

ISSUING AND PAYING AGENCY AGREEMENT

This Issuing and Paying Agency Agreement, dated as of April 29, 1998 (the "Agreement"), between Potomac Capital Investment Corporation, a Delaware corporation having its principal place of business at 1801 K Street, N.W., Suite 900, Washington, D.C. 20006 (the "Issuer"), and The Bank of New York, a New York banking corporation maintaining its principal corporate trust office at 101 Barclay Street, Floor 7E, New York, New York 10286, as issuing and paying agent (the "Issuing and Paying Agent").

WHEREAS the Issuer has established a program for the issue of Medium-Term Notes, Series D, With Maturities from 9 Months and 1 Day from Date of Issue through November 30, 2008 (the "Notes");

WHEREAS the Issuing and Paying Agent has agreed to act as Issuing and Paying Agent in connection with the Notes in accordance with the provisions of this Agreement.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Appointment of Issuing and Paying Agent. The Issuer proposes to issue from time to time the Notes in an aggregate initial offering price not to exceed \$700,000,000 (provided the Issuer reserves the right to increase such authorized amount from time to time), and have appointed Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC and Salomon Smith Barney Inc. (or such other placement agents as appointed by the Issuer from time to time) as the placement agents for the Notes (collectively, the "Placement Agents"). The Issuer hereby appoints the Issuing and Paying Agent to act, on the terms and conditions specified herein, as issuing and paying agent for the Notes, and the Issuing and Paying Agent hereby accepts such appointments in accordance with such terms and conditions. The Issuing and Paying Agent also agrees to perform the duties and obligations required to be performed by it under the Administrative Procedures applicable to the Notes (the, Administrative Procedures"). Defined terms used and not defined herein shall have the meanings given such terms in the Private Placement Agency Agreement, dated April 29, 1998 (the "Private Placement Agency Agreement"), between the Issuer and the Placement Agents or in the Private Placement Memorandum (as defined in such Private Placement Agency Agreement), as the case may be.

SECTION 2. Forms of Note; Global Notes; Proxies; Supply of Notes; Terms. (a) Forms of Notes. The Notes shall be issued in fully registered book-entry form (the "Book- Entry Notes") represented by one or more global Notes (the "Global Notes") or in fully registered certificated form (the "Certificated Notes"), without interest coupons, substantially in the forms of Note attached hereto as Exhibit A in the case of Notes bearing interest at a fixed rate of interest (the "Fixed Rate Notes") and Exhibit B in the case of Notes bearing interest at a floating rate of interest (the "Floating Rate Notes") or in such other forms as shall be delivered to the Issuing and Paying Agent by the Issuer.

(b) Global Notes. This Section 2(b) shall apply to all Book-Entry Notes represented by one or more Global Notes that are registered in the name of The Depository Trust Company or another depository specified by the Issuer (the "Depository") or a nominee thereof:

(i) each Global Note representing Book-Entry Notes will be deposited with, or on behalf of, the Depository and registered in the name of the Depository or a nominee thereof;

(ii) notwithstanding any other provisions of this Agreement or a Global Note, such Global Note shall not be transferred except as a whole by a nominee of the Depositary to the Depositary or to another nominee of the Depositary or by the Depositary or such nominee to a successor of the Depositary or a nominee of such successor. A Global Note may be exchanged for the Certificated Note in the event that (A) the Depositary has notified the Issuer that it is unwilling or unable to continue as Depositary for the Global Notes or the Depositary has ceased to be a "clearing agency" registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and a successor depositary is not appointed by the Issuer within 60 calendar days thereafter, (B) an Event of Default has occurred and is continuing with respect to the Notes or (C) the Issuer, in its sole discretion, determines that all of the Book-Entry Notes shall be exchangeable for Certificated Notes. Any Global Note exchanged pursuant to clause (A) or (C) above shall be so exchanged in whole but not in part, while any Global Note exchanged pursuant to clause (B) above may be exchanged in whole or from time to time in part as directed by the Depositary;

(iii) Notes issued in exchange for a Global Note or any portion thereof shall be issued as Certificated Notes, without interest coupons, shall have an aggregate principal amount equal to that of such Global Note or portion thereof to be so exchanged and shall be registered in such names and be in such authorized denominations as the Depositary or an authorized representative thereof shall designate. If a Global Note to be exchanged in whole is not then held by the Issuing and Paying Agent as custodian for the Depositary or its nominee, such Global Note shall be surrendered by the Depositary to the corporate trust office of the Issuing and Paying Agent located in the Borough of Manhattan, The City of New York, to be so exchanged. With regard to any Global Note to be exchanged in part, either such Global Note shall be so surrendered for exchange by the Depositary or, if the Issuing and Paying Agent is acting as custodian for the Depositary or its nominee with respect to such Global Note, the principal amount thereof shall be reduced, by an amount equal to the portion thereof to be so exchanged, by means of an appropriate adjustment made on the records of the Issuing and Paying Agent. Upon any such surrender or adjustment, the Issuer shall execute, and upon receipt of instructions from an Authorized Representative (as defined in Section 3) of the Issuer the Issuing and Paying Agent shall authenticate and deliver, each Certificated Note issuable on such exchange to or upon the order of the Depositary or an authorized representative thereof and, in the case of such surrender, the Issuer shall execute, and upon receipt of instructions from an Authorized Representative of the Issuer the Issuing and Paying Agent shall authenticate and deliver, a new Global Note on behalf of the Depositary for the remaining principal amount thereof; and

(iv) neither any members of, or participants in, the Depositary ("Participants") nor any other persons on whose behalf Participants may act shall have any rights under this Agreement with respect to any Global Note registered in the name of the Depositary or any nominee thereof, or under any such Global Note, and the Depositary or such nominee, as the case may be, may be treated by the Issuer, the Issuing and Paying Agent and any agent of the Issuer or the Issuing and Paying Agent as the absolute owner and Registered Holder of such Global Note in accordance with Section 13(f) hereof. Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Issuing and Paying Agent or any agent of the Issuer or the Issuing and Paying Agent from giving effect to any written certification, proxy or other authorization furnished by the Depositary or such nominee, as the case may be, or impair, as between the Depositary, its Participants and any other person on whose behalf a Participant may act, the operation of customary practices of such persons governing the exercise of the rights of a Registered Holder of a Global Note.

(c) Proxies. The Registered Holder of a Note may grant proxies and otherwise authorize any person, including Participants and persons that may hold interests through Participants, to take any action which such Registered Holder is entitled to take under this Agreement or such Note.

(d) Supply of Notes. On the date of this Agreement, the Issuer will furnish the Issuing and Paying Agent with an adequate supply of Notes bearing consecutive control numbers, which will have the Registered Holder, principal amount and certain terms on the face thereof left blank. Upon reasonable notice given by the Issuing and Paying Agent to the Issuer, the Issuer shall provide to the Issuing and Paying Agent such additional number of Notes as is mutually agreed upon. Each Note will have been executed by the manual or facsimile signature of an Authorized Representative of the Issuer. The Issuing and Paying Agent will hold such blank Notes in safekeeping in accordance with its customary practice and shall issue such Notes in the order of the control numbers imprinted thereon.

(e) Terms. The Notes shall have a maturity of at least 9 months and 1 day from the date of issuance thereof through November 30, 2008 (the "Original Issue Date") and shall be issuable in minimum denominations of \$250,000 and integral multiples of \$1,000 in excess thereof (the "Authorized Denominations").

SECTION 3. Authorized Representatives. From time to time, the Issuer will furnish the Issuing and Paying Agent with a certificate certifying as to the incumbency and specimen signatures of officers authorized (i) to execute Notes on behalf of the Issuer by manual or facsimile signature and (ii) to give instructions to the Issuing and Paying Agent in accordance with Section 4 hereof (each such officer, an "Authorized Representative"). Until the Issuing and Paying Agent receives a subsequent incumbency certificate of the Issuer, the Issuing and Paying Agent shall be entitled to rely on the last such certificate delivered to it for purposes of determining the Authorized Representatives of the Issuer. The Issuing and Paying Agent shall have no responsibility to the Issuer to determine by whom or by what means a facsimile signature may have been affixed on the Notes, or to determine whether any facsimile or manual signature is genuine, provided that such facsimile or manual signature resembles reasonably closely the specimen signatures filed with the Issuing and Paying Agent by an Authorized Representative. Any Note bearing the manual or facsimile signature of a person who is an Authorized Representative on the date such signature is affixed thereto shall bind the Issuer after the authentication thereof by the Issuing and Paying Agent, notwithstanding that such person shall have ceased to hold office on the date such Note is authenticated and delivered by the Issuing and Paying Agent.

SECTION 4. Issuance Instructions; Registration; Authentication and Delivery; Receipt of Instructions; Payment. (a) Issuance Instructions. All Note issuance instructions shall be given by an Authorized Representative by facsimile transmission, in writing or by reasonably secure electronic means agreed to by the Issuer and the Issuing and Paying Agent. Such instructions shall include:

- (i) name of the person in whose name the related Note is to be registered (the "Registered Holder");
- (ii) address of the Registered Holder;
- (iii) wire transfer instructions, if any, for payments to the Registered Holder;
- (iv) taxpayer identifying number of the Registered Holder;
- (v) form of such Note (i.e., whether such Note is a Global Note or a Certificated Note);
- (viii) principal amount and Authorized Denominations of such Note;

- (ix) stated maturity date of such Note;
- (x) if such Note is a Fixed Rate Note, the Interest Rate;
- (xi) if such Note is a Floating Rate Note, such of the following as are applicable:
 - (A) Interest Category (i.e., whether such Note is a Regular Floating Rate Note, an Inverse Floating Rate Note, a Floating Rate/Fixed Rate Note or another type of Floating Rate Note);
 - (B) Interest Rate Basis or Bases and, if LIBOR and the CMT Rate, certain related information;
 - (C) Initial Interest Rate;
 - (D) Index Maturity;
 - (E) Spread and/or Spread Multiplier;
 - (F) Minimum and/or Maximum Interest Rate;
 - (G) Initial Interest Reset Date;
 - (H) Interest Reset Dates;
 - (I) Day Count Convention; and
 - (J) Calculation Agent;
- (xii) Interest Payment Dates for such Note;
- (xiii) any Initial Redemption Date, Initial Redemption Percentage and Annual Redemption Percentage Reduction;
- (xiv) any Optional Repayment Date(s);
- (xv) rate of Placement Agent's discount or commission and amount to be received in payment for such Note;
- (xvi) delivery and payment instructions for such Note; and
- (xvii) additional terms, if any.

(b) Registration. Authentication and Delivery. Upon receipt from an Authorized Representative of the issuance instructions referred to in Section 4(a) in respect of a Note, the Issuing and Paying Agent shall withdraw the necessary Notes from safekeeping and, in accordance with such instructions, shall:

- (i) complete each Note as to the matters referred to in Section 4(a);
- (ii) record the ownership of each Note in the Note Register (as defined in Section 13(a))

hereof);

(iii) cause each Note to be manually authenticated by anyone of the officers or employees of the Issuing and Paying Agent duly authorized and designated by it for such purpose; and

(iv) deliver each Note to the relevant Placement Agent or its designated consignee (which may be the Issuing and Paying Agent in the case of Global Notes), which delivery shall be made against payment (in the case of a sale of a Note to a Placement Agent as principal) or receipt of payment (in the case of a sale of a Note to a purchaser solicited by a Placement Agent as agent of the Issuer) in immediately available funds.

(c) Receipt of Instructions. Instructions given by an Authorized Representative by facsimile transmission, in writing or by other electronic means must be received by the Issuing and Paying Agent not later than the times specified in the Administrative Procedures. In the event that instructions are received by the Issuing and Paying Agent later than the times specified in the Administrative Procedures, such instructions shall not be deemed to be received until the business day following such receipt.

(d) Payment. It is understood that although the Issuing and Paying Agent is instructed to deliver Notes against payment in immediately available funds, delivery of the Notes, in accordance with the custom prevailing in the market, will be made before actual receipt of payment. Once the Issuing and Paying Agent has delivered Notes to the applicable Placement Agent or its designated consignee, as the case may be, against receipt therefor, the Issuer shall bear the risk that such Placement Agent or such designated consignee fails to remit payment for the Notes or return same to the Issuing and Paying Agent. It is further understood that each delivery of Notes hereunder shall be subject to the rules of the New York Clearing House in effect at the time of such delivery.

SECTION 5. Representations and Warranties. Each delivery of Notes to the Issuing and Paying Agent in accordance with Section 4 hereof shall constitute a continuing representation and warranty to the issuing and Paying Agent by the Issuer that the issuance and delivery of such Notes have been duly and validly authorized by the Issuer and that the Notes, when completed, authenticated and delivered pursuant hereto, will constitute the legal, valid and binding obligation of the Issuer.

SECTION 6. Proceeds of Sale of Notes. Proceeds received in payment for Notes are to be in immediately available funds and shall be immediately credited to an account designated and maintained by the Issuer with the Issuing and Paying Agent. The Issuing and Paying Agent shall provide the Issuer with advice reflecting all debits and credits to such designated bank account. Subject to the availability of funds upon receipt of instructions from an Authorized Representative, proceeds from the sale of Notes may, prior to the time such proceeds are received, be used in payment of the principal of, and premium, if any, and interest on, other Notes presented for payment on the stated maturity date or any earlier date on which the principal thereof is due and payable (the "Maturity Date"), or be transferred for credit to the (account of the Issuer at another bank.

SECTION 7. Interest Payment Dated Other Than Maturity Date; Payment Mechanics. (a) Interest Payment Dated Other Than Maturity Date. Unless otherwise specified on the face of such Notes or in an Addendum thereto, interest will be payable semi-annually on January 15 and July 15 of each year in the case of Fixed Rate Notes and such dates as are specified therein in the case of Floating Rate Notes, and, in such each case, on the Maturity Date (collectively, "Interest Payment Dates"). If any Interest Payment Date other than the Maturity Date for a Fixed Rate Note falls on a day that is not a Business Day (as defined in the Private Placement Memorandum), the related payment of interest shall be made on the next succeeding Business Day as if it were made on the date

such payment was due, and no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date until such next succeeding Business Day. If any Interest Payment Date other than the Maturity Date for a Floating Rate Note falls on a day that is not a Business Day, such Interest Payment Date shall be postponed to the next succeeding day that is a Business Day, except that, if LIBOR is an applicable Interest Rate Basis and such next succeeding Business Day falls in the calendar month next succeeding such Interest Payment Date, such Interest Payment Date shall be the immediately preceding Business Day. All interest payments on an Interest Payment Date other than the Maturity Date will be made to the Registered Holders at the close of business on the fifteenth calendar day (whether or not a Business Day) immediately preceding the applicable Interest Payment Date, or such other dates specified in such Notes or in an Addendum thereto (each, a "Regular Record Date"). Any such interest not so punctually paid or duly provided for on any Interest Payment Date will forthwith cease to be payable to the Registered Holder thereof at the close of business on the applicable Regular Record Date and may either be paid to the person in whose name such Note is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Issuer, notice whereof shall be given to the Registered Holders of Notes not less than 30 calendar days prior to such special record date, or be paid at any time in any other lawful manner. Unless otherwise specified in a Fixed Rate Note or in an Addendum thereto, interest with respect to a Fixed Rate Note will begin to accrue on the Original Issue Date of such Note and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest with respect to any Floating Rate Note will begin to accrue on the Original Issue Date of such Note and will be calculated in accordance with the provisions set forth in such Note for the applicable Interest Rate Basis or Bases specified on the face thereof.

Payment Mechanics. (i) Certificated Notes. All interest payments on the Certificated Notes other than interest due on the Maturity Date will be made by check of the Issuing and Paying Agent mailed, charges prepaid, to the Registered Holders at their addresses appearing on the applicable Regular Record Date in the Note Register or to such other address in the United States as any Registered Holder shall designate to the Issuing and Paying Agent in writing not later than such Regular Record Date; provided, however, that Registered Holders of \$10,000,000 (or, if the Specified Currency is other than United States dollars, the equivalent thereof in the Specified Currency) or more in aggregate principal amount of Certificated Notes (whether or not having identical terms and provisions) shall be entitled to receive payments of interest on an Interest Payment Date other than the Maturity Date by wire transfer of immediately available funds to an account at a bank designated by each such Registered Holder not later than the Regular Record Date prior to such Interest Payment Date.

(ii) Book-Entry Notes. On each Interest Payment Date other than the Maturity Date, the Issuer will pay to the Issuing and Paying Agent in immediately available funds an amount sufficient to make the required payment on such date and, upon receipt of such funds, the Issuing and Paying Agent, in turn, will pay to the Depositary such total amount of interest due on such Interest Payment Date.

SECTION 8. Optional Redemption. In the event the Issuer elects to redeem any Notes in whole or in part, the Issuer shall give written notice to the Issuing and Paying Agent of the principal amount of such Notes to be so redeemed not less than 35 calendar days prior to the date of redemption or such other date that the Issuer and the Issuing and Paying Agent mutually agree upon in writing. In any such written notice, (a) if Certificated Notes are to be redeemed, the Issuer shall identify such Notes by specifying the interest rate or formula pursuant to which interest is calculated on such Notes, the Interest Payment Dates, the stated maturity date and redemption terms or (b) if Book-Entry Notes are to be redeemed, the Issuer shall identify such Notes by specifying the CUSIP number assigned to the Global Note or Notes representing such Notes. The Issuing and Paying Agent shall cause notice of redemption to be given to the Registered Holders of the Notes to be redeemed not less than 30 nor

more than 60 calendar days prior to the date of redemption in the name and at the expense of the Issuer. Whenever less than all of the Notes of like tenor and terms are to be redeemed, (a) if such Notes are Global Notes held by the Issuing and Paying Agent as custodian for the Depository or its nominee, the Issuing and Paying Agent shall reduce the principal amount of one or more Global Notes, by the amount of such redemption, by means of an appropriate adjustment on the records of the Issuing and Paying Agent or (b) in the case of all other Notes, the Issuing and Paying Agent shall select the Notes to be so redeemed by such method as the Issuing and Paying Agent shall deem fair and reasonable. Any Note which is to be redeemed in part only pursuant to clause (b) of the preceding sentence shall be surrendered to the corporate trust office of the Issuing and Paying Agent located in the Borough of Manhattan, the City of New York, and the Issuer shall execute, and upon receipt of instructions from an Authorized Representative of the Issuer the Issuing and Paying Agent shall authenticate and deliver to the Registered Holder of such Note, without service charge, a new Note of like tenor and terms, of any Authorized Denomination as requested by such Registered Holder, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of such Note so surrendered.

SECTION 9. Optional Repayment. In the event that any Notes permit the Registered Holder thereof to have such Notes repaid by the Issuer at such Registered Holder's option and such Registered Holder elects to have such Notes repaid in whole or in part, the Issuing and Paying Agent must receive at its corporate trust office located in the Borough of Manhattan, The City of New York, not more than 30 nor less than 10 calendar days prior to the date of repayment: or such Notes may be tendered through the normal tender procedures of The Depository Trust Company. Exercise of such repayment option by the Registered Holder of a Note shall be irrevocable with respect to such Note. Any Note which is to be repaid only in part shall be surrendered to the Issuing and Paying Agent and the Issuer shall execute, and upon receipt of instructions from an Authorized Representative of the Issuer the Issuing and Paying Agent shall authenticate and deliver to the registered Holder of such Note, without service charge, a new Note of like tenor and terms, of any Authorized Denomination as requested by such Registered Holder, in an aggregate principal amount equal to and in exchange for the unpaid portion of the principal of such Note so surrendered.

SECTION 10. Payment on the Maturity Date. The Issuer will pay in immediately available funds the principal of, and premium, if any, and interest on, the Notes on the Maturity Date only upon presentation and surrender thereof. Interest payable on any Note on the Maturity Date will be payable to the person to whom the principal of such Note is payable. If the Maturity Date for any Note falls on a day that is not a Business Day, the related payment of principal, premium, if any, and/or interest shall be made on the next succeeding Business Day as if it were made on the date such payment was due, and no interest shall accrue on the amount so payable for the period from and after such Maturity Date until such next succeeding Business Day. The Issuing and Paying Agent will forthwith cancel each such Note pursuant to Section 22 hereof.

SECTION 11. Information Regarding Amounts Due. (a) Promptly following each Regular Record Date, the Issuing and Paying Agent will advise the Issuer of the amount of interest (to the extent then known) due on the next succeeding Interest Payment Date. The Issuing and Paying Agent will advise the Issuer in writing by the fifteenth calendar day of each month of the principal of and accrued interest to be paid on Notes maturing in the next succeeding month.

(b) If at any time the Issuing and Paying Agent is not acting as calculation agent (the "Calculation Agent") with respect to any Note, the Issuing and Paying Agent will give the Calculation Agent written notice of each Interest Determination Date with respect to such Note at least three Business Days prior to such Interest Determination Date.

SECTION 12. Deposit of Funds. On a timely basis, the Issuer shall remit to the Issuing and Paying Agent the amount of principal, premium, if any, and/or interest payable in respect of Notes then outstanding. The Issuer shall wire such amount in immediately available funds on the relevant Interest Payment Date or the Maturity Date, as the case may be, prior to 12:00 p.m., New York City time, while the Issuing and Paying Agent will pay such amount to the Depository (in the case of Book-Entry Notes) or the Registered Holders (in the case of Certificated Notes) on the aforementioned dates.

SECTION 13. Note Register Exchanges; Transfers; No Service Charges, etc.; Removal of Legends; Persons Deemed Owners. (a) Note Register. The Issuing and Paying Agent, as agent of the Issuer for this purpose, shall maintain at its corporate trust office located in the Borough of Manhattan, The City of New York, a register of Notes for the registration of ownership of Notes and transfers and exchanges thereof (the "Note Register"). Subject to the provisions of this Section 13, upon presentation for transfer or exchange of any Note at the corporate trust office of the Issuing and Paying Agent accompanied by a written instrument of transfer or exchange in the form approved by the Issuer (it being understood that, until notice to the contrary is given to Registered Holders, the Issuer shall be deemed to have approved the form of instrument of transfer or exchange printed on any Note), executed by the Registered Holder thereof, in person or by such Registered Holder's attorney thereunto duly authorized in writing, such Note shall be transferred upon the Note Register, and the Issuer shall execute, and upon receipt of instructions from an Authorized Representative of the Issuer the Issuing and Paying Agent shall authenticate and deliver, a new Note of like tenor and terms, in any Authorized Denomination requested by such Registered Holder, in the name of the transferee.

(b) Exchanges. Upon the receipt by the Issuing and Paying Agent at its corporate trust office of a Note accompanied by a written and executed instrument of exchange as provided in Section 13(a), then, if such Note is owned by the Registered Holder thereof and is being exchanged without transfer the Issuer shall execute, and upon receipt of instructions from an Authorized Representative of the Issuer the Issuing and Paying Agent shall authenticate and deliver, in exchange for such Note one or more Notes of like tenor and terms, in any Authorized Denomination requested by such Registered Holder, in an aggregate principal amount equal to the principal amount of such Note.

(c) Transfers. So long as the Legend (as defined in Section 13(e) hereof) has not been removed from a Note, the Issuing and Paying Agent shall not register the resale or other transfer of such Note unless such resale or other transfer is made in accordance with the Legend. In the case of a resale or other transfer of a Certificated Note, the Issuing and Paying Agent shall register the resale or other transfer of a Certificated Note to the Issuer or a Placement Agent or by, through or in a transaction approved by a Placement Agent upon the written approval of such resale or other transfer by the Issuer or Placement Agent, as the case may be. In the case of a resale or other transfer of a Certificated Note through the services of a broker, dealer or similar intermediary other than a Placement Agent, the Registered Holder and the prospective transferee of such Certificated Note shall be required to complete the reverse of such Certificated Note or the Bond Power attached as Exhibit A to the Private Placement Memorandum and deliver the Certificated Note (and any applicable Bond Power) to the Issuing and Paying Agent to advise of the basis for such resale or other transfer being exempt from registration under the Securities Act of 1933, as amended (the "Securities Act").

The Issuing and Paying Agent shall keep a record of all letters, notices or written communications received pursuant to this Section 13(c). The Issuer has the right to inspect all such documents, notices, letters or other written communications.

(d) No Service Charges, etc. Registration of transfers and exchanges of Notes as aforesaid may be made from time to time, and each such registration shall be noted on the Note Register. No service charge shall be made for any registration of transfer or exchange of Notes, but the Issuing and Paying Agent or the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith {other than exchanges pursuant to this Agreement not involving any transfer).

(e) Removal of Legends. The Notes shall contain a legend (the "Legend") to the effect that they have not been and will not be registered under the Securities Act, and that the resale or other transfer thereof is subject to certain restrictions in order to preserve the non-public nature of the offering of the Notes. If Notes are issued upon the transfer, exchange or replacement of Notes not bearing the Legend, the Notes so issued shall not bear the Legend. If Notes are issued upon the transfer, exchange or replacement of Notes bearing the Legend or if a request is made to remove the Legend on a Note, the Notes so issued shall bear the Legend or the Legend shall not be removed, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may be reasonably required by the Issuer that neither the Legend nor the resale and other transfer restrictions set forth therein are required to ensure that transfers thereof comply with the relevant provisions of the Securities Act or that such Notes are not "restricted securities" within the meaning of Rule 144 under the Securities Act. Upon provision of such satisfactory evidence to the Issuer, the Issuing and Paying Agent, upon receipt of instructions from an Authorized Representative of the Issuer, shall authenticate and deliver a Note of like tenor and terms that does not bear the Legend. The Issuer agrees to indemnify the Issuing and Paying Agent for, and to hold it harmless against, any loss, liability or expenses, including the fees and expenses of counsel, reasonably incurred, arising out of or in connection with actions taken or omitted by the Issuing and Paying Agent in accordance with the instructions from an Authorized Representative of the Issuer; provided, however, that the Issuer shall not be required to indemnify the Issuing and Paying Agent for any loss, liability or expense arising from the negligence or willful misconduct of the Issuing and Paying Agent.

(f) Persons Deemed Owners. The Issuer and the Issuing and Paying Agent (and any of their agents) may deem and treat the Registered Holder of any Note as the absolute owner of such Note for the purpose of receiving payment of the principal of, and premium, if any, and interest on, such Note and for all other purposes whatsoever, whether or not such Note be overdue, and neither the Issuer nor the Issuing and Paying Agent shall be affected by notice to the contrary.

SECTION 14. Mutilated, Destroyed, Lost or Stolen Notes. In case any Note shall become mutilated or destroyed, lost or stolen, the Issuer, in its discretion, shall execute, and upon receipt of instructions from an Authorized Representative of the Issuer, the Issuing and Paying Agent shall authenticate and deliver a new Note of like tenor and terms, having a number not contemporaneously outstanding, in exchange and substitution for the mutilated Note or in lieu of and substitution for the Note destroyed, lost or stolen; provided, however, that the applicant for a substituted Note shall furnish to the Issuer and Paying Agent such security or indemnity as may be required by them to save each of them harmless and, in every case of destruction, loss or theft, the applicant shall also furnish to the Issuer and the Issuing and Paying Agent evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof. Upon the issuance of any substituted Note, the Issuer and the Issuing and Paying Agent may require the payment of a sum sufficient to cover any fees and expenses connected therewith. In case any Note which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Issuer may, instead of issuing a substitute Note, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Note) upon compliance by the Registered Holder with the provisions of this Section 14, as hereinabove set forth.

SECTION 15. Application of Funds: Return of Unclaimed Funds. Until used or applied as herein provided, all funds received by the Issuing and Paying Agent hereunder shall be held for the purposes for which they were received but need not be segregated from other funds except to the extent required by law. Any funds deposited with the Issuing and Paying Agent and remaining unclaimed for two years after the date upon which the last payment of the principal of, and/or premium, if any, and/or interest on, any Note to which such deposit relates shall at the written request of the Issuer be repaid to the Issuer by the Issuing and Paying Agent, and the Registered Holder of any Note to which such deposit relates entitled to receive payment thereof shall thereafter look, as an unsecured general creditor, on to the Issuer for the payment thereof and all liability of the Issuing and Paying Agent with respect to such funds shall thereupon cease.

SECTION 16. Events of Default. Upon the occurrence of an Event of Default (as defined in the Notes), the Issuer shall promptly provide the Issuing and Paying Agent written notice as to, and instruct the Issuing and Paying Agent in writing to promptly provide all of the Registered Holders of Notes of the Issuer such written notice as to, such occurrence of such Event of Default. In addition the Issuer, shall, within five calendar days after the occurrence thereof, provide the Issuing and Paying Agent written notice as to, and instruct the Issuing and Paying Agent in writing to promptly provide all of the Registered Holders of Notes such written notice as to any event which after notice or lapse of time or both would become an Event of Default under the Notes (a "Default"). Upon receipt of any such written instruction in respect of the occurrence of any such Event of Default or Default, the Issuing and Paying Agent shall promptly mail to all Registered Holders of Notes, at the addresses of such Registered Holders as they appear in the Note Register, any such written notice of such Event of Default or Default unless the Issuer shall have notified the Issuing and Paying Agent in writing that such Event of Default or Default shall have been cured before the mailing of such written notice by the Issuing and Paying Agent.

SECTION 17. Liability. Neither the Issuing and Paying Agent nor its directors officers or employees shall be liable for any act or omission hereunder except in the case of its negligence or willful misconduct. The duties and obligations of the Issuing and Paying Agent, its officers and employees shall be determined by the express provisions of this Agreement and they shall not be liable except for the performance of such duties and obligations as are specifically set forth herein and no implied covenants shall be read into this Agreement against them. The Issuing and Paying Agent may consult with counsel and shall be fully protected in any action taken in good faith in accordance with the advice of counsel. Neither the Issuing and Paying Agent nor its officers or employees shall be required to ascertain whether the issuance or sale of the Notes (or any amendment or termination of this Agreement) has been duly authorized or is in compliance with any other agreement to which the Issuer is a party (whether or not the Issuing and Paying Agent is also a party to such other agreement).

SECTION 18. Indemnification. (a) The Issuer agrees to indemnify each of the Issuing and Paying Agent, its directors, officers, employees and agents for, and to hold each of them harmless against, any and all loss, liability, claim, damage or expense (including taxes other than taxes based upon the income of the Issuing and Paying Agent), incurred without negligence or willful misconduct arising out of or in connection with its or their performance under this Agreement, as well as the reasonable costs and expenses of defending against any claim or liability relating thereto. This indemnity shall survive payment of all of the Notes and, if applicable, the resignation or removal of the Issuing and Paying Agent.

(b) Each indemnified party shall give prompt notice to the Issuer of any action commenced against it in respect of which indemnity may be sought hereunder. The Issuer shall have no liability for indemnity hereunder with respect to an action commenced against an indemnified party where such indemnified party failed to give notice to the Issuer of such action; provided, however, failure so to notify the Issuer shall not relieve the Issuer from any liability which it may

otherwise have than on account of this indemnity agreement. The Issuer shall be entitled to assume the defense of any such action; provided however, that the indemnified party shall have the right prior to the employing of any counsel by the Issuer in connection with its assumption of such defense to consent to any such counsel, which consent shall not be unreasonably withheld; provided, further that if any indemnified party is advised in an opinion of counsel that there may be legal defenses available to such indemnified party which are adverse to or in conflict with those available to the Issuer, the Issuer shall not have the right to assume the defense of such action, but shall be responsible for the reasonable fees and expenses of counsel retained by the indemnified party. The Issuer may participate at its own expense in the defense of such action. In no event shall the Issuer be liable for the fees and expenses of more than one counsel (in addition to any local counsel) for all indemnified parties in connection with anyone action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. Notwithstanding anything herein to the contrary, the Issuer shall not be liable for any settlement of any action without its consent, which consent shall not be unreasonably withheld.

(c) The Issuing and Paying Agent undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Issuing and Paying Agent.

(d) No provision of this Agreement shall require the Issuing and Paying Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) The Issuing and Paying Agent may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Issuing and Paying Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 19. Compensation of the Issuing and Paying Agent. The Issuer agrees to pay the compensation of the Issuing and Paying Agent at such rates as shall be agreed upon from time to time and to reimburse the Issuing and Paying Agent for its reasonable out-of-pocket expenses (including legal fees and expenses), disbursements and advances incurred or made in accordance with any provisions of this Agreement. The obligations of the Issuer to the Issuing and Paying Agent pursuant to this Section 19 shall survive the resignation or removal of the Issuing and Paying Agent and the satisfaction or termination of this Agreement.

SECTION 20. Notices. (a) All communications by or on behalf of the Issuer relating to the issuance, transfer, exchange or payment of principal, premium, if any, or interest in respect of any Note shall be directed to the Issuing and Paying Agent at its address set forth in subsection (b)(ii) hereof and the Issuer will send all Notes to be completed, authenticated and delivered by the Issuing and Paying Agent to such address (or such other address as the Issuing and Paying Agent shall specify in writing to the Issuer).

(b) Notices and other communications hereunder to the parties hereto shall be in writing, sent by facsimile transmission or by first class mail, postage prepaid, and shall be addressed as follows, or to such other addresses as the parties hereto shall specify from time to time:

(i) if to the Issuer:

Potomac Capital Investment Corporation
1801 K Street, N.W.
Suite 900
Washington, D.C. 20006
Attention: Kevin M. McGowan, Treasurer
Telephone: (202) 857-5760

(ii) if to the Issuing and Paying Agent:

The Bank of New York
101 Barclay Street, Floor 21 West
New York, New York 10286
Attention: Mary Beth Lewicki
Telephone No.: (212) 815-5939

(c) Notices and other communications hereunder or under the Notes to the Registered Holders thereof shall be in writing, sent by first class mail, postage prepaid, to the addresses of such Registered Holders as they appear in the Note Register or in such other addresses as such Registered Holders shall specify to the Issuing and Paying Agent from time to time.

SECTION 21. Resignation or Removal of Issuing and Paying Agent. The Issuing and Paying Agent may at any time resign as such Issuing and Paying Agent by giving written notice to the Issuer of such intention on its part, specifying the date on which its desired resignation shall become effective; provided, however, that such date shall not be less than three months after the giving of such notice by the Issuing and Paying Agent to the Issuer. The Issuing and Paying Agent may be removed at any time by the filing with it of an instrument in writing signed by a duly authorized officer of the Issuer and specifying such removal and the date upon which it is intended to become effective. Such resignation or removal shall take effect on the date of the appointment by the Issuer of a successor Issuing and Paying Agent and the acceptance of such appointment by such successor Issuing and Paying Agent. Any successor Issuing and Paying Agent into which the Issuing and Paying Agent may be merged or converted or with which it may be consolidated or to which it may sell or transfer its corporate trust business and assets as an entirety or substantially as an entirety or any successor Issuing and Paying Agent succeeding to the business of the Issuing and Paying Agent shall be the successor of the Issuing and Paying Agent hereunder; provided, however, that such successor Issuing and Paying Agent shall succeed to the rights and assume the obligations of the Issuing and Paying Agent under this Agreement, without the execution or filing of any paper or any further act on the part of the parties hereto, notwithstanding anything herein to the contrary. In the event of resignation by the Issuing and Paying Agent, if a successor Issuing and Paying Agent has not been appointed by the Issuer within three months after the giving of notice by the Issuing and Paying Agent of its intention to resign, the Issuing and Paying Agent may, at the expense of the issuer, petition any court of competent jurisdiction for appointment of a successor Issuing and Paying Agent.

SECTION 22. Cancellation of Notes: All Notes surrendered for payment or registration of transfer or exchange shall, if surrendered to any person other than the Issuing and Paying Agent, be delivered to the Issuing and Paying Agent and shall be canceled by it. The Issuer may at any time deliver to the Issuing and Paying Agent for cancellation any Note previously authenticated and delivered hereunder which the Issuer may have redeemed or otherwise acquired, and all Notes so delivered shall be canceled by the Issuing and Paying Agent. No Notes shall be authenticated in lieu of or in exchange for any Notes canceled as provided in this Section 22, except as expressly permitted by this Agreement. All canceled Notes held by the Issuing and Paying Agent shall be returned to the

Issuer. Upon the written request of the Issuer, the Issuing and Paying Agent shall cancel and return to the Issuer all unissued Notes in its possession at the time of such request.

SECTION 23. Benefit of Agreement. This Agreement is solely for the benefit of the parties hereto, their successors and assigns and the Registered Holders of Notes, and no other person shall acquire or have any right under or by a virtue hereof.

SECTION 24. Notes Held by the Issuing and Paying Agent. The Issuing and Paying Agent, in its individual or other capacity, may become the owner or pledgee of the Notes with the same rights it would have if it were not acting as Issuing and Paying Agent hereunder.

SECTION 25. Modification and Amendment. (a) Notwithstanding any other provision of this Section 25, without the consent of any Registered Holders of Notes, the Issuer and the Issuing and Paying Agent may enter into one or more modifications of this Agreement or the Notes, in form satisfactory to the Issuing and Paying Agent, to (i) evidence the succession of another corporation to the Issuer and the assumption by any such successor of the obligations of the Issuer contained in this Agreement and in the Notes, as the case may be, (ii) change or eliminate any of the provisions of this Agreement, provided that any such change or elimination shall become effective only when there is no outstanding Note created prior to the execution of such amendment or modification which is entitled to the benefit of such provisions, (iii) establish other forms or terms of Notes as permitted in this Agreement, (iv) evidence and provide for the acceptance of appointment under this Agreement by a successor Issuing and Paying Agent, (v) cure any ambiguity, correct or supplement any provision in this Agreement or the Notes which may be inconsistent with any other provisions herein or therein, or make any other provisions with respect to matters or questions arising herein or therein; provided that such action shall not adversely affect the interests of any Registered Holder in any material respect, (vi) modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or other transfer of restricted securities generally, or (vii) modify eliminate or add to the provisions of this Agreement to such extent as shall be necessary to qualify this Agreement (including any supplemental agreement hereto) under the Trust Indenture Act of 1939, as amended, or under such similar statute hereafter enacted.

(b) With the consent of the Registered Holders of a majority in aggregate principal amount of the outstanding Notes affected thereby, the Issuer and the Issuing and Paying Agent may enter into one or more agreements supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Agreement or of modifying in any manner the rights of the Registered Holders of Notes under this Agreement; provided, however, that no such supplemental agreement shall, without the: consent of the Registered Holder of each outstanding Note affected thereby: change the stated maturity date of the principal (or any installment of principal) of any Note; or change any Interest Payment Date on which interest on any Note is to be paid or reduce the principal amount of any Note, or reduce the rate of interest on any Note or change the manner of calculation of interest thereof, or change any of the redemption or repayment provisions of any Note, or change any place of payment where the principal of, or premium, if any, or interest on, any Note is payable, or impair the right to institute suit for the enforcement of any required payment in respect of any Note on or after the stated maturity thereof, or reduce the percentage of the aggregate principal amount of the outstanding Notes, the consent of whose Registered Holders is required for the modification and amendment of, or waiver under this Agreement or the Notes or certain defaults thereunder, or modify any of the provisions in this Agreement or the Notes relating to the ir modification, amendment or waiver other than to increase the percentage necessary for such action or to provide that other provisions of this Agreement or the Notes cannot be modified, amended or waived without the consent of the Registered Holder of each outstanding Note affected thereby.

SECTION 26. GOVERNING LAW. THIS AGREEMENT IS TO BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LA WS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

SECTION 27. Counterparts. This Agreement may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts. Each such counterpart, when so executed and delivered, shall be deemed to be an original and all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on their behalf by their officers thereunto duly authorized, all as of the day and year first above written.

POTOMAC CAPITAL INVESTMENT
CORPORATION

By: /s/ Kevin McGowan
Name: Kevin McGowan
Title: VP & Treasurer

THE BANK OF NEW YORK
as Issuing and Paying Agent

By: /s/ Mary Beth A. Lewicki
Name: Mary Beth Lewicki
Title: Vice President

[FACE OF NOTE]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN VIOLATION OF THE SECURITIES ACT OR SUCH OTHER SECURITIES LAWS. THIS NOTE MAY BE TRANSFERRED ONLY IN PRINCIPAL AMOUNTS OF \$250,000 AND INTEGRAL MULTIPLES OF \$1,000 IN EXCESS THEREOF. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF POTOMAC CAPITAL INVESTMENT CORPORATION (THE "COMPANY") THAT THIS NOTE MAY BE RESOLD OR OTHERWISE TRANSFERRED ONLY (1) TO THE COMPANY OR MERRILL LYNCH & CO., MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, GOLDMAN, SACHS & CO. AND SALOMON BROTHERS INC (EACH, AN "AGENT", AND COLLECTIVELY, THE "AGENTS"), OR BY, THROUGH, OR IN A TRANSACTION APPROVED BY, AN AGENT, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A (A "QIB"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST ALSO BE QIBS) AND TO WHOM NOTICE IS GIVEN THAT THE RESALE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (4) TO AN INSTITUTIONAL INVESTOR THAT QUALIFIES AS AN ACCREDITED INVESTOR, AS DEFINED IN RULE 501 (a) UNDER THE SECURITIES ACT (AN "INSTITUTIONAL ACCREDITED INVESTOR"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST ALSO BE INSTITUTIONAL ACCREDITED INVESTORS UNLESS SUCH TRANSFEREE IS A BANK ACTING IN ITS FIDUCIARY CAPACITY) FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, (5) TO AN INSTITUTIONAL ACCREDITED INVESTOR ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY REGULATION S UNDER THE SECURITIES ACT OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION; PROVIDED THAT THE AGREEMENT OF THE HOLDER HEREOF IS SUBJECT TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF THE HOLDER'S PROPERTY SHALL AT ALL TIMES BE AND REMAIN WITHIN ITS CONTROL. WITH RESPECT TO ANY RESALE OR OTHER TRANSFER OF THIS NOTE (IF IN CERTIFICATED FORM) DESCRIBED IN CLAUSE (2), (4) OR (5) ABOVE, THE BANK OF NEW YORK, AS THE ISSUING AND PAYING AGENT FOR THE NOTES (THE "ISSUING AND PAYING AGENT"), WILL REQUIRE THE SUBMISSION TO IT OF THIS NOTE DULY COMPLETED OR A DULY COMPLETED BOND POWER IN THE FORM ATTACHED TO THE PRIVATE PLACEMENT MEMORANDUM RELATING TO THIS NOTE AS EXHIBIT A; PROVIDED THAT THE FOREGOING SUBMISSION SHALL NOT BE REQUIRED IF THIS LEGEND HAS BEEN REMOVED IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE ISSUING AND PAYING AGENCY AGREEMENT BETWEEN THE COMPANY AND THE ISSUING AND PAYING AGENT, AS AMENDED OR MODIFIED (THE "ISSUING AND PAYING AGENCY AGREEMENT").

BY PURCHASING OR ACCEPTING THIS NOTE, THE HOLDER HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT (1) IT IS (A) A QIB ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST ALSO BE QIBS) AND IT IS AWARE THAT THE RESALE OR OTHER TRANSFER TO IT IS BEING MADE IN RELIANCE ON RULE 144A OR (B) AN INSTITUTIONAL ACCREDITED INVESTOR ACQUIRING THIS NOTE (Y) FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST ALSO BE INSTITUTIONAL ACCREDITED INVESTORS UNLESS SUCH HOLDER IS A BANK ACTING IN ITS FIDUCIARY CAPACITY) FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT OR (Z) IN AN OFFSHORE TRANSACTION PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY REGULATION S UNDER THE SECURITIES ACT AND, IN EACH CASE, THAT IT IS ABLE TO BEAR THE ECONOMIC RISK OF AN INVESTMENT IN THIS NOTE AND HAS SUCH KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS AS TO BE CAPABLE OF EVALUATING THE MERITS AND RISKS OF ACQUIRING THIS NOTE AND (2) IT WILL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE AND OTHER TRANSFER RESTRICTIONS REFERRED TO ABOVE AND THAT THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT, THAT SUCH PURCHASER SHALL BE DEEMED TO HAVE REPRESENTED AS TO THE MATTERS IN CLAUSE (1) OF THIS SENTENCE AND THAT SUCH PURCHASER SHALL BE DEEMED TO HAVE AGREED TO NOTIFY ITS SUBSEQUENT TRANSFEREES AS TO THE FOREGOING.

THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME BY THE COMPANY, WITHOUT THE CONSENT OF BUT UPON NOTICE TO THE AGENTS AND TO THE HOLDERS OF NOTES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF NOTES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (THE "DEPOSITARY") (55 WATER STREET, NEW YORK, NEW YORK) TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.¹

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN CERTIFICATED FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY.²

¹This paragraph applies to Global Notes only.

²This paragraph applies to Global Notes only.

REGISTERED
No. FLR- _____

CUSIP No.: _____

PRINCIPAL AMOUNT: _____

POTOMAC CAPITAL INVESTMENT CORPORATION
MEDIUM-TERM NOTE, SERIES D
(Floating Rate)

INTEREST RATE BASIS
OR BASES

IF LIBOR:

LIBOR Reuters
Page

LIBOR Telerate
Page:

DESIGNATED LIBOR
CURRENCY:

ORIGINAL ISSUE DATE:

IF CMT RATE:

Designated CMT Telerate
Page:

If Telerate Page 7052:

Weekly Average

Monthly Average

Designated CMT Maturity
Index:

STATED MATURITY DATE:

INDEX MATURITY:

INITIAL INTEREST RATE: % INTEREST PAYMENT DATE(S):

SPREAD (PLUS OR MINUS:

SPREAD MULTIPLIER :
DATE:

INITIAL INTEREST RESET

MINIMUM INTEREST
RATE: %

MAXIMUM INTEREST
RATE: %

INTEREST RESET DATE(S):

INITIAL REDEMPTION DATE:

INITIAL REDEMPTION
PERCENTAGE: %

ANNUAL REDEMPTION
PERCENTAGE
REDUCTION: %

OPTIONAL REPAYMENT
DATE(S):

CALCULATION AGENT:

INTEREST CATEGORY:

Regular Floating Rate Note
Fixed Rate Commencement
Date:

Fixed Interest Rate: %

Inverse Floating Rate Note

Fixed Interest Rate: %

DAY COUNT CONVENTION:

30/360 for the period
from

to

Actual/360 for the period from
to

Actual/Actual for the period
from to

Applicable Interest Rate Basis:

AUTHORIZED
DENOMINATION:

\$250,000 and integral
multiples of \$1,000 in

excess thereof
 Other:

EXCHANGE RATE AGENT: ADDENDUM ATTACHED
 Yes
 No

OTHER/ADDITIONAL
PROVISIONS:

POTOMAC CAPITAL INVESTMENT CORPORATION, a Delaware corporation (the "Company"), for value received, hereby promises to pay to _____, or registered assigns, the Principal Amount of _____, on the Stated Maturity Date specified above (or any Redemption Date or Repayment Date, each as defined on the reverse hereof, or any earlier date of acceleration of maturity) (each such date being hereinafter referred to as the "Maturity Date" with respect to the principal repayable on such date) and to pay interest thereon (and on any overdue principal, premium and/or interest to the extent legally enforceable), at a rate per annum equal to the Initial Interest Rate specified above until the Initial Interest Reset Date specified above and thereafter at a rate determined in accordance with the provisions specified above and on the reverse hereof or in an Addendum hereto with respect to one or more Interest Rate Bases specified above until the principal hereof is paid or duly made available for payment. The Company will pay interest in arrears on each Interest Payment Date, if any, specified above (each, an "Interest Payment Date"), commencing with the first Interest Payment Date next succeeding the Original Issue Date specified above, and on the Maturity Date; provided, however, that if the Original Issue Date occurs between a Record Date (as defined below) and the next succeeding Interest Payment Date, interest payments will commence on the second Interest Payment Date next succeeding the Original Issue Date to the registered holder (the "Holder") of this Note on the Record Date with respect to such second Interest Payment Date.

Interest on this Note will accrue from, and including, the immediately preceding Interest Payment Date to which interest has been paid or duly provided for (or from, and including, the Original Issue Date if no interest has been paid or duly provided for) to, but excluding, the applicable Interest Payment Date or the Maturity Date, as the case may be (each, an "Interest Period"). The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, subject to certain exceptions described herein, be paid to the person in whose name this Note (or one or more predecessor Notes, as defined on the reverse hereof) is registered at the close of business on the fifteenth calendar day (whether or not a Business Day, as defined below) immediately preceding such Interest Payment Date (the "Record Date"); provided, however, that interest payable on the Maturity Date will be payable to the person to whom the principal hereof and premium, if any, hereon shall be payable. Any such interest not so punctually paid or duly provided for ("Defaulted Interest") on any Interest Payment Date other than the Maturity Date shall forthwith cease to be payable to the Holder on any Record Date and shall be paid to the person in whose name this Note is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest to be fixed by the Company, written notice whereof shall be given to the Holder of this Note by the Company not less than 30 calendar days prior to such Special Record Date or may be paid at any time in any other lawful manner.

Payment of principal, premium, if any, and interest in respect of this Note due on the Maturity Date will be made in immediately available funds upon presentation and surrender of this Note (and, with respect to any applicable repayment of this Note, upon delivery of a duly completed election form as contemplated on the reverse hereof) at the corporate trust office of the Issuing and Paying Agent maintained for that purpose in the Borough of Manhattan, The City of New York, currently located at 101 Barclay Street, Floor 7E, New York, New York 10286, or at such other paying agency in the Borough of Manhattan, The City of New York, as the Company may determine. Payment of interest due on any Interest Payment Date other than the Maturity Date will be made by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register maintained at the aforementioned office of the Issuing and Paying Agent; provided, however, that a Holder of U.S.\$10,000,000 or more in aggregate principal amount of Notes (whether having identical

or different terms and provisions) will be entitled to receive interest payments on such Interest Payment Date by wire transfer of immediately available funds if appropriate wire transfer instructions have been received in writing by the Issuing and Paying Agent not less than 15 calendar days prior to such Interest Payment Date. Any such wire transfer instructions received by the Issuing and Paying Agent shall remain in effect until revoked by such Holder.

If any Interest Payment Date other than the Maturity Date would otherwise be a day that is not a Business Day, such Interest Payment Date shall be postponed to the next succeeding Business Day, except that if LIBOR is an applicable Interest Rate Basis and such Business Day falls in the next succeeding calendar month, such Interest Payment Date shall be the immediately preceding Business Day. If the Maturity Date falls on a day that is not a Business Day, the required payment of principal, premium, if any, and/or interest shall be made on the next succeeding Business Day with the same force and effect as if made on the date such payment was due, and no interest shall accrue with respect to such payment for the period from and after the Maturity Date to the date of such payment on the next succeeding Business Day.

As used herein, "Business Day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law, regulation or executive order to close in The City of New York; provided, however, that if LIBOR is an applicable Interest Rate Basis, such day is also a London Business Day (as defined below). "London Business Day" means a day on which dealings in the Designated LIBOR Currency (as defined on the reverse hereof) are transacted in the London interbank market. "Principal Financial Center" means the capital city of the country to which the Designated LIBOR Currency, if applicable, relates (or, in the case of European Currency Units, Luxembourg), except, in each case, that with respect to United States dollars, Australian dollars, Canadian dollars, Deutsche marks, Dutch guilders and Swiss francs, the "Principal Financial Center" shall be The City of New York, Sydney, Toronto, Frankfurt, Amsterdam and Zurich, respectively.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof and, if so specified on the face hereof, in an Addendum hereto, which further provisions shall have the same force and effect as if set forth on the face hereof.

Notwithstanding the foregoing, if an Addendum is attached hereto or "Other/Additional Provisions" apply to this Note as specified above, this Note shall be subject to the terms set forth in such Addendum or such "Other/Additional Provisions".

Unless the Certificate of Authentication hereon has been executed by the Issuing and Paying Agent by manual signature, this Note shall not be entitled to any benefit under the Issuing and Paying Agency Agreement (as defined on the reverse hereof) or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, Potomac Capital Investment Corporation has caused this Note to be duly executed and delivered by one of its duly authorized officers.

POTOMAC CAPITAL INVESTMENT CORPORATION

By: _____
Title:

Dated:

ISSUING AND PAYING AGENT'S
CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the Company referred to in the within-mentioned Issuing and Paying Agency Agreement.

THE BANK OF NEW YORK,
as Issuing and Paying Agent

By _____
Authorized Signatory

[REVERSE OF NOTE]

POTOMAC CAPITAL INVESTMENT CORPORATION
MEDIUM-TERM NOTE, SERIES D
(Floating Rate)

This Note is one of a duly authorized series of debt securities of the Company designated as "Medium-Term Notes, Series D, With Maturities from 9 Months and 1 Day from Date of Issue Through November 30, 2008" (the "Notes") issued and to be issued under an Issuing and Paying Agency Agreement, dated as of April 29, 1998, as amended or modified from time to time (the "Issuing and Paying Agency Agreement"), between the Company and The Bank of New York, as Issuing and Paying Agent (the "Issuing and Paying Agent", which term includes any successor Issuing and Paying Agent under the Issuing and Paying Agency Agreement). Reference is hereby made to the Issuing and Paying Agency Agreement for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Issuing and Paying Agent and the Holders of the Notes. In acting under the Issuing and Paying Agency Agreement, the Issuing and Paying Agent is acting solely as an agent of the Company and does not assume any obligation or relationship of agency or trust for any of the owners or Holders of Notes, except with respect to any funds held by the Issuing and Paying Agent for any payment in respect of this Note as provided below.

Subject to the restrictions set forth on the face hereof and L in the Issuing and Paying Agency Agreement, this Note is issuable only in registered form without coupons in minimum denominations of U.S.\$250,000 and integral multiples of U.S. \$1,000 in excess thereof or other Authorized Denomination specified on the face hereof.

This Note will not be subject to any sinking fund and, unless otherwise specified on the face hereof in accordance with the provisions of the following two paragraphs, will not be redeemable or repayable prior to the Stated Maturity Date.

This Note will be subject to redemption at the option of the Company on any date on or after the Initial Redemption Date, if any, specified on the face hereof, in whole or from time to time in part in increments of U.S. \$1,000 or other Authorized Denomination (provided that any remaining principal amount hereof shall be at least U.S.\$250,000 or the minimum Authorized Denomination) at the Redemption Price (as defined below), together with unpaid interest accrued thereon to the date fixed for redemption (the "Redemption Date"), on written notice given to the Holders of Notes (in accordance with the provisions of the Issuing and Paying Agency Agreement) not more than 60 nor less than 30 calendar days prior to the Redemption Date. The "Redemption Price" shall be the Initial Redemption Percentage specified on the face hereof (as adjusted by the Annual Redemption Percentage Reduction, if any, specified on the face hereof as set forth below) multiplied by the unpaid principal amount of this Note to be redeemed. The Initial Redemption Percentage shall decline at each anniversary of the Initial Redemption Date by the Annual Redemption Percentage Reduction, if any, until the Redemption Price is 100% of unpaid principal amount to be redeemed. Whenever less than all of the Notes of like tenor and terms are to be redeemed, the Notes to be redeemed and the Holders thereof shall be selected by the Issuing and Paying Agent by such method as the Issuing and Paying Agent shall deem fair and reasonable. In the event of redemption of this Note in part only, a new Note of like tenor for the unredeemed portion hereof and otherwise having the same terms as this Note shall be issued by the Company in the name of the Holder hereof upon the presentation and surrender hereof.

This Note will be subject to repayment by the Company at the option of the Holder hereof on the Optional Repayment Date(s), if any, specified on the face hereof, in whole or in part in increments of U.S. \$1,000 or other Authorized Denomination (provided that any remaining principal amount hereof shall be at least U.S.\$250,000 or the minimum Authorized Denomination) at a repayment price equal to 100% of the unpaid principal amount to be repaid, together with unpaid interest accrued thereon to the date fixed for repayment (the "Repayment Date"). For this Note to be repaid, this Note must be received, together with the form hereon entitled "Option to Elect Repayment" duly completed, by the Issuing and Paying Agent at its corporate trust office. Currently the Corporate Trust office of the Trustee is located at 101 Barclay Street, Floor 7E, New York, New York 10286. not more than 30 nor less than 10 calendar days prior to the Repayment Date. Exercise of such repayment option by the Holder hereof will be irrevocable. In the event of repayment of this Note in part only, a new Note of like tenor for the unrepaid portion hereof and otherwise having the same terms as this Note shall be issued by the Company in the name of the Holder hereof upon the presentation and surrender hereof.

The interest rate borne by this Note will be determined as follows:

(i) Unless the Interest Category of this Note is specified on the face hereof as a "Floating Rate/Fixed Rate Note" or an "Inverse Floating Rate Note", or the face hereof specifies that either Other/Additional Provisions or an Addendum hereto applies, in each case, relating to a different interest rate formula, this Note shall be designated as a "Regular Floating Rate Note and, except as set forth below or specified on the face hereof or in an Addendum hereto, shall bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the Spread, if any, and/or (b) multiplied by the Spread Multiplier, if any, in each case as specified on the face hereof. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be reset as of each Interest Reset Date specified on the face hereof; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate.

(ii) If the Interest Category of this Note is specified on the face hereof as a "Floating Rate/Fixed Rate Note", then, except as set forth below or specified on the face hereof or in an Addendum hereto, this Note shall bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases (a) plus or minus the Spread, if any, and/or (b) multiplied by the Spread Multiplier, if any. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be reset as of each Interest Reset Date provided, however, that (y) the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate and (z) the interest rate in effect for the period commencing on the Fixed Rate Commencement Date specified on the face hereof to the Maturity Date shall be the Fixed Interest Rate specified on the face hereof or, if no such Fixed Interest Rate is specified, the interest rate in effect hereon on the day immediately preceding the Fixed Rate Commencement Date.

(iii) If the Interest Category of this Note is specified on the face hereof as an "Inverse Floating Rate Note", then, except as set forth below or specified on the face hereof or in an Addendum hereto, this Note shall bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or

Bases (a) plus or minus the Spread, if any, and/or (b) multiplied by the Spread Multiplier, if any; provided, however, that, unless otherwise specified on the face hereof or in an Addendum hereto, the interest rate hereon shall not be less than zero. Commencing on the Initial Interest Reset Date, the rate at which interest on this Note shall be payable shall be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the Initial Interest Reset Date shall be the Initial Interest Rate.

Except as set forth above or specified on the face hereof or in an Addendum hereto, the interest rate in effect on each day shall be (i) if such day is an Interest Reset Date, the interest rate determined as of the Interest Determination Date (as defined below) immediately preceding such Interest Reset Date or (ii) if such day is not an Interest Reset Date, the interest rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date. If any Interest Reset Date would otherwise be a day that is not a Business Day, such Interest Reset Date shall be postponed to the next succeeding Business Day, except that if LIBOR is an applicable Interest Rate Basis and such Business Day falls in the next succeeding calendar month, such Interest Reset Date shall be the immediately preceding Business Day. In addition, if the Treasury Rate is an applicable Interest Rate Basis and the Interest Determination Date would otherwise fall on an Interest Reset Date, then such Interest Reset Date will be postponed to the next succeeding Business Day.

The interest rate applicable to each Interest Reset Period commencing on the related Interest Reset Date will be determined by the Calculation Agent as of the applicable Interest Determination Date and will be calculated by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to the LIBOR, which will be calculated on such Interest Determination Date. The "Interest Determination Date" with respect to the CMT Rate, the Commercial Paper Rate, the Federal Funds Rate and the Prime Rate will be the second Business Day immediately preceding the applicable Interest Reset Date; and the "Interest Determination Date" with respect to LIBOR shall be the second London Business Day immediately preceding the applicable Interest Reset Date, unless the Designated LIBOR Currency is British pounds sterling, in which case the "Interest Determination Date" will be the applicable Interest Reset Date. The "Interest Determination Date" with respect to the Treasury Rate shall be the day in the week in which the applicable Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (Treasury Bills are normally sold at an auction held on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that such auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the applicable Interest Reset Date, the "Interest Determination Date" shall be such preceding Friday. If the interest rate of this Note is determined with reference to two or more Interest Rate Bases specified on the face hereof, the "Interest Determination Date" pertaining to this Note shall be the most recent Business Day which is at least two Business Days prior to the applicable Interest Reset Date on which each Interest Rate Basis is determinable. Each Interest Rate Basis shall be determined as of such date, and the applicable interest rate shall take effect on the related Interest Reset Date.

Unless otherwise specified on the face hereof or in an Addendum hereto, the rate with respect to each Interest Rate Basis will be determined in accordance with the applicable provisions below.

CMT Rate. If an Interest Rate Basis for this Note is specified on the face hereof as the CMT rate, the CMT Rate shall be determined as of the applicable Interest Determination

Date (a "CMT Rate Interest Determination Date") as the rate displayed on the Designated CMT Telerate Page (as defined below) under the caption "... Treasury Constant Maturities... Federal Reserve Board Release H.15... Mondays Approximately 3:45 P.M.", under the column for the Designated CMT Maturity Index (as defined below) for (i) if the Designated CMT Telerate Page is 7055, the rate on such CMT Rate Interest Determination Date and (ii) if the Designated CMT Telerate Page is 7052, the weekly or monthly average, as specified on the face hereof, for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the related CMT Rate Interest Determination Date falls. If such rate is no longer displayed on the relevant page or is not displayed by 3:00 P.M., New York City time, on the related Calculation Date, then the CMT Rate for such CMT Rate Interest Determination Date will be such treasury constant maturity rate for the Designated CMT Maturity Index as published by the Board of Governors of the Federal Reserve System in "Statistical Release H.15(519), Selected Interest Rates" or any successor publication ("H.15(519)"). If such rate is no longer published or is not published by 3:00 P.M., New York City time on the related Calculation Date, then the CMT Rate on such CMT Rate Interest Determination Date will be such treasury constant maturity rate for the Designated CMT Maturity Index (or other United States Treasury rate for the Designated CMT Maturity Index) for the CMT Rate Interest Determination Date with respect to such Interest Reset Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate formerly displayed on the Designated CMT Telerate Page and published in H.15(S19). If such information is not provided by 3:00 P.M., New York City time, on the related Calculation Date, then the CMT Rate on the CMT Rate Interest Determination Date will be calculated by the Calculation Agent and will be a yield to maturity, based on the arithmetic mean of the secondary market offered rates as of approximately 3:30 P.M., New York City time, on such CMT Rate Interest Determination Date reported, according to their written records, by three leading primary United States government securities dealers (each a "Reference Dealer") in The City of New York selected by the Calculation Agent (from five such Reference Dealers selected by the Calculation Agent and eliminating the highest quotation (or/ in the event of equality/ one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for the most recently issued direct noncallable fixed rate obligations of the United States ("Treasury Notes") with an original maturity of approximately the Designated CMT Maturity Index and a remaining term to maturity of not less than such Designated CMT Maturity Index minus one year. If the Calculation Agent is unable to obtain three such Treasury Note quotations, the CMT Rate on such CMT Rate Interest Determination Date will be calculated by the Calculation Agent and will be a yield to maturity based on the arithmetic mean of the secondary market offered rates as of approximately 3:30 P.M., New York City time, on such CMT Rate Interest Determination Date of three Reference Dealers in The City of New York {from five such Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for Treasury Notes with an original maturity of the number of years that is the next highest to the Designated CMT Maturity Index and a remaining term to maturity closest to the Designated CMT Maturity Index and in an amount of at least U.S.\$100 million. If three or four (and not five) of such Reference Dealers are quoting as described above, then the CMT Rate will be based on the arithmetic mean of the offered rates obtained and neither the highest nor the lowest of such quotes will be eliminated; provided, however/ that if fewer than three Reference Dealers so selected by the Calculation Agent are quoting as mentioned herein, the CMT Rate determined as of such CMT Rate Interest Determination Date will be the CMT Rate in effect on such CMT Rate Interest Determination Date. If two Treasury Notes with an original maturity as described in the second preceding sentence have remaining terms to maturity equally close to the

Designated CMT Maturity Index, the Calculation Agent will obtain quotations for the Treasury Note with the shorter remaining term to maturity.

"Designated CMT Telerate Page" means the display on the Dow Jones Markets Limited (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying Treasury Constant Maturities as reported in H.15(519). If no such page is specified on the face hereof, the Designated CMT Telerate Page shall be 7052 for the most recent week.

"Designated CMT Maturity Index" means the original period to maturity of the United States Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified on the face hereof with respect to which the CMT Rate will be calculated. If no such maturity is specified on the face hereof, the Designated CMT Maturity Index shall be 2 years.

Commercial Paper Rate. If an Interest Rate Basis for this Note is specified on the face hereof as the Commercial Paper Rate, the Commercial Paper Rate shall be determined as of the applicable Interest Determination Date (a "Commercial Paper Rate Interest Determination Date") as the Money Market Yield (as defined below) on such date of the rate for commercial paper having the Index Maturity as published in "H.15(519) under the caption "Commercial Paper-Nonfinancial". In the event that such rate is not published by 3:00 P.M., New York City time, on the related Calculation Date, then the Commercial Paper Rate on such Commercial Paper Rate Interest Determination Date will be the Money Market Yield of the rate for commercial paper having the Index Maturity as published by the Federal Reserve Bank of New York in its daily statistical release "Composite 3:30 P.M. Quotations for U.S. Government Securities" or any successor publication ("Composite Quotations") under the heading "Commercial Paper" (with an Index Maturity of one month or three months being deemed to be equivalent to an Index Maturity of 30 days or 90 days, respectively). If such rate is not yet published in either H.15(519) or Composite Quotations by 3:00 P.M., New York City time, on such Calculation Date, then the Commercial Paper Rate on such Commercial Paper Rate Interest Determination Date will be calculated by the Calculation Agent and shall be the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on such Commercial Paper Rate Interest Determination Date of three leading dealers of commercial paper in The City of New York selected by the Calculation Agent for commercial paper having the Index Maturity placed for a non-financial entity whose bond rating is "Aa", or the equivalent, from a nationally recognized statistical rating organization; provided, however, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Commercial Paper Rate determined as of such Commercial Paper Rate Interest Determination Date will be the Commercial Paper Rate in effect on such Commercial Paper Rate Interest Determination Date.

"Money Market Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the applicable Interest Reset Period.

Federal Funds Rate. If an Interest Rate Basis for this Note is specified on the face hereof as the Federal Funds Rate, the Federal Funds Rate shall be determined as of the applicable Interest Determination Date (a "Federal Funds Rate Interest Determination Date") as the rate on such date for United States dollar federal funds as published in H.15(519) under the heading "Federal Funds (Effective)" or, if not published by 3:00 P.M., New York City time, on the Calculation Date, the rate on such Federal Funds Rate Interest Determination Date as published in Composite Quotations under the heading "Federal Funds/Effective Rate". If such rate is not published in either H.15(519) or Composite Quotations by 3:00 P.M., New York City time, on the related Calculation Date, then the Federal Funds Rate on such Federal Funds Interest Determination Date shall be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of federal funds transactions in The City of New York selected by the Calculation Agent, prior to 9:00 A.M., New York City time, on such Federal Funds Rate Interest Determination Date; provided, however, that if the brokers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of such Federal Funds Rate Interest Determination Date will be the Federal Funds Rate in effect on such Federal Funds Rate Interest Determination Date.

LIBOR. If an Interest Rate Basis for this Note is specified on the face hereof as LIBOR, LIBOR shall be determined by the Calculation Agent as of the applicable Interest Determination Date (a "LIBOR Interest Determination Date") in accordance with the following provisions:

(i) if (a) "LIBOR Reuters" is specified on the face hereof, the arithmetic mean of the offered rates (unless the Designated LIBOR Page by its terms provides only for a single rate, in which case such single rate will be used) for deposits in the Designated LIBOR Currency having the Index Maturity, commencing on the applicable Interest Reset Date, that appear (or, if only a single rate is required as aforesaid, appears) on the Designated LIBOR Page as of 11:00 A.M., London time, on such LIBOR Interest Determination Date, or (b) "LIBOR Telerate" is specified on the face hereof, or if neither "LIBOR Reuters" nor "LIBOR Telerate" is specified on the face hereof as the method for calculating LIBOR, the rate for deposits in the Designated LIBOR Currency having the Index Maturity, commencing on such Interest Reset Date, that appears on the Designated LIBOR Page as of 11:00 A.M., London time, on such LIBOR Interest Determination Date. If fewer than two such offered rates so appear, or if no such rate so appears, as applicable, LIBOR on such LIBOR Interest Determination Date shall be determined in accordance with the provisions described in clause (ii) below.

(ii) With respect to a LIBOR Interest Determination Date on which fewer than two offered rates appear, or no rate appears, as the case may be, on the Designated LIBOR Page as specified in clause (i) above, the Calculation Agent shall request the principal London offices of each of four major reference banks in the London interbank market, as selected by the Calculation Agent, to provide the Calculation Agent with its offered quotation for deposits in the Designated LIBOR Currency for the period of the Index Maturity, commencing on the applicable Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such LIBOR Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then LIBOR on such LIBOR Interest Determination Date will be the arithmetic mean of the rates quoted at approximately

11:00 A.M., in the applicable Principal Financial Center, on such LIBOR Interest Determination Date by three major banks in such Principal Financial Center selected by the Calculation Agent for loans in the Designated LIBOR Currency to leading European banks, having the Index Maturity and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR determined as of such LIBOR Interest Determination Date shall be LIBOR in effect on such LIBOR Interest Determination Date.

"Designated LIBOR Currency" means the currency or composite currency specified on the face hereof as to which LIBOR shall be calculated or, if no such currency or composite currency is specified on the face hereof, United States dollars.

"Designated LIBOR Page" means (a) if "LIBOR Reuters" is specified on the face hereof, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency, or (b) if "LIBOR Telerate" is specified on the face hereof or neither "LIBOR Reuters" nor "LIBOR Telerate" is specified on the face hereof as the method for calculating LIBOR, the display on the Dow Jones Markets Limited (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR Currency.

Prime Rate. If an Interest Rate Basis for this Note is specified on the face hereto as the Prime Rate, the Prime Rate shall be determined as of the applicable Interest Determination Date (a "Prime Rate Interest Determination Date") as the rate on such date as such rate is published in H.15(519) under the heading "Bank Prime Loan". If such rate is not published prior to 3:00 P.M., New York City time, on the related Calculation Date, then the Prime Rate shall be the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen USPRIME1 Page (as defined below) as such bank's prime rate or base lending rate as in effect for such Prime Rate Interest Determination Date. If fewer than four such rates appear on the Reuters Screen USPRIME1 Page for such Prime Rate Interest Determination Date, the Prime Rate shall be the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on such Prime Rate Interest Determination Date by four major money center banks in The City of New York selected by the Calculation Agent. If fewer than four such quotations are so provided, the Prime Rate shall be the arithmetic mean of four prime rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on such Prime Rate Interest Determination Date as furnished in The City of New York by the major money center banks, if any, that have provided such quotations and by a reasonable number of substitute banks or trust companies to obtain four such prime rate quotations, provided such substitute banks or trust companies are organized and doing business under the laws of the United States, or any State thereof, each having total equity capital of at least U.S.\$500 million and being subject to supervision or examination by Federal or State authority, selected by the Calculation Agent to provide such rate or rates; provided, however, that if the banks or trust companies so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Prime Rate determined as of such Prime Rate Interest Determination Date will be the Prime Rate in effect on such Prime Rate Interest Determination Date.

"Reuters Screen USPRIME1 Page" means the display on the Reuter Monitor Money

Rates Service (or any successor service) on the "USPRIME1" Page (or such other page as may replace the USPRIME1 page on such service) for the purpose of displaying prime rates or base lending rates of major United States banks.

Treasury Rate. If an Interest Rate Basis for this Note is specified on the face hereof as the Treasury Rate, the Treasury Rate shall be determined as of the applicable Interest Determination Date (a "Treasury Rate Interest Determination Date") as the rate from the auction held on such Treasury Rate Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity, as such rate is published in H.15 (519) under the heading "Treasury bills-auction average (investment)" or, if not published by 3:00 P.M., New York City time, on the related Calculation Date, the auction average rate of such Treasury Bills (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as otherwise announced by the United States Department of the Treasury. In the event that the results of the Auction of Treasury Bills having the Index Maturity are not reported as provided above by 3:00 P.M., New York City time, on such Calculation Date, or if no such Auction is held, then the Treasury Rate shall be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on such Treasury Rate Interest Determination Date, of three leading primary United States government securities dealers selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity; provided, that if the dealers so selected by the Calculation Agent are not quoting as mentioned in this sentence, the Treasury Rate determined as of such Treasury Rate Interest Determination Date will be the Treasury Rate in effect on such Treasury Rate Interest Determination Date.

Notwithstanding the foregoing, the interest rate hereon shall not be greater than the Maximum Interest Rate, if any, or less than the Minimum Interest Rate, if any, in each case as specified on the face hereof. The interest rate on this Note will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

The Calculation Agent shall calculate the interest rate hereon on or before each Calculation Date. The "Calculation Date", if applicable, pertaining to any Interest Determination Date shall be the earlier of (i) the tenth calendar day after such Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day or (ii) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be. At the request of the Holder hereof, the Calculation Agent will provide to the Holder hereof the interest rate hereon then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date.

Accrued interest hereon shall be an amount calculated by multiplying the principal amount hereof by an accrued interest factor. Such accrued interest factor shall be computed by adding the interest factor calculated for each day in the applicable Interest Period. Unless otherwise specified as the Day Count Convention on the face hereof, the interest factor for each such date shall be computed by dividing the interest rate applicable to such day by 360 if the Commercial Paper Rate, the Federal Funds Rate, LIBOR or the Prime Rate is an applicable Interest Rate Basis or by the actual number of days in the year if the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. Unless otherwise specified as the Day Count Convention on the face hereof, the interest factor for this Note, if the interest rate is

calculated with reference to two or more Interest Rate Bases, shall be calculated in each period in the same manner as if only the Applicable Interest Rate Basis specified on the face hereof applied.

All percentages resulting from any calculation on this Note shall be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards, and all amounts used in or resulting from such calculation on this Note shall be rounded to the nearest cent (with one-half cent being rounded upwards).

The Company will not create, assume or incur or suffer to be created, assumed or incurred or to exist any mortgage, lien, charge, security interest or encumbrance of any kind upon, or pledge of, or subject to the prior payment of any indebtedness, any of its property or assets, whether now owned or hereafter acquired, or acquire or agree to acquire any property or assets subject to any conditional sale agreement or other title retention agreement (the foregoing mortgages, liens, charges, pledges, security interests, encumbrances and priority payments, and the rights of others under conditional sales agreements and other title retention agreements, being herein sometimes collectively called "liens"); provided, however, that the foregoing restrictions will not apply to:

- (i) liens securing taxes, assessments or governmental charges or levies or the claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like persons;
- (ii) liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance, social security and other like laws;
- (iii) purchase money mortgages or other purchase money liens or conditional sale, lease-purchase or other title retention agreements upon or in respect of property acquired or leased for use in the ordinary course of its business by the Company; or
- (iv) liens on any assets of the Company or any of its subsidiaries which may constitute "Margin Stock" (as defined in Regulation G of the Board of Governors of the Federal Reserve System); or
- (v) other mortgages or liens in respect of property owned, acquired or leased by the Company not permitted by clauses (i) through (iv), provided that the property so encumbered pursuant to this clause (v) shall not have a market value in excess of 50% of the amount by which the Company's total assets (on a consolidated basis with its subsidiaries) exceeds the encumbrances made as provided in clause (iii) above.

The Company (including its consolidated subsidiaries) will maintain a minimum tangible net worth (calculated in accordance with generally accepted accounting principles in effect on April 29, 1998) of at least \$100,000,000.

The following will be "Events of Default" with respect to the Notes:

- (i) default in the payment of any interest on its Note or in the payment of interest on or principal of any other Note issued pursuant to the Issuing and Paying Agency Agreement when due, which default continues and remains unremedied for at

least thirty calendar days; or (ii) a decree or order by a court having jurisdiction shall have been entered adjudging the Company or Potomac Electric Power Company ("PEPCO"), a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of the Company or PEPCO under the Bankruptcy Code or any other similar applicable Federal or State law, and such decree or order shall have continued undischarged and unstayed for a period of sixty days; or a decree or order of a court having jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of either the Company or PEPCO or of its property, or for the winding up or liquidation of its affairs, shall have been entered, and such decree or order shall have continued undischarged and unstayed for a period of sixty days; or

(iii) the Company or PEPCO shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under the Bankruptcy Code or any other similar applicable Federal or State law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or its property, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due; or

(iv) the Company shall fail to perform or observe any other term, covenant or agreement contained in the Note to be performed or observed by it, and any such failure shall continue and remain unremedied for at least thirty calendar days; or

(v) the Company shall default in the payment when due (subject to any applicable grace period), whether at stated maturity or otherwise, of any principal of or interest on (howsoever designated) any indebtedness for borrowed money of, or guaranteed by, the Company in the aggregate principal amount of \$1,000,000, whether such indebtedness now exists or shall hereafter be created; provided, however, that for the purposes of this subsection (v), the Company shall not be deemed in default if it shall be contesting in good faith its liability for the payment of the installment of interest or of the principal or premium in question, and shall have been advised in a written opinion by its counsel (a copy of which opinion will be provided upon request to the registered holder) that it has a meritorious defense to any claim of liability;

provided, however, that any default pursuant to clause (iv) or (v) of this paragraph may be waived prior to any declaration of acceleration with respect to such default by the written consent of the holders of at least a majority in aggregate principal amount of Notes at the time outstanding.

Modification and amendment of the Issuing and Paying Agency Agreement and the Notes may be effected by the Company and the Issuing and Paying Agent with the consent of the Holders of a majority in aggregate principal amount of the outstanding Notes affected thereby for the purpose of adding any provisions to, or changing in any manner or eliminating any provisions of, the Issuing and Paying Agency Agreement or of modifying the rights of the Holders of the Notes; provided, however, that no such modification or amendment may, without the consent of the Holder of each outstanding Note affected thereby, change the stated maturity date of the principal (or any installment of principal) of any Note, or change any interest payment date on which interest on any Note is to be paid, or reduce the principal

amount of any Note, or reduce the rate of interest on any Note or change the manner of calculation of interest thereof, or change any of the redemption or repayment provisions of any Note, or change any place of payment where the principal of, or premium, if any, or interest on, any Note is payable, or impair the right to institute suit for the enforcement of any required payment in respect of any Note on or after the stated maturity thereof, or reduce the percentage of the aggregate principal amount of the outstanding Notes, the consent of whose Holders is required for the modification and amendment of, or waiver under, the Issuing and Paying Agency Agreement or the Notes or certain defaults thereunder, or modify any of the provisions in the Issuing and Paying Agency Agreement or the Notes relating to their modification, amendment or waiver other than to increase the percentage necessary for such action or to provide that other provisions of the Issuing and Paying Agency Agreement or the Notes cannot be modified, amended or waived without the consent of the Holder of each outstanding Note affected thereby.

Modification and amendment of the Issuing and Paying Agency Agreement and the Notes may be effected by the Company and the Issuing and Paying Agent without the consent of any Holders of Notes in order to (i) evidence the succession of another corporation to the Company and the assumption by any such successor of the obligations of the Company contained in the Issuing and Paying Agency Agreement and in the Notes, as the case may be, (ii) change or eliminate any of the provisions of the Issuing and Paying Agency Agreement, provided that any such change or elimination shall become effective only when there is no outstanding Note created prior to the execution of such amendment or modification which is entitled to the benefit of such provisions, (iii) establish other forms or terms of Notes as permitted in the Issuing and Paying Agency Agreement (iv) evidence and provide for the acceptance of appointment under the Issuing and Paying Agency Agreement by a successor Issuing and Paying Agent, (v) cure any ambiguity, correct or supplement any provision in the Issuing and Paying Agency Agreement or the Notes which may be inconsistent with any other provision therein, or make any other provisions with respect to matters or questions arising therein, provided that such action shall not adversely affect the interests of the Holders of the Notes in any material respect, (vi) modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or other transfer of restricted securities generally, or (vii) modify, eliminate or add to the provisions of the Issuing and Paying Agency Agreement to such extent as shall be necessary to qualify the Issuing and Paying Agency Agreement (including any agreement supplemental thereto) under the Trust Indenture Act of 1939, as amended, or under any similar statute hereafter enacted.

The Company agrees to indemnify the Holder of any Note against any loss incurred by such Holder as a result of any judgment or order being given or made against the Company for any amount due hereunder. The foregoing indemnity constitutes a separate and independent obligation of the Company and continues in full force and effect notwithstanding any such judgment or order as aforesaid.

In case this Note shall at any time become mutilated, destroyed, lost or stolen, and such mutilated Note or evidence of the destruction, loss or theft thereof satisfactory to the Company and the Issuing and Paying Agent (together with such indemnity as may be reasonably required by the Company or the Issuing and Paying Agent) shall be delivered to the Issuing and Paying Agent, a new Note of like tenor and terms will be issued by the Company in exchange for the mutilated Note or in lieu of the Note so destroyed, lost or stolen. The Issuing and Paying Agent shall authenticate any such substituted Note and deliver the same upon the written authorization of the Company. All expenses and reasonable charges associated with the issuance, authentication and delivery of a new Note and the

procurement of an indemnity, if required, shall be borne by the Holder of the Note mutilated, destroyed, lost or stolen. In case any Note which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a Substitute Note, payor authorize the payment of the same (without surrender thereof except in the case of a mutilated Note) upon compliance by the Holder with the foregoing provisions.

Any funds held by the Issuing and Paying Agent for the payment of principal of, or premium, if any, or interest on, this Note that remain unclaimed for two years after such principal, premium or interest shall have become due and payable shall be repaid to the Company and any person claiming such funds shall look, as an unsecured general creditor, only to the Company for the payment thereof and all liability of the Issuing and Paying Agent with respect to such funds shall thereupon cease.

No provision of this Note or of the Issuing and Paying Agency Agreement shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay principal, premium, if any, and interest in respect of this Note at the times, places and rate or formula, and in the coin or currency, herein prescribed.

The Issuing and Paying Agent has been appointed registrar, transfer agent and authenticating agent for the Notes, and the Issuing and Paying Agent will maintain at its corporate trust office in the Borough of Manhattan, The City of New York, a register (the "Security Register") for the registration, exchange and transfer of Notes. Subject to the restrictions set forth on the face hereof and in the Issuing and Paying Agency Agreement, this Note may be presented for registration of transfer or exchange at the aforementioned office of the Issuing and Paying Agent by presenting and surrendering this Note for transfer or exchange, as the case may be, duly endorsed or accompanied by a written instrument of transfer in form approved by the Issuing and Paying Agent and duly executed by the Holder hereof in person or by the Holder's attorney duly authorized in writing, and thereupon the Issuing and Paying Agent shall complete, authenticate and deliver in the name of the designated transferee or transferees, or in exchange herefor, one or more new Notes having identical terms and provisions and having a like aggregate principal amount in Authorized Denominations, subject to the terms and conditions set forth herein. Except as provided above, Notes are exchangeable at the aforementioned office of the Issuing and Paying Agent for other Notes of other Authorized Denominations of equal aggregate principal amount and having identical terms and provisions. All such transfers and exchanges of Notes will be free of charge, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith (other than exchanges pursuant to the Issuing and Paying Agency Agreement not involving any transfer). The date of registration of any Notes delivered upon any exchange or transfer shall be such that no gain or loss of interest results from such exchange or transfer.

Prior to due presentment of this Note for registration of transfer, the Company and the Issuing and Paying Agent and any agent of the Company or the Issuing and Paying Agent may treat the Holder in whose name this Note is registered as the owner thereof for all purposes, whether or not this Note be overdue, and neither the Company or the Issuing and Paying Agent nor any such agent shall be affected by notice to the contrary, except as required by law.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common UNIF GIFT MIN ACT - _____ Custodian _____
TEN ENT - as tenants by the entireties (Cust) (Minor)
JT TEN - as joint tenants with right of survivorship and not as tenants in common under Uniform Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

[]
[]

(Please print or typewrite name and address including postal zip code of assignee)

this Note and all rights thereunder hereby irrevocably constituting and appointing

Attorney to transfer this Note on the books of the Issuing and Paying Agent, with full power of substitution in the premises.

Dated: _____

Notice: The signature(s) on this Assignment must correspond with the name(s) as written upon the face of this Note in every particular, without alteration or enlargement or any change whatsoever.

OPTION TO ELECT REPAYMENT

The undersigned hereby irrevocably request(s) and instruct (s) the Company to repay this Note (or portion hereof specified below) pursuant to its terms at a price equal to 100% of the principal amount to be repaid, together with unpaid interest accrued hereon to the Repayment Date, to the undersigned, at

(Please print or typewrite name and address of the undersigned)

For this Note to be repaid, the Issuing and Paying Agent must receive at its corporate trust office in the Borough of Manhattan, The City of New York, currently located at 101 Barclay Street, Floor 7E, New York, New York 10286, not more than 60 nor less than 30 calendar days prior to the Repayment Date, this Note with this "Option to Elect Repayment" form duly completed.

If less than the entire principal amount of this Note is to be repaid, specify the portion hereof (which shall be increments of U.S. \$1,000 or other Authorized Denomination specified on the face hereof (provided that any remaining principal amount shall be at least U.S.\$250,000 or the minimum Authorized Denomination) which the Holder elects to have repaid and specify the denomination or denominations (which shall be U.S.\$250,000 or the minimum Authorized Denomination) of the Notes to be issued to the Holder for the portion of this Note not being repaid (in the absence of any such specification, one such Note will be issued for the portion not being repaid).

Principal Amount to be Repaid: \$ _____

Date: _____

Notice: The signature(s) on this Option to Date: Elect Repayment must correspond with the name(s) as written upon the face of this Note in every particular, without alteration or enlargement or any change whatsoever.

CERTIFICATE OF TRANSFER

**NOT REQUIRED FOR ANY RESALE OR OTHER TRANSFER TO
THE COMPANY OR TO,
BY, THROUGH, OR IN A TRANSFER APPROVED BY, AN AGENT**

TO BE COMPLETED AND DELIVERED WITH THIS NOTE TO THE ISSUING AND PAYING AGENT IF THE UNDERSIGNED HOLDER WISHES TO SELL, ASSIGN AND TRANSFER THIS NOTE:

In connection with the resale or other transfer of this Note occurring prior to the time the legend originally set forth on the face of this Note (or one or more predecessor Notes) restricting resales and other transfers thereof has been removed in accordance with the procedures set forth in the Issuing and Paying Agency Agreement (other than a resale or other transfer made to the Company or to, by, through, or in a transaction approved by an Agent), the undersigned Holder certifies that without utilizing any general solicitation or general advertising:

[CHECK ONE]

(a) Such Note is being transferred by the undersigned Holder to a "qualified institutional buyer", as defined in Rule 144A under the Securities Act of 1933, as amended, pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

or

(b) Such Note is being transferred by the undersigned Holder to an institutional investor which is an "accredited investor", as defined in Rule 501(a) under the Securities Act of 1933, as amended, and that the undersigned Holder has been advised by the prospective transferee that such transferee will hold such Note for its own account, or as a fiduciary or agent for others (which others are also institutional accredited investors, unless such transferee is a bank acting in its fiduciary capacity), for investment purposes and not for distribution, subject to any requirement of law that the disposition of such transferee's property shall at all times be and remain within its control.

or

(c) Such Note is being transferred by the undersigned Holder to an institutional investor which is an "accredited investor", as defined in Rule 501 (a) under the Securities Act of 1933, as amended, in an "offshore transaction", as defined in Regulation S under the Securities Act of 1933, as amended, pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Regulation S thereunder.

If none of the foregoing boxes are checked, then, so long as this Note shall bear a legend on the face thereof restricting resales and other transfers thereof (except in the case of a resale or other transfer made to the Company or to, by, through, or in a transaction approved by, an Agent), the Issuing and Paying Agent shall not be obligated to register this Note in the name of any person other than the undersigned Holder and until the conditions to any such transfer of registration set forth in this Note and in the Issuing and Paying Agency Agreement shall

have been satisfied.

Dated: _____

[Type or print name of Holder]

By: _____

The signature of the Holder must correspond with the name as written upon the face of this Note in every particular, without alteration or enlargement or any change whatsoever.

**TO BE COMPLETED BY TRANSFEREE
IF (a) ABOVE IS CHECKED:**

The undersigned transferee represents and warrants that (i) it is a "qualified institutional buyer", as defined in Rule 144A under the Securities Act of 1933, as amended, (ii) this instrument has been executed on behalf of the undersigned transferee by one of its executive officers and (iii) it is aware that the Holder of this Note is relying upon the undersigned transferee's foregoing representations in order to claim the exemption from registration provided by Rule 144A. The undersigned transferee acknowledges and agrees that this Note has not been registered under the Securities Act of 1933, as amended, and may not be transferred except in accordance with the resale and other transfer restrictions set forth in the legend on the face hereof.

Dated: _____

[Type or print name of transferee]

By: _____
Executive Officer

TO BE COMPLETED BY TRANSFEREE
IF (b) ABOVE IS, CHECKED:

The undersigned transferee represents and warrants that it is an institutional investor and an "accredited investor", as defined in Rule 501(a) under the Securities Act of 1933, as amended, and that this instrument has been executed on behalf of the undersigned transferee by one of its executive officers. The undersigned transferee undertakes to hold this Note acquired from the Holder hereof for its own account, or as a fiduciary or agent for others (which others are also institutional accredited investors, unless such transferee is a bank acting in its fiduciary capacity), for investment purposes and not for distribution, subject to any requirement of law that the disposition of the undersigned transferee's property shall at all times be and remain within its control. The undersigned acknowledges and agrees that this Note has not been registered under the Securities Act of 1933, as amended, and may not be transferred except in accordance with the resale and other transfer restrictions set forth in the legend on the face hereof.

Dated: _____

[Type or print name of transferee]

By: _____
Executive Officer

TO BE COMPLETED BY TRANSFEREE
IF (c) ABOVE IS CHECKED:

The undersigned transferee represents and warrants that it is an institutional investor and an "accredited investor", as defined in Rule 501(a) under the Securities Act of 1933, as amended, and that this instrument has been executed on behalf of the undersigned transferee by one of its executive officers. In addition, the undersigned transferee represents and warrants that it is not a U.S. person (as defined in Regulation S under the Securities Act of 1933, as amended) and it is acquiring this Note from the Holder hereof in an "offshore transaction" (as defined in Regulation S) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Regulation S thereunder. The undersigned transferee acknowledges and agrees that this Note has not been registered under the Securities Act of 1933, as amended, and may not be transferred except in accordance with the resale and other transfer restrictions set forth in the legend on the face hereof.

Dated: _____

[Type or print name of transferee]

By: _____
Executive Officer

[FACE OF NOTE]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN VIOLATION OF THE SECURITIES ACT OR SUCH OTHER SECURITIES LAWS. THIS NOTE MAY BE TRANSFERRED ONLY IN PRINCIPAL AMOUNTS OF \$250,000 AND INTEGRAL MULTIPLES OF \$1,000 IN EXCESS THEREOF. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF POTOMAC CAPITAL INVESTMENT CORPORATION (THE "COMPANY") THAT THIS NOTE MAY BE RESOLD OR OTHERWISE TRANSFERRED ONLY (1) TO THE COMPANY OR MERRILL LYNCH & CO., MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, GOLDMAN, SACHS & CO. AND SALOMON BROTHERS INC (EACH, AN "AGENT", AND COLLECTIVELY, THE "AGENTS"), OR BY, THROUGH, OR IN A TRANSACTION APPROVED BY, AN AGENT, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A (A "QIB"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST ALSO BE QIBS) AND TO WHOM NOTICE IS GIVEN THAT THE RESALE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (4) TO AN INSTITUTIONAL INVESTOR THAT QUALIFIES AS AN ACCREDITED INVESTOR, AS DEFINED IN RULE 501 (a) UNDER THE SECURITIES ACT (AN "INSTITUTIONAL ACCREDITED INVESTOR"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST ALSO BE INSTITUTIONAL ACCREDITED INVESTORS UNLESS SUCH TRANSFEREE IS A BANK ACTING IN ITS FIDUCIARY CAPACITY) FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, (5) TO AN INSTITUTIONAL ACCREDITED INVESTOR ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY REGULATION S UNDER THE SECURITIES ACT OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION; PROVIDED THAT THE AGREEMENT OF THE HOLDER HEREOF IS SUBJECT TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF THE HOLDER'S PROPERTY SHALL AT ALL TIMES BE AND REMAIN WITHIN ITS CONTROL. WITH RESPECT TO ANY RESALE OR OTHER TRANSFER OF THIS NOTE (IF IN CERTIFICATED FORM) DESCRIBED IN CLAUSE (2), (4) OR (5) ABOVE, THE BANK OF NEW YORK, AS THE ISSUING AND PAYING AGENT FOR THE NOTES (THE "ISSUING AND PAYING AGENT"), WILL REQUIRE THE SUBMISSION TO IT OF THIS NOTE DULY COMPLETED OR A DULY COMPLETED BOND POWER IN THE FORM ATTACHED TO THE PRIVATE PLACEMENT MEMORANDUM RELATING TO THIS NOTE AS EXHIBIT A; PROVIDED THAT THE FOREGOING SUBMISSION SHALL NOT BE REQUIRED IF THIS LEGEND HAS BEEN REMOVED IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE ISSUING AND PAYING AGENCY AGREEMENT BETWEEN THE COMPANY AND THE ISSUING AND PAYING AGENT, AS AMENDED OR

MODIFIED (THE "ISSUING AND PAYING AGENCY AGREEMENT").

BY PURCHASING OR ACCEPTING THIS NOTE, THE HOLDER HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT (1) IT IS (A) A QIB ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST ALSO BE QIBS) AND IT IS AWARE THAT THE RESALE OR OTHER TRANSFER TO IT IS BEING MADE IN RELIANCE ON RULE 144A OR (B) AN INSTITUTIONAL ACCREDITED INVESTOR ACQUIRING THIS NOTE (Y) FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST ALSO BE INSTITUTIONAL ACCREDITED INVESTORS UNLESS SUCH HOLDER IS A BANK ACTING IN ITS FIDUCIARY CAPACITY) FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT OR (Z) IN AN OFFSHORE TRANSACTION PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY REGULATION S UNDER THE SECURITIES ACT AND, IN EACH CASE, THAT IT IS ABLE TO BEAR THE ECONOMIC RISK OF AN INVESTMENT IN THIS NOTE AND HAS SUCH KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS AS TO BE CAPABLE OF EVALUATING THE MERITS AND RISKS OF ACQUIRING THIS NOTE AND (2) IT WILL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE AND OTHER TRANSFER RESTRICTIONS REFERRED TO ABOVE AND THAT THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT, THAT SUCH PURCHASER SHALL BE DEEMED TO HAVE REPRESENTED AS TO THE MATTERS IN CLAUSE (1) OF THIS SENTENCE AND THAT SUCH PURCHASER SHALL BE DEEMED TO HAVE AGREED TO NOTIFY ITS SUBSEQUENT TRANSFEREES AS TO THE FOREGOING.

THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME BY THE COMPANY, WITHOUT THE CONSENT OF BUT UPON NOTICE TO THE AGENTS AND TO THE HOLDERS OF NOTES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF NOTES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (THE "DEPOSITARY") (55 WATER STREET, NEW YORK, NEW YORK) TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.¹

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN CERTIFICATED FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY.²

¹This paragraph applies to Global Notes only.

²This paragraph applies to Global Notes only.

REGISTERED
No. FXR- _____

CUSIP No.:

PRINCIPAL AMOUNT:

POTOMAC CAPITAL INVESTMENT CORPORATION
MEDIUM-TERM NOTE, SERIES D
(Fixed Rate)

ORIGINAL ISSUE DATE:

ORIGINAL ISSUE DATE:

STATED MATURITY DATE:

INTEREST PAYMENT DATE(S)

January 15 and July 15

Other:

INITIAL REDEMPTION DATE:

INTEREST RATE: %

ANNUAL REDEMPTION
PERCENTAGE
REDUCTION: %

OPTIONAL REPAYMENT
DATE(S):

AUTHORIZED
DENOMINATION:

\$250,000 and integral
multiples of \$1,000 in excess
there

Other

EXCHANGE RATE AGENT:

ADDENDUM ATTACHED

Yes

No

OTHER/ADDITIONAL
PROVISIONS:

POTOMAC CAPITAL INVESTMENT CORPORATION, a Delaware corporation (the "Company"), for value received, hereby promises to pay to _____, or registered assigns, the Principal Amount of _____, on the Stated Maturity Date specified above (or any Redemption Date or Repayment Date, each as defined on the reverse hereof, or any earlier date of acceleration of maturity) (each such date being hereinafter referred to as the "Maturity Date" with respect to the principal repayable on such date) and to pay interest thereon (and on any overdue principal, premium and/or interest to the extent legally enforceable), at the Interest Rate per annum is paid or duly made available for payment. The Company will pay interest in arrears on each Interest Payment Date, if any, specified above (each, an "Interest Payment Date"), commencing with the first Interest Payment Date next succeeding the Original Issue Date specified above, and on the Maturity Date; provided, however, that if the Original Issue Date occurs between a Record Date (as defined below) and the next succeeding Interest Payment Date, interest payments will commence on the second Interest Payment Date next succeeding the Original Issue Date to the registered holder (the "Holder") of this Note on the Record Date with respect to such second Interest Payment Date. Interest on this Note will be computed on the basis of a 360-day year of twelve 30-day months.

Interest on this Note will accrue from, and including, the immediately preceding Interest Payment Date to which interest has been paid or duly provided for (or from, and including, the Original Issue Date if no interest has been paid or duly provided for) to, but excluding, the applicable Interest Payment Date or the Maturity Date, as the case may be (each, an "Interest Period"). The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, subject to certain exceptions described herein, be paid to the person in whose name this Note (or one or more predecessor Notes, as defined on the reverse hereof) is registered at the close of business on the fifteenth calendar day (whether or not a Business Day, as defined below) immediately preceding such Interest Payment Date (the "Record Date"); provided, however, that interest payable on the Maturity Date will be payable to the person to whom the principal hereof and premium, if any, hereon shall be payable. Any such interest not so punctually paid or duly provided for ("Defaulted Interest") on any Interest Payment Date other than the Maturity Date shall forthwith cease to be payable to the Holder on any Record Date and shall be paid to the person in whose name this Note is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest to be fixed by the Company, written notice whereof shall be given to the Holder of this Note by the Company not less than 30 calendar days prior to such Special Record Date or may be paid at any time in any other lawful manner.

Payment of principal, premium, if any, and interest in respect of this Note due on the Maturity Date will be made in immediately available funds upon presentation and surrender of this Note (and, with respect to any applicable repayment of this Note, upon delivery of a duly completed election form as contemplated on the reverse hereof) at the corporate trust office of the Issuing and Paying Agent maintained for that purpose in the Borough of Manhattan, The City of New York, currently located at 101 Barclay Street, Floor 7E, New York, New York 10286, or at such other paying agency in the Borough of Manhattan, The City of New York, as the Company may determine. Payment of interest due on any Interest Payment Date other than the Maturity Date will be made by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register maintained at the aforementioned office of the Issuing and Paying Agent; provided, however, that a Holder of U.S.\$10,000,000 or more in aggregate principal amount of Notes (whether having identical or different terms and provisions) will be entitled to receive interest payments on such Interest Payment Date by wire transfer of immediately available funds if appropriate wire

transfer instructions have been received in writing by the Issuing and Paying Agent not less than 15 calendar days prior to such Interest Payment Date. Any such wire transfer instructions received by the Issuing and Paying Agent shall remain in effect until revoked by such Holder.

If any Interest Payment Date other than the Maturity Date falls on a day that is not a Business Day, the required payment of principal, premium, if any, and/or interest shall be made on the next succeeding Business Day with the same force and effect as if made on the date such payment was due, and no interest shall accrue with respect to such payment for the period from and after such Interest Payment Date, as the case may be, to the date of such payment on the next succeeding Business Day.

As used herein, "Business Day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law, regulation or executive order to close in The City of New York.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof and, if so specified on the face hereof, in an Addendum hereto, which further provisions shall have the same force and effect as if set forth on the face hereof.

Notwithstanding the foregoing, if an Addendum is attached hereto or "Other/Additional Provisions" apply to this Note as specified above, this Note shall be subject to the terms set forth in such Addendum or such "Other/Additional Provisions".

Unless the Certificate of Authentication hereon has been executed by the Issuing and Paying Agent by manual signature, this Note shall not be entitled to any benefit under the Issuing and Paying Agency Agreement (as defined on the reverse hereof) or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, Potomac Capital Investment Corporation has caused this Note to be duly executed and delivered by one of its duly authorized officers.

POTOMAC CAPITAL INVESTMENT CORPORATION

By: _____
Title:

Dated:

ISSUING AND PAYING AGENT'S
CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the Company referred to in the within-mentioned Issuing and Paying Agency Agreement.

THE BANK OF NEW YORK,
as Issuing and Paying Agent

By _____
Authorized Signatory

[REVERSE OF NOTE]

POTOMAC CAPITAL INVESTMENT CORPORATION
MEDIUM-TERM NOTE, SERIES D
(Fixed Rate)

This Note is one of a duly authorized series of debt securities of the Company designated as "Medium-Term Notes, Series D, With Maturities from 9 Months and 1 Day from Date of Issue Through November 30, 2008" (the "Notes") issued and to be issued under an Issuing and Paying Agency Agreement, dated as of April 29, 1998, as amended or modified from time to time (the "Issuing and Paying Agency Agreement"), between the Company and The Bank of New York, as Issuing and Paying Agent (the "Issuing and Paying Agent", which term includes any successor Issuing and Paying Agent under the Issuing and Paying Agency Agreement). Reference is hereby made to the Issuing and Paying Agency Agreement for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Issuing and Paying Agent and the Holders of the Notes. In acting under the Issuing and Paying Agency Agreement, the Issuing and Paying Agent is acting solely as an agent of the Company and does not assume any obligation or relationship of agency or trust for any of the owners or Holders of Notes, except with respect to any funds held by the Issuing and Paying Agent for any payment in respect of this Note as provided below.

Subject to the restrictions set forth on the face hereof and L in the Issuing and Paying Agency Agreement, this Note is issuable only in registered form without coupons in minimum denominations of U.S.\$250,000 and integral multiples of U.S. \$1,000 in excess thereof or other Authorized Denomination specified on the face hereof.

This Note will not be subject to any sinking fund and, unless otherwise specified on the face hereof in accordance with the provisions of the following two paragraphs, will not be redeemable or repayable prior to the Stated Maturity Date.

This Note will be subject to redemption at the option of the Company on any date on or after the Initial Redemption Date, if any, specified on the face hereof, in whole or from time to time in part in increments of U.S. \$1,000 or other Authorized Denomination (provided that any remaining principal amount hereof shall be at least U.S.\$250,000 or the minimum Authorized Denomination) at the Redemption Price (as defined below), together with unpaid interest accrued thereon to the date fixed for redemption (the "Redemption Date"), on written notice given to the Holders of Notes (in accordance with the provisions of the Issuing and Paying Agency Agreement) not more than 60 nor less than 30 calendar days prior to the Redemption Date. The "Redemption Price" shall be the Initial Redemption Percentage specified on the face hereof (as adjusted by the Annual Redemption Percentage Reduction, if any, specified on the face hereof as set forth below) multiplied by the unpaid principal amount of this Note to be redeemed. The Initial Redemption Percentage shall decline at each anniversary of the Initial Redemption Date by the Annual Redemption Percentage Reduction, if any, until the Redemption Price is 100% of unpaid principal amount to be redeemed. Whenever less than all of the Notes of like tenor and terms are to be redeemed, the Notes to be redeemed and the Holders thereof shall be selected by the Issuing and Paying Agent by such method as the Issuing and Paying Agent shall deem fair and reasonable. In the event of redemption of this Note in part only, a new Note of like tenor for the unredeemed portion hereof and otherwise having the same terms as this Note shall be issued by the Company in the name of the Holder hereof upon the presentation and surrender hereof.

This Note will be subject to repayment by the Company at the option of the Holder hereof on the Optional Repayment Date(s), if any, specified on the face hereof, in whole or in part in increments of U.S. \$1,000 or other Authorized Denomination (provided that any remaining principal amount hereof shall be at least U.S.\$250,000 or the minimum Authorized Denomination) at a repayment price equal to 100% of the unpaid principal amount to be repaid, together with unpaid interest accrued thereon to the date fixed for repayment (the "Repayment Date"). For this Note to be repaid, this Note must be received, together with the form hereon entitled "Option to Elect Repayment" duly completed, by the Issuing and Paying Agent at its corporate trust office. Currently the Corporate Trust office of the Trustee is located at 101 Barclay Street, Floor 7E, New York, New York 10286. not more than 30 nor less than 10 calendar days prior to the Repayment Date. Exercise of such repayment option by the Holder hereof will be irrevocable. In the event of repayment of this Note in part only, a new Note of like tenor for the unrepaid portion hereof and otherwise having the same terms as this Note shall be issued by the Company in the name of the Holder hereof upon the presentation and surrender hereof.

- (i) liens securing taxes, assessments or governmental charges or levies or the claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like persons;
- (ii) liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance, social security and other like laws;
- (iii) purchase money mortgages or other purchase money liens or conditional sale, lease-purchase or other title retention agreements upon or in respect of property acquired or leased for use in the ordinary course of its business by the Company; or
- (iv) liens on any assets of the Company or any of its subsidiaries which may constitute "Margin Stock" (as defined in Regulation G of the Board of Governors of the Federal Reserve System); or
- (v) other mortgages or liens in respect of property owned, acquired or leased by the Company not permitted by clauses (i) through (iv), provided that the property so encumbered pursuant to this clause (v) shall not have a market value in excess of 50% of the amount by which the Company's total assets (on a consolidated basis with its subsidiaries) exceeds the encumbrances made as provided in clause (iii) above.

The Company (including its consolidated subsidiaries) will maintain a minimum tangible net worth (calculated in accordance with generally accepted accounting principles in effect on April 29, 1998) of at least \$100,000,000.

The following will be "Events of Default" with respect to the Notes:

- (i) default in the payment of any interest on its Note or in the payment of interest on or principal of any other Note issued pursuant to the Issuing and Paying Agency Agreement when due, which default continues and remains unremedied for at least thirty calendar days; or

(ii) a decree or order by a court having jurisdiction shall have been entered adjudging the Company or Potomac Electric Power Company ("PEPCO"), a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of the Company or PEPCO under the Bankruptcy Code or any other similar applicable Federal or State law, and such decree or order shall have continued undischarged and unstayed for a period of sixty days; or a decree or order of a court having jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of either the Company or PEPCO or of its property, or for the winding up or liquidation of its affairs, shall have been entered, and such decree or order shall have continued undischarged and unstayed for a period of sixty days; or

(iii) the Company or PEPCO shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under the Bankruptcy Code or any other similar applicable Federal or State law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or its property, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due; or

(iv) the Company shall fail to perform or observe any other term, covenant or agreement contained in the Note to be performed or observed by it, and any such failure shall continue and remain unremedied for at least thirty calendar days; or

(v) the Company shall default in the payment when due (subject to any applicable grace period), whether at stated maturity or otherwise, of any principal or interest on (howsoever designated) any indebtedness for borrowed money of, or guaranteed by, the Company in the aggregate principal amount of \$1,000,000, whether such indebtedness now exists or shall hereafter be created; provided, however, that for the purposes of this subsection (v), the Company shall not be deemed in default if it shall be contesting in good faith its liability for the payment of the installment of interest or of the principal or premium in question, and shall have been advised in a written opinion by its counsel (a copy of which opinion will be provided upon request to the registered holder) that it has a meritorious defense to any claim of liability;

provided, however, that any default pursuant to clause (iv) or (v) of this paragraph may be waived prior to any declaration of acceleration with respect to such default by the written consent of the holders of at least a majority in aggregate principal amount of Notes at the time outstanding.

Modification and amendment of the Issuing and Paying Agency Agreement and the Notes may be effected by the Company and the Issuing and Paying Agent with the consent of the Holders of a majority in aggregate principal amount of the outstanding Notes affected thereby for the purpose of adding any provisions to, or changing in any manner or eliminating any provisions of, the Issuing and Paying Agency Agreement or of modifying the rights of the Holders of the Notes; provided, however, that no such modification or amendment may, without the consent of the Holder of each outstanding Note affected thereby, change the stated maturity date of the principal (or any installment of principal) of any Note, or change any interest payment date on which interest on any Note is to be paid, or reduce the principal

amount of any Note, or reduce the rate of interest on any Note or change the manner of calculation of interest thereof, or change any of the redemption or repayment provisions of any Note, or change any place of payment where the principal of, or premium, if any, or interest on, any Note is payable, or impair the right to institute suit for the enforcement of any required payment in respect of any Note on or after the stated maturity thereof, or reduce the percentage of the aggregate principal amount of the outstanding Notes, the consent of whose Holders is required for the modification and amendment of, or waiver under, the Issuing and Paying Agency Agreement or the Notes or certain defaults thereunder, or modify any of the provisions in the Issuing and Paying Agency Agreement or the Notes relating to their modification, amendment or waiver other than to increase the percentage necessary for such action or to provide that other provisions of the Issuing and Paying Agency Agreement or the Notes cannot be modified, amended or waived without the consent of the Holder of each outstanding Note affected thereby.

Modification and amendment of the Issuing and Paying Agency Agreement and the Notes may be effected by the Company and the Issuing and Paying Agent without the consent of any Holders of Notes in order to (i) evidence the succession of another corporation to the Company and the assumption by any such successor of the obligations of the Company contained in the Issuing and Paying Agency Agreement and in the Notes, as the case may be, (ii) change or eliminate any of the provisions of the Issuing and Paying Agency Agreement, provided that any such change or elimination shall become effective only when there is no outstanding Note created prior to the execution of such amendment or modification which is entitled to the benefit of such provisions, (iii) establish other forms or terms of Notes as permitted in the Issuing and Paying Agency Agreement (iv) evidence and provide for the acceptance of appointment under the Issuing and Paying Agency Agreement by a successor Issuing and Paying Agent, (v) cure any ambiguity, correct or supplement any provision in the Issuing and Paying Agency Agreement or the Notes which may be inconsistent with any other provision therein, or make any other provisions with respect to matters or questions arising therein, provided that such action shall not adversely affect the interests of the Holders of the Notes in any material respect, (vi) modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or other transfer of restricted securities generally, or (vii) modify, eliminate or add to the provisions of the Issuing and Paying Agency Agreement to such extent as shall be necessary to qualify the Issuing and Paying Agency Agreement (including any agreement supplemental thereto) under the Trust Indenture Act of 1939, as amended, or under any similar statute hereafter enacted.

The Company agrees to indemnify the Holder of any Note against any loss incurred by such Holder as a result of any judgment or order being given or made against the Company for any amount due hereunder. The foregoing indemnity constitutes a separate and independent obligation of the Company and continues in full force and effect notwithstanding any such judgment or order as aforesaid.

In case this Note shall at any time become mutilated, destroyed, lost or stolen, and such mutilated Note or evidence of the destruction, loss or theft thereof satisfactory to the Company and the Issuing and Paying Agent (together with such indemnity as may be reasonably required by the Company or the Issuing and Paying Agent) shall be delivered to the Issuing and Paying Agent, a new Note of like tenor and terms will be issued by the Company in exchange for the mutilated Note or in lieu of the Note so destroyed, lost or stolen. The Issuing and Paying Agent shall authenticate any such substituted Note and deliver the same upon the written authorization of the Company. All expenses and reasonable charges associated with the issuance, authentication and delivery of a new Note and the

procurement of an indemnity, if required, shall be borne by the Holder of the Note mutilated, destroyed, lost or stolen. In case any Note which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a Substitute Note, payor authorize the payment of the same (without surrender thereof except in the case of a mutilated Note) upon compliance by the Holder with the foregoing provisions.

Any funds held by the Issuing and Paying Agent for the payment of principal of, or premium, if any, or interest on, this Note that remain unclaimed for two years after such principal, premium or interest shall have become due and payable shall be repaid to the Company and any person claiming such funds shall look, as an unsecured general creditor, only to the Company for the payment thereof and all liability of the Issuing and Paying Agent with respect to such funds shall thereupon cease.

No provision of this Note or of the Issuing and Paying Agency Agreement shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay principal, premium, if any, and interest in respect of this Note at the times, places and rate or formula, and in the coin or currency, herein prescribed.

The Issuing and Paying Agent has been appointed registrar, transfer agent and authenticating agent for the Notes, and the Issuing and Paying Agent will maintain at its corporate trust office in the Borough of Manhattan, The City of New York, a register (the "Security Register") for the registration, exchange and transfer of Notes. Subject to the restrictions set forth on the face hereof and in the Issuing and Paying Agency Agreement, this Note may be presented for registration of transfer or exchange at the aforementioned office of the Issuing and Paying Agent by presenting and surrendering this Note for transfer or exchange, as the case may be, duly endorsed or accompanied by a written instrument of transfer in form approved by the Issuing and Paying Agent and duly executed by the Holder hereof in person or by the Holder's attorney duly authorized in writing, and thereupon the Issuing and Paying Agent shall complete, authenticate and deliver in the name of the designated transferee or transferees, or in exchange herefor, one or more new Notes having identical terms and provisions and having a like aggregate principal amount in Authorized Denominations, subject to the terms and conditions set forth herein. Except as provided above, Notes are exchangeable at the aforementioned office of the Issuing and Paying Agent for other Notes of other Authorized Denominations of equal aggregate principal amount and having identical terms and provisions. All such transfers and exchanges of Notes will be free of charge, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith (other than exchanges pursuant to the Issuing and Paying Agency Agreement not involving any transfer). The date of registration of any Notes delivered upon any exchange or transfer shall be such that no gain or loss of interest results from such exchange or transfer.

Prior to due presentment of this Note for registration of transfer, the Company and the Issuing and Paying Agent and any agent of the Company or the Issuing and Paying Agent may treat the Holder in whose name this Note is registered as the owner thereof for all purposes, whether or not this Note be overdue, and neither the Company or the Issuing and Paying Agent nor any such agent shall be affected by notice to the contrary, except as required by law.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common UNIF GIFT MIN ACT - _____ Custodian _____
TEN ENT - as tenants by the entireties (Cust) (Minor)
JT TEN - as joint tenants with right of survivorship and not as tenants in common under Uniform Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

[_____]
[_____]

(Please print or typewrite name and address including postal zip code of assignee)

_____ this Note and all rights thereunder hereby irrevocably constituting and appointing

_____ Attorney to transfer this Note on the books of the Issuing and Paying Agent, with full power of substitution in the premises.

Dated: _____

Notice: The signature(s) on this Assignment must correspond with the name(s) as written upon the face of this Note in every particular, without alteration or enlargement or any change whatsoever.

OPTION TO ELECT REPAYMENT

The undersigned hereby irrevocably request(s) and instruct (s) the Company to repay this Note (or portion hereof specified below) pursuant to its terms at a price equal to 100% of the principal amount to be repaid, together with unpaid interest accrued hereon to the Repayment Date, to the undersigned, at

(Please print or typewrite name and address of the undersigned)

For this Note to be repaid, the Issuing and Paying Agent must receive at its corporate trust office in the Borough of Manhattan, The City of New York, currently located at 101 Barclay Street, Floor 7E, New York, New York 10286, not more than 60 nor less than 30 calendar days prior to the Repayment Date, this Note with this "Option to Elect Repayment" form duly completed.

If less than the entire principal amount of this Note is to be repaid, specify the portion hereof (which shall be increments of U.S. \$1,000 or other Authorized Denomination specified on the face hereof (provided that any remaining principal amount shall be at least U.S.\$250,000 or the minimum Authorized Denomination) which the Holder elects to have repaid and specify the denomination or denominations (which shall be U.S.\$250,000 or the minimum Authorized Denomination) of the Notes to be issued to the Holder for the portion of this Note not being repaid (in the absence of any such specification, one such Note will be issued for the portion not being repaid).

Principal Amount to be
Repaid: \$ _____

Date: _____

Notice: The signature(s) on this Option to
Date: Elect Repayment must correspond with
the name(s) as written upon the face of this
Note in every particular, without alteration or
enlargement or any change whatsoever.

CERTIFICATE OF TRANSFER

**NOT REQUIRED FOR ANY RESALE OR OTHER TRANSFER TO
THE COMPANY OR TO,
BY, THROUGH, OR IN A TRANSFER APPROVED BY, AN AGENT**

TO BE COMPLETED AND DELIVERED WITH THIS NOTE TO THE ISSUING AND PAYING AGENT IF THE UNDERSIGNED HOLDER WISHES TO SELL, ASSIGN AND TRANSFER THIS NOTE:

In connection with the resale or other transfer of this Note occurring prior to the time the legend originally set forth on the face of this Note (or one or more predecessor Notes) restricting resales and other transfers thereof has been removed in accordance with the procedures set forth in the Issuing and Paying Agency Agreement (other than a resale or other transfer made to the Company or to, by, through, or in a transaction approved by an Agent), the undersigned Holder certifies that without utilizing any general solicitation or general advertising:

[CHECK ONE]

(a) Such Note is being transferred by the undersigned Holder to a "qualified institutional buyer", as defined in Rule 144A under the Securities Act of 1933, as amended, pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

or

(b) Such Note is being transferred by the undersigned Holder to an institutional investor which is an "accredited investor", as defined in Rule 501(a) under the Securities Act of 1933, as amended, and that the undersigned Holder has been advised by the prospective transferee that such transferee will hold such Note for its own account, or as a fiduciary or agent for others (which others are also institutional accredited investors, unless such transferee is a bank acting in its fiduciary capacity), for investment purposes and not for distribution, subject to any requirement of law that the disposition of such transferee's property shall at all times be and remain within its control.

or

(c) Such Note is being transferred by the undersigned Holder to an institutional investor which is an "accredited investor", as defined in Rule 501 (a) under the Securities Act of 1933, as amended, in an "offshore transaction", as defined in Regulation S under the Securities Act of 1933, as amended, pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Regulation S thereunder.

If none of the foregoing boxes are checked, then, so long as this Note shall bear a legend on the face thereof restricting resales and other transfers thereof (except in the case of a resale or other transfer made to the Company or to, by, through, or in a transaction approved by, an Agent), the Issuing and Paying Agent shall not be obligated to register this Note in the name of any person other than the undersigned Holder and until the conditions to any such transfer of registration set forth in this Note and in the Issuing and Paying Agency Agreement shall

have been satisfied.

Dated: _____

[Type or print name of Holder]

By: _____

The signature of the Holder must correspond with the name as written upon the face of this Note in every particular, without alteration or enlargement or any change whatsoever.

**TO BE COMPLETED BY TRANSFEREE
IF (a) ABOVE IS CHECKED:**

The undersigned transferee represents and warrants that (i) it is a "qualified institutional buyer", as defined in Rule 144A under the Securities Act of 1933, as amended, (ii) this instrument has been executed on behalf of the undersigned transferee by one of its executive officers and (iii) it is aware that the Holder of this Note is relying upon the undersigned transferee's foregoing representations in order to claim the exemption from registration provided by Rule 144A. The undersigned transferee acknowledges and agrees that this Note has not been registered under the Securities Act of 1933, as amended, and may not be transferred except in accordance with the resale and other transfer restrictions set forth in the legend on the face hereof.

Dated: _____

[Type or print name of transferee]

By: _____
Executive Officer

TO BE COMPLETED BY TRANSFEREE
IF (b) ABOVE IS, CHECKED:

The undersigned transferee represents and warrants that it is an institutional investor and an "accredited investor", as defined in Rule 501(a) under the Securities Act of 1933, as amended, and that this instrument has been executed on behalf of the undersigned transferee by one of its executive officers. The undersigned transferee undertakes to hold this Note acquired from the Holder hereof for its own account, or as a fiduciary or agent for others (which others are also institutional accredited investors, unless such transferee is a bank acting in its fiduciary capacity), for investment purposes and not for distribution, subject to any requirement of law that the disposition of the undersigned transferee's property shall at all times be and remain within its control. The undersigned acknowledges and agrees that this Note has not been registered under the Securities Act of 1933, as amended, and may not be transferred except in accordance with the resale and other transfer restrictions set forth in the legend on the face hereof.

Dated: _____

[Type or print name of transferee]

By: _____
Executive Officer

TO BE COMPLETED BY TRANSFEREE
IF (c) ABOVE IS CHECKED:

The undersigned transferee represents and warrants that it is an institutional investor and an "accredited investor", as defined in Rule 501(a) under the Securities Act of 1933, as amended, and that this instrument has been executed on behalf of the undersigned transferee by one of its executive officers. In addition, the undersigned transferee represents and warrants that it is not a U.S. person (as defined in Regulation S under the Securities Act of 1933, as amended) and it is acquiring this Note from the Holder hereof in an "offshore transaction" (as defined in Regulation S) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Regulation S thereunder. The undersigned transferee acknowledges and agrees that this Note has not been registered under the Securities Act of 1933, as amended, and may not be transferred except in accordance with the resale and other transfer restrictions set forth in the legend on the face hereof.

Dated: _____

[Type or print name of transferee]

By: _____
Executive Officer