko Entities (the "Equity Holders Agreement"). Such Equity Holders Agreement will contain, among other things, "drag-along" provisions requiring the Rotko Entities to sell their securities in transactions supported by BRS, "tag-along" rights to participate in sales of securities by BRS, and preemptive rights and registration rights with respect to such shares, as well as certain restrictions on their transfer. In addition, the Equity Holders Agreement will provide that the Rotko Trust will have the right to designate one director of the Surviving Corporation so long as the Rotko Entities collectively own 5% or more of the Surviving Corporation Common Stock. The Rotko Trust has advised the Company that it will initially designate Michael J. Rotko to serve as a director of the Surviving Corporation. See "THE ROLLOVER AGREEMENT."

SUCCESS BONUSES. The employment agreements with the Company's President and Chief Executive Officer, Thomas E. Carroll, its Chief Financial Officer, Jay M. Kaplan, and Michael F. Sandler, a director of the Company and its former Chief Financial Officer, include provisions entitling those persons to bonuses, calculated based, in the cases of Messrs. Carroll and Kaplan, upon the aggregate purchase price paid for the Company and, in the case of Mr. Sandler, upon the value received by the Company's stockholders upon a sale of the Company.

Under the terms of his employment agreement with the Company, Mr. Carroll will receive a one-time "success bonus" if, before June 30, 1998, a "Strategic Transaction" (as defined in his employment agreement) occurs. The Merger constitutes a "Strategic Transaction." Mr. Carroll's bonus payable upon a
Strategic Transaction is equal to the sum of (i) 0.25% of the aggregate purchase price paid for the Company up to $375.0 million plus (ii) if the aggregate purchase price paid for the Company exceeds $375.0 million, 1.5% of any purchase price in excess of $375.0 million. For purposes of calculating the bonus, the aggregate purchase price is based on the sum of (x) the total cash consideration paid, plus (y) the value of any securities or other property received as consideration, plus (z) the aggregate amount (including, without limitation, accrued but unpaid interest and the unpaid amount of any capital leases) of any liabilities assumed or refinanced by the purchaser in the acquisition, other than current liabilities taken into account in computing working capital (except for current liabilities for indebtedness for money borrowed, including accrued but unpaid interest on capital leases). Accordingly, the Company expects to pay a bonus to Mr. Carroll of approximately $3.9 million upon consummation of the Merger. Mr. Carroll's employment agreement further provides that if he becomes entitled to receive the incentive bonus referred to in the preceding sentence, he will forfeit all rights to any stock appreciation right compensation previously granted to him pursuant to his employment agreement. Under his employment agreement, Mr. Carroll is also entitled to receive an additional payment from the Company to compensate him for liabilities, if any, imposed under Section 4999 of the Code, or any successor provision thereto.

Under the terms of his employment agreement, Mr. Kaplan, Senior Vice President and Chief Financial Officer of the Company, is entitled to receive a one-time cash bonus upon the occurrence of a "Sale Event" (as defined in his employment agreement). The Merger constitutes a "Sale Event." Mr. Kaplan's bonus payable upon a Sale Event equals the sum of (i) 0.025% of the aggregate purchase price paid for the Company up to $375.0 million plus (ii) if the aggregate purchase price paid for the Company exceeds $375.0 million, 0.15% of any purchase price in excess of $375.0 million. For purposes of calculating the bonus, the aggregate purchase price is based on the sum of (x) the total cash consideration paid for the Company, plus (y) the value of any securities or other property received as consideration for the Company, plus (z) the aggregate amount of any liabilities of the Company assumed or refinanced by the purchaser in connection with the completion of the acquisition, other than current liabilities taken into account in computing the working capital of the Company (except for current liabilities for indebtedness for money borrowed, including accrued but unpaid interest on capital leases). Accordingly, the Company expects to pay a bonus to Mr. Kaplan of approximately $390,000 upon consummation of the Merger.
Mr. Sandler, a director of the Company, was Senior Vice President --
Finance, Treasurer and Chief Financial Officer of the Company until September
30, 1997. Under the terms of his employment agreement, Mr. Sandler is
entitled
to receive a one-time bonus upon an "Event of Sale" (as defined in his
employment agreement), based on the value realized by the Company's
stockholders
in the event of such a transaction, if the transaction occurs during either the
term of his employment agreement or the one-year period thereafter. The Merger
constitutes an "Event of Sale." If the Company's stockholders receive value
for their MEDIQ Shares equal to $6.50 or more per share, Mr. Sandler's bonus
would equal $.5 million, plus an additional $1,000 for each additional $.01 by
which the value received by the Company's stockholders exceeds $6.50 per
MEDIQ Share. Accordingly, the Company expects to pay a bonus to Mr. Sandler of
approximately $1.3 million upon consummation of the Merger.

The executive officers of the Company are expected to remain in place after
the Merger and their current employment agreements will remain in effect.

OPTIONS. Options held by officers of the Company, (including Options which
have not yet vested), will be treated in the same manner as Options held by
non-officers, as described in "THE MERGER--Option Consideration" and "--
Effect
on Stock and Employee Benefit Matters." The number of Options held by Mr. Carroll, Mr. Sandler and Mr. Kaplan are set forth in the table below.

<table>
<thead>
<tr>
<th>OPTION CONSIDERATION TO BE RECEIVED IN THE MERGER</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHARE OF SERIES A OPTIONS OPTIONS CASH (1)</td>
</tr>
<tr>
<td>NAME, TITLE PREFERRED STOCK (VESTED) (UNVESTED)</td>
</tr>
<tr>
<td>Thomas E. Carroll, President and Chief Executive Officer........ 178,000 130,000 $ 2,719,000 23,100</td>
</tr>
<tr>
<td>Michael F. Sandler, former Chief</td>
</tr>
</tbody>
</table>
MANAGEMENT EQUITY INVESTMENT. The Management Stockholders are expected to use the after-tax cash proceeds from approximately $9.5 million in value received in respect of the Option Consideration paid for options to acquire 1,000,000 shares of MEDIQ Common Stock to purchase approximately $4.2 million of securities of MQ, which upon consummation of the Merger will be converted into approximately 201,549 shares (or approximately 2.6%) of the Series A Preferred Stock, approximately 57,419 shares (or approximately 1.9%) of the Series B Preferred Stock, approximately 103,782 shares (or approximately 3.5%) of the Series C Preferred Stock and approximately 61,000 shares (or approximately 6.1%) of the Surviving Corporation Common Stock. Such shares shall be acquired for a purchase price of $10 per share, the same price per share as the securities sold to the Investors pursuant to the Equity Contribution. See "THE MERGER--Option Consideration." For more information regarding the ownership of securities of the Surviving Corporation, see "SECURITY OWNERSHIP IN THE SURVIVING CORPORATION."

Immediately after the Effective Time and in connection with the Merger, it is expected that certain persons designated by the Company will be provided the opportunity to purchase additional shares of Surviving Corporation Common Stock representing approximately 8.3% (on a fully diluted basis) of the Surviving Corporation Common Stock at the same per share price as the shares of Surviving Corporation Common Stock sold to the Investors pursuant to the Equity Contribution. The Surviving Corporation Common Stock so acquired (the "Management Purchase Shares") will, as to an individual employee be subject to certain rights of the Company to repurchase such Surviving Corporation Common Stock if, at any time during the five years after the date of such acquisition, such employee resigns or is terminated. The amount of shares subject to the Company's repurchase option and the price at which they may be repurchased are subject to a variety of factors, including whether the employee is terminated for cause or without cause and at what point over the five-year period any resignation or termination occurs.

(1) Represents cash proceeds of $13.75 per Option reduced for applicable exercise prices.
Over a five-year period beginning on the Effective Time, it is also expected that certain employees of the Company will be provided with the opportunity to receive non-qualified options (the "New Options") to purchase shares of Surviving Corporation Common Stock representing approximately 2.8% of the outstanding Surviving Corporation Common Stock on a fully diluted basis at a price per share equal to the price per share at which the shares of Surviving Corporation Common Stock are sold to the Investors.

For each year during such five-year period, such persons will have the opportunity to acquire one-fifth of the New Options. For each year, the opportunity to receive any New Option will be subject to the Surviving Corporation's achievement of certain financial performance conditions.

In certain circumstances, such persons will have the right to immediately receive any unissued or unvested New Options regardless of whether certain financial performance conditions have been met.

OTHER. Under the terms of the Company's deferred compensation plan, approximately $1.6 million of previously deferred employee compensation will become payable upon consummation of the Merger to certain former members of senior management of the Company who have previously deferred such compensation.

Deferred compensation will be paid to employees only at their election.

Pursuant to the Merger Agreement, the Company is obligated, for a period of six years after the effective time of the Merger, to indemnify directors and officers of the Company and, subject to certain limitations, to maintain directors' and officers' liability insurance substantially similar to that currently in effect.

MQ currently anticipates that BRS, or an affiliate of BRS, will enter into a Management Agreement with MEDIQ/PRN (the "Management Agreement") at the Effective Time. The Management Agreement will provide that BRS or such affiliate will receive an annual management fee of $1.0 million from MEDIQ/PRN for certain management, business and organizational strategy and merchant and investment banking services rendered to the Company. The amount of the annual management fee may be increased in certain circumstances based upon performance or other criteria to be established by the Board of Directors of the Company. Such management fees may be shared among BRS, FFT and Galen. In addition, an affiliate of BRS, together with FFT and Galen, will receive from MEDIQ/PRN a closing fee of approximately $6.0 million, in the aggregate, at the Effective Time in respect of the Transactions. See "SOURCES AND AMOUNT OF FUNDS--Equity Contribution."
Salomon Smith Barney was retained by the Company to act as its financial advisor in connection with the proposed Merger. In connection with such engagement, the Company requested that Salomon Smith Barney evaluate the fairness, from a financial point of view, to the holders of MEDIQ Shares (other than the Rotko Entities and the Management Stockholders, as to which Salomon Smith Barney was not asked to opine), of the consideration to be received by such holders in the Merger. On January 14, 1998, at meetings of the Board of Directors of the Company and the Special Committee held to evaluate the proposed Merger, Salomon Smith Barney delivered an oral opinion (which opinion was subsequently confirmed by delivery of a written opinion dated January 14, 1998) to the effect that, as of the date of such opinion and based upon and subject to certain matters stated therein, the Merger Consideration was fair, from a financial point of view, to the holders of MEDIQ Shares (other than the Rotko Entities and the Management Stockholders). Salomon Smith Barney has confirmed its opinion dated January 14, 1998 by delivery of the written opinion dated the date of this Proxy Statement/Prospectus. In connection with its opinion dated the date of this Proxy Statement/Prospectus, Salomon Smith Barney updated certain of the analyses performed in connection with its earlier opinion and reviewed the assumptions on which such analyses were based and the factors considered in connection therewith as well as certain other factors (including the possible CHI Acquisition).

In arriving at its opinion, Salomon Smith Barney reviewed the Merger Agreement and the terms of the Series A Preferred Stock attached as an exhibit thereto and held discussions with certain senior officers, directors and other representatives and advisors of the Company and certain senior officers and other representatives and advisors of MQ concerning the business, operations and prospects of the Company. Salomon Smith Barney examined certain publicly available business and financial information relating to the Company as well as certain financial forecasts and other information and data for the Company which were provided to or otherwise discussed with Salomon Smith Barney by the management of the Company. Salomon Smith Barney reviewed the financial terms of the Merger as set forth in the Merger Agreement in relation to, among other things: current and historical market prices and trading volumes of MEDIQ Shares; the financial condition and historical and projected earnings and other operating data of the Company; and the capitalization of the Company and MQ. Salomon Smith Barney also considered, to the extent publicly available, the financial terms of certain other similar transactions recently effected which
Salomon Smith Barney considered relevant in evaluating the Merger and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations Salomon Smith Barney considered relevant in evaluating those of the Company. In connection with its engagement, Salomon Smith Barney was requested to approach, and held discussions with, third parties to solicit indications of interest in a possible acquisition of the Company. In addition to the foregoing, Salomon Smith Barney conducted such other analyses and examinations and considered such other financial, economic and market criteria as Salomon Smith Barney deemed appropriate in arriving at its opinion. Salomon Smith Barney noted that its opinion was necessarily based upon information available, and financial, stock market and other conditions and circumstances existing and disclosed, to Salomon Smith Barney as of the date of its opinion.

In rendering its opinion, Salomon Smith Barney assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or furnished to or otherwise reviewed by or discussed with Salomon Smith Barney. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with Salomon Smith Barney, the management of the Company advised Salomon Smith Barney that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company. Representatives of the Company also advised Salomon Smith Barney that, in the Merger, the MEDIQ Preferred Stock would be treated as the equivalent of the MEDIQ Common Stock into which it is convertible and, therefore, with the consent of the Board of Directors of the Company, Salomon Smith Barney evaluated the MEDIQ Preferred Stock as the equivalent of the MEDIQ Common Stock for purposes of its opinion. Salomon Smith Barney assumed, with the consent of the Board of Directors of the Company, that the Merger will be recorded as a recapitalization for financial reporting purposes. Salomon Smith Barney did not express any opinion as to what the value of the Series A Preferred Stock will be when issued pursuant to the Merger or the price at which the Series A Preferred Stock will trade or otherwise be transferable subsequent to the Merger. Salomon Smith Barney did not make and was not provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company nor did Salomon Smith Barney make any physical
inspection of the properties or assets of the Company. Although Salomon Smith Barney evaluated the Merger Consideration from a financial point of view, Salomon Smith Barney was not asked to and did not recommend the specific consideration payable in the Merger, which was determined through negotiation between the Company and MQ. No other limitations were imposed by the Company on Salomon Smith Barney with respect to the investigations made or procedures followed by Salomon Smith Barney in rendering its opinion.

THE FULL TEXT OF THE WRITTEN OPINION OF SALOMON SMITH BARNEY DATED THE DATE OF THIS PROXY STATEMENT/PROSPECTUS, WHICH SETS FORTH THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITATIONS ON THE REVIEW UNDERTAKEN, IS ATTACHED HERETO AS ANNEX B AND IS INCORPORATED HEREIN BY REFERENCE. HOLDERS OF MEDIQ SHARES ARE URGED TO READ THIS OPINION CAREFULLY IN ITS ENTIRETY. THE OPINION OF SALOMON SMITH BARNEY IS DIRECTED TO THE BOARD OF DIRECTORS OF THE COMPANY AND RELATES ONLY TO THE FAIRNESS OF THE MERGER CONSIDERATION FROM A FINANCIAL POINT OF VIEW, DOES NOT ADDRESS ANY OTHER ASPECT OF THE MERGER OR RELATED TRANSACTIONS AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY STOCKHOLDER AS TO HOW SUCH STOCKHOLDER SHOULD VOTE AT THE MEDIQ SPECIAL MEETING. THE SUMMARY OF THE OPINION OF SALOMON SMITH BARNEY SET FORTH IN THIS PROXY STATEMENT/PROSPECTUS SETS FORTH THE MATERIAL ELEMENTS OF SUCH OPINION.

In preparing its opinion, Salomon Smith Barney performed a variety of financial and comparative analyses, including those described below in connection with its opinion dated January 14, 1998, and provided the Company's Board and the Special Committee with a written presentation with respect to such analyses. A copy of Salomon Smith Barney's written presentation has been filed as an exhibit to the Schedule 13E-3 filed with the Commission with respect to the Merger and will be available for inspection and copying at the principal executive offices of the Company during regular business hours by any interested stockholder or representatives of such stockholder who have been designated as such in writing and may be inspected and copied and obtained by mail from the Commission in the manner specified in "AVAILABLE INFORMATION." The summary of such analyses does not purport to be a complete description of the analyses underlying Salomon Smith Barney's opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances.
and, therefore, such an opinion is not readily susceptible to summary
description. Accordingly, Salomon Smith Barney believes that its analyses
must
be considered as a whole and that selecting portions of its analyses and
factors, without considering all analyses and factors, could create a
misleading
or incomplete view of the processes underlying such analyses and opinion. In
its
analyses, Salomon Smith Barney made numerous assumptions with respect to the
Company, MQ, industry performance, general business, economic, market and
financial conditions and other matters, many of which are beyond the control
of
the Company and MQ, such as, among other things, the impact of competition on
the business of the Company and the medical equipment rental industry
generally,
industry growth, the financing capability of MQ and its affiliates and the
absence of any material adverse change in the financial condition and
prospects
of the Company or the medical equipment rental industry or in the financial
markets in general. The estimates contained in such analyses and the
valuation
ranges resulting from any particular analysis are not necessarily indicative
of
actual values or predictive of future results or values, which may be
significantly more or less favorable than those suggested by such analyses.
In
addition, analyses relating to the value of businesses or securities do not
purport to be appraisals or to reflect the prices at which businesses or
securities actually may be sold. Accordingly, such analyses and estimates are
inherently subject to substantial uncertainty. Salomon Smith Barney's opinion
and analyses were only one of many factors considered by the Board of
Directors
of the Company and the Special Committee in their evaluation of the Merger
and
should not be viewed as determinative of the views of the Board of Directors,
the Special Committee or management of the Company with respect to the Merger
Consideration or the proposed Merger.

SELECTED COMPANY ANALYSIS. Using publicly available information, Salomon
Smith Barney analyzed, among other things, the market values and trading
multiples of the following selected publicly traded companies in the medical
equipment rental industry: Cohr Inc.; DVI Inc.; Hillenbrand Industries, Inc.;
Kinetic Concepts, Inc.; and Leasing Solutions Inc. (collectively, the
"Selected
Companies"). Salomon Smith Barney compared market values as multiples of,
among
other things, estimated calendar 1998 and 1999 earnings per share ("EPS"),
and
adjusted market values (fully diluted market value, plus total debt
outstanding,
less cash) as multiples of, among other things, latest 12 months revenues and
earnings before interest, taxes, depreciation and amortization ("EBITDA").
EPS
multiples for the Selected Companies were based on estimates of selected
investment banking firms and EPS multiples for the Company were based on
internal estimates of the management of the Company. All multiples were based on
closing stock prices as of January 12, 1998. Applying a range of selected multiples for the Selected Companies of estimated calendar 1998 and 1999 EPS and latest 12 months revenue and EBITDA of 14.0x to 18.0x, 11.5x to 14.5x, 2.2x to 2.8x and 7.7x to 9.3x, respectively, to corresponding financial data for the Company resulted in an equity reference range for MEDIQ of approximately $9.86 to $12.93 per share, as compared to the Merger Consideration of approximately $14.25 per share.

SELECTED MERGER AND ACQUISITION TRANSACTIONS ANALYSIS. Using publicly available information, Salomon Smith Barney analyzed, among other things, the implied transaction value multiples paid in the following selected transactions in the medical equipment rental industry (acquiror/target): J.W. Childs Equity Partners LP/Universal Hospital Services, Inc.; Richard C. Blum & Associates LP and Fremont Partners LP/Kinetic Concepts, Inc.; Universal Hospital Services, Inc./Biomedical Equipment Rental & Sales, Inc.; MEDIQ/KCI Therapeutic Services, Inc.; and MEDIQ/ATI Medical Inc. (collectively, the "Selected Transactions"). Salomon Smith Barney compared, among other things, transaction values as multiples of latest 12 months revenues, EBITDA and earnings before interest and taxes ("EBIT"). All multiples for the Selected Transactions were based on information available at the time of announcement of the transaction. Applying a range of selected multiples (excluding outliers) for the Selected Transactions of latest 12 months revenues, EBITDA and EBIT of 2.2x to 2.8x, 6.4x to 7.9x and 13.2x to 16.2x, respectively, to corresponding financial data for the Company resulted in an equity reference range for the Company of approximately $10.32 to $13.42 per share, as compared to the Merger Consideration of approximately $14.25 per share.

No company, transaction or business used in the "Selected Company Analysis" or "Selected Merger and Acquisition Transactions Analysis" as a comparison is identical to the Company, MQ or the Merger. Accordingly, an analysis of the results of the foregoing is not entirely mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the Selected Companies, Selected Transactions or the business segment, company or transaction to which they are being compared.

DISCOUNTED CASH FLOW ANALYSIS. Salomon Smith Barney performed a discounted cash flow analysis of the projected free cash flows of the Company for fiscal
years 1998 through 2002, based on internal estimates of the management of the Company prepared under two scenarios, a base case ("Case I") and a growth case ("Case II"). The stand-alone discounted cash flow analysis of the Company was determined by (i) adding (x) the present value of projected free cash flows over the five-year period from 1998 to 2002 and (y) the present value of the Company's estimated terminal value in year 2002 and (ii) subtracting the current net debt of the Company. The range of estimated terminal values for the Company at the end of the five-year period was calculated by applying terminal value multiples ranging from 7.0x to 8.0x to the Company's projected 2002 EBITDA. The cash flows and terminal values of the Company were discounted to present value using discount rates ranging from 10.5% to 12.5% (Case I) and 14.5% to 16.5% (Case II). Utilizing such terminal values and discount rates, these analyses resulted in equity reference ranges for the Company of approximately $13.87 to $17.60 per share (Case I) and $14.56 to $18.43 per share (Case II), as compared to the equity value implied by the Merger Consideration of approximately $14.25 per share.

PREMIUM ANALYSIS. Salomon Smith Barney compared the premiums paid in the Selected Transactions with the implied premium payable in the Merger. Applying a range of selected premiums for the Selected Transactions of 25.0% to 40.0% to the closing stock price of MEDIQ Common Stock on October 29, 1997 (the date on which the Company publicly announced that it was exploring strategic alternatives) resulted in an equity reference range for the Company of approximately $10.63 to $11.90 per share, as compared to the Merger Consideration of approximately $14.25 per share. The trading range of MEDIQ Common Stock over the 52-week period prior to public announcement of the Merger was between $6.31 and $11.88 per share.

ABSOLUTE ACCRETION/DILUTION ANALYSIS. Salomon Smith Barney analyzed the ranges of prices that could potentially be payable by a strategic buyer of MEDIQ Shares without the transaction having a dilutive effect on such buyer's EPS, based on internal estimates of the management of the Company as to, among other things, the pro forma combined company and the cost savings and other potential synergies that could result from a transaction with a strategic buyer. For purposes of such analysis, Salomon Smith Barney assumed, among other things, transaction borrowing costs for such buyer consistent with a high quality credit borrower. This analysis indicated that, at purchase prices in excess of $13.00 per share, the acquisition of the Company by a strategic buyer could be dilutive to such buyer's EPS.
SERIES A PREFERRED STOCK VALUATION ANALYSIS. Salomon Smith Barney analyzed
the Series A Preferred Stock issuable in the Merger, based on Case I and Case II
estimates and on internal estimates of the management of the Company and
representatives of MQ as to, among other things, the debt-to-latest 12 months
EBITDA ratios of the pro forma combined company. The potential yield on the
Series A Preferred Stock was estimated by comparing the terms of the Series A
Preferred Stock with those of senior subordinated debt securities issued by
entities with debt-to-EBITDA levels comparable to those of the pro forma
combined entity. Risk adjustments were made for, among other things,
seniority,
maturity, interest rates and liquidity. This analysis resulted in a present
value estimate for the Series A Preferred Stock of approximately $.50 per
0.075
of a share.

OTHER FACTORS AND COMPARATIVE ANALYSES. In rendering its opinion,
Salomon
Smith Barney considered certain other factors and conducted certain other
comparative analyses, including, among other things, a review of (i)
indications
of interest received from third parties other than MQ; (ii) the Company's
historical and projected financial results, (iii) the history of trading
prices
and volume for MEDIQ Shares

and the relationship between movements of such shares, movements in the
common
stock of the Selected Companies and movements in the S&P Industrial 500
Index,
(iv) the liquidation, voting, conversion and dividend features of the MEDIQ
Preferred Stock and the Series A Preferred Stock, (v) the potential rates of
return of an equity investment in the pro forma combined company, and (vi)
the
break-up fees in selected transactions with transaction values of between
$500
million and $750 million.

Pursuant to the terms of Salomon Smith Barney's engagement, the Company
has
agreed to pay Salomon Smith Barney for its services in connection with the
Merger an aggregate financial advisory fee based on a percentage of the total
consideration (including liabilities assumed) payable in connection with the
Merger. The fee payable to Salomon Smith Barney is currently estimated to be
approximately $3.7 million. The Company has also agreed to reimburse Salomon
Smith Barney for reasonable travel and other out-of-pocket expenses incurred by
Salomon Smith Barney in performing its services, including the reasonable
fees
and expenses of its legal counsel, and to indemnify Salomon Smith Barney and
related persons against certain liabilities, including liabilities under the
federal securities laws, arising out of Salomon Smith Barney's engagement.
Salomon Smith Barney has advised the Company that, in the ordinary course of business, Salomon Smith Barney and its affiliates may actively trade or hold the securities of the Company for their own account or for the account of customers and, accordingly, may at any time hold a long or short position in such securities. In addition, Salomon Smith Barney and its affiliates (including Travelers Group Inc. and its affiliates) may maintain relationships with the Company and affiliates of MQ.

Salomon Smith Barney is an internationally recognized investment banking firm and was selected by the Company based on Salomon Smith Barney's experience and expertise. Salomon Smith Barney regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

FORECASTS; LIMITS OF RELIABILITY

The Company does not as a matter of policy make public forecasts or projections as to future performance or earnings. With the exception of the Acquisition Projections, the following projections did not contemplate or include the CHI Acquisition.

The Confidential Memorandum received by potential buyers in November 1997 contained the Management Projections, an overview of management's estimates of the Company's future financial performance. The Management Projections are summarized below.

<table>
<thead>
<tr>
<th>FISCAL YEAR END</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEPTEMBER 30,</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>2001  2002</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>THOUSANDS</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>REVENUES</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Rental (1)</td>
<td>$ 149,162</td>
<td>$ 160,148</td>
<td>$ 171,898</td>
</tr>
<tr>
<td>Sales of Parts, Equipment &amp; Disposables</td>
<td>$ 184,924</td>
<td>$ 200,216</td>
<td>$ 29,941</td>
</tr>
<tr>
<td>44,931  51,405  53,722</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outsourcing Services(2)</td>
<td>13,444</td>
<td>24,238</td>
<td></td>
</tr>
<tr>
<td>---------------------------------</td>
<td>--------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>42,310</td>
<td>67,723</td>
<td>102,617</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>TOTAL REVENUE</td>
<td>192,547</td>
<td>222,385</td>
<td></td>
</tr>
<tr>
<td>259,139</td>
<td>304,052</td>
<td>356,555</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>COSTS AND EXPENSES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>36,538</td>
<td>46,597</td>
<td></td>
</tr>
<tr>
<td>57,634</td>
<td>71,331</td>
<td>87,437</td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>56,147</td>
<td>66,068</td>
<td></td>
</tr>
<tr>
<td>78,056</td>
<td>92,947</td>
<td>109,773</td>
<td></td>
</tr>
<tr>
<td>Selling and Administrative</td>
<td>29,326</td>
<td>31,292</td>
<td></td>
</tr>
<tr>
<td>33,357</td>
<td>35,525</td>
<td>37,801</td>
<td></td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>33,268</td>
<td>32,130</td>
<td></td>
</tr>
<tr>
<td>31,041</td>
<td>28,796</td>
<td>25,137</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td>155,279</td>
<td>176,087</td>
<td></td>
</tr>
<tr>
<td>200,088</td>
<td>228,599</td>
<td>260,148</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>OPERATING INCOME</td>
<td>$ 37,268</td>
<td>$ 46,298</td>
<td></td>
</tr>
<tr>
<td>59,051</td>
<td>$ 75,453</td>
<td>$ 96,407</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>$ 70,536</td>
<td>$ 78,428</td>
<td></td>
</tr>
<tr>
<td>90,092</td>
<td>$ 104,249</td>
<td>$ 121,544</td>
<td></td>
</tr>
<tr>
<td>CAPITAL EXPENDITURES</td>
<td>$ 15,000</td>
<td>$ 15,000</td>
<td></td>
</tr>
<tr>
<td>15,000</td>
<td>$ 15,000</td>
<td>$ 15,000</td>
<td></td>
</tr>
</tbody>
</table>

(1) Includes revenue sharing rentals and SpectraCair rentals.

(2) Includes logistics, reconditioning, management and other services.

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Material assumptions on which the Management Projections were based included the following:

1. Rental revenue growth is based on a 4% assumed growth rate in base rental business, a 15% assumed growth rate in rental revenue share activities and an assumed initial 50% growth rate in the SpectraCair rental business decreasing to 25% after fiscal 1998. Base rental growth assumed expansion into geographical markets where the Company currently does not have a presence, additional penetration in the homecare and alternate care
markets, and new product expansions. Rental revenue share growth assumed additional market penetration of current revenue share products and the establishment of additional revenue share programs. Growth in the SpectraCair rental business assumed internal growth through targeted pricing, new product offerings, increased volume from existing customers and new customer development.

2. Growth in the sales businesses assumed continued market expansion of proprietary products, expansion of such products into corporate accounts and new alliances with manufacturers, and it was also assumed that volume would increase through the addition of complementary products and the establishment of joint marketing arrangements with vendors and manufacturers.

3. Growth in other revenues primarily assumed continued expansion of outsourcing revenues through growth in the Company's medical gases business, additional CAMP-Registered Trademark- and CAMP-Plus-Registered Trademark- programs, and expansion of manufacturer logistics and biomedical services. Expansion of such services would be through increased market penetration and volume.

4. The cost and expense categories assumed that the historical relationship of individual expenses to historical revenue streams will remain consistent for the periods covered by the projections. Depreciation and amortization was based on the Company's expected depreciation and amortization for existing assets adjusted for projected capital expenditures of $15.0 million per year.

Subsequent to the preparation of the Management Projections, at the request of one of the six second-round bidders, management prepared and reviewed with each of the second-round bidders a set of projections that assumed the successful completion of a proposed acquisition program by the Company in its core equipment rental business, as well as the expansion of the Support Surfaces (as defined herein) business of its SpectraCair division and the broadening of the Company's products and services into complementary areas, permitting it to take advantage of its existing distribution network and customer bases (the "Acquisition Projections"). The Acquisition Projections identified nineteen potential acquisition targets, including CH Medical and another company which subsequently signed a non-binding letter of intent with the Company in March 1998. The Acquisition Projections also reflected the projected effects of the proposed expansion of the Company's business internationally and the proposed expansion of the Company's relationship with an existing business partner. At the time that the Acquisition Projections were prepared and made available to
the second-round bidders, there had been no substantive discussions with any of
the potential acquisition targets, although, in certain cases, there had been
preliminary discussions in respect of the target's level of interest in a
possible transaction. Under the Acquisition Projections, the Company's
revenues
were projected to be approximately $255, $351, $405, $477 and $565 million
for fiscal years 1998-2002, and EBITDA was projected to be approximately $101,
and delivery of the Merger Agreement, the Company, with the consent of BRS, began
to actively investigate possible acquisitions, leading to the execution of a
definitive agreement with CHI and the non-binding letter of intent referred to
above. See "THE COMPANY--CHI Acquisition" and "--Growth Strategy." The expansion
of the Company's relationship with an existing business partner has taken
place, but has not yet resulted in additional revenues and continues to be in the
developmental stage.

Management also prepared projections that assumed a more conservative
projected rate of sales and EBITDA growth than the Management Projections.
These projections, together with the Management Projections and certain other
materials, were utilized by Salomon Smith Barney for purposes of its
financial analysis. Under such projections, the Company's revenues were projected to be approximately

$185, $209, $236, $264 and $294 million for fiscal years 1998-2002, and EBITDA
was projected to be approximately $68, $74, $81, $88 and $96 million for fiscal
years 1998-2002. Such projections were not provided to BRS or any other bidder
prior to the execution of the Merger Agreement on January 14, 1998.

The projections described herein were not prepared with a view to public
disclosure or compliance with the published guidelines of the Commission or the
guidelines established by the American Institute of Certified Public
Accountants regarding projections or forecasts, and are included herein only because such information was provided to the Board and, in the case of the Management
Projections and the Acquisition Projections, MQ and BRS. The projections are
subjective in many respects and thus susceptible to various interpretations and
periodic revisions based on actual experience and business developments.
presented with numeric specificity, the projections are based upon numerous estimates and assumptions that are inherently subject to significant business, economic, industry and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond the Company's control. Certain assumptions on which the projections were based related to the achievement of strategic goals, objectives and targets over the applicable periods that are more favorable than historical results. There can be no assurance that the assumptions made in preparing the projections will prove accurate, and actual results may be materially greater or less than those contained in the projections. None of the Company, MQ and BRS or their respective financial advisors assumes any responsibility for the accuracy of any of the projections. Neither the Company's independent auditors, nor any other independent accountants or financial advisors, have compiled, examined or performed any procedures with respect to the projections contained herein, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the projections. The inclusion of the projections should not be regarded as an indication that the Company, MQ, BRS or any other person who received such information considers it an accurate prediction of future events.

The projections constitute forward-looking statements and involve risks and uncertainties. The Company's actual results may differ significantly from projected results. Factors that might cause such a difference include, but are not limited to, the effect of changing economic or business conditions, the impact of competition and other risk factors described more fully in the "RISK FACTORS" section of this Proxy Statement/Prospectus and elsewhere in this Proxy Statement/Prospectus and the Company's other reports filed with the Commission.

April 28, 1998
The Board of Directors
MEDIQ Incorporated
One MEDIQ Plaza
Pennsauken, New Jersey 08110
Members of the Board:

You have requested our opinion as to the fairness, from a financial point of view, to the stockholders of MEDIQ Incorporated ("MEDIQ"), other than Rollover Holders (as defined below), of the consideration to be received by such holders pursuant to the terms and subject to the conditions set forth in the Agreement and Plan of Merger, dated as of January 14, 1998, as amended as of April 27, 1998 (the "Merger Agreement"), by and among MQ Acquisition Corporation ("MQ") and MEDIQ. As more fully described in the Merger Agreement, (i) MQ will be merged with and into MEDIQ (the "Merger") and (ii) each outstanding share of the common stock, par value $1.00 per share, of MEDIQ (the "MEDIQ Common Stock") and each outstanding share of Series A preferred stock, par value $0.50 per share, of MEDIQ (the "MEDIQ Preferred Stock" and, together with the MEDIQ Common Stock, the "Shares") will be converted into the right to receive (i) $13.75 in cash (the "Cash Amount") and (ii) 0.075 of a share of newly issued Series A 13.0% cumulative compounding preferred stock, par value $0.01 per share, of MEDIQ, with a liquidation preference of $10.00 per share (the "Senior Preferred Stock" and, together with the Cash Amount, the "Merger Consideration"). We have been advised by representatives of MEDIQ that members of the Rotko family, related trusts and certain members of the management of MEDIQ will, in connection with the transactions contemplated by the Merger, rollover a portion of their Shares or options to purchase such Shares, as the case may be, into newly issued securities of MEDIQ (such stockholders and option holders, the "Rollover Holders").

In arriving at our opinion, we reviewed the Merger Agreement and the terms of the Senior Preferred Stock attached as an exhibit thereto and held discussions with certain senior officers, directors and other representatives and advisors of MEDIQ and certain senior officers and other representatives and advisors of MQ concerning the business, operations and prospects of MEDIQ. We examined certain publicly available business and financial information relating to MEDIQ as well as certain financial forecasts and other information and data for MEDIQ which were provided to or otherwise discussed with us by the management of MEDIQ. We reviewed the financial terms of the Merger as set forth in the Merger Agreement in relation to, among other things: current and historical market prices and trading volumes of the Shares; the financial condition and historical and projected earnings and other operating data of MEDIQ; and the capitalization...
of MEDIQ and MQ. We considered, to the extent publicly available, the financial terms of other transactions recently effected which we considered relevant in evaluating the Merger and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations we considered relevant in evaluating those of MEDIQ. In connection with our engagement, we were requested to approach, and we held discussions with, third parties to solicit indications of interest in the possible acquisition of MEDIQ. In addition to the foregoing, we conducted such other analyses and examinations and considered such other financial, economic and market criteria as we deemed appropriate in arriving at our opinion.

In rendering our opinion, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or furnished to or otherwise reviewed by or discussed with us. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with us, we have been advised by the management of MEDIQ that such forecasts and other information and data were reasonably prepared reflecting the best currently available estimates and judgments of the management of MEDIQ as to the future financial performance of MEDIQ. We also have been advised by representatives of MEDIQ that, in the Merger, the MEDIQ Preferred Stock will be treated as the equivalent of the MEDIQ Common Stock into which it is convertible and therefore, with your consent, have evaluated the MEDIQ Preferred Stock as the equivalent of the MEDIQ Common Stock for purposes of our opinion. We have assumed, with your consent, that the Merger will be recorded as a recapitalization for financial reporting purposes. We express no opinion as to what the value of the Senior Preferred Stock will be when issued pursuant to the Merger or the price at which the Senior Preferred Stock will trade or otherwise be transferable subsequent to the Merger. We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of MEDIQ nor have we made any physical inspection of the properties or assets of MEDIQ. Our opinion is necessarily based upon information available to us, and financial, stock market
and other conditions and circumstances existing and disclosed to us, as of the
date hereof.

Smith Barney Inc. (now associated with Salomon Brothers Inc and collectively
with Salomon Brothers Inc doing business as Salomon Smith Barney) has been
engaged to render financial advisory services to MEDIQ in connection with the
Merger and will receive a fee for such services, a significant portion of
which is contingent upon consummation of the Merger. We also will receive a fee
upon the delivery of this opinion. In the ordinary course of our business, we and
our affiliates may actively trade or hold the securities of MEDIQ for our own
account or for the account of our customers and, accordingly, may at any time
hold a long or short position in such securities. In addition, we and our
affiliates (including Travelers Group Inc. and its affiliates) may maintain
relationships with MEDIQ and affiliates of MQ.

Our advisory services and the opinion expressed herein are provided for the
information of the Board of Directors of MEDIQ in its evaluation of the
proposed Merger, and our opinion is not intended to be and does not constitute a
recommendation to any stockholder as to how such stockholder should vote on
the proposed Merger. Our opinion may not be published or otherwise used or
referred to, nor shall any public reference to Salomon Smith Barney be made, without
our prior written consent.

Based upon and subject to the foregoing, our experience as investment
bankers,
our work as described above and other factors we deemed relevant, we are of
the opinion that, as of the date hereof, the Merger Consideration to be received in
the Merger by holders of Shares (other than Rollover Holders) is fair, from a
financial point of view, to such holders.

Very truly yours,
/s/ SALOMON SMITH BARNEY

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ANNEX C