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FORM 10-Q
AMENDMENT NO. 2
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(MARK ONE)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1997
OR

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

FOR THE TRANSITION PERIOD FROM ________________________ TO ________________________

COMMISSION FILE NO. 1-6639

MAGELLAN HEALTH SERVICES, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	58-1076937
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3414 PEACHTREE ROAD, NE, SUITE 1400
ATLANTA, GEORGIA 30326
(Address of principal executive offices)
(Zip Code)

(404) 841-9200
(Registrant's telephone number, including area code)

SEE TABLE OF ADDITIONAL REGISTRANTS BELOW.

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ___No ___

The number of shares of the Registrant's Common Stock outstanding as of January 31, 1998, was 30,543,065.

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ADDITIONAL REGISTRANTS(1)

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	I.R.S. EMPLOYER IDENTIFICATION NUMBER	ADDRESS INCLUDING ZIP CODE, AND TELEPHONE NUMBER INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES
Allied Specialty Care Services, Inc.	Florida	58-1761155	3106 Commerce Pkwy. Miramar, FL 33025 (800) 789-4618
Behavioral Health Systems of Indiana, Inc.	Indiana	35-1990127	3414 Peachtree Suite 1400 Atlanta, GA 30326 (404) 841-9200
Behavioral Healthcare Solutions, Inc.	Delaware	87-0552566	10150 S. Centennial Pkwy. Sandy. UT 84070 (801) 256-7300
Beltway Community Hospital, Inc.	Texas	58-1324281	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Blue Grass Physician Management Group, Inc.	Kentucky	66-1294402	3414 Peachtree Rd. N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
C.A.C.O. Services, Inc.	Ohio	58-1751511	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
CCM, Inc.	Nevada	58-1662418	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
CMCI, Inc.	Nevada	88-0224620	1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
CMFC, Inc.	Nevada	88-0215629	1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
CPS Associates, Inc.	Virginia	58-1761039	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Advantage, LLC	Delaware	58-2292977	3414 Peachtree Rd. N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Alvarado Behavioral Health System, Inc.	California	58-1394959	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Asheville Behavioral Health System, Inc.	North Carolina	58-2097827	3414 Peachtree Rd. N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Arbor Indy Behavioral Health System, LLC	Delaware	58-2265776	3414 Peachtree Rd. N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Augusta Behavioral Health System, Inc.	Georgia	58-1615676	3414 Peachtree Rd. N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Bay Harbor Behavioral Health System, Inc.	Florida	58-1640244	3414 Peachtree Rd. N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
The Charter Beacon Behavioral Health System, LLC	Delaware	35-1994155	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Behavioral Corporation	Delaware	91-1819015	1061 E. Flamingo Rd. Suite One Las Vegas, NV 89119 (702) 737-0282
Charter Behavioral Health System at Fair Oaks, Inc.	New Jersey	58-2097832	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Behavioral Health System at Hidden Brook, Inc.	Maryland	52-1866212	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Los Altos, Inc.	California	33-0606642	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Manatee Adolescent Treatment Services, Inc.	Florida	65-0519663	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Potomac Ridge, Inc.	Maryland	52-1866221	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 33026 (404) 841-9200
Charter Behavioral Health Systems, Inc.	Delaware	58-2213642	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Athens, Inc.	Georgia	58-1513304	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Austin, Inc.	Texas	58-1440665	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Baywood, Inc.	Texas	76-0430571	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Bradenton, Inc.	Florida	58-1527678	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Behavioral Health System of Central Georgia, Inc.	Georgia	58-1408670	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavorial Health System of Central Virginia, Inc.	Virginia	54-1765921	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Charleston, Inc.	South Carolina	58-1761157	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Charlottesville, Inc.	Virginia	58-1616917	3414 Peachtree N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Chicago, Inc.	Illinois	58-1315760	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Chula Vista, Inc.	California	58-1473063	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Columbia, Inc.	Missouri	61-1009977	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Corpus Christi, Inc.	Texas	58-1513305	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Dallas, Inc.	Texas	58-1513306	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Delmarva, Inc.	Maryland	52-1866214	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Behavioral Health System of Evansville, LLC	Delaware	35-1994080	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Fort Worth, Inc.	Texas	58-1643151	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Jackson, Inc.	Mississippi	58-1616919	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Jacksonville, Inc.	Florida	58-1483015	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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The Charter Behavioral Health System of Jefferson, LLC	Delaware	35-1994087	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Kansas City, Inc.	Kansas	58-1603154	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Lafayette, Inc.	Louisiana	72-0686492	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Lake Charles, Inc.	Louisiana	62-1152811	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Maryland, Inc.	Maryland	52-2026699	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Behavioral Health System of Michigan City, LLC	Delaware	35-1994736	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Mississippi, Inc.	Mississippi	58-2138622	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Mobile, Inc.	Alabama	58-1569921	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Nashua, Inc.	New Hampshire	02-0470752	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Nevada, Inc.	Nevada	58-1321317	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of New Mexico, Inc.	New Mexico	58-1479480	5901 Zuni Road, SE Albuquerque, NM 87108 (505) 265-8800
Charter Behavioral Health System of Northern California, Inc.	California	58-1857277	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Northwest Arkansas, Inc.	Arkansas	58-1449455	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Behavioral Health System of Northwest Indiana, LLC	Delaware	35-1994154	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Behavioral Health System of Paducah, Inc.	Kentucky	61-1006115	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health of Puerto Rico, Inc.	Georgia	66-0523678	Caso Bldg., Suite 1504 1225 Ponce de Leon Avenue Santurce, PR 00907
Charter Behavioral Health System of San Jose, Inc.	California	58-1747020	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Savannah, Inc.	Georgia	58-1750583	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Texarkana, Inc.	Arkansas	71-0752815	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of the Inland Empire, Inc.	California	95-2685883	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Toledo, Inc.	Ohio	58-1731068	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Tucson, Inc.	Arizona	86-0757462	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Visalia, Inc.	California	33-0606644	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Waverly, Inc.	Minnesota	41-1775626	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Winston-Salem, Inc.	North Carolina	56-1050502	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Yorba Linda, Inc.	California	33-0606646	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health Systems of Atlanta, Inc.	Georgia	58-1900736	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Talbott Behavioral Health System, Inc.	Georgia	58-0979827	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter By-The-Sea Behavioral Health System, Inc.	Georgia	58-1351301	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Call Center, Inc.	Georgia	58-2318455	2151 Peachford Rd. Atlanta, GA 30338 (888) 222-4302
Charter Call Center of Texas, Inc.	Texas	75-2709908	920 South Main St. Suite 250 Grapevine, TX 76051 (817) 481-9998
Charter Canyon Behavioral Health System, Inc.	Utah	58-1557925	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Canyon Springs Behavioral Health System, Inc.	California	33-0606640	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Centennial Peaks Behavioral Health System, Inc.	Colorado	58-1761037	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Community Hospital, Inc.	California	58-1398708	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Contract Services, Inc.	Georgia	58-2100699	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Cove Forge Behavioral Health System, Inc.	Pennsylvania	25-1730464	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Fairmount Behavioral Health System, Inc.	Pennsylvania	58-1616921	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Fenwick Hall Behavioral Health System, Inc.	South Carolina	57-0995766	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Financial Offices, Inc.	Georgia	58-1527680	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Forest Behavioral Health System, Inc.	Louisiana	58-1508454	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Grapevine Behavioral Health System, Inc.	Texas	58-1818492	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Greensboro Behavioral Health System, Inc.	North Carolina	58-1335184	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Health Management of Texas, Inc.	Texas	58-2025056	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Columbus, Inc.	Ohio	58-1598899	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Denver, Inc.	Colorado	58-1662413	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Ft. Collins, Inc.	Colorado	58-1768534	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Laredo, Inc.	Texas	58-1491620	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Miami, Inc.	Florida	61-1061599	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Mobile, Inc.	Alabama	58-1318870	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Santa Teresa, Inc.	New Mexico	58-1584861	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of St. Louis, Inc.	Missouri	58-1583760	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Torrance, Inc.	California	58-1402481	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Indiana BHS Holding, Inc.	Indiana	58-2247985	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Indianapolis Behavioral Health System, LLC	Delaware	35-1994923	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Lafayette Behavioral Health System, LLC	Delaware	35-1994151	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Lakehurst Behavioral Health System, Inc.	New Jersey	22-3286879	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Lakeside Behavioral Health Network, Inc.	Tennessee	[Applied for]	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Lakeside Behavioral Health System, Inc.	Tennessee	62-0892645	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Laurel Heights Behavioral Health System, Inc.	Georgia	58-1558212	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Linden Oaks Behavioral Health System, Inc.	Illinois	36-3943776	852 West Street Naperville, IL 60540 (708) 305-5500
Charter Little Rock Behavioral Health System, Inc.	Arkansas	58-1747019	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Louisiana Behavioral Health System, Inc.	Louisiana	72-1319231	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Louisville Behavioral Health System, Inc.	Kentucky	58-1517503	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Managed Care Services, LLC	Georgia	58-2324879	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Meadows Behavioral Health System, Inc.	Maryland	52-1866216	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical--California, Inc.	Georgia	58-1357345	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical--Clayton County, Inc.	Georgia	58-1579404	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical--Cleveland, Inc.	Texas	58-1448733	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical--Long Beach, Inc.	California	58-1366604	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Medical--New York, Inc.	New York	58-1761153	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical (Cayman Islands) Ltd.	Cayman Islands, BWI	58-1841857	Caledonian Bank & Trust Swiss Bank Building Caledonian House Georgetown-Grand Cayman Cayman Islands (809) 949-0050
Charter Medical Information Services, Inc.	Georgia	58-1530236	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical International, & Trust Inc.	Cayman Islands, BWI	N/A	Caledonian Bank Swiss Bank Building Caledonian House Georgetown-Grand Cayman Cayman Islands (809) 949-0050
Charter Medical International, S.A., Inc.	Nevada	58-1605110	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Managed Care Sales and Services, Inc.	Georgia	58-1195352	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of East Valley, Inc.	Arizona	58-1643158	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of England Limited	United Kingdom	N/A	111 Kings Road Box 323 London SW3 4PB London, England 44-71-351-1272
Charter Medical of North Phoenix, Inc.	Arizona	58-1643154	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of Puerto Rico, Inc.	Commonwealth of Puerto Rico	58-1208667	Caso Building, Suite 1504 1225 Ponce De Leon Avenue Santurce, P.R. 00907 (809) 723-8666
Charter Milwaukee Behavioral Health System, Inc.	Wisconsin	58-1790135	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Mission Viejo Behavioral Health System, Inc.	California	58-1761156	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter MOB of Charlottesville, Inc.	Virginia	58-1761158	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter North Behavioral Health System, Inc.	Alaska	58-1474550	2530 DeBarr Road Anchorage, AK 99508-2996 (907) 258-7575
Charter Northbrooke Behavioral Health System, Inc.	Wisconsin	39-1784461	46000 W. Schroeder Drive Brown Deer, WI 53223 (414) 355-2273
Charter North Counseling Center, Inc.	Alaska	58-2067832	2530 DeBarr Road Anchorage, AK 99508-2996 (907) 258-7575
Charter Northridge Behavioral Health System, Inc.	North Carolina	58-1463919	400 Newton Road Raleigh, NC 27615 (919) 847-0008
Charter Oak Behavioral Health System, Inc.	California	58-1334120	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter of Alabama, Inc.	Alabama	63-0649546	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Palms Behavioral Health System, Inc.	Texas	58-1416537	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Peachford Behavioral Health System, Inc.	Georgia	58-1086165	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Pines Behavioral Health System, Inc.	North Carolina	58-1462214	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Plains Behavioral Health System, Inc.	Texas	58-1462211	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter-Provo School, Inc.	Utah	58-1647690	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Real Behavioral Health System, Inc.	Texas	58-1485897	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Ridge Behavioral Health System, Inc.	Kentucky	58-1393063	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Rivers Behavioral Health System, Inc.	South Carolina	58-1408623	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Rockford Behavioral Health System, Inc.	Delaware	1-0374617	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200

ADDITIONAL REGISTRANTS(1)

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	I.R.S. EMPLOYER IDENTIFICATION NUMBER	ADDRESS INCLUDING ZIP CODE, AND TELEPHONE NUMBER INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES
Charter San Diego Behavioral Health System, Inc.	California	58-1669160	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Sioux Falls Behavioral Health System, Inc.	South Dakota	58-1674278	2812 South Louise Avenue Sioux Falls, SD 57106 (605) 361-8111
The Charter South Bend Behavioral Health System, LLC	Delaware	35-1994307	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Springs Behavioral Health System, Inc.	Florida	58-1517461	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Springwood Behavioral Health System, Inc.	Virginia	58-2097829	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Suburban Hospital of Mesquite, Inc.	Texas	75-1161721	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter System, LLC	Nevada	91-1819015	1061 E. Flamingo Rd. Suite One Las Vegas, NV 89119 (702) 737-0282
The Charter Terre Haute Behavioral Health System, LLC	Delaware	35-1994308	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Thousand Oaks Behavioral Health System, Inc.	California	58-1731069	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Westbrook Behavioral Health System, Inc.	Virginia	54-0858777	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter White Oak Behavioral Health System, Inc.	Maryland	52-1866223	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Wichita Behavioral Health System, Inc.	Kansas	58-1634296	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Woods Behavioral Health System, Inc.	Alabama	58-1330526	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Correctional Behavioral Solutions, Inc.	Delaware	58-2180940	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

ADDITIONAL REGISTRANTS(1)

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	I.R.S. EMPLOYER IDENTIFICATION NUMBER	ADDRESS INCLUDING ZIP CODE, AND TELEPHONE NUMBER INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES
Correctional Behavioral Solutions of Indiana, Inc.	Indiana	35-1978792	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Correctional Behavioral Solutions of New Jersey, Inc.	New Jersey	22-3436964	3000 Atrium Way Suite 410 Mount Laurel, NJ (609) 235-2339
Correctional Behavioral Solutions of Ohio, Inc.	Ohio	34-1826431	Allen Correctional Institute 2338 North West Street Lima, OH 45801 (419) 224-8000
Desert Springs Hospital, Inc.	Nevada	88-0117696	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Employee Assistance Services, Inc.	Georgia	58-1501282	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
First Step Independent Living Program, Inc.	California	95-3574845	1174 Nevada St. Redlands, CA 92374 (909) 307-6584
Florida Health Facilities, Inc.	Florida	58-1860493	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Gulf Coast EAP Services, Inc.	Alabama	58-2101394	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Horrigan Cole Enterprises, Inc.	California	33-0152162	1174 Nevada St. Redlands, CA 92374 (909) 307-6584
Hospital Investors, Inc.	Georgia	58-1182191	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Human Affairs of Alaska, Inc.	Alaska	92-0155098	4300 "B' St. Anchorage, AK 99503 (907) 562-0794
Human Affairs International, Incorporated	Utah	87-0300539	10150 S. Centennial Pkwy. Sandy, UT 84070 (801) 256-7300
Illinois Mentor, Inc.	Illinois	36-3643670	313 Congress St. Boston, MA 02210 (617) 790-4800
Magellan Executive Corporation	Georgia	58-2310891	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Magellan Public Solutions, Inc.	Delaware	58-2227841	222 Berkeley St. Boston, MA 02117 (617) 437-6400

ADDITIONAL REGISTRANTS(1)

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Magellan Public Network, Inc.	Delaware	51-0374654	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Magellan Public Solutions of Ohio, Inc.	Ohio	[Applied for]	222 Berkeley St. Boston, MA 02117 (617) 437-6400
Massachusetts Mentor, Inc.	Massachusetts	04-2799071	313 Congress St. Boston, MA 02210 (617) 790-4800
Metroplex Behavioral Healthcare Services, Inc.	Texas	58-2138596	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
National Mentor, Inc.	Delaware	04-3250732	313 Congress St. Boston, MA 02210 (617) 790-4800
National Mentor Healthcare, Inc.	Massachusetts	04-2893910	313 Congress St. Boston, MA 02210 (617) 790-4800
NEPA--Massachusetts, Inc.	Massachusetts	58-2116751	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
NEPA--New Hampshire, Inc.	New Hampshire	58-2116398	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
New Allied, Inc.	Florida	58-1324269	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Ohio Mentor, Inc.	Ohio	31-1098345	313 Congress St. Boston, MA 02210 (617) 790-4800
Pacific-Charter Medical, Inc.	California	58-1336537	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
South Carolina Mentor, Inc.	South Carolina	57-0782160	313 Congress St. Boston, MA 02210 (617) 790-4800
Southeast Behavioral Systems, Inc.	Georgia	58-2100700	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Schizophrenia Treatment and Rehabilitation, Inc.	Georgia	58-1672912	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Sistemas De Terapia Respiratoria, S.A., Inc.	Georgia	58-1181077	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

ADDITIONAL REGISTRANTS(1)

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Western Behavioral Systems, Inc.	California	58-1662416	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Wisconsin Mentor, Inc.	Wisconsin	39-1840054	313 Congress St. Boston, MA 00210 (617) 790-4800

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(1) The Additional Registrants listed are wholly-owned subsidiaries of the Registrant and are guarantors of the Registrant's 11 1/4% Series A Senior Subordinated Notes due 2004. The Additional Registrants have been conditionally exempted, pursuant to Section 12(h) of the Securities Exchange Act of 1934, from filing reports under Section 13 of the Securities Exchange Act of 1934.

FORM 10-Q
MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
INDEX

	PAGE NO.
PART I--FINANCIAL INFORMATION:	
Condensed Consolidated Balance Sheets-- September 30, 1997 and December 31, 1997	1
Condensed Consolidated Statements of Operations-- For the Three Months ended December 31, 1996 and 1997	3
Condensed Consolidated Statements of Cash Flows-- For the Three Months ended December 31, 1996 and 1997	4
Notes to Condensed Consolidated Financial Statements	5
Management's Discussion and Analysis of Financial Condition and Results of Operations	17
PART II--OTHER INFORMATION:	
Item 1.--Legal Proceedings	25
Item 6.--Exhibits and Reports on Form 8-K	25
Signatures	27

The undersigned Registrant hereby amends Note F--Income per Common Share of the Notes to Condensed Consolidated Financial Statements of its Report on Form 10-Q for the quarterly period ended December 31, 1997.

MAGELLAN HEALTH SERVICES, INC.
QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
PART I--FINANCIAL INFORMATION

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS)

	SEPTEMBER 30, 1997	DECEMBER 31, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 372,878	$ 170,459
Accounts receivable, net	107,998	140,219
Refundable income taxes	2,466	--
Other current assets	23,696	34,438
Total Current Assets	507,038	345,116
Assets restricted for settlement of unpaid claims and other long-term liabilities	87,532	73,020
Property and equipment:		
Land	11,667	11,687
Buildings and improvements	70,174	72,102
Equipment	63,719	74,319
	145,560	158,108
Accumulated depreciation	(37,038)	(41,169)
	108,522	116,939
Construction in progress	692	995
Total property and equipment	109,214	117,934
Deferred income taxes	1,158	2,178
Investment in CBHS	16,878	5,390
Other long-term assets	20,893	42,932
Goodwill, net	114,234	242,968
Other intangible assets, net	38,673	67,576
	$ 895,620	$ 897,114

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	SEPTEMBER 30, 1997	DECEMBER 31, 1997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 45,346	$ 37,663
Accrued liabilities	170,429	191,645
Income taxes payable	--	781
Current maturities of long-term debt and capital lease obligations	3,601	3,604
Total Current Liabilities	219,376	233,693
Long-term debt and capital lease obligations	391,693	391,550
Reserve for unpaid claims	49,113	40,201
Deferred credits and other long-term liabilities	16,110	15,023
Minority interest	61,078	64,785
Commitments and contingencies		
Stockholders' Equity:		
Preferred Stock, without par value		
Authorized--10,000 shares		
Issued and outstanding--none	--	--
Common Stock, par value $0.25 per share		
Authorized--80,000 shares		
Issued and outstanding--33,439 shares at September 30, 1997 and 33,543 shares at December 31, 1997	8,361	8,387
Other Stockholders' Equity		
Additional paid-in capital	340,645	338,961
Accumulated deficit	(129,955)	(122,327)
Warrants outstanding	25,050	25,050
Common Stock in Treasury, 4,424 shares at September 30, 1997 and 4,969 shares at December 31, 1997	(82,731)	(95,187)
Cumulative foreign currency adjustments	(3,120)	(3,022)
Total stockholders' equity	158,250	151,862
	$ 895,620	$ 897,114

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

MAGELLAN HEALTH SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	1996	1997
Net revenue	$ 346,819	$ 216,097
Costs and expenses:		
Salaries, cost of care and other operating expenses	284,123	175,621
Bad debt expense	20,235	1,070
Depreciation and amortization	13,099	6,969
Interest, net	13,569	7,401
Stock option expense (credit)	604	(3,959)
Equity in loss of CBHS	--	11,488
	331,630	198,590
Income before provision for income taxes, minority interest and extraordinary item	15,189	17,507
Provision for income taxes	6,075	7,003
Income before minority interest and extraordinary item	9,114	10,504
Minority interest	1,973	2,876
Income before extraordinary item	7,141	7,628
Extraordinary item--loss on early extinquishment of debt (net of income tax benefit of $1,967)	(2,950)	--
Net income	$ 4,191	$ 7,628
Average number of common shares outstanding--basic	28,589	28,969
Average number of common shares outstanding--diluted	28,983	29,784
Income per common share--basic:		
Income before extraordinary item	$ 0.25	$ 0.26
Net income	$ 0.15	$ 0.26
Income per common share--diluted:		
Income before extraordinary item	$ 0.25	$ 0.26
Net income	$ 0.14	$ 0.26

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)
(IN THOUSANDS)

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,191	$ 7,628
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	13,099	6,969
Equity in loss of CBHS	--	11,488
Stock option expense (credit)	604	(3,959)
Non-cash interest expense	483	422
Gain on sale of assets	(493)	--
Extraordinary loss on early extinguishment of debt	4,917	--
Cash flows from changes in assets and liabilities, net of effects from sales and acquisitions of businesses:		
Accounts receivable, net	(1,984)	(16,304)
Other assets	(4,109)	(9,999)
Accounts payable and other accrued liabilities	(32,046)	(21,184)
Reserve for unpaid claims	(2,351)	(9,256)
Income taxes payable and deferred income taxes	1,517	2,056
Other liabilities	(9,729)	(1,623)
Minority interest, net of dividends paid	2,296	3,199
Other	216	(1,162)
Total adjustments	(27,580)	(39,353)
Net cash used in operating activities	(23,389)	(31,725)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,012)	(4,578)
Acquisitions and investments in businesses, net of cash acquired	(1,612)	(165,548)
Decrease in assets restricted for settlement of unpaid claims	10,381	14,364
Proceeds from sale of assets	4,822	--
Crescent Transaction costs	--	(4,253)
Net cash provided by (used in) investing activities	6,579	(160,015)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt, net of issuance costs	126,825	--
Payments on debt and capital lease obligations	(116,620)	(140)
Proceeds from exercise of stock options and warrants	112	1,917
Purchases of treasury stock	--	(12,456)
Net cash provided by (used in) financing activities	10,317	(10,679)
Net decrease in cash and cash equivalents	(6,493)	(202,419)
Cash and cash equivalents at beginning of period	120,945	372,878
Cash and cash equivalents at end of period	$ 114,452	$ 170,459

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1997
(UNAUDITED)

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 1997, included in the Company's Annual Report on Form 10-K.

NOTE B--NATURE OF BUSINESS

The Company's 50% owned hospital business, Charter Behavioral Health Systems, LLC ("CBHS"), is seasonal in nature, with a reduced demand for certain services generally occurring in the first fiscal quarter around major holidays, such as Thanksgiving and Christmas, and during the summer months comprising the fourth fiscal quarter. The Company's business is also subject to general economic conditions and other factors. Accordingly, the results of operations for the interim periods are not necessarily indicative of the actual results expected for the year.

NOTE C--SUPPLEMENTAL CASH FLOW INFORMATION

Below is supplemental cash flow information related to the three months ended December 31, 1996 and 1997:

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	1996	1997
	(IN THOUSANDS)	
Income taxes paid, net of refunds received	$ 2,540	$ 4,752
Interest paid, net of amounts capitalized	24,939	21,550

NOTE D--LONG-TERM DEBT AND LEASES

Information with regard to the Company's long-term debt and capital lease obligations at September 30, 1997 and December 31, 1997 is as follows:

	SEPTEMBER 30, 1997	DECEMBER 31, 1997
	(IN THOUSANDS)	
Magellan Existing Credit Agreement due through 2002	$ --	$ --
11.25% Senior Subordinated Notes due 2004	375,000	375,000
6.78125% to 8.00% Mortgage and other notes payable through 1999	7,721	7,577
7.5% Swiss Bonds	6,443	6,443
3.95% Capital lease obligations due through 2014	6,438	6,438
	395,602	395,458
Less amounts due within one year	3,601	3,604
Less debt service funds	308	304
	$ 391,693	$ 391,550

On February 12, 1998, the Company terminated the Magellan Existing Credit Agreement and extinguished the $375 million 11.25% Senior Subordinated Notes in connection with the acquisition of Merit Behavioral Care Corporation ("Merit"). See Note J--"Subsequent Events--Merit Acquisition".

NOTE E--ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	SEPTEMBER 30, 1997	DECEMBER 31, 1997
Salaries, wages and other benefits	$ 21,647	$ 21,596
Amounts due health insurance programs	14,126	8,159
Medical claims payable	36,508	63,877
Interest	19,739	9,322
Crescent Transactions	14,648	9,805
Other	63,761	78,886
	$ 170,429	$ 191,645

NOTE F--INCOME PER COMMON SHARE

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("FAS 128"), effective October 1, 1997. Income per common share for the quarter ended December 31, 1996 has been restated to conform to FAS 128 as required. The effect of adopting FAS 128 was not material.

NOTE F--INCOME PER COMMON SHARE (CONTINUED)

The following table presents the components of weighted average common shares outstanding-- diluted:

	THREE MONTHS ENDED DECEMBER 31,	
	1996	1997
Weighted average common shares outstanding--basic	28,589	28,969
Common stock equivalents--stock options	377	762
Common stock equivalents--warrants	17	53
Weighted average common shares outstanding--diluted	28,983	29,784

Options to purchase approximately 363,000 shares of common stock at $26.65 to $31.41 per share were outstanding during the quarter ended December 31, 1997 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. The options, which expire between fiscal 2006 and 2007, were still outstanding at December 31, 1997.

Warrants to purchase approximately 2,713,000 shares of common stock at $30.00 to $38.70 per share were outstanding during the quarter ended December 31, 1997 but were not included in the computation of diluted EPS because the warrants' exercise price was greater than the average market price of the common shares. The warrants, which expire between fiscal 2001 and 2009, were still outstanding at December 31, 1997.

The Company owned a 61% equity interest in Green Spring Health Services, Inc. ("Green Spring") at December 31, 1997. The four minority stockholders of Green Spring have the option to exchange their ownership interests in Green Spring for 2,831,516 shares of the Company's common stock or $65.1 million of subordinated notes (the "Exchange Option"). The Exchange Option was considered a potentially dilutive security for the quarters ended December 31, 1996 and 1997 for the purpose of computing diluted income per common share. The Exchange Option was anti-dilutive for the quarters ended December 31, 1996 and 1997 and, therefore, was excluded from the respective diluted income per common share calculations.

Each of the minority stockholders of Green Spring exercised the Exchange Option in January 1998, which resulted in the issuance of 2,831,516 shares of the Company's common stock. See Note J-- "Subsequent Events--Green Spring Minority Shareholder Conversion".

NOTE G--INVESTMENT IN CBHS

The Company became a 50% owner of CBHS upon consummation of the Crescent Transactions (as defined) on June 17, 1997, which are further described in the Company's Annual Report on Form 10-K for the year ended September 30, 1997. The Company accounts for its investment in CBHS using the equity method.

NOTE G--INVESTMENT IN CBHS (CONTINUED)

A summary of financial information for CBHS is as follows (in thousands):

	SEPTEMBER 30, 1997	DECEMBER 31, 1997
Current assets	$ 148,537	$ 149,724
Property and equipment, net	18,424	18,217
Other noncurrent assets	8,633	8,081
Total Assets	$ 175,594	$ 176,022
Current liabilities	$ 68,497	$ 83,478
Long-term debt	65,860	65,846
Other noncurrent liabilities	7,481	16,820
Members' capital	33,756	9,878
Total liabilities and members' capital	$ 175,594	$ 176,022

	THREE MONTHS ENDED DECEMBER 31, 1997
Net revenue	$ 178,058
Operating expenses	199,664
Interest, net	1,370
Net loss before preferred member distribution	$ (22,976)
Cash used in operating activities	$ (2,176)
Magellan equity loss	$ (11,488)

The Company's transactions with CBHS and related balances are as follows (in thousands):

	THREE MONTHS ENDED DECEMBER 31, 1997
Franchise Fee revenue	$ 19,575
Costs:	
Accounts receivable collection fees	1,054
Hospital-based joint venture management fees	1,630

	SEPTEMBER 30, 1997	DECEMBER 31, 1997
Due (to) from CBHS, net (1)	$ (5,090)	$ 6,188
Prepaid CHARTER call center management fees	$ --	$ 5,905

NOTE G--INVESTMENT IN CBHS (CONTINUED)

	SEPTEMBER 30, 1997	DECEMBER 31, 1997
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(1) The nature of hospital accounts receivable billing and collection processess have resulted in the Company and CBHS receiving remittances from payors which belong to the other party. Additionally, the Company and CBHS have established a settlement and allocation process for the accounts receivable related to those patients who were not yet discharged from their treatment on June 16, 1997. In an effort to settle these amounts on a timely basis, and in light of CBHS start up operations and cash flow requirements, the Company made advances to CBHS periodically during the quarter ending December 31, 1997. Such advances, net of all settlement activity and certain other amounts due to CBHS for certain shared services and related matters, resulted in the amount shown above as due from CBHS.

NOTE G--INVESTMENT IN CBHS (CONTINUED)

The Company is in continuing discussions with Crescent Operating, Inc. ("COI"), the other 50% owner of CBHS, and its affiliates concerning the possible sale of the Company's franchise operations, together with related intellectual property, the Company's interest in CBHS and six hospital-based joint ventures ("JV Hospitals") and certain other assets. In connection with the proposed sale, it is anticipated that CBHS and its affiliates will be an important part of the Company's managed behavioral care preferred provider network under the terms of a long-term arrangement. The parties have not yet reached agreement on all the terms of the transaction. Significant issues regarding the terms of the proposed sale remain under discussion. In addition to resolution of such issues, completion of the proposed sale would be subject to a number of conditions, including regulatory approvals and the obtaining by COI and its affiliates of all necessary debt and equity financing. If the sale is completed, the Company intends to use the cash proceeds remaining after payment of fees and expenses to repay indebtedness. There can be no assurance that any such transaction will occur.

NOTE H--ACQUISITIONS

ALLIED HEALTH GROUP, INC. ACQUISITION.

On December 5, 1997, the Company purchased the assets of Allied Health Group, Inc. and certain affiliates ("Allied"). Allied provides specialty risk-based products and administrative services to a variety of insurance companies and other customers for its 3.4 million members. Allied manages over 80 physician networks across the eastern United States. Allied's networks include physicians specializing in cardiology, oncology and diabetes. The Company paid $70 million for Allied, of which $50 million was paid to the sellers at closing with the remaining $20 million placed in escrow.

The Company funded the acquisition of Allied with cash on hand and has accounted for the acquisition of Allied using the purchase method of accounting. The escrowed amount is payable if Allied achieves specified earnings targets during the three years following the closing. Additionally, the purchase price may be increased during the three year period by $40 million if Allied's performance exceeds specified earnings targets. The maximum purchase price payable is $110 million.

The preliminary allocation of the Allied purchase price to goodwill and identifiable intangible assets was based on the Company's preliminary valuations, which are subject to change upon receiving independent appraisals of identifiable intangible assets.

HAI ACQUISITION. On December 4, 1997, the Company acquired the outstanding common stock of Human Affairs International, Incorporated ("HAI"), a wholly-owned subsidiary of Aetna Insurance Company of Connecticut and a unit of Aetna U.S. Healthcare ("Aetna"), for approximately $122.1 million. HAI manages the care of over 16 million covered lives, primarily through employee assistance programs and other managed behavioral healthcare plans. The Company funded the acquisition of HAI with cash on hand and has accounted for the acquisition of HAI using the purchase method of accounting.

The Company may be required to make additional contingent payments of up to $300 million to Aetna (the "Contingent Payments") over the five-year period (each year a "Contract Year") subsequent to closing. The amount and timing of the Contingent Payments will depend upon HAI's receipt of additional covered lives, under two separate calculations. Under the first calculation, the Company may be required

NOTE H--ACQUISITIONS (CONTINUED)
to pay up to $25 million per year for each of five years following the acquisition based on the net annual growth in the number of lives covered in specified HAI products. Under the second calculation, the Company may be required to pay up to $35 million per Contract Year, based on the net cumulative increase in lives covered by certain other HAI products. The Company expects to fund the Contingent Payments, if any, with a combination of cash on hand, future cash flows from operations and borrowing capacity under the New Credit Agreement (as defined).

The preliminary allocation of the HAI purchase price to goodwill and identifiable intangible assets was based on the Company's preliminary valuations, which are subject to change upon receiving independent appraisals of identifiable intangible assets.

The unaudited pro forma information for the quarters ended December 31, 1996 and 1997 have been prepared assuming the Crescent Transactions (as defined), Allied acquisition and HAI acquisition were consummated on October 1, 1996. The unaudited pro forma information does not purport to be indicative of the results that would have actually been obtained had such transactions been consummated, or which may be attained in future periods (in thousands, except per share data):

	PRO FORMA FOR THE THREE MONTHS ENDED	
	DECEMBER 31, 1996	DECEMBER 31, 1997
Net revenue	$ 235,506	$ 264,427
Income before extraordinary item	10,317	10,384
Net income	7,367	10,384
Income per common share--basic:		
Income before extraordinary item	0.36	0.36
Net income	0.26	0.36
Income per common share--diluted:		
Income before extraordinary item	0.36	0.35
Net income	0.25	0.35

NOTE I--CONTINGENCIES

The Company is self-insured for a substantial portion of its general and professional liability risks. The reserves for self-insured general and professional liability losses, including loss adjustment expenses, are based on actuarial estimates that are discounted at an average rate of 6% to their present value based on the Company's historical claims experience adjusted for current industry trends. The reserve for unpaid claims is adjusted periodically as such claims mature, to reflect changes in actuarial estimates based on actual experience. During the quarter ended December 31, 1997, the Company recorded reductions in malpractice claim reserves of approximately $4.1 million as a result of updated actuarial estimates. This reduction resulted primarily from updates to actuarial assumptions regarding the Company's expected losses for more recent policy years. These revisions are based on changes in expected values of ultimate losses resulting from the Company's claim experience, and increased reliance on such claim experience. While management and its actuaries believe that the present reserve is reasonable, ultimate settlement of losses may vary from the amount provided.

NOTE I--CONTINGENCIES (CONTINUED)

Certain of the Company's subsidiaries are subject to claims, civil suits, and governmental investigations and inquiries relating to their operations and certain alleged business practices. In the opinion of management, based on consultation with counsel, resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

On August 1, 1996, the United States Department of Justice, Civil Division, filed an Amended Complaint in a civil QUI TAM action initiated in November 1994 against the Company and its Orlando South hospital subsidiary ("Charter Orlando") by two former employees. The First Amended Complaint alleges that Charter Orlando violated the federal False Claims Act (the "Act") in billing for impatient treatment provided to elderly patients. The Court granted the Company's motion to dismiss the government's First Amended Complaint yet granted the government leave to amend its First Amended Complaint. The government filed a Second Amended Complaint on December 12, 1996 which, similar to the First Amended Complaint, alleges that the Company and its subsidiary violated the Act in billing for the treatment of geriatric patients. Like the First Amended Complaints, the Second Amended Complaint is based on disputed clinical and factual issues which the Company believes do not constitute a violation of the Act. On the Company's motion, the Court has ordered the ordered the parties to participate in mediation of the matter. As a result of the mediation, the parties are engaged in settlement discussions which may lead to a resolution of the matter. The parties have reached a tentative financial settlement of this matter for approximately $4.8 million, which has been accrued, however, negotiations concerning substantive non-monetary issues continue, and resolution of such non-monetary issues will be material in connection with the Company's decision to finalize a settlement. There can be no assurance at this time that the non-monetary terms will be resolved to the Company's satisfaction. In any event, the Company and its subsidiary deny the allegations made in the Second Amended Complaint and will vigorously defend against its claims. The Company does not believe this matter will have a material adverse effect on its financial position or results of operations.

In October 1996, a group of eight plaintiffs purporting to represent an uncertified class of psychiatrists, psychologists and clinical social workers brought an action under the federal antitrust laws in the United States District Court for the Southern District of New York against nine behavioral health managed care organizations, including Merit, CMG, Green Spring and HAI (collectively, the "Defendants"). The complaint alleges that the Defendants violated Section 1 of the Sherman Act by engaging in a conspiracy to fix the prices at which the Defendants purchase services from mental healthcare providers such as the plaintiffs. The complaint further alleges that the Defendants engaged in a group boycott to exclude mental healthcare providers from the Defendants' networks in order to further the goals of the alleged conspiracy. The complaint also challenges the propriety of the Defendants' capitation arrangements with their respective customers, although it is unclear from the complaint whether the plaintiffs allege that the Defendants unlawfully conspired to enter into capitation arrangements with their respective customers. The complaint seeks treble damages against the Defendants in an unspecified amount and a permanent injunction prohibiting the Defendants from engaging in the alleged conduct which forms the basis of the complaint, plus costs and attorney's fees. Subsequent to the quarterly period ended December 31, 1997 for which this Report on Form 10-Q was filed, on May 12, 1998, the District Court granted the Defendants' motion to dismiss the complaint with prejudice. On May 27, 1998, the plaintiffs filed a notice of appeal of the District Court's dismissal of their complaint with the United States Second Circuit Court of Appeals. The Defendants intend to vigorously contest this appeal and to further defend themselves in

NOTE I--CONTINGENCIES (CONTINUED)

this matter. The Company does not believe this matter will have a material adverse effect on its financial position or results of operations.

NOTE J--SUBSEQUENT EVENTS

MERIT ACQUISITION. On February 12, 1998, the Company acquired all of the outstanding stock of Merit for approximately $448.9 million in cash plus the repayment of long-term debt. The Company refinanced its $375 million 11.25% Senior Subordinated Notes as part of the Merit acquisition. The Company will account for the Merit acquisition using the purchase method of accounting. Merit manages healthcare programs for over 21 million covered lives across all segments of the healthcare industry, including HMOs, Blue Cross/Blue Shield organizations and other insurance companies, corporations and labor unions, federal, state and local government agencies, and various state Medicaid programs.

In connection with the consummation of the Merit acquisition, the Company consummated certain related transactions (together with the Merit acquisition, collectively, the "Transactions"), as follows: (i) the Company terminated its Credit Agreement; (ii) the Company repaid all loans outstanding pursuant to and terminated Merit's existing credit agreement (the "Merit Existing Credit Agreement"); (iii) the Company completed a tender offer for its 11 1/4% Series A Senior Subordinated Notes due 2004 (the "Magellan Outstanding Notes"); (iv) Merit completed a tender offer for its 11 1/2% Senior Subordinated Notes due 2005 (the "Merit Outstanding Notes"); (v) the Company entered into a new senior secured bank credit agreement (the "New Credit Agreement") with The Chase Manhattan Bank and a syndicate of financial institutions, providing for credit facilities of up to $700 million; and (vi) the Company issued $625 million in 9% Senior Subordinated Notes due 2008 (the "Notes").

NOTE J--SUBSEQUENT EVENTS (CONTINUED)

The following table sets forth the sources and uses of funds for the Transactions at closing (in thousands):

SOURCES:	
Cash and cash equivalents	$ 59,290
New Credit Agreement:	
Revolving Facility (1)	20,000
Term Loan Facility	550,000
The Notes	625,000
Total sources	$1,254,290
USES:	
Cash paid to Merit shareholders	$ 448,867
Repayment of Merit Existing Credit Agreement (2)	196,357
Purchase of Magellan Outstanding Notes (3)	432,102
Purchase of Merit Outstanding Notes (4)	121,651
Transaction costs (5)	55,314
Total uses	$1,254,290

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(1) The Revolving Facility provides for borrowings of up to $150.0 million. The Company had $112.5 million available for borrowing pursuant to the Revolving Facility after consummating the Transactions, excluding approximately $17.5 million of availability reserved for certain letters of credit.

(2) Includes principal amount of $193.6 million and accrued interest of $2.7 million.

(3) Includes face amount of $375.0 million, tender premium of $43.4 million and accrued interest of $13.7 million.

(4) Includes face amount of $100.0 million, tender premium of $18.9 million and accrued interest of $2.8 million.

(5) Transaction costs include, among other things, expenses payable at closing associated with the Debt Tender Offers, the Offering, the Merit acquisition and the New Credit Agreement.

GREEN SPRING MINORITY SHAREHOLDER CONVERSION. The four minority shareholders of Green Spring converted their ownership interests into 2,831,516 shares of Magellan common stock in accordance with the terms in the Green Spring Exchange Agreement at various dates during January 1998. The Company will account for the Green Spring Minority Shareholder Conversion as a purchase of the minority interests in Green Spring at the fair value of the consideration paid.

NOTE K--GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	SEPTEMBER 30, 1997				
ASSETS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Current Assets					
Cash and cash equivalents	$ 102,419	$ 62,326	$ 208,133	$ --	$ 372,878
Accounts receivable, net	46,652	60,185	1,161	--	107,998
Other current assets	2,346	10,215	13,601	--	26,162
Total Current Assets	151,417	132,726	222,895	--	507,038
Assets restricted for settlement of unpaid claims and other long-term liabilities	--	71,501	16,031	--	87,532
Property and equipment					
Land	5,406	5,389	872	--	11,667
Buildings and improvements	35,789	31,517	2,868	--	70,174
Equipment	19,704	35,023	8,992	--	63,719
	60,899	71,929	12,732	--	145,560
Accumulated depreciation	(15,168)	(17,288)	(4,582)	--	(37,038)
Construction in progress	4	611	77	--	692
Total property and equipment	45,735	55,252	8,227	--	109,214
Investment in CBHS	16,878	--	--	--	16,878
Deferred income taxes	--	4,428	(3,270)	--	1,158
Other long-term assets (1)	114,642	(5,757)	978,588	(1,027,907)	59,566
Goodwill, net	17,966	96,268	--	--	114,234
	$ 346,638	$ 354,418	$1,222,471	$(1,027,907)	$ 895,620
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	$ 23,057	$ 17,097	$ 5,192	$ --	$ 45,346
Accrued liabilities and income tax payable	27,800	73,586	69,043	--	170,429
Current maturities of long-term debt and capital lease obligations	466	3,135	--	--	3,601
Total Current Liabilities	51,323	93,818	74,235	--	219,376
Long-term debt and capital lease obligations	(793,325)	3,913	1,181,105	--	391,693
Reserve for unpaid claims	--	56,339	(7,226)	--	49,113
Deferred credits and other long-term liabilities(1)	8,393	6,290	(183,893)	185,320	16,110
Minority interest	--	--	--	61,078	61,078
Stockholders' Equity					
Common Stock, par value $0.25 per share; Authorized--80,000 shares Issued and outstanding--33,439 shares	2,752	(483)	8,361	(2,269)	8,361
Committments and contingencies					
Other Stockholders' Equity					
Additional paid-in capital	1,000,935	125,624	340,645	(1,126,559)	340,645
Retained earnings (Accumulated deficit)	76,035	71,317	(129,955)	(147,352)	(129,955)
Warrants outstanding	--	--	25,050	--	25,050
Common Stock in treasury, 4,424 shares	--	--	(82,731)	--	(82,731)
Cumulative foreign currency adjustments	525	(2,400)	(3,120)	1,875	(3,120)
Total stockholders equity	1,080,247	194,058	158,250	(1,274,305)	158,250
	$ 346,638	$ 354,418	$1,222,471	$(1,027,907)	$ 895,620

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(1) Elimination entry related to intercompany receivables and payables and investment in consolidated subsidiaries.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31, 1997				
ASSETS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Current Assets					
Cash and cash equivalents	$ 79,896	$ 61,733	$ 28,830	$ --	$ 170,459
Accounts receivable, net	41,406	76,057	22,756	--	140,219
Other current assets	6,135	12,011	16,292	--	34,438
Total Current Assets	127,437	149,801	67,878	--	345,116
Assets restricted for settlement of unpaid claims and other long-term liabilities	--	66,028	6,992	--	73,020
Property and equipment					
Land	5,450	5,365	872	--	11,687
Buildings and improvements	36,261	31,647	4,194	--	72,102
Equipment	27,253	38,031	9,035	--	74,319
	68,964	75,043	14,101	--	158,108
Accumulated depreciation	(16,483)	(19,713)	(4,973)	--	(41,169)
Construction in progress	22	896	77	--	995
	52,503	56,226	9,205	--	117,934
Investment in CBHS	5,390	--	--	--	5,390
Deferred income taxes	(9)	4,425	(2,238)	--	2,178
Other long-term assets (1)	145,692	(5,743)	1,293,918	(1,323,359)	110,508
Goodwill, net	145,163	97,805	--	--	242,968
	$ 476,176	$ 368,542	$1,375,755	$(1,323,359)	$ 897,114
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	$ 20,758	$ 14,236	$ 2,669	$ --	$ 37,663
Accrued liabilities	48,491	81,664	61,490	--	191,645
Income taxes payable	(309)	1,227	(137)	--	781
Current maturities of long-term debt and capital lease obligations	477	3,127	--	--	3,604
Total Current Liabilities	69,417	100,254	64,022	--	233,693
Long-term debt and capital lease obligations	(818,540)	13,890	1,196,200	--	391,550
Reserve for unpaid claims	1,006	46,530	(7,335)	--	40,201
Deferred credits and other long-term liabilities (1)	133,831	15,377	(28,994)	(105,191)	15,023
Minority interest	--	--	--	64,785	64,785
Commitments and contingencies					
Stockholders' Equity					
Common Stock, par value $0.25 per share; Authorized--80,000 shares Issued and outstanding--33,543 shares	2,752	(483)	8,387	(2,269)	8,387
Other Stockholders' Equity					
Additional paid-in capital	1,120,638	122,262	338,961	(1,242,900)	338,961
Retained earnings (Accumulated deficit)	(33,402)	73,107	(122,327)	(39,705)	(122,327)
Warrants outstanding	--	--	25,050	--	25,050
Common stock in Treasury, 4,969 shares	--	--	(95,187)	--	(95,187)
Cumulative foreign currency adjustments	474	(2,395)	(3,022)	1,921	(3,022)
Total stockholders' equity	1,090,462	192,491	151,862	(1,282,953)	151,862
	$ 476,176	$ 368,542	$1,375,755	$(1,323,359)	$ 897,114

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(1) Elimination entry related to intercompany receivables and payables and investment in consolidated subsidiaries.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(IN THOUSANDS)

	FOR THE THREE MONTHS ENDED DECEMBER 31, 1996				
	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Net revenue	$ 223,877	$ 112,591	$ 10,706	$ (355)	$ 346,819
Costs and expenses					
Salaries, cost of care and other operating expenses	177,681	100,260	6,537	(355)	284,123
Bad debt expense	19,024	1,211	--	--	20,235
Depreciation and amortization	8,617	3,750	732	--	13,099
Interest, net	(12,106)	(443)	26,118	--	13,569
Stock option expense	--	--	604	--	604
	193,216	104,778	33,991	(355)	331,630
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	30,661	7,813	(23,285)	--	15,189
Provision for (benefit from) income taxes	831	2,855	2,389	--	6,075
Income (loss) before equity in earnings (loss) of subsidiaries	29,830	4,958	(25,674)	--	9,114
Equity in earnings (loss) of subsidiaries	(53)	(1,842)	32,815	(32,893)	(1,973)
Income (loss) before extraordinary item	29,777	3,116	7,141	(32,893)	7,141
Extraordinary item--loss on early extinguishment of debt (net of income tax benefit of $1,967)	(1,193)	--	(2,950)	1,193	(2,950)
Net income (loss)	$ 28,584	$ 3,116	$ 4,191	$ (31,700)	$ 4,191

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Cash provided by (used in) operating activities	$ 18,476	$ (22,153)	$ (19,712)	$ --	$ (23,389)
Cash Flows from Investing Activities:					
Capital expenditures	(3,133)	(3,663)	(216)	--	(7,012)
Acquisitions of businesses	(170)	(1,442)	--	--	(1,612)
Decrease in assets restricted for the settlement of unpaid claims	--	6,670	3,711	--	10,381
Proceeds from the sale of assets	4,822	--	--	--	4,822
Cash provided by investing activities	1,519	1,565	3,495	--	6,579
Cash Flows from Financing Activities:					
Payments on debt and capital lease obligations	(71,435)	(207)	(44,978)	--	(116,620)
Proceeds from the issuance of debt	71,616	--	55,209	--	126,825
Proceeds from exercise of stock options and warrants	--	--	112	--	112
Cash provided by (used in) financing activities	181	(207)	10,343	--	10,317
Net increase (decrease) in cash and cash equivalents	20,176	(20,795)	(5,874)	--	(6,493)
Cash and cash equivalents at beginning of period	29,751	79,552	11,642	--	120,945
Cash and cash equivalents at end of period	$ 49,927	$ 58,757	$ 5,768	$ --	$ 114,452

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(IN THOUSANDS)

	FOR THE THREE MONTHS ENDED DECEMBER 31, 1997				
	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Net revenue	$ 85,862	$ 130,191	$ 44	$ --	$ 216,097
Costs and expenses					
Salaries, cost of care and other operating expenses	61,343	110,841	3,437	--	175,621
Bad debt expense	179	891	--	--	1,070
Depreciation and amortization	2,260	4,067	642	--	6,969
Interest, net	(21,031)	(682)	29,114	--	7,401
Stock option expense (credit)	--	--	(3,959)	--	(3,959)
Equity in loss of CBHS	11,488	--	--	--	11,488
	54,239	115,117	29,234	--	198,590
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	31,623	15,074	(29,190)	--	17,507
Provision for (benefit from) income taxes	138	4,284	2,581	--	7,003
Income (loss) before equity in earnings (loss) of subsidiaries	31,485	10,790	(31,771)	--	10,504
Equity in earnings (loss) of subsidiaries	(206)	(2,633)	39,399	(39,436)	(2,876)
Net income (loss)	$ 31,279	$ 8,157	$ 7,628	$ (39,436)	$ 7,628

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Cash provided by (used in) operating activities	$ (36,449)	$ (238)	$ 4,962	$ --	$ (31,725)
Cash Flows from Investing Activities:					
Capital expenditures	(1,825)	(2,710)	(43)	--	(4,578)
Acquisition and investments in businessess, net of cash acquired	15,751	(2,979)	(178,320)	--	(165,548)
Decrease in assets restricted for the settlement of unpaid claims	--	5,474	8,890	--	14,364
Crescent Transaction costs	--	--	(4,253)	--	(4,253)
Cash provided by (used in) investing activities	13,926	(215)	(173,726)	--	(160,015)
Cash Flows from Financing Activities:					
Payments on debt and capital lease obligations	--	(140)	--	--	(140)
Proceeds from exercise of stock options & warrants	--	--	1,917	--	1,917
Purchases of treasury stock	--	--	(12,456)	--	(12,456)
Cash used in financing activities	--	(140)	(10,539)	--	(10,679)
Net decrease in cash and cash equivalents	(22,523)	(593)	(179,303)	--	(202,419)
Cash and cash equivalents at beginning of period	102,419	62,326	208,133	--	372,878
Cash and cash equivalents at end of period	$ 79,896	$ 61,733	$ 28,830	$ --	$ 170,459

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
DECEMBER 31, 1997
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Although the Company believes that its plans, intentions and expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such plans, intentions or expectations will be achieved. Important factors that could cause actual results to differ materially from the Company's forward-looking statements are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997. All forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the cautionary statements set forth in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1997.

OVERVIEW

The Company has historically derived the majority of its revenue from providing healthcare services in an inpatient setting. Payments from third-party payors are the principal source of revenue for most healthcare providers. In the early 1990's, many third-party payors sought to control the cost of providing care to their patients by instituting managed care programs or seeking the assistance of managed care companies. Providers participating in managed care programs agree to provide services to patients for a discount from established rates, which generally results in pricing concessions by the providers and lower margins. Additionally, managed care programs generally encourage alternatives to inpatient treatment settings and reduce utilization of inpatient services. As a result, third-party payors established managed care programs or engaged managed care companies in many areas of healthcare, including behavioral healthcare. The Company, which until June 1997 was the largest operator of psychiatric hospitals in the United States, was adversely affected by the adoption of managed care programs by third-party payors.

Prior to the first quarter of fiscal 1996, the Company was not a provider of behavioral managed care services. During the first quarter of fiscal 1996, the Company acquired a 61% ownership interest in Green Spring. At that time, the Company intended to become a fully integrated behavioral healthcare provider by combining the managed behavioral healthcare products offered by Green Spring with the direct treatment services offered by the Company's psychiatric hospitals. The Company believed that an entity that participated in both the managed care and provider segments of the behavioral healthcare industry could more efficiently provide and manage behavioral healthcare for insured populations than an entity that was solely a managed care company. The Company also believed that earnings from its managed care business would offset, in part, the negative impact on the financial performance of its psychiatric hospitals caused by managed care. Green Spring was the Company's first significant involvement in managed behavioral healthcare.

Subsequent to the Company's acquisition of Green Spring, the growth of the managed behavioral healthcare industry accelerated. Under the Company's majority ownership, Green Spring increased its base of covered lives from 12.0 million as of the end of calendar year 1995 to 21.1 million as of the end of calendar year 1997, a compound annual growth rate of over 32%. While growth in the industry was accelerating, the managed behavioral healthcare industry also began to consolidate. The Company concluded that consolidation presented an opportunity for the Company to enhance its stockholder value by increasing its participation in the managed behavioral healthcare industry, which the Company believed offered growth and earnings prospects superior to those of the psychiatric hospital industry. Therefore, the Company decided to sell its domestic psychiatric facilities to obtain capital for expansion in the managed behavioral healthcare business.

During the third quarter of fiscal 1997, the Company sold substantially all of its domestic acute-care psychiatric hospitals and residential treatment facilities (the "Psychiatric Hospital Facilities") to Crescent Real Estate Equities Limited Partnership ("Crescent") for $417.2 million in cash (before costs of approximately $16.0 million) and certain other consideration (the "Crescent Transactions"). The sale of the Psychiatric Hospital Facilities provided the Company with approximately $200 million of net cash proceeds, after debt repayment, for use in implementing its business strategy. The Company used the net cash proceeds to finance the acquisitions of HAI and Allied in December 1997. The Company has further implemented its business strategy through the Merit acquisition. See Note J--"Subsequent Events--Merit Acquisition".

The Company now generates a significant portion of its revenue and earnings from its managed care business. A significant portion of the Company's managed care revenue and earnings are generated from risk-based products, and such portion will increase following the Merit acquisition. The Company believes enrollment in risk-based products will continue to grow through new covered lives and the transition of covered lives in administrative services-only products and employee assistance programs to higher revenue risk-based products. Risk-based products typically generate significantly higher amounts of revenue than other managed behavioral healthcare products. Because the Company is responsible for the cost of care, risk-based products typically have lower margins than non-risk-based products.

RESULTS OF OPERATIONS

QUARTER ENDED DECEMBER 31, 1996 COMPARED TO THE QUARTER ENDED DECEMBER 31, 1997.

REVENUE. Managed care revenue increased 61.8% to $134.1 million for the quarter ended December 31, 1997 from $82.9 million in the same period in fiscal 1997. The increase resulted primarily from the acquisition of HAI and Allied in December 1997 and continued revenue growth at Green Spring. HAI and Allied revenues were approximately $9.2 million and $18.5 million, respectively, for the quarter ended December 31, 1997. Green Spring revenues were positively impacted by the award of several new contracts and acquisitions since December 31, 1996, resulting in a 54% increase in covered lives to 21.1 million as of December 31, 1997 as compared to December 31, 1996.

Public sector revenue increased 36.1% to $29.3 million for the quarter ended December 31, 1997 from $21.5 million in the same period in fiscal 1997. The increase was primarily attributable to a 26% increase in placements in Mentor homes and $1.7 million in additional revenues from correctional contracts.

Healthcare franchising revenue was $19.6 million for the quarter ended December 31, 1997. The healthcare franchising revenue consisted of franchise fees payable by CBHS pursuant to the master franchising agreement entered into as part of the Crescent Transactions (the "Franchise Fees").

Provider business revenue decreased 86.3% to $33.1 million for the quarter ended December 31, 1997 from $242.4 million in the same period in fiscal 1997. The decrease resulted primarily from the effect of the consummation of the Crescent Transactions on June 17, 1997, following which revenue from the Psychiatric Hospital Facilities and other facilities transferred to CBHS was no longer recorded as part of the Company's revenue. During the quarters ended December 31, 1996 and 1997, the Company recorded revenue of $11.0 million and $0.7 million, respectively, for settlements and adjustments related to reimbursement issues with respect to psychiatric hospitals owned or formerly owned by the Company. During fiscal 1997, the Company recorded $27.4 million for such settlements. Management anticipates that revenue related to such settlements will decline significantly for fiscal 1998.

SALARIES, COST OF CARE AND OTHER OPERATING EXPENSES. Salaries, cost of care and other operating expenses attributable to the managed care business increased 61.7% to $119.6 million for the quarter ended December 31, 1997 from $73.9 million in the same period in fiscal 1997. The increase resulted primarily from the acquisition of HAI and Allied, which had expenses of $6.8 million and $17.6 million, respectively, for the quarter ended December 31, 1997, and from continued growth at Green Spring.

Public sector salaries, cost of care and other operating expenses increased 39.0% to $27.4 million for the quarter ended December 31, 1997 from $19.7 million in the same period in fiscal 1997. The increase was due primarily to internal growth and increases in costs related to expansion and new product development.

Healthcare franchising operating expenses were $2.2 million for the quarter ended December 31, 1997. The Company recorded no expenses with respect to the healthcare franchising business during the quarter ended December 31, 1996 because the Crescent Transactions were not consummated until the third quarter of fiscal 1997.

Salaries, cost of care and other operating expenses attributable to the provider business decreased 88.0% to $22.1 million for the quarter ended December 31, 1997 from $184.7 million in the same period in fiscal 1997. The decrease resulted primarily from the effect of the consummation of the Crescent Transactions, following which operating expenses of the Psychiatric Hospital Facilities and other facilities transferred to CBHS were no longer accounted for as part of the Company's operating expenses. During the quarter ended December 31, 1997, the Company recorded reductions of expenses of approximately $4.1 million as a result of updated actuarial estimates related to malpractice claim reserves. These reductions resulted primarily from updates to actuarial assumptions regarding the Company's expected losses for more recent policy years. These revisions are based on changes in expected values of ultimate losses resulting from the Company's claim experience, and increased reliance on such claim experience. While management and its actuaries believe that the present reserve is reasonable, ultimate settlement of losses may vary from the amount recorded and result in additional fluctuations in income in future periods.

BAD DEBT EXPENSE. Bad debt expense, which is primarily attributable to the provider business, decreased 94.7%, or $19.2 million, for the quarter ended December 31, 1997 compared to the same period in fiscal 1997. The decrease was primarily attributable to the effect of the consummation of the Crescent Transactions, following which the bad debt expense incurred by the Psychiatric Hospital Facilities and other facilities transferred to CBHS was no longer accounted for as part of the Company's bad debt expense.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization decreased 46.8%, or $6.1 million, for the quarter ended December 31, 1997 compared to the same period in fiscal 1997. The decrease was primarily attributable to the effect of the consummation of the Crescent Transactions, whereby the Psychiatric Hospital Facilities were sold to Crescent, offset by increases in depreciation and amortization resulting from the HAI and Allied acquisitions.

INTEREST, NET. Interest expense, net, decreased 45.5%, or $6.2 million, for the quarter ended December 31, 1997 compared to the same period in fiscal 1997. The decrease was primarily the result of lower interest expense due to lower average borrowings and higher interest income due to temporary investments of the cash received in the Crescent Transactions.

OTHER ITEMS. Stock option expense (credit) for the quarter ended December 31, 1997 decreased $4.6 million from the quarter ended December 31, 1996 primarily due to fluctuations in the market price of the Company's common stock.

The Company recorded equity in the loss of CBHS of $11.5 million for the quarter ended December 31, 1997, representing the Company's proportionate (50%) loss in CBHS for the quarter ended December 31, 1997. See Note G--"Investment in CBHS".

Minority interest increased $0.9 million during the quarter ended December 31, 1997 compared to the same period in fiscal 1997. The increase was primarily due to Green Spring's net income growth in fiscal 1998.

The Company recorded an extraordinary loss on early extinguishment of debt, net of tax, of $3.0 million during the quarter ended December 31, 1996 related to the termination of its then existing credit agreement.

IMPACT OF CRESCENT TRANSACTIONS

The Company owns a 50% equity interest in CBHS, from which it receives the Franchise Fees. The Franchise Fees represent a significant portion of the Company's earnings and cash flows. The following is a discussion of certain matters related to the Company's ownership of CBHS that may have a bearing on the Company's future results of operations.

CBHS may consolidate services in selected markets by closing facilities depending on market conditions and evolving business strategies. For example, during fiscal 1995 and 1996, the Company consolidated, closed or sold 15 and 9 psychiatric hospitals, respectively. During fiscal 1997, the Company consolidated or closed three psychiatric hospitals prior to the Crescent Transactions. If CBHS closes additional psychiatric hospitals, it could result in charges to income for the costs attributable to the closures, which would result in lower equity in earnings of CBHS for the Company.

The Company's JV Hospitals and CBHS' hospitals continue to experience a shift in payor mix to managed care payors from other payors, which contributed to a reduction in revenue per equivalent patient day in fiscal 1996 and a decline in average length of stay in fiscal 1995, 1996 and 1997. Management anticipates a continued shift in hospital payor mix towards managed care payors as a result of changes in the healthcare marketplace. Future shifts in hospital payor mix to managed care payors could result in lower revenue per equivalent patient day and lower average length of stay in future periods for the Company's JV Hospitals and CBHS' hospitals, which could result in lower equity in earnings from CBHS for the Company and cash flows to pay the Franchise Fees. The hospitals currently managed or operated by CBHS, including hospitals closed or sold in 1997, reported a 10% reduction in equivalent patient days, a 7% reduction in average length of stay and a 4% decrease in admissions in fiscal 1997 compared to fiscal 1996.

The Balanced Budget Act of 1997 (the "Budget Act"), which was enacted by Congress in August 1997, includes provisions that eliminated the TEFRA bonus payment and reduced reimbursement of certain costs previously paid by Medicare and eliminated the Medicaid "disproportionate share" program. These provisions, along with other provisions in the Budget Act, will reduce the amount of revenue and earnings that CBHS hospitals will receive for the treatment of Medicare patients. CBHS management estimates that such reductions will approximate $10 million in fiscal 1998, and due to the phase-in effects of the Budget Act, approximately $15 million annually in subsequent fiscal years.

Based on projections of fiscal 1998 operations prepared by management of CBHS and results of operations through December 31, 1997, the Company believes that CBHS will be unable to pay the full amount of the Franchise Fees it is contractually obligated to pay the Company during fiscal 1998. The Company currently estimates that CBHS will be able to pay approximately $58 to $68 million of the Franchise Fees in fiscal 1998, a $10 to $20 million shortfall relative to amounts payable under the master franchise agreement. The Company may be required to record bad debt expense related to Franchise Fees receivable from CBHS, if any, in fiscal 1998 or future periods if CBHS's operating performance does not improve to levels achieved prior to the consummation of the Crescent Transactions. If CBHS defaults in payment of the Franchise Fees, the Company will pursue all remedies available to it under the master franchise agreement.

IMPACT OF THE MERIT ACQUISITION

Following the Merit acquisition, the Company provides managed behavioral healthcare services in the United States to over 58 million covered lives. The Company believes it has the number one market position in each of the major product markets in which it competes. The Company believes its industry

leading position will enhance its ability to (1) provide a consistent level of high quality service on a nationwide basis; (ii) enter into favorable agreements with behavioral healthcare providers that allow it to effectively control healthcare costs for its customers; and (iii) effectively market its managed care products to large corporate, HMO and insurance customers, which, the Company believes, increasingly prefer to be serviced by a single-source provider on a national basis.

The Company believes that the Merit acquisition creates opportunities for the Company to achieve significant cost savings in its managed behavioral healthcare business. Management believes that cost saving opportunities will result from leveraging fixed overhead over a larger revenue base and an increased number of covered lives and from reducing duplicative corporate and regional selling, general and administrative expenses. As a result, the Company expects to achieve approximately $60.0 million of cost savings in its managed behavioral healthcare business on an annual basis within eighteen months following the consummation of the Merit acquisition. The Company expects to spend approximately $26.0 million during the eighteen months following the consummation of the Merit acquisition in connection with achieving such costs.

The Company expects to finalize its plans for the integration of the businesses of Green Spring, HAI and Merit by March 31, 1998. The Company expects to record charges to operations during the quarter ended March 31, 1998 to the extent the integration plan results in the elimination of personnel and facility closures at HAI and Green Spring and for integration plan costs incurred that benefit future periods.

The full implementation of the integration plan is expected to take eighteen months. The Merit acquisition and related transactions are expected to be dilutive to future earnings until the integration plan is substantially complete. Accordingly, such earnings dilution will be most significant during the remaining quarters of fiscal 1998.

The Company expects to record an extraordinary loss of approximately $30.0 million to $35.0 million, net of tax benefits, in connection with the termination of its Credit Agreement and extinguishing the $375 million in 11.25 % Senior Subordinated Notes as part of the Transactions.

HISTORICAL LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES. The Company's net cash used in operating activities was approximately $23.4 million and $31.7 million for the quarters ended December 31, 1996 and 1997, respectively. The Company typically has negative operating cash flows in the December quarter each year due to the interest payment previously due in October each year for the $375 million 11.25% Senior Subordinated Notes and annual employee incentive payments. Operating cash flows for the quarter ended December 31, 1997 were also adversely affected by the change in due to/from CBHS, primarily due to working capital advances, of $11.3 million, the prepayment of CHARTER call center management fees to CBHS of $5.9 million and insurance settlement payments of $6.8 million.

INVESTING ACTIVITIES. The Company utilized $165.5 million in funds, net of cash acquired, for acquisitions and investments in businesses, including Allied and HAI, during the quarter ended December 31, 1997. In addition, the Company paid approximately $4.3 million for Crescent Transaction costs during the quarter ended December 31, 1997. The Company expects to fund an additional $6.6 million in transaction costs and construction costs in fiscal 1998 related to the Crescent Transactions.

FINANCING ACTIVITIES. The Company borrowed approximately $126.8 million, net of issuance costs, in the first quarter of fiscal 1997, primarily to refinance its then existing credit agreement. The Company repurchased approximately 545,000 shares of its common stock for approximately $12.5 million during the quarter ended December 31, 1997.

As of February 12, 1998, the Company had approximately $112.5 million of availability under the Revolving Facility of the New Credit Agreement.

PRO FORMA LIQUIDITY AND CAPITAL RESOURCES

Following the consummation of the Merit acquisition, interest payments on the Notes and interest and principal payments on indebtedness outstanding pursuant to the New Credit Agreement will represent significant liquidity requirements for the Company. Borrowings under the New Credit Agreement will bear interest at floating rates and will require interest payments on varying dates depending on the interest rate option selected by the Company. Borrowings pursuant to the New Credit Agreement will include $550 million in Term Loans and up to $150 million under the Revolving Facility. Commencing in the second quarter of fiscal 1999, the Company will be required to make principal payments with respect to the Term Loans.

The Company is in the process of finalizing its plans for the integration of the businesses of Green Spring, HAI and Merit. The Company expects to achieve approximately $60.0 million of cost savings on an annual basis within eighteen months following the consummation of the Merit acquisition. Such cost savings are measured relative to the combined budgeted amounts of the Company, Merit and HAI for the current fiscal year prior to the cost savings initiatives. The Company expects to spend approximately $26.0 million during the eighteen months following the consummation of the Merit acquisition in connection with achieving such cost savings, including expenses related to reducing duplicative personnel in its managed care organizations, contractual terminations for eliminating excess real estate (primarily locations under operating leases) and other related costs in connection with the integration plan. Certain of such costs will be capital expenditures.

During December 1997, the Company purchased HAI and Allied for approximately $122.1 million and $70.0 million, respectively, excluding transaction costs. In addition, the Company incurred the obligation to make contingent payments to the former owners of HAI and Allied. With respect to HAI, the Company may be required to make additional contingent payments of up to $60.0 million annually to Aetna over the five-year period subsequent to closing. The Company is obligated to make contingent payments under two separate calculations. Under the first calculation, the amount and timing of the contingent payments will be based on growth in the number of lives covered by certain HAI products during the next five years. The Company may be required to make contingent payments of up to $25.0 million per year for each of the five years following the HAI acquisition depending on the net annual growth in the number of lives covered by such HAI products. The amount to be paid per incremental covered life decreases during the five-year term of the Company's contingent payment obligation. Under the second calculation, the Company may be required to make contingent payments of up to $35.0 million per year for each of five years based on the net cumulative growth in the number of lives covered by certain other HAI products. Aetna will receive a specified amount per net incremental life covered by such products. The amount to be paid per incremental covered life increases with the number of incremental covered lives.

The Company may be required to pay up to $40.0 million during the three years following the closing of the Allied acquisition based on Allied's performance relative to certain earnings targets. In connection with Merit's acquisition of CMG Health, Inc. ("CMG"), the Company, by acquiring Merit, may be required to make certain future contingent cash payments over the next two years to the former shareholders of CMG based upon the performance of certain CMG customer contracts. Such contingent payments are subject to an aggregate maximum of $23.5 million.

The Company believes that the cash flow generated from its operations together with amounts available for borrowing under the New Credit Agreement, should be sufficient to fund its debt service requirements, anticipated capital expenditures, contingent payments, if any, with respect to HAI, Allied and CMG and other investing and financing activities. The Company currently estimates that it will spend approximately $50.0 million to $60.0 million for capital expenditures in fiscal 1998. On a combined basis, the Company (excluding its provider business), Merit and HAI spent approximately $40 million for capital expenditures during fiscal 1997. The majority of the Company's budgeted capital expenditures relate to

management information systems and related equipment. The Revolving Facility will provide the Company with revolving loans and letters of credit in an aggregate principal amount at any time not to exceed $150.0 million. Immediately after the consummation of the Transactions, $112.5 million, including $17.5 million for letters of credit, was available to the Company for borrowing pursuant to the Revolving Facility. The Company's future operating performance and ability to service or refinance the Notes or to extend or refinance the indebtedness outstanding pursuant to the New Credit Agreement will be subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control.

The New Credit Agreement provides for the Term Loan Facility in an aggregate principal amount of $550 million, consisting of an approximately $183.3 million Tranche A Term Loan (the "Tranche A Term Loan"), an approximately $183.3 million Tranche B Term Loan (the "Tranche B Term Loan") and an approximately $183.3 million Tranche C Term Loan (the "Tranche C Term Loan") and the Revolving Facility providing for revolving loans to the Company and the "Subsidiary Borrowers" (as defined therein) and the issuance of letters of credit for the account of the Company and the Subsidiary Borrowers in an aggregate principal amount (including the aggregate stated amount of letters of credit) of $150 million.

The Tranche A Term Loan and the Revolving Facility will mature on the date that is six years after the closing of the Transactions. The Tranche B Term Loan will mature on the date that is seven years after the closing of the Transactions and the Tranche C Term Loan will mature on the date that is eight years after the closing of the Transactions. The Tranche A Term Loan will be amortized in installments in amounts equal to $22.0 million in the second year following the closing date, $30.0 million in the third year following the closing date, $36.0 million in the fourth year following the closing date, $48.0 million in the fifth year following the closing date, and $47.3 million in the sixth year following the closing date. The Tranche B Term Loan will be amortized in installments in amounts equal to $2.2 million in each of the second through fifth years following the closing date, $55.0 million in the sixth year following the closing date, and $119.5 million in the seventh year following the closing date. The Tranche C Term Loan will be amortized in installments in amounts equal to $2.2 million in each of the second through sixth years following the closing date, $55.0 million in the seventh year following the closing date and $117.3 million in the eighth year following the closing date. In addition, the credit facilities are subject to mandatory prepayment and reductions (to be applied first to the Term Loan Facility) in an amount equal to (a) 100% of the net proceeds of certain offerings of equity securities by the Company or any of its subsidiaries, (b) 100% of the net proceeds of certain debt issuances of the Company or any of its subsidiaries, (c) 75% of the Company's excess cash flow, as defined, and (d) 100% of the net proceeds of certain asset sales or other dispositions of property of the Company and its subsidiaries, in each case subject to certain limited exceptions.

The New Credit Agreement will impose restrictions on the Company's ability to make capital expenditures and both the New Credit Agreement and the Indenture governing the Notes limit the Company's ability to incur additional indebtedness. Such restrictions, together with the highly leveraged financial condition of the Company subsequent to the Merit acquisition, could limit the Company's ability to respond to market opportunities. The covenants contained in the New Credit Agreement will also, among other things, restrict the ability of the Company to dispose of assets, repay other indebtedness, amend other debt instruments (including the Indenture), pay dividends, create liens on assets, enter into sale and leaseback transactions, make investments, loans or advances, redeem or repurchase common stock and make acquisitions.

MODIFICATION OF COMPUTER SOFTWARE FOR THE YEAR 2000

The Company and its subsidiaries have internally developed computer software systems that process transactions based on storing two digits for the year of a transaction (i.e., "97" for 1997) rather than four digits, which will be required for year 2000 transaction processing. CBHS expects to spend $1.0 million in the aggregate during fiscal 1998 and fiscal 1999 to modify internal use software. The Company expects to spend approximately $1.6 million in the aggregate during fiscal 1998 and fiscal 1999 to modify internal use software. The Company does not anticipate incurring any other significant costs for year 2000 software modification. The cost of modifying internal use software for the year 2000 is charged to expense as incurred.

PART II--OTHER INFORMATION

ITEM 1.--LEGAL PROCEEDINGS

Certain of the Company's subsidiaries are subject to or parties to claims, civil suits and governmental investigations and inquiries relating to their operations and certain alleged business practices. In the opinion of management, based on consultation with counsel, resolution of these matters will not have a material adverse effect on the Company's financial position or results or operations.

ITEM 6.--EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

2(a) Stock Purchase Agreement, dated August 5, 1997, between the Company and Aetna Insurance Company of Connecticut, which was filed as Exhibit 2(a) to the Company's current report on Form 8-K, which was filed on December 17, 1997, and is incorporated herein by reference.

2(b) Master Service Agreement, dated August 5, 1997, between the Company, Aetna U.S. Healthcare, Inc. and Human Affairs International, Incorporated, which was filed as Exhibit 2(b) to the Company's current report on Form 8-K, which was filed on December 17, 1997, and is incorporated herein by reference.

2(c) Amendment to Stock Purchase Agreement, dated December 4, 1997, between the Company and Aetna Insurance Company of Connecticut, which was filed as Exhibit 2(c) to the Company's current report on Form 8-K, which was filed on December 17, 1997, and is incorporated herein by reference.

2(d) First Amendment to Master Services Agreement, dated December 4, 1997, between the Company, Aetna U.S. Healthcare, Inc. and Human Affairs International, Incorporated, which was filed as Exhibit 2(d) to the Company's current report on Form 8-K, which was filed on December 17, 1997, and in incorporated herein by reference.

2(e) Asset Purchase Agreement, dated October 16, 1997, among the Company; Allied Health Group, Inc.; Gut Management, Inc.; Sky Management Co.; Florida Specialty Network, LTD; Surgical Associates of South Florida, Inc.; Surginet, Inc.; Jacob Nudel, M.D.; David Russin, M.D. and Lawrence Schimmel, M.D.

2(f) First Amendment to Asset Purchase Agreement, dated December 5, 1997, among the Company; Allied Health Group, Inc.; Gut Management, Inc.; Sky Management Co.; Florida Specialty Network, LTD; Surgical Associates of South Florida, Inc.; Surginet, Inc.; Jacob Nudel, M.D.; David Russing M.D. and Lawrence Schimmel, M.D.

2(g) Agreement and Plan of Merger, dated October 24, 1997, among the Company, Merit Behavioral Care Corporation and MBC Merger Corporation.

27 Financial Data Schedule

(b) Report on Form 8-K

The following current reports on Form 8-K were filed by the Registrant with the Securities and Exchange Commission during the quarter ended December 31, 1997.

DATE OF REPORT	ITEM REPORTED AND DESCRIPTION	FINANCIAL STATEMENTS FILED
December 17, 1997	Acquisition--HAI Acquisition	Yes (1)

- -----------------------

(1) Audited financial statements for the two years in the period ended December 31, 1996, unaudited financial statements for the nine months ended September 30, 1997 and 1996 and as of September 30, 1997, unaudited pro forma statement of operations for the year ended September 30, 1997 and unaudited pro forma balance sheet as of September 30, 1997.

EXHIBIT 2(e)

ASSET PURCHASE AGREEMENT

AMONG

CMSF, INC., AS THE BUYER,

AND

ALLIED HEALTH GROUP, INC.,
GUT MANAGEMENT, INC.,
SKY MANAGEMENT CO.,
FLORIDA SPECIALTY NETWORK, LTD.,
SURGICAL ASSOCIATES OF SOUTH FLORIDA, INC.,
SURGINET, INC., AS SELLERS,

AND

JACOB NUDEL, M.D., DAVID RUSSIN, M.D. AND LAWRENCE SCHIMMEL, M.D.

AND

MAGELLAN HEALTH SERVICES, INC., AS PARENT

DATED AS OF OCTOBER 16, 1997

TABLE OF CONTENTS

		PAGE
SECTION 1.	DEFINITIONS	1
	Section 1.1 Definitions	1
	Section 1.2 Principles of Construction	13
SECTION 2.	PURCHASE AND SALE OF THE PURCHASED PROPERTY	14
	Section 2.1 Transfer of Assets	14
	Section 2.2 Sale at Closing Date	14
	Section 2.3 Subsequent Documentation	14
	Section 2.4 Assumption of Liabilities	15
	Section 2.5 Excluded Liabilities	16
	Section 2.6 Breach of Representations	17
	Section 2.7 Right of Enforcement	17
SECTION 3.	PURCHASE PRICE; EARN-OUT	17
	Section 3.1 Purchase Price	17
	Section 3.2 Working Capital Adjustment	18
	Section 3.3 Earn-Out	19
	Section 3.4 Payment of Adjustment and Earn-Out; Distribution of Escrow	25
	Section 3.5 Prorations and Other Adjustments	26
SECTION 4.	CLOSING	27
SECTION 5.	REPRESENTATIONS AND WARRANTIES OF THE SELLERS AND THE EXECUTIVE SHAREHOLDERS	28
	Section 5.1 Organization; Qualification to Do Business; Subsidiaries	29
	Section 5.2 Authorization and Validity of Agreement	29
	Section 5.3 No Conflict or Violation	30
	Section 5.4 Consents and Approvals	30
	Section 5.5 Financial Statements and Projections	30
	Section 5.6 Absence of Certain Changes or Events	31
	Section 5.7 Tax Matters	35
	Section 5.8 Absence of Undisclosed Liabilities	35
	Section 5.9 Accounts Receivable; Banking	36
	Section 5.10 Real Property; Leases	36
	Section 5.11 Equipment and Machinery	37
	Section 5.12 Intellectual Property; Intangible Assets	37
	Section 5.13 Licenses and Permits	38
	Section 5.14 Litigation	39

	Section 5.15	Professional Liability Claims	39
	Section 5.16	Contracts	40
	Section 5.17	Employee Plans and Benefits; Employees and Independent Contractors	42
	Section 5.18	Insurance	44
	Section 5.19	Compliance with Law	45
	Section 5.20	Change in Ownership	48
	Section 5.21	Files and Records	48
	Section 5.22	Related Party Transactions	48
	Section 5.23	Sufficiency of and Title to Assets	48
	Section 5.24	Accuracy of Information	49
	Section 5.25	Brokers	49
	Section 5.26	Disclosure	49
	Section 5.27	Survival	49
SECTION 6.	REPRESENTATIONS AND WARRANTIES OF THE BUYER AND PARENT		49
	Section 6.1	Corporate Organization	49
	Section 6.2	Authorization and Validity of Agreement	50
	Section 6.3	No Conflict or Violation	50
	Section 6.4	Consents and Approvals	50
	Section 6.5	Litigation	50
	Section 6.6	Financing	51
	Section 6.7	Brokers	51
	Section 6.8	Accuracy of Representations and Warranties	51
	Section 6.9	Survival	51
SECTION 7.	COVENANTS		51
	Section 7.1	Information and Certain Tax Matters	51
	Section 7.2	Conduct of the Businesses	53
	Section 7.3	Tax Reporting and Allocation of Consideration	56
	Section 7.4	Supplemental Schedules	56
	Section 7.5	Transferred Persons	57
	Section 7.6	Consents and Approvals	58
	Section 7.7	Negotiations	59
	Section 7.8	Further Assurances	59
	Section 7.9	Covenant Not to Compete	59
	Section 7.10	Non-Solicitation of Employees	60
	Section 7.11	Assignment of Contracts and Warranties	60
	Section 7.12	Notice of Breach	61
	Section 7.13	Bulk Sales Compliance	61
	Section 7.14	Conduct of the Businesses after Closing	61

Section 7.15 Meetings of the Board of Directors of Buyer.................. 62
Section 7.16 Information Technologies Budget.............................. 62
Section 7.17 Indemnification for Certain Liabilities...................... 62
Section 7.18 Refinancing of Existing Bank Loan............................ 63

SECTION 8. CONDITIONS TO OBLIGATIONS OF BUYER... 63

Section 8.1 Representations and Warranties............................... 63
Section 8.2 Performance of Seller's and Shareholders' Obligations........ 63
Section 8.3 Consents and Approvals...................................... 64
Section 8.4 No Violation of Orders...................................... 64
Section 8.5 No Material Adverse Change.................................. 64
Section 8.6 Due Diligence with Respect to Third Party Payors............. 64
Section 8.7 Consents under Key Contracts................................ 64
Section 8.8 Farrell Consulting Arrangement.............................. 65
Section 8.9 Employment Agreement with Dr. Jones......................... 66
Section 8.10 Financial Statements and Projections......................... 66
Section 8.11 Opinion of Counsel.. 66
Section 8.12 Other Closing Documents..................................... 66
Section 8.13 Legal Matters... 66
Section 8.14 TPA and UR Licenses... 67

SECTION 9. CONDITIONS TO OBLIGATIONS OF THE SELLERS..................................... 67

Section 9.1 Representations and Warranties of the Buyer.................. 67
Section 9.2 Performance of the Buyer's Obligations....................... 67
Section 9.3 Consents and Approvals...................................... 67
Section 9.4 No Violation of Orders...................................... 67
Section 9.5 Opinion of Counsel.. 67
Section 9.6 Other Closing Documents..................................... 68
Section 9.7 Legal Matters... 68

SECTION 10. TERMINATION AND ABANDONMENT.. 68

Section 10.1 Methods of Termination; Upset Date........................... 68
Section 10.2 Procedure Upon Termination.................................. 69

SECTION 11. INDEMNIFICATION.. 70

Section 11.1 Indemnification by the Sellers and the Executive Shareholders.. 70
Section 11.2 Procedures for Indemnification by the Sellers................ 71
Section 11.3 The Buyer's Right of Set-Off................................ 72
Section 11.4 Indemnification by the Buyer and Parent...................... 72
Section 11.5 Procedures for Indemnification by the Buyer and Parent....... 73
Section 11.6 The Sellers' and Executive Shareholders' Right of Set-Off.. 73

	Section 11.7	Purchase Price Adjustment	74
SECTION 12.	MISCELLANEOUS		74
	Section 12.1	Successors and Assigns; Restrictions on Assignment and Transfer of Purchase Price	74
	Section 12.2	Governing Law, Jurisdiction	74
	Section 12.3	Expenses	74
	Section 12.4	Joint and Several Obligations	74
	Section 12.5	Severability	74
	Section 12.6	Notices	75
	Section 12.7	Amendments; Waivers	76
	Section 12.8	Public Announcements	76
	Section 12.9	Entire Agreement	77
	Section 12.10	Parties in Interest	77
	Section 12.11	Scheduled Disclosures	77
	Section 12.12	Section and Paragraph Headings	77
	Section 12.13	Counterparts	77
	Section 12.14	Post-Closing Survival	77
	Section 12.15	Confidentiality	77
	Section 12.16	Litigation	78
	Section 12.17	Specific Performance	78
	Section 12.18	Retention of Independent Accounting Firms	78
	Section 12.19	Limited Obligations of Parent	78

EXHIBITS

A	--	Form of Assumption Agreement
B	--	Form of Escrow Agreement
C	--	Form of Opinion of Broad and Cassel
D	--	Form of Opinion of Dow, Lohnes & Albertson, PLLC

SCHEDULES

1.1(k) Best Knowledge and Knowledge
1.1(yyy) Permitted Encumbrances
1.1(hhhh) Excluded Assets
1.1(llll) Shareholders
2.4(a) Certain Excluded Contracts
2.4(b) Certain Payables
5.1(a) Equity Interests
5.1(b) Partnership Interests
5.3 Conflicts or Violations
5.4 Consents, Waivers, Authorizations and Approvals for Sellers
5.5 Financial Statements
5.6(a) Material Changes or Events
5.6(b) Exceptions to Section 5.6(b)
5.6(b)(13) Certain Encumbrances
5.6(c) Exceptions to Section 5.6(c)
5.7(b) Tax Matter Exceptions
5.7(c) Tax Jurisdictions
5.9(b) Bank Accounts
5.10(a) Owned Real Property
5.10(b) Leased Real Property
5.10(c) Amendments to Leases; Defaults
5.10(d) Subleases; Restrictive Covenants
5.11 Equipment and Machinery
5.12(a) Intellectual Property
5.12(b) Intangible Assets
5.13(a) Licenses, Permits and Governmental Approvals
5.14 Litigation
5.15(a) Professional Liability Claims
5.16(a) Contracts
5.16(c) Material Compliance with Contracts
5.16(d) Restrictions on Assignment
5.16(e) Co-Contractants; Change of Control Payments
5.16(f) Capitation Fees
5.16(h)(i) Non-Competition Provisions (Payors)
5.16(h)(ii) Non-Competition Provisions (Network Physicians, Consultants)
5.16(i) Significant Terminations
5.17(a) Plans and Compensation Arrangements
5.17(d) Determination Letters; Material Liability
5.17(e)(i) Network Physicians
5.17(e)(ii) Consultants
5.17(e)(iii) Employees
5.18(a) Insurance
5.18(b) Insurance for Third Parties
5.19 Compliance with Law
5.22 Related Party Transactions
6.3 Conflicts
6.4 Consents, Waivers, Authorizations and Approvals for Buyer
7.2 Conduct of Business
7.3(b) Allocation
7.5(a) Employees to be Engaged by the Buyer
8.7 Key Contracts

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT, dated as of October 16, 1997, among CMSF, Inc.,a Florida corporation (the "BUYER"), Allied Health Group, Inc., a Florida corporation ("AHG"), Gut Management, Inc., a Florida corporation ("GUT"), Sky Management Co., a Florida corporation ("SKY"), Florida Specialty Network, Ltd., a Florida limited partnership ("FSN"), Surgical Associates of South Florida, Inc., a Florida corporation ("SASF"), Surginet, Inc., a Florida corporation ("SURGINET" and, together with AHG, Gut, Sky, FSN and SASF, the "SELLERS"), and Jacob Nudel, M.D., David Russin, M.D. and Lawrence Schimmel, M.D. (each, in his individual capacity, an "EXECUTIVE SHAREHOLDER", and collectively, the "EXECUTIVE SHAREHOLDERS"), and Magellan Health Services, Inc., a Delaware corporation, the ultimate corporate parent of the Buyer ("PARENT"),

W I T N E S S E T H:

WHEREAS, AHG is engaged in the business of managing physician networks and providing administrative tasks relating thereto under a variety of administrative services and managed care network agreements;

WHEREAS, Sky, SASF, Surginet and Gut are each engaged in the business of providing surgical specialty networks which, in the case of Gut, is specialized in gastroenterology, and certain related administrative tasks under a variety of managed care agreements;

WHEREAS, FSN is engaged in performing various administrative and data processing tasks for certain of the foregoing Sellers as well as to various health maintenance organizations and managed care physician networks; and

WHEREAS, the Buyer desires to purchase the businesses of the Sellers by purchasing all the assets relating to all the business activities and operations of each Seller, including the activities described above (each, a "BUSINESS," and collectively, taking into account the Business of each Seller, the "Businesses") from the Sellers, and the Sellers desire to sell such Businesses and assets to the Buyer, in each case upon the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the respective covenants and agreements hereinafter contained, the parties hereby agree:

SECTION 1. DEFINITIONS.

Section 1.1 DEFINITIONS. Unless the context otherwise requires, as used in this Agreement, the following terms shall have the following meanings (terms defined in the singular to have the same meanings when used in the plural and VICE VERSA):

(a) "Accounts Receivable" shall mean all accounts and notes receivable, claims, debtor obligations and other rights to receive payments from third parties of each Seller relating to its Business, existing on the Closing Date.

(b) "Accountants" shall have the meaning set forth in Section 3.3(a).

(c) "Affiliates" shall mean any individual, corporation, partnership, joint venture, association, trust or unincorporated organization that controls, is controlled by or is under common control with a Person and "control" of a Person (including, with correlative meaning, the terms "control by" and "under common control with") means the power to direct or cause the direction of the management, policies or affairs of the controlled Person, whether through ownership of securities or partnership or other ownership interests, by contract or otherwise, PROVIDED, HOWEVER, that in the case of any Seller, the term "Affiliates" shall also include each other Seller, and each Shareholder of such Seller.

(d) "Agreement" shall mean this Asset Purchase Agreement, as it may be amended, modified or supplemented from time to time in accordance with its terms.

(e) "Allocation" shall have the meaning set forth in Section 7.3(b).

(f) "Applicable Percentage" shall mean the percentage of the Closing Cash Installment of the Purchase Price being paid to each Seller at Closing in relation to the other Sellers as set forth in a schedule to be provided by the Sellers to the Buyer at least 5 Business Days prior to the Closing Date.

(g) "Asset Acquisition Statement" shall have the meaning set forth in Section 7.3(b).

(h) "Assumed Liabilities" shall mean the liabilities and obligations of the Sellers expressly assumed by the Buyer pursuant to Section 2.4 and no others.

(i) "Audited Financial Statements" shall mean, collectively, (i) for each of Gut, Sky, and SASF, the audited balance sheets as of December 31, 1994, 1995 and 1996 and the related statements of operations and retained earnings, and cash flows for the years then ended; (ii) the audited balance sheets of FSN as of December 31, 1994, 1995 and 1996 and the related statements of operations, partners' equity, and cash flows for the years then ended; (iii) the audited balance sheets of AHG as of December 31, 1995 and 1996, and the related statements of operations, stockholders' equity and cash flows from inception (May 15, 1995) to December 31, 1996; (iv) the audited balance sheets of Surginet as of December 31, 1995 and 1996, and the related statements of operations, stockholders' equity and cash flows from inception (April 12, 1995) to December 31, 1996; and (v) collectively, for the Sellers taken as a whole, the audited combined balance sheets as of December 31, 1994, 1995 and 1996, and the related combined statements of operations, owners' equity and cash flows for the years then ended.

(j) "Best Efforts" means that the obligated party is required to make a diligent and good faith effort to accomplish the applicable objective. Such obligation, however, does not require a material expenditure of funds or the incurrence of a material liability on the part of the obligated party, nor does it require that the obligated party act in a manner that would be contrary to normal commercial practices in order to accomplish the objective. The failure to accomplish a given objective is no indication that the obligated party did not in fact utilize its Best Efforts in attempting to accomplish the objective.

(k) "Best Knowledge" or "best knowledge" when used with respect to: (i) a Seller shall mean the collective knowledge of the persons identified on SCHEDULE 1.1(K), as well as all of the officers, directors and the Executive Shareholders of such Seller, including the knowledge any such Person has or could reasonably be expected to have after due inquiry, and (ii) an Executive Shareholder shall mean the knowledge of such Executive Shareholder, including the knowledge such Executive Shareholder has or could reasonably be expected to have after due inquiry. For purposes of this definition, "due inquiry" shall mean reasonable inquiry of those Persons who are, in the judgment of such Person, likely to have knowledge of the facts which are the subject of the inquiry.

(l) "Business" shall have the meaning set forth in the recitals hereto.

(m) "Business Day" shall mean days other than Saturdays, Sundays and other legal holidays or days on which the principal office of First Union National Bank of North Carolina is closed.

(n) "Buyer" shall have the meaning set forth in the introductory paragraph hereto.

(o) "Buyer Indemnitees" shall have the meaning set forth in Section 11.1.

(p) "Buyer's Event of Breach" shall have the meaning set forth in Section 11.4.

(q) "Cash and Cash Equivalents" shall mean the amount of cash on hand and cash in any bank account or brokerage account of each of the Sellers, including any securities with maturities of less than 90 days.

(r) "Change of Control Payment" shall have the meaning set forth in Section 5.16(e).

(s) "Closing" shall have the meaning set forth in Section 4.

(t) "Closing Cash Installment" shall have the meaning set forth in Section 3.1.

(u) "Closing Date" shall have the meaning set forth in Section 4.

(v) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(w) "Compensation Arrangements" shall have the meaning set forth in Section 5.17(a).

(x) "Consultants" means all consultants, agents and independent contractors providing consulting services, including marketing, promotion, software development, administrative services and related services, engaged by any Seller in connection with its Business, each of whom has been identified pursuant to Section 5.17(e) and SCHEDULE 5.17(E)(II).

(y) "Contracts" shall mean, collectively, the Third Party Payor Agreements, Leases, Purchase Orders and Other Contracts all of which are listed on SCHEDULE 5.16(A) hereto, and no others. The term Contracts shall not include any of the Excluded Contracts regardless of whether such Excluded Contracts are also listed on SCHEDULE 5.16(A).

(z) "December 31, 1996 Combined Balance Sheet" shall mean the audited combined balance sheet of the Sellers at December 31, 1996, which is included in the Financial Statements.

(aa) "Earn-Out Period" shall have the meaning set forth in Section 3.3(a).

(x) "EBITDA" shall have the meaning set forth in Section 3.3(a).

(bb) "EBITDA Statement" shall have the meaning set forth in Section 3.3(b).

(cc) "Employees" means the employees of each Seller who are employed in connection with its Business (excluding temporary, leased and contract personnel), each of whom as of ten Business Days prior to the date of this Agreement has been identified pursuant to Section 5.17(e) and SCHEDULE 5.17(E)(III).

(dd) "Encumbrance" shall mean any encumbrance or lien of any character whatsoever, including, any option, right to purchase, right to convert, mortgage, charge, claim, pledge, conditional sales contract, judgment lien, materialman's lien, mechanic's lien or security interest.

(ee) "Engagement Notice" shall have the meaning set forth in Section 7.5(a).

(ff) "Environmental Law" means the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. SectionSection 9601 et seq.; the Resource Conservation and Recovery Act (RCRA), 42 U.S.C. SectionSection 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. SectionSection 1251 et seq.; the Clean Air Act, 42 U.S.C. SectionSection 7401 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. SectionSection 1801 et seq.; the Toxic Substances Control Act, 15 U.S.C., SectionSection 2601-2629; the Safe Drinking Water Act, 42 U.S.C. SectionSection300f-300j; and any state and local laws and ordinances that regulate in any way hazardous materials or wastes and the regulations implementing such statutes.

(gg) "Equipment and Machinery" shall mean (i) the equipment, computer hardware, machinery, furniture, fixtures and improvements, spare parts, supplies and vehicles owned or leased by each Seller with respect to the operations of its Business on the Closing Date (including all such items as set forth on the June 30, 1997 Combined Balance Sheet), (ii) the replacements for any of the foregoing owned or leased by such Seller, (iii) the warranties, service and maintenance documents, bills of sale, assignments and licenses (to the extent assignable) received from manufacturers and sellers of the aforesaid items and (iv) any related claims, credits, rights of recovery and set-off with respect thereto.

(hh) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

(ii) "ERISA Affiliate" shall have the meaning set forth in Section 5.17(a).

(jj) "Escrow Agent" shall have the meaning set forth in Section 3.1(b).

(kk) "Escrow Agreement" shall mean the Escrow Agreement by and among the Buyer, the Sellers, and the Escrow Agent, substantially in the form attached hereto as EXHIBIT B.

(ll) "Escrow Deposit" shall have the meaning set forth in Section 3.1(b).

(mm) "Excluded Contracts" shall have the meaning set forth in Section 2.4(a).

(nn) "Excluded Liabilities" shall have the meaning set forth in Section 2.5.

(oo) "Excluded Employee Obligations" has the meaning set forth in Section 2.5(d).

(pp) "Farrell Consulting Agreement" shall mean that certain agreement, made as of June 1, 1996, by and among FSN, Inc., FSN, AHG, and each of the Farrell Parties.

(qq) "Farrell Parties" shall mean, collectively, Morgan Chase Company, a Missouri corporation, and Joseph Farrell and Stephen Wulf.

(rr) "Files and Records" shall mean all files, books and records, whether in hard copy or magnetic or optical format, of each Business or the Purchased Property, including the following types of files, books and records relating to such Business: patient and supplier files, commitments, reports of examination, correspondence or internal memoranda regarding Contracts or other Purchased Property, equipment maintenance records, equipment warranty information and all files relating to Employees or independent contractors of such Business employed or engaged by the Buyer, including Form I-9's, credit records, and other similar documents and records used and/or useful in connection with such Business, and correspondence with Governmental Authorities relating to the operation of such Business and related files and records of each Seller, in each case, whether created prior to or following the Closing.

(ss) "Financial Statements" shall mean, collectively, (i) the Audited Financial Statements, (ii) the Management Prepared Financial Statements, and (iii) the Projections, each as defined herein.

(tt) "FSN, Inc." shall have the meaning set forth in Section 5.1(a).

(uu) "FSN Limited Partnership Agreement" shall have the meaning set forth in Section 5.1(b).

(vv) "GAAP" shall mean generally accepted accounting principles as in effect from time to time.

(ww) "Governmental Authority" shall mean any agency, division, department, regulatory body, subdivision, commission, board, bureau, court, audit group, procuring office or other instrumentality of the government of the United States, any state or local government, or any foreign national or local government, any subdivision thereof, including the employees, officers, representatives or agents thereof, as well as any arbitrator.

(xx) "Hazardous Materials" shall have the meaning set forth in Section 5.19(f).

(yy) "IAF EBITDA Statement" shall have the meaning set forth in Section 3.3(b).

(zz) "IBNR" shall have the meaning set forth in Section 5.5(b).

(aaa) "Independent Accounting Firm" shall have the meaning set forth in Section 3.3(a).

(bbb) "Information Technologies Budget" shall have the meaning set forth in Section 7.16.

(ccc) "Initial Purchase Price" shall have the meaning set forth in Section 3.1.

(ddd) "Intangible Assets" shall mean all intangible personal property rights, including the proceeds of any insurance policies and all claims on the part of each Seller for recoupment, reimbursement and coverage under any insurance policies, in each case in connection with its Business and all goodwill of each Seller relating to its Business, and including those items listed in SCHEDULE 5.12(B).

(eee) "Intellectual Property" shall mean all letters patent, patent qualifications, patent applications, trademarks, trademark applications, service marks, service mark applications, trade names, brands, trade

dress, logos, designs, private labels, copyrights, know-how, trade secrets and licenses, including software, computer network systems, claims processing procedures and other rights relating to the administration of Third Party Payor Agreements or otherwise relating to the Businesses, and rights with respect to the foregoing that each Seller holds or possesses the rights to use relating to the Purchased Property or the operations of its Business, including those items listed in SCHEDULE 5.12(A) hereto. Without limiting the generality of the foregoing, the name "Allied Health Group" falls within the foregoing definition.

(fff) "Inventory" means all (i) inventoriable supplies held by each Seller on the Closing Date (including all such items as set forth on the June 30, 1997 Combined Balance Sheet) for use in the operations of its Business, (ii) any supplies delivered to each Seller's Business after the Closing Date which such Seller has agreed to purchase in the ordinary course of business consistent with past practices and (iii) any warranties received from each Seller's suppliers with respect to such inventory (to the extent assignable) and related claims, credits, rights of recovery and set-off with respect thereto.

(ggg) "June 30, 1997 Combined Balance Sheet" shall mean the unaudited combined balance sheet of the Sellers at June 30, 1997, which is included in the Financial Statements.

(hhh) "Key Contracts" shall have the meaning set forth in Section 8.7.

(iii) "Knowledge" or "knowledge" when used with respect to: (i) a Seller shall mean the collective actual knowledge of the persons identified on SCHEDULE 1.1(K), as well as all of the other officers, directors and the Executive Shareholders of such Seller; and (ii) an Executive Shareholder shall mean the actual knowledge of such Executive Shareholder.

(jjj) "Leased Real Property" shall have the meaning set forth in Section 5.10(b).

(kkk) "Leases" shall have the meaning set forth in Section 5.10(b).

(lll) "Licenses and Permits" shall have the meaning set forth in Section 5.13.

(mmm) "Losses" shall have the meaning set forth in Section 11.1.

(nnn) "Management Agreement" shall mean the management agreement, to be effective as of the Closing Date, between the Buyer and a corporation formed by the Executive Shareholders pursuant to which the services of the Executive Shareholders will be made available to the Buyer for a period of three years in consideration of the payment by the Buyer of $250,000 per year in the aggregate and upon such other terms and conditions as shall be mutually agreed to by the Buyer and the Executive Shareholders.

(ooo) "Management Prepared Financial Statements" shall mean, collectively, (i) for each Seller the unaudited balance sheet as of June 30, 1997, and the related income statement for the six months then ended, (ii) collectively, for the Sellers taken as a whole, the unaudited combined balance sheet as of June 30, 1997, and the related income statement for the six months then ended, (iii) for the Sellers monthly combined and combining unaudited balance sheets and the related income statements as of and for the month ending July 31, 1997 and each month thereafter through the month ending thirty days prior to the Closing Date, prepared by management of the Sellers, and (iv) for the Sellers combined and combining unaudited balance sheets and the related income statements for the period commencing January 1, 1997 through the month ending 30 days prior to the Closing Date and the corresponding period in the prior year.

(ppp) "Minimum Amount" shall have the meaning set forth in Section 3.2(c).

(qqq) "Multiemployer Plan" shall have the meaning set forth in ERISA Section 3(37).

(rrr) "Net Revenue" shall have the meaning set forth in Section 3.3(a).

(sss) "Network Physicians" means primary care or specialist physicians serving as independent contractors of any Seller or any Person contracting with a Seller for the provision of health care or medical

services but who is not an Employee, each of whom has been identified pursuant to Section 5.17(e) and SCHEDULE 5.17(E)(I).

(ttt) "New Farrell Consulting Agreement" shall have the meaning set forth in Section 8.8(c).

(uuu) "Objection Notice" shall have the meaning set forth in Section 3.3(b).

(vvv) "Occurrence" shall have the meaning set forth in Section 5.15(b).

(www) "Other Contracts" shall mean all Equipment and Machinery leases, and all loan agreements, security agreements, partnership or joint venture agreements, license agreements, software licenses, service contracts, suretyship contracts, guarantees, letters of credit, reimbursement agreements, distribution agreements, contracts or commitments limiting or restraining any Seller with respect to its Business from engaging or competing in any lines of business or with any person, firm or corporation, contracts or commitments granting any Seller rights of first refusal or exclusive rights or similar rights with respect to its Business or any lines of business, documents granting the power of attorney with respect to the affairs of any Seller, agreements not made in the ordinary course of business of any Seller's Business, options to purchase any assets or property rights of the Business, working capital maintenance or other form of guaranty agreements, and all other agreements to which any Seller is a party and which are related to the operation of its Business, all of which are listed on SCHEDULE 5.16(A), but excluding Leases, Third Party Payor Agreements and Purchase Orders.

(xxx) "Parent" shall have the meaning set forth in the introductory paragraph hereto.

(yyy) "Permitted Encumbrances" means the Encumbrances set forth on SCHEDULE 1.1(YYY).

(zzz) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or Governmental Authority.

(aaaa) "Plans" shall have the meaning set forth in Section 5.17(a).

(bbbb) "Post-Closing Statement" shall have the meaning set forth in Section 3.2(a).

(cccc) "Premises" shall mean the Leased Real Property.

(dddd) "Professional Liability Claims" shall have the meaning set forth in Section 5.15(a).

(eeee) "Projections" shall mean collectively, (i) the projected statement of operations for the twelve months ending September 30, 1998 of AHG and FSN, and (ii) run rates of Gut, Sky, SASF and Surginet for the twelve months ending September 30, 1998. All such projections have been prepared by the management of the Sellers.

(ffff) "Purchase Orders" shall mean any outstanding purchase orders, contracts or other commitments to suppliers of goods and services for materials, supplies or other items used in the Business and listed on SCHEDULE 5.16(A).

(gggg) "Purchase Price" shall mean the aggregate amount payable to the Sellers pursuant to Section 3.

(hhhh) "Purchased Property" shall mean the (i) Accounts Receivable, (ii) Contracts (except as set forth on SCHEDULE 2.4(A)), (iii) Equipment and Machinery, (iv) Files and Records, (v) Intangible Assets, (vi) Intellectual Property, (vii) Inventory, (viii) Licenses and Permits (to the extent transferable by the Sellers), (ix) Cash and Cash Equivalents, (x) any prepaid expenses and other assets relating to the operations of each Business on the Closing Date, (xi) all software, software systems, databases and all other information systems used in the Businesses, (xii) all other tangible and intangible assets of the Sellers and the Executive Shareholders (other than items of personal property owned by the Executive Shareholders which are not material to the operations of the Businesses and do not have an aggregate fair market value of more than $25,000) used in the respective Businesses (whether or not such assets are reflected on

the June 30, 1997 Combined Balance Sheet) and related thereto, (xiii) all proceeds (including any Cash and Cash Equivalents) received by the Sellers or the Shareholders in respect of any or all of the foregoing on or after the Closing Date, (xiv) all proceeds (including any Cash and Cash Equivalents) received by the Sellers or the Shareholders in respect of any insurance policy of the Sellers relating to an event occurring on or after July 1, 1997, and (xv) all of the goodwill associated with the Businesses and the Purchased Property; provided; however, that the Purchased Property shall not include those items described on SCHEDULE 1.1(HHHH)hereto.

(iiii) "Seller" and "Sellers" shall have the respective meanings set forth in the introductory paragraph hereto.

(jjjj) "Sellers' Event of Breach" shall have the meaning set forth in Section 11.1.

(kkkk) "Seller Indemnitees" shall have the meaning set forth in Section 11.4.

(llll) "Shareholders" shall mean the shareholders or partners (including general and limited partners), as the case may be, of each of the Sellers, including the Executive Shareholders, as set forth on SCHEDULE 1.1(LLLL).

(mmmm) "Subject Business" shall mean contracting with independent physician delivery systems and third party payors for the management of established independent physician networks (including providing MSO services, quality management, utilization review and claims processing), where the physician providers are compensated on a fee for service basis out of a capitated pool.

(nnnn) "Subsidiaries" (or "Subsidiary" as the context may require) shall mean each entity as to which a Person, directly or indirectly, owns or has the power to vote, or to exercise a controlling influence with respect to, 10% or more of the securities of any class of such entity the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person.

(oooo) "Tax Returns" shall mean any return, report, information return or other document (including any related or supporting information) filed or required to be filed with any Governmental Authority in connection with the determination, assessment, collection or administration of any Taxes and shall include any amended returns required as a result of any examination adjustments made by the Internal Revenue Service or other Tax authority.

(pppp) "Taxes" shall mean for all purposes of this Agreement all taxes however denominated, including any interest, penalties or additions to tax that may become payable in respect thereof, imposed by any Governmental Authority, which taxes shall include, without limiting the generality of the foregoing, all income taxes, payroll and employee withholding taxes, unemployment insurance, social security, sales and use taxes, excise taxes, franchise taxes, gross receipts taxes, occupation taxes, real and personal property taxes, stamp taxes, utility, severance, production, premium, capital stock, license, transfer and transfer gains taxes, workmen's compensation taxes and other obligations of the same or a similar nature, whether arising before, on or after the Closing; and "Tax" shall mean any one of them.

(qqqq) "Third Party Payor Agreements" shall mean all agreements listed on SCHEDULE 5.16(A) hereto to which any Seller is a party relating to the furnishing, management or maintenance of, or administration or data processing services relating to, physician or other professional service networks in connection with professional, medical or health maintenance services or other health cost arrangements in connection with any of the Businesses.

(rrrr) "Transferred Consultant" shall have the meaning set forth in Section 7.5(a).

(ssss) "Transferred Employee" shall have the meaning set forth in Section 7.5(a).

(tttt) "Transferred Network Physician" shall mean a Network Physician who is offered engagement as a Network Physician by the Buyer and who serves as an independent contractor of the Buyer as of the Closing Date.

(uuuu) "Unrestricted Cash" shall mean the aggregate of cash of the Sellers immediately available for disbursement without restriction or limitation of any kind, plus Due from Plan/Client amounts, less Contract Reserve amounts, less Physician Payable amounts, as said terms are historically used and reflected in the Financial Statements.

(vvvv) "Working Capital Amount" shall have the meaning set forth in Section 3.2(c).

(wwww) "Year 1 Adjustment" shall have the meaning set forth in Section 3.3(a).

(xxxx) "Year 2 Adjustment" shall have the meaning set forth in Section 3.3(a).

(yyyy) "Year 3 Adjustment" shall have the meaning set forth in Section 3.3(a).

(zzzz) "Year 1 Earn-Out" shall have the meaning set forth in Section 3.3(a).

(aaaaa) "Year 2 Earn-Out" shall have the meaning set forth in Section 3.3(a).

(bbbbb) "Year 3 Earn-Out" shall have the meaning set forth in Section 3.3(a).

(ccccc) "Year 1 EBITDA" shall have the meaning set forth in Section 3.3(c)(1).

(ddddd) "Year 2 EBITDA" shall have the meaning set forth in Section 3.3(d)(1).

(eeeee) "Year 3 EBITDA" shall have the meaning set forth in Section 3.3(e)(1).

(fffff) "Year 1 Earn-Out Period" shall have the meaning set forth in Section 3.3(a).

(ggggg) "Year 2 Earn-Out Period" shall have the meaning set forth in Section 3.3(a).

(hhhhh) "Year 3 Earn-Out Period" shall have the meaning set forth in Section 3.3(a).

(iiiii) "Year 1 Threshold EBITDA" shall have the meaning set forth in Section 3.3(a).

(jjjjj) "Year 2 Threshold EBITDA" shall have the meaning set forth in Section 3.3(a).

(kkkkk) "Year 3 Threshold EBITDA" shall have the meaning set forth in Section 3.3(a).

Section 1.2 PRINCIPLES OF CONSTRUCTION. Definitions used in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever used in this Agreement, the words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." Unless the context otherwise requires, all references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to articles and sections of, and schedules to this Agreement. Unless the context otherwise requires, the term "party" when used in this Agreement means a party to this Agreement, and references to a party or other Person shall be deemed to include successors and permitted assigns of such party. All references herein to any agreement or document shall be deemed to include such agreement or document (unless specific reference is made to that agreement or document as in effect on a specific date), as the same may be amended, supplemented or otherwise modified from time to time. The parties acknowledge and agree that they have been represented by counsel and that each of the parties has participated in the drafting of this Agreement. Accordingly, it is the intention and agreement of the parties that the language, terms and conditions of this Agreement are not to be construed in any way against or in favor of any party hereto by reason of the responsibilities in connection with the preparation of this Agreement.

SECTION 2. PURCHASE AND SALE OF THE PURCHASED PROPERTY.

Section 2.1 TRANSFER OF ASSETS. Subject to the terms and conditions herein set forth, each Seller shall sell, convey, transfer, assign and deliver to the Buyer, and the Buyer shall purchase, acquire and accept

from each Seller on the Closing Date, all right, title and interest of each Seller and its Affiliates in or to the Purchased Property, wherever located, free and clear of all Encumbrances except for Permitted Encumbrances. Notwithstanding anything to the contrary contained in this Agreement, to the extent that the sale or assignment of any Account Receivable is prohibited by applicable contract, law or regulation, this Agreement shall not constitute an agreement to sell or assign such Account Receivable, provided however, each Seller agrees to pay to the Buyer the equivalent cash value of any and all such Account Receivable(s), and upon each Seller's collection of any such Account Receivable shall immediately remit a check to the Buyer for such amount. Each Seller covenants and agrees to use its Best Efforts to collect any such Account Receivable and shall deliver to Buyer on a monthly basis a report setting forth the status of any such outstanding Account Receivable and describing its collection efforts.

Section 2.2 SALE AT CLOSING DATE. The sale, transfer, assignment and delivery by each Seller of the Purchased Property to the Buyer, as herein provided, shall be effected on the Closing Date by deeds, bills of sale, endorsements, assignments and other instruments of transfer and conveyance reasonably satisfactory in form and substance to counsel for the Buyer.

Section 2.3 SUBSEQUENT DOCUMENTATION. Each Seller and each Executive Shareholder shall, at any time and from time to time after the Closing Date, upon the reasonable request of the Buyer and at the expense of the Sellers and the Executive Shareholders, do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered (whether by any Seller, any Shareholder or any other Person), all such further deeds, assignments, transfers and conveyances as may be required for the better assigning, transferring, granting, conveying and confirming to the Buyer or its successors and assigns or for aiding and assisting in collecting and reducing to possession, any or all of the Purchased Property. Each Seller and each Executive Shareholder hereby constitutes and appoints, effective as of the Closing Date, the Buyer, its successors and assigns as the true and lawful attorney-in-fact of such Seller or Executive Shareholder with full power of substitution in the name of such Buyer or in the name of the Seller or Executive Shareholder but for the benefit of the Buyer (a) to collect for the account of the Buyer any item of Purchased Property and (b) to institute and prosecute all proceedings which the Buyer may in its discretion deem proper in order to assert or enforce any right, title or interest in or to the Purchased Property and to defend or compromise (subject to Section 10, if applicable) any and all actions, suits or proceedings in respect of any of the Purchased Property. The Buyer shall be entitled to retain for its own account any amounts collected pursuant to the foregoing powers, including any amounts payable as interest in respect thereof. EACH SELLER AND EACH EXECUTIVE SHAREHOLDER HEREBY DECLARES THAT THE FOREGOING APPOINTMENT IS COUPLED WITH AN INTEREST AND SHALL BE IRREVOCABLE AND PERPETUAL AND SHALL NOT BE TERMINATED BY ANY ACT OF ANY SELLER, ANY EXECUTIVE SHAREHOLDER OR THEIR RESPECTIVE SUCCESSORS OR ASSIGNS, BY OPERATION OF LAW OR BY THE OCCURRENCE OF ANY OTHER EVENT OR IN ANY OTHER MANNER.

Section 2.4 ASSUMPTION OF LIABILITIES. On the Closing Date, the Buyer shall execute and deliver an assumption agreement in the form attached hereto as EXHIBIT A, pursuant to which the Buyer shall accept, assume and agree to pay, perform and discharge when due, in accordance with the respective terms and subject to the respective conditions thereof, all of the liabilities and obligations of the Sellers pursuant to and under the Assumed Liabilities. The "ASSUMED LIABILITIES" shall mean:

(a) All liabilities and obligations of each Seller of any kind arising from the operations of the Businesses beginning on or after the first day following the Closing Date, other than those (i) to which the Buyer is entitled to indemnification by the Executive Shareholders pursuant to Section 11 of the Agreement, (ii) Taxes with respect to periods ending on or prior to the Closing Date, and (iii) Change of Control Payments, if any; provided, however, that in the case of Contracts, Third Party Payor Agreements, Leases, and Other Contracts, only to the extent such Contracts, Third Party Payor Agreement, Lease or Other Contract is described in SCHEDULE 5.16(A) of this Agreement; and PROVIDED, FURTHER, that in no event shall the Buyer assume or be responsible for the contracts listed on SCHEDULE 2.4(A) (the "EXCLUDED

CONTRACTS"); PROVIDED, FURTHER, that in the event that the parties hereto become aware of the fact at any time after the Closing that a contract of any of the Sellers in existence on the Closing Date is not listed on either SCHEDULE 5.16(A) or SCHEDULE 2.4(A), such contract, at the sole election of Buyer, shall be assigned to and assumed by Buyer and shall for all purposes under this Agreement be treated as a Contract under this Agreement; and

(b) Additional payables arising from the operations of the Businesses prior to the first day following the Closing Date and specified on SCHEDULE 2.4(B), as such Schedule may be amended by the mutual agreement of the Sellers and Buyer prior to the Closing Date.

Section 2.5 EXCLUDED LIABILITIES. The Assumed Liabilities shall not include, and the Buyer shall not assume or be liable for any liabilities and obligations of the Sellers or any of their Affiliates not expressly assumed in Section 2.4 (collectively, the "EXCLUDED LIABILITIES"), including, without limitation:

(a) Any liability or obligation relating to Professional Liability Claims arising from services performed on or before the Closing Date;

(b) Any liability or obligation relating to the Plans or the Compensation Arrangements (as such terms are defined in Section 5.17);

(c) Other than as required pursuant to Sections 2.4(a) or (b), any liabilities or obligations to current or former employees of, or independent contractors with, any Seller who do not become Transferred Network Physicians, Transferred Consultants or Transferred Employees, as the case may be;

(d) Any employment-related liabilities for which the Buyer is indemnified under Section 11.1(d) (an "EXCLUDED EMPLOYEE OBLIGATION") and any other liability for which the Buyer is indemnified under Section 11;

(e) Any liabilities with respect to Taxes of any Seller or Shareholder or relating to any period ending on or prior to the Closing Date, including liabilities related to (i) income Taxes of the Sellers or any of their Affiliates whether arising before or after the Closing Date, (ii) Taxes relating to the Purchased Property acquired under the terms and conditions of this Agreement for all periods (or portions thereof) ending on or prior to the Closing Date, (iii) Taxes attributable to or imposed with respect to the transfer, assignment and delivery of the Purchased Property under Section 12.3 hereof or otherwise or to any other transactions contemplated by this Agreement and (iv) Taxes of any other Person for which any of the Sellers may be liable by contract or otherwise;

(f) Any liabilities to any Shareholders or any of their Affiliates;

(g) Any liabilities or obligations relating to or arising under the Farrell Consulting Agreement;

(h) Any liability arising from operations of the Businesses before the Closing Date not expressly assumed pursuant to Section 2.4;

(i) Any liability or obligations under Contracts not included in Purchased Property;

(j) Any liability or obligations relating to Nudel & Gluck, M.D., P.A. and Young, Schimmel & Kanter Surgical Associates, M.D., P.A.(d/b/a South Florida Surgical Group); and

(k) Any other liability not expressly assumed pursuant to Section 2.4 notwithstanding the inclusion of any such liability on the June 30, 1997 Combined Balance Sheet or any Management Prepared Financial Statements.

Section 2.6 BREACH OF REPRESENTATIONS. Nothing in Section 2.4 shall limit the Buyer's right to indemnification for the breach by any Seller or any Executive Shareholder of any of its representations, warranties or covenants hereunder.

Section 2.7 RIGHT OF ENFORCEMENT. Commencing on the Closing Date, the Buyer will have complete control over the payment, settlement or other disposition of the Assumed Liabilities and the right to commence, conduct and control all negotiations and proceedings with respect thereto. The Sellers and the Executive Shareholders will notify the Buyer promptly of any claim made with respect to any Assumed Liabilities or Purchased Property and shall not, except with the Buyer's prior written consent, voluntarily make any payment of, settlement or offer to settle, or consent to any compromise or admit liability with respect to, any Assumed Liabilities or Purchased Property. The Sellers will cooperate, with the Buyer in connection with any negotiations or proceedings involving any Assumed Liabilities or Purchased Property.

SECTION 3. PURCHASE PRICE; EARN-OUT.

Section 3.1 PURCHASE PRICE. As consideration for the sale and transfer of the Purchased Property, the Buyer shall pay on the Closing Date an amount equal to $70,000,000 (the "INITIAL PURCHASE PRICE"), payable as follows:

(a) The Buyer will pay to the Sellers, collectively, an amount equal to $50,000,000, subject to the proration provisions of Section 3.4 (the "CLOSING CASH INSTALLMENT") in cash by wire transfer to the "Broad and Cassel Trust Account" in accordance with wire transfer instructions to be furnished in writing by the Executive Shareholders (which shall be provided to the Buyer not less than three Business Days before the Closing Date), for further credit to each Seller in accordance with such Seller's Applicable Percentage.

(b) The Buyer will pay to the escrow agent designated in the Escrow Agreement (the "ESCROW AGENT") in cash by wire transfer of immediately available funds $20,000,000 (the "ESCROW DEPOSIT," which together with the interest or other proceeds from the investment thereof and the amount of the Year 1 Earn-Out, Year 2 Earn-Out and Year 3 Earn-Out, if any, deposited pursuant to Section 3.3 and not yet released from escrow, but less such amounts, if any, previously distributed to the Buyer or to any of the Sellers pursuant to Section 3.3, is collectively referred to as the "ESCROW FUNDS"). The Escrow Funds shall be held in escrow by the Escrow Agent pursuant to the terms and conditions of the Escrow Agreement in order to provide a fund for the payment to the Sellers of any upward adjustments to the Initial Purchase Price and/or the payment to the Buyer of any downward adjustments to the Initial Purchase Price to which such party or parties may be entitled from time to time pursuant to this Section 3. At such times as payments to be made from the Escrow Funds are due and payable pursuant to the terms and conditions of this Section 3, the Buyer and the Sellers agree to give the Escrow Agent prompt notice to make the applicable disbursements from the Escrow Funds.

Section 3.2 WORKING CAPITAL ADJUSTMENT. The Purchase Price shall be subject to a working capital adjustment after the Closing as follows:

(a) Within 60 days after the Closing, the Buyer shall prepare (with the full cooperation and assistance of the Sellers and the Executive Shareholders, to the extent requested by the Buyer) a statement of the Businesses' (taken as a whole) current liabilities (to the extent assumed by the Buyer) and current assets (to the extent purchased by the Buyer) as of the Closing (the "POST-CLOSING STATEMENT"), and shall submit such statement to the Sellers for review and approval.

(b) Within 30 days after receipt of the Post-Closing Statement, the Sellers shall notify the Buyer of any objections the Sellers may have to the Post-Closing Statement. In the absence of any such objections, the Sellers shall be deemed to have approved the Post-Closing Statement for purposes of the adjustment to be made pursuant to this Section 3.2. If the Sellers notify the Buyer of any such objections, the Buyer and the Sellers shall attempt to resolve such objections in good faith for a period of 15 days from the date of such notice of objection. If any objections of the Sellers cannot be resolved by the Sellers and the Buyer within such 15-day period, such dispute shall immediately be referred to an Independent Accounting Firm mutually selected by the parties. The determination of such Independent Accounting Firm with respect to such dispute shall be conclusive and binding on the Sellers and the Buyer. The party whose determination

differs the most from the determination of such Independent Accounting Firm shall pay the fees of such firm.

(c) Upon final determination of the Post-Closing Statement in accordance with the foregoing, in the event that the current assets of the Businesses (taken as a whole and to the extent purchased by the Buyer) less the current liabilities of the Businesses (taken as a whole and to the extent assumed by the Buyer), as stated in the Post-Closing Statement (the "WORKING CAPITAL AMOUNT"), is an amount which is less than $1,000,000 (the "MINIMUM AMOUNT"), then the Purchase Price shall be reduced by the difference between the Working Capital Amount and the Minimum Amount and the Sellers shall be jointly and severally obligated to pay to the Buyer an amount equal to such difference with 5 Business Days of the final determination of the Post-Closing Statement.

Section 3.3 EARN-OUT. The Purchase Price shall be subject to adjustment after the Closing as set forth in this Section 3.3:

(a) EARN-OUT DEFINITIONS. Unless the context otherwise requires, as used in this Agreement, the following terms shall have the following meanings:

(1) "Accountants" shall mean the independent public accountants of the Buyer.

(2) "Earn-Out Period" shall mean each of the Year 1 Earn-Out Period, the Year 2 Earn-Out Period and the Year 3 Earn-Out Period.

(3) "EBITDA" shall mean the aggregate Net Revenue from the operations of the Businesses, minus all expenses incurred in operating the Businesses but before interest, income taxes, depreciation and amortization, prepared in accordance with GAAP, consistently applied, and adjusted as follows: (1)Introduced Business will be deemed to have been conducted at the Businesses' cost of providing services for such Introduced Business plus the applicable IB Profit Margin. (2) Any increase in EBITDA earned by the Businesses through the restructuring of the Farrell Consulting Agreement that requires one-time cash payments by Buyer or Buyer's Affiliates shall be deducted from EBITDA. (3) As long as the Businesses are operated as a separate subsidiary or division, administrative services provided to the Businesses will be actual corporate overhead, including services provided by Parent or Parent's Affiliates, on a cost basis, and will only include administrative services that are reasonably and directly related to the Businesses. In the event the Businesses are integrated into Parent or an Affiliate of Parent to the extent that the corporate overhead attributable to the Businesses cannot be readily determined, then, in lieu of actual overhead, an amount equal to a percentage of Net Revenue of the Businesses shall be allocated to the Businesses as deemed overhead, which percentage will be established by dividing (A) the amount of actual overhead incurred with respect to the Businesses for the six month period immediately preceding such integration by (B) the Net Revenue of the Businesses for said six-month period. Said fixed percentage shall thereafter be applied to the Net Revenue of the Businesses for purposes of determining the deemed overhead to be allocated to the Businesses. (4) Net proceeds from dispositions of assets of the Businesses shall be reinvested in the Businesses. (5) With respect to acquisitions made from and after the Closing, in lieu of including Net Revenue and expenses related to such acquisition in the calculation of EBITDA, net income, determined in accordance with GAAP, from such acquisition shall be included in EBITDA. (6) Expenses and capital expenditures with respect to the items set forth in the Information Technologies Budget, will be allocated and treated as set forth in the Information Technologies Budget regardless of their treatment under GAAP. (7) Any and all amounts payable under, or in connection with the termination of, any Leases which are assumed by the Buyer as part of the Contracts for Leased Real Property which is no longer used in any of the Businesses shall be treated as current expenses for purposes of calculating EBITDA regardless of their treatment under GAAP.

(4) "IB Profit Margin" shall mean a profit margin equal to fifty percent (50%) or such other agreed upon percentage (the "IB PROFIT MARGIN PERCENTAGE") of the average profit margin of the Businesses for services similar to the applicable Introduced Business provided during the fiscal quarter immediately

preceding the fiscal quarter in which the Businesses are to begin to provide services for the Introduced Business. The proposed IB Profit Margin Percentage and the proposed calculation of the IB Profit Margin (collectively, the "IB PROFIT MARGIN CALCULATION") will be made by the Buyer in good faith and presented in writing to the Executive Shareholders as soon as practicable prior to the date on which services relating to the Introduced Business are to be rendered. The Executive Shareholders shall, not later that five Business Days after receipt of the IB Profit Margin Calculation, notify the Buyer in writing of any objections thereto. Absent delivery of a written objection as provided above, the IB Profit Margin Calculation will be conclusive and binding upon the parties to this Agreement. If written objection is delivered to the Buyer and the Buyer and the Executive Shareholders are unable, within 5 Business Days after the receipt by the Buyer of such written objection, to resolve the dispute, the Buyer, in its sole discretion, may elect either (i) to not make the Introduced Business available to the Buyer or (ii) to submit the IB Profit Margin Calculation to an Independent Accounting Firm mutually acceptable to the Executive Shareholders and the Buyer whose determination shall be conclusive and binding on the parties. In the event the Buyer elects to submit the matter to an Independent Accounting Firm, the Businesses shall provide services for the Introduced Business pending determination of the IB Profit Margin Calculation.

(5) "Independent Accounting Firm" shall mean one of the "big-six" certified public accounting firms that does not have a conflict of interest with respect to the preparation or review of the EBITDA Statements.

(6) "Introduced Business" shall mean business introduced to the Buyer by Parent or Parent's Affiliates (i) as part of a contract with Parent or its Affiliates, or (ii) by reason of introductions to the Buyer made by Parent or Parent's Affiliates. The Executive Shareholders acknowledge and agree that neither Parent nor any Parent Affiliate shall be obligated to introduce any business to the Buyer or to otherwise cause any business that could be conducted by the Buyer as Introduced Business to be referred to or conducted by the Buyer.

(7) "Net Revenue" shall be defined as the combined revenues of the Businesses (including income on operating cash and monies held on behalf of third parties remaining after Buyer distributes cash in excess of working capital requirements to Parent) (after elimination of all inter-Business transactions and balances) which are capitation fees (net of physician services expenses for AHG only, and net of any retroactive adjustments under the terms of any managed care plans), service bureau billing fees, administrative fees, facility fees, and fee for service billings (less contractual adjustments, bad debt expense, charity adjustments, refunds, NSF checks, collection agency fees and other adjustments to gross revenues), all as computed in accordance with GAAP.

(8) "Year 1 Adjustment" shall mean the amount, if any, payable to the Buyer from the Escrow Funds in accordance with the provisions of Section 3.3(c) and Section 3.4(a).

(9) "Year 2 Adjustment" shall mean the amount, if any, payable to the Buyer from the Escrow Funds in accordance with the provisions of Section 3.3(d) and Section 3.4(b).

(10) "Year 3 Adjustment" shall mean the amount, if any, payable to the Buyer from the Escrow Funds in accordance with the provisions of Section 3.3(e) and Section 3.4(c).

(11) "Year 1 Earn-Out" shall mean the amount, if any, payable by the Buyer to the Escrow Agent in accordance with the provisions of Section 3.3(c) and Section 3.4(a).

(12) "Year 2 Earn-Out" shall mean the amount, if any, payable by the Buyer to the Escrow Agent in accordance with the provisions of Section 3.3(d) and Section 3.4(b).

(13) "Year 3 Earn-Out" shall mean the amount, if any, payable by the Buyer to the Escrow Agent in accordance with the provisions of Section 3.3(e) and Section 3.4(c).

(14) "Year 1 EBITDA" shall have the meaning set forth in Section 3.3(c)(1).

(15) "Year 2 EBITDA" shall have the meaning set forth in Section 3.3(d)(1).

(16) "Year 3 EBITDA" shall have the meaning set forth in Section 3.3(e)(1).

(17) "Year 1 Earn-Out Period" shall mean the 12-month period ending on September 30, 1998.

(18) "Year 2 Earn-Out Period" shall mean the 12-month period ending on September 30, 1999.

(19) "Year 3 Earn-Out Period" shall mean the 12-month period ending on September 30, 2000.

(20) "Year 1 Threshold" shall mean $11,000,000.

(21) "Year 2 Threshold" shall mean the greater of (i) $11,000,000 or (ii) Year 1 EBITDA.

(22) "Year 3 Threshold" shall mean the greater of (i) $11,000,000, (ii) Year 1 EBITDA, or (iii) Year 2 EBITDA.

(b) EBITDA STATEMENT. Within 75 calendar days after the last day of each of the Year 1 Earn-Out Period, the Year 2 Earn-Out Period and the Year 3 Earn-Out Period, the Buyer shall prepare, the Accountants shall review, and the Buyer shall deliver to AHG a statement reflecting the EBITDA from the consolidated operations of the Businesses during such Earn-Out Period (each, an "EBITDA STATEMENT"), which statement will be determined in accordance with GAAP, applied on a basis consistent with the financial statements of the Buyer and Parent for such period. The parties shall ensure that the Accountants have full access to the books, records, facilities and employees of the Businesses for purposes of reviewing the EBITDA Statement and shall cooperate with the Accountants to the extent reasonably requested to review the EBITDA Statement. The EBITDA Statement will be examined by AHG (and, if AHG so chooses, by a firm of independent certified public accountants), who shall, not later than 45 calendar days after receipt of the EBITDA Statement, raise any objections it has to the EBITDA Statement by notifying the Buyer in writing within such time period in a statement indicating the item or items disputed, AHG's proposed adjustments and an adjusted EBITDA Statement reflecting such adjustments (an "OBJECTION NOTICE"). During such 45 day period, AHG and any such independent certified public accountants shall have full access to the books and records, other financial information (including the working papers of the Accountants) and appropriate financial personnel of the Buyer reasonably necessary for the preparation of an Objection Notice. Absent delivery of an Objection Notice as provided above, the EBITDA Statement will be conclusive and binding upon the parties to this Agreement for the purposes of any purchase price adjustment under this Section 3.3. In the event that an Objection Notice is delivered by AHG as provided above, and if the Buyer and AHG are unable, within 15 calendar days after receipt by the Buyer of such Objection Notice, to resolve the disputed exceptions, such disputed exceptions will be referred to an Independent Accounting Firm mutually acceptable to AHG and the Buyer. The Independent Accounting Firm shall, within 60 days following its engagement by the Buyer and AHG for this purpose, deliver to AHG and the Buyer a written report determining such disputed exceptions (the "IAF EBITDA STATEMENT"). During such 60 day period, the Independent Accounting Firm shall have full access to the books and records, other financial information (including the working papers of the Accountants and AHG's accountants, if any) and appropriate financial personnel of the Buyer which the Independent Accounting Firm reasonably deems necessary or advisable for the preparation of the IAF EBITDA Statement. The EBITDA reflected in the IAF EBITDA Statement will be conclusive and binding upon the parties to this Agreement for the purposes of any purchase price adjustment under this Section 3.3, subject to application of the following provisions: (i) if the IAF EBITDA Statement reflects EBITDA in excess of $300,000 over the amount of the EBITDA reflected in the EBITDA Statement for the Earn-Out Period at issue, then EBITDA for such Earn-Out Period shall be deemed to be equal to the EBITDA reflected in the IAF EBITDA Statement, and the Buyer shall bear all the fees and disbursements of the Independent Accounting Firm in respect of its services under this Section 3.3 for such Earn-Out Period; (ii) if the IAF EBITDA Statement reflects EBITDA that is equal to or less than $300,000 over the amount of the EBITDA reflected in the EBITDA Statement for such Earn-Out Period, but greater than the amount of the EBITDA reflected in such EBITDA Statement, then EBITDA for such Earn-Out Period shall be

deemed to be equal to (A) the sum of (1) the EBITDA reflected in the EBITDA Statement and (2) the EBITDA reflected in the IAF EBITDA Statement divided by (B) two, and AHG and the Executive Shareholders, on a joint and several basis, shall bear all the fees and disbursements of the Independent Accounting Firm in respect of its services under this Section 3.3 for the Earn-Out Period at issue; and (iii) if the IAF EBITDA Statement reflects EBITDA that is equal to or less than the amount of the EBITDA reflected in the EBITDA Statement for such Earn-Out Period, then EBITDA for such Earn-Out Period shall be deemed to be equal to the EBITDA reflected in the IAF EBITDA Statement, and AHG and the Executive Shareholders, on a joint and several basis, shall bear all the fees and disbursements of the Independent Accounting Firm in respect of its services under this Section 3.3 for the Earn-Out Period at issue.

(c) YEAR 1 ADJUSTMENT/YEAR 1 EARN-OUT CALCULATION.

(1) In the event the EBITDA for the Year 1 Earn-Out Period calculated pursuant to Section 3.3(b)above (the "YEAR 1 EBITDA") is less than $10,000,000, then the Year 1 Adjustment is the amount equal to seven multiplied by the difference between the Year 1 EBITDA and $10,000,000.

(2) In the event the Year 1 EBITDA is equal to or less than the Year 1 Threshold and equal to or greater than $10,000,000, then the Year 1 Adjustment is $0.00.

(3) In the event the Year 1 EBITDA is greater than the Year 1 Threshold, then the Year 1 Earn-Out is the amount equal to six multiplied by the difference between the Year 1 EBITDA and the Year 1 Threshold.

(d) YEAR 2 ADJUSTMENT/YEAR 2 EARN-OUT CALCULATION.

(1) In the event the EBITDA for the Year 2 Earn-Out Period calculated pursuant to Section 3.3(b) above (the "YEAR 2 EBITDA") is equal to or less than the Year 2 Threshold, then the Year 2 Adjustment is the amount equal to the sum of (i) six multiplied by the difference between the Year 2 Threshold and the greater of (x) $11,000,000 or (y) the Year 2 EBITDA, plus (ii) the amount equal to seven multiplied by the amount, if any, by which the Year 2 EBITDA is less than $10,000,000; PROVIDED, HOWEVER, that the Year 2 Adjustment will be $0.00 if the Year 2 EBITDA is equal to or greater than $10,000,000 but less than or equal to $11,000,000.

(2) In the event the Year 2 EBITDA is greater than the Year 2 Threshold, then the Year 2 Earn-Out is the amount equal to six multiplied by the difference between the Year 2 EBITDA and the Year 2 Threshold; PROVIDED, HOWEVER, that the Year 2 Earn-Out will be $0.00 if the Year 2 EBITDA is equal to or greater than $10,000,000 but less than or equal to $11,000,000.

(e) YEAR 3 ADJUSTMENT/YEAR 3 EARN-OUT CALCULATION.

(1) In the event the EBITDA for the Year 3 Earn-Out Period calculated pursuant to Section 3.3(b) above (the "YEAR 3 EBITDA") is equal to or less than the Year 3 Threshold, then the Year 3 Adjustment is the amount equal to the sum of (i) four multiplied by the difference between Year 3 Threshold and the greater of (x) $11,000,000 or (y) the Year 3 EBITDA, plus (ii) the amount equal to seven multiplied by the amount, if any, by which the Year 3 EBITDA is less than $10,000,000; PROVIDED, HOWEVER, that the Year 3 Adjustment will be $0.00 if the Year 3 EBITDA is equal to or greater than $10,000,000 but less than or equal to $11,000,000.

(2) In the event the Year 3 EBITDA is greater than the Year 3 Threshold, then the Year 3 Earn-Out is the amount equal to four multiplied by the difference between the Year 3 EBITDA and the Year 3 Threshold; PROVIDED, HOWEVER, that the Year 3 Earn-Out will be $0.00 if the Year 3 EBITDA is equal to or greater than $10,000,000 but less than or equal to $11,000,000.

Section 3.4 PAYMENT OF ADJUSTMENT AND EARN-OUT; DISTRIBUTION OF ESCROW. The Year 1 Adjustment or Year 1 Earn-Out, Year 2 Adjustment or Year 2 Earn-Out and Year 3 Adjustment or Year 3 Earn-Out, if

any, shall be paid within 5 Business Days of final determination of EBITDA for the applicable Earn-Out Period pursuant to Section 3.3(b) and shall be paid to the Buyer or the Escrow Agent, as the case may be, in the following manner:

(a) YEAR 1 ADJUSTMENT/YEAR 1 EARN-OUT.

(1) In the event the Year 1 Adjustment is calculated pursuant to Section 3.3(c)(1) above, then the Escrow Agent shall deliver to Buyer from the Escrow Funds an amount equal to the Year 1 Adjustment, together with the interest or earnings thereon as set forth in Section 3.4(d).

(2) In the event the Year 1 Earn-Out is calculated pursuant to Section 3.3(c)(3) above, the Buyer shall pay to the Escrow Agent the Year 1 Earn-Out in cash by wire transfer of immediately available funds, which shall be held by the Escrow Agent as part of the Escrow Funds. Upon receipt by the Escrow Agent of the Year 1 Earn-Out, the Escrow Agent shall then deliver to AHG, on behalf of the Sellers, an amount equal to one-third of the principal of the Escrow Funds, together with the interest or earnings thereon as set forth in Section 3.4(d).

(b) YEAR 2 ADJUSTMENT/YEAR 2 EARN-OUT.

(1) In the event the Year 2 Adjustment is calculated pursuant to Section 3.3(d)(1) above, then the Escrow Agent shall deliver to the Buyer from the Escrow Funds an amount equal to the Year 2 Adjustment, together with the interest or earnings thereon as set forth in Section 3.4(d).

(2) In the event the Year 2 Earn-Out is calculated pursuant to Section 3.3(d)(2) above, then the Buyer shall pay to the Escrow Agent the Year 2 Earn-Out in cash by wire transfer of immediately available funds, which shall be held by the Escrow Agent as part of the Escrow Funds. Upon receipt by the Escrow Agent of the Year 2 Earn-Out, the Escrow Agent shall then deliver to AHG, on behalf of the Sellers, an amount equal to one-half of the principal of the Escrow Funds, together with the interest or earnings thereon as set forth in Section 3.4(d).

(c) YEAR 3 ADJUSTMENT/YEAR 3 EARN-OUT.

(1) In the event the Year 3 Adjustment is calculated pursuant to Section 3.3(e)(1) above, then the Escrow Agent shall deliver to the Buyer from the Escrow Funds an amount equal to the Year 3 Adjustment, together with the interest or earnings thereon as set forth in Section 3.4(d). Any Escrow Funds remaining after distribution of the Year 3 Adjustment to the Buyer shall be disbursed to AHG, on behalf of the Sellers, promptly after disbursement of the Year 3 Adjustment, together with interest or earnings thereon, to the Buyer.

(2) In the event the Year 3 Earn-Out is calculated pursuant to Section 3.3(e)(2) above, then the Buyer shall pay to AHG, on behalf of the Sellers, the Year 3 Earn-Out in cash by wire transfer of immediately available funds, and the Escrow Agent shall transfer the Escrow Funds to AHG, on behalf of the Sellers.

(d) DISTRIBUTIONS OF INTEREST OR EARNINGS ON THE ESCROW FUNDS. Interest or other earnings on the Escrow Deposit and additional amounts paid by the Buyer to the Escrow Agent pursuant to this Section 3.4 shall be disbursed prorata to the recipient of principal held in the Escrow Funds. For income tax purposes, it shall be assumed that the Sellers will be entitled to receive all interest and other earnings on the principal amounts held in the Escrow Fund and the Buyer and AHG agree to direct the Escrow Agent pursuant to joint instructions to disburse to AHG, on behalf of the Sellers, an amount from the Escrow Funds necessary for the Sellers to pay their federal income tax liability on said interest and earnings, assuming for purposes hereof an effective tax rate of 31%. The amount of any previous distributions for taxes made to AHG, on behalf of the Sellers, shall be taken into account in the event that disbursements from the Escrow Funds are later made to the Buyer and appropriate adjustments will be made in accordance with joint instructions from the Buyer and AHG to the Escrow Agent.

(e) LIMITATIONS ON PURCHASE PRICE ADJUSTMENTS/ EARN-OUTS. Notwithstanding anything to the contrary contained in this Section 3, in no event shall the Purchase Price, as adjusted pursuant to the provisions of Sections 3.3 and 3.4, be greater than $110,000,000 nor less than $50,000,000.

(f) ADJUSTMENTS IN EXCESS OF ESCROW FUNDS. In the event that the Adjustment for any Earn-Out Period should exceed the amount of the remaining Escrow Funds, the amount of such excess shall be applied as a credit in favor of the Buyer and shall be deducted from the amount otherwise payable by the Buyer as the Year 2 Earn-Out and Year 3 Earn-Out, as applicable.

Section 3.5 PRORATIONS AND OTHER ADJUSTMENTS.

(a) All revenues and expenses arising from the business and operations of the Businesses, including without limitation business and license fees (and any retroactive adjustments thereof), utility charges, property and equipment rentals, real and personal property Taxes and assessments, and similar prepaid and deferred items shall be prorated between the Buyer and the Sellers in accordance with the principle that the Sellers shall receive all revenues and all refunds and shall be responsible for all expenses, payables, costs, liabilities and obligations allocable to the conduct and operations of the Businesses for the period on or prior to the Closing Date, and the Buyer shall receive all revenues and be responsible for all expenses, payables, costs, liabilities and obligations allocable to the conduct and operations of the Businesses for the period after the Closing Date; provided, however, that the parties shall allocate any real property Tax in accordance with Section 164(d) of the Code. The Buyer and the Sellers shall deliver a statement setting forth such prorations at the time of making any such proration payment. Notwithstanding the foregoing, there shall be no proration with regard to, and the Sellers shall remain solely liable with respect to, any Excluded Liabilities and any assets not included in the Purchased Property.

(b) Any adjustments and prorations pursuant to this Section 3.5 will, insofar as feasible, be determined and paid on the Closing Date, with final settlement and payment by the appropriate party or parties occurring no later than 30 days after the actual amount becomes known.

SECTION 4. CLOSING.

The closing hereunder (the "CLOSING") shall take place on the first practicable date after all required regulatory and other approvals have been obtained and after the satisfaction or waiver of all other conditions precedent set forth in Sections 8 and 9, but in any event no later than November 30, 1997, or such other date as Buyer and AHG shall mutually agree, and shall be held at the offices of Broad and Cassel, Miami, Florida, at 9:00 a.m. or at such other place and time as may be mutually agreed to by the Buyer and AHG (the "CLOSING DATE"). Notwithstanding the actual time the following steps are taken on the Closing Date, the parties hereto agree that the Closing shall be effective and deemed for all purposes to have occurred as of 12:01 a.m. local time on the date immediately following the Closing Date.

At the Closing, the parties agree to take the following steps in the order listed below (provided, however, that upon their completion all of these steps shall be deemed to have occurred simultaneously):

(a) Each of the Sellers and the Buyer shall deliver to the other a copy of the resolutions of its Board of Directors and, in the case of each Seller, its shareholders or partners, as the case may be, authorizing the transactions contemplated by this Agreement as to such Seller, certified in each case by its Secretary or Assistant Secretary or partner, as the case may be;

(b) Each of the Sellers and the Buyer shall deliver to the other a good standing certificate of such party (which is dated not more than 15 days prior to the Closing);

(c) Each of the Sellers shall deliver to the Buyer instruments reasonably satisfactory to the Buyer and its counsel for such Seller to assign the Purchased Property (including, without limitation, the Cash and Cash Equivalents, which, at the election of the Buyer, shall be either by bank check or wire transfer of immediately available funds) to the Buyer, and the Buyer shall deliver to the Sellers the Assumption Agreement;

(d) Each of the Sellers shall deliver to the Buyer, or make available at the locations specified by the Buyer prior to the Closing, the originals of the Files and Records, Licenses and Permits and Contracts, together with originals of any required consents to assignment;

(e) Each of the Sellers and their Affiliates shall have delivered to the Buyer all other agreements, documents and certificates required by this Agreement to be delivered by them to the Buyer at or before the Closing;

(f) Each of the Sellers and the Buyer shall deliver to each other certificates by appropriate officers of such parties certifying the fulfillment of the conditions set forth in Section 8, and, in the case of the Buyer, the fulfillment of the conditions set forth in Section 9;

(g) The Buyer shall pay the Closing Cash Installment to the Sellers and the Escrow Deposit to the Escrow Agent in accordance with Section 3.1, and each of the Sellers, the Buyer and the Escrow Agent shall execute and deliver the Escrow Agreement and documents acknowledging receipt from the other, respectively, of the Purchased Property, the Closing Cash Installment and the Escrow Deposit.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE SELLERS AND THE EXECUTIVE SHAREHOLDERS.

Each of the Sellers and each of the Executive Shareholders, on a joint and several basis, hereby represents and warrants to, and covenants with, the Buyer as follows, each of which is relied upon by the Buyer in consummating the transactions contemplated hereby regardless of any other investigation made or information obtained by the Buyer; PROVIDED, HOWEVER, that the representations, warranties and covenants of each Executive Shareholder in this Section 5 shall be made only as to himself and to each Seller in which such Executive Shareholder owns any shares or partnership interests, as the case may be:

Section 5.1 ORGANIZATION; QUALIFICATION TO DO BUSINESS; SUBSIDIARIES.

(a) Each of the Sellers (except FSN), and Florida Specialty Network, Inc. ("FSN INC."), is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida, and is duly qualified as a foreign corporation in each jurisdiction in which it is required to be so qualified, and has all requisite corporate power and authority to own its properties and assets and to conduct its business as now conducted. The Sellers have furnished the Buyer true, complete and correct copies of the Articles of Incorporation and By-laws of each Seller (except FSN), and FSN Inc., with all amendments thereto. SCHEDULE 5.1(A) sets forth as to each Seller the name and security ownership of each holder of equity or any right to acquire equity of such Seller.

(b) FSN is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Florida, and is duly qualified as a foreign limited partnership in each jurisdiction in which it is required to be so qualified, and has all partnership powers necessary to own its properties and conduct its business as now conducted. The Sellers have furnished the Buyer true, complete and correct copies of FSN's limited partnership agreement, with all amendments thereto (the "FSN LIMITED PARTNERSHIP AGREEMENT"). FSN's sole general partner, FSN Inc. has all requisite corporate power and authority to fulfill its duties as the sole general partner of FSN in accordance with the FSN Limited Partnership Agreement. SCHEDULE 5.1(B) sets forth the name and ownership interest of each partner of FSN and of each person who has a right to acquire any interest in FSN.

(c) None of the Sellers has any direct or indirect Subsidiaries, or has made any advances to or investments in, or owns any securities of or other interests in, any Person.

(d) Each Shareholder has full power to vote his or her shares without obtaining the consent or approval of any Person.

Section 5.2 AUTHORIZATION AND VALIDITY OF AGREEMENT. Each Seller has all requisite corporate (or, in the case of FSN, partnership) power and authority to enter into this Agreement and to carry out its obligations hereunder. Except for FSN, the execution and delivery of this Agreement and the performance of each Seller's obligations hereunder have been duly authorized by all necessary corporate action by the Board of Directors and shareholders of such Seller, and no other corporate or shareholder proceedings on the part of such Seller are necessary to authorize such execution, delivery and performance. The execution and delivery of this Agreement and the performance of FSN's obligations hereunder have been duly authorized by all necessary partnership action on behalf of FSN, and by FSN Inc., as sole general partner on behalf of FSN, and no other proceedings on the part of FSN or FSN Inc. are necessary to authorize such execution, delivery and performance. This Agreement has been duly executed and delivered by each Seller and each Executive Shareholder and constitutes its or his legal, valid and binding obligation, enforceable against it or him in accordance with its terms.

Section 5.3 NO CONFLICT OR VIOLATION. The execution, delivery and performance by each Seller and each Executive Shareholder of this Agreement (a) does not and will not, as of the Closing Date, violate or conflict with any provision of the Articles of Incorporation or By-laws (or, in the case of FSN, the Certificate of Limited Partnership or the FSN Limited Partnership Agreement) of such Seller, (b) does not and, as of the Closing Date, will not violate any order, judgment or decree of any court, arbitrator or other Governmental Authority or, except as set forth on SCHEDULE 5.19, to the knowledge of each Seller and each Executive Shareholder, any provision of law, (c) as of the date hereof, except as set forth on SCHEDULE 5.3 does not, and as at the Closing Date will not, violate or result in a breach of or constitute (with due notice or lapse of time or both) a default under, or give rise to a right to terminate or modify, any Contract or any other contract, lease, loan agreement, mortgage, security agreement or other agreement or instrument (whether or not the same is in writing) to which any Seller or Shareholder is a party or by which it or any of them is bound or to which any of its or their properties or assets is subject, and (d) will not result in the creation or imposition of any Encumbrance upon any of the Purchased Property or accelerate any indebtedness of any Seller to which the Purchased Property may be bound, or result in the cancellation, modification, revocation or suspension of any of the Licenses and Permits.

Section 5.4 CONSENTS AND APPROVALS. SCHEDULE 5.4 sets forth a true and complete list of (i) each consent, waiver, authorization or approval of any Governmental Authority, or of any other Person, and (ii) to the knowledge of each Seller and each Executive Shareholder, each declaration to or filing or registration with any such Governmental Authority that is required in connection with the execution and delivery of this Agreement by each Seller or the performance by each Seller of its obligations hereunder.

Section 5.5 FINANCIAL STATEMENTS AND PROJECTIONS.

(a) The Sellers have heretofore delivered to the Buyer true and complete copies of the Financial Statements, accompanied in the case of the Audited Financial Statements by reports thereon from the Sellers' independent certified public accountants. The Audited Financial Statements and the Management Prepared Financial Statements (i) were prepared in accordance with GAAP applied on a consistent basis, (ii) present fairly the financial condition, results of operation and cash flows of each Business (and, in the case of the Audited Financial Statements presenting combined financial statements, the Businesses taken as a whole) as of their respective dates, (iii) are complete, correct and in accordance with the books of account and records of each Seller, (iv) can be legitimately reconciled with the financial statements and the financial records maintained and the accounting methods applied by each Seller for federal income tax purposes, and (v) in the case of the Audited Financial Statements, contain all entries recommended by the Sellers' independent certified public accountants. Except as provided in the Audited Financial Statements or the Management Prepared Financial Statements, or as fully disclosed in SCHEDULE 5.5, no Seller has any liabilities or obligations (whether accrued, absolute, contingent, whether due or to become due or otherwise) which might be or become a charge against the Purchased Property, including any "loss contingencies" considered "probable" or "reasonably possible" within the meaning of the Financial Accounting Standard Board's Statement of Financial Accounting Standards No. 5, except trade payables

and similar liabilities and obligations incurred in the ordinary and regular course of business since the dates of the Audited Financial Statements and the Management Prepared Financial Statements, respectively. The Audited Financial Statements were audited by Rachlin, Cohen & Holtz. The Projections are reasonable in light of the historical operations and results of the Businesses, represent each Seller's management's good faith best estimate of the future operating performance of such Seller's Business, and were prepared on an accounting basis consistent with historical earnings reports of each Seller as set forth in the Financial Statements.

(b) The most recent Management Prepared Financial Statements as at the date hereof reflect all adjustments, which consist only of normal accruals, including provision for accrued liabilities, including vacation and sick, medical claims and extended reporting endorsement for each of the Sellers (including all incurred but not reported ("IBNR") amounts).

Section 5.6 ABSENCE OF CERTAIN CHANGES OR EVENTS.

(a) Except as set forth in SCHEDULE 5.6(A), since January 1, 1997:

(1) there has not been any material adverse change in the assets, properties, business, operations, prospects, net income or condition (financial or other) of any Business, no event has occurred and, to the knowledge of each Seller and each Executive Shareholder, no factor or condition exists that would reasonably be likely to result in any such change;

(2) there has not been any material loss, damage, destruction or other casualty to the Purchased Property (whether or not insured);

(3) there has been no adverse change in the amount of total assets set forth on the December 31, 1996 Combined Balance Sheet except for reductions attributable to amortization and/or depreciation on a basis consistent with past practice as reflected in the Audited Financial Statements or the Management Prepared Financial Statements;

(4) there has not been any change in any method of accounting or accounting practice of any Business or any Seller relating to its Business;

(5) there has not been a loss of the employment, services or benefits of any Consultants or Employees, or of any Network Physicians (A) in excess of 8% of the number of Network Physicians engaged in respect of any single Third Party Payor Agreement, or (B) which would cause any Seller to be in breach of any Third Party Payor Agreement to which it is a party; and

(6) there has not been any default, breach or termination of, or any notification of any of the foregoing, or any modification or requested modification that would be materially adverse to any Seller, in respect of, any Third Party Payor Agreement or any Contract;

(b) Since January 1, 1997, each Seller has operated its Business in the ordinary course of its business consistent with past practice (including without limitation by keeping in full force and effect insurance comparable in amount and scope to the coverage maintained by it (or on behalf of it) at such date), and, except as set forth in SCHEDULE 5.6(B) hereto, no Seller has:

(1) permitted any of the Purchased Property (real or personal, tangible or intangible) to be sold, licensed or subjected to any Encumbrance (other than a Permitted Encumbrance) except in dispositions of inventory or of worn-out or obsolete equipment for fair or reasonable value in the ordinary course of business consistent with past practices, canceled any debts or claims, or waived or released any rights material to such Business relating to the operations of such Business, or defaulted on any material obligation relating to the operations of its Business;

(2) failed to exercise all Best Efforts to maintain and preserve for the Buyer its relationships with customers, suppliers, managers, Employees, Network Physicians, Consultants, parties to Third Party Payor Agreements and actively sought prospective parties to Third Party Payor Agreements

(including, without limitation PruCare), active patients and others having business relationships with the Business;

(3) acquired any assets or properties, or entered into any other transaction, other than in the ordinary course of business consistent with past practice and which does not require payment of aggregate amounts exceeding $10,000;

(4) made or committed to make any capital expenditure other than ordinary repairs or maintenance;

(5) paid, lent or advanced any amount to, or sold, transferred or leased any properties or assets to, or entered into any agreement or arrangement with, any of its Affiliates;

(6) issued, granted or sold any capital stock, partnership interests, options, or other right to purchase any equity interests in such Seller, or issued any security convertible into such capital stock, partnership interests or equity interests, or entered into any subscription contract or other arrangements obligating such Seller to issue or sell any of the foregoing, or redeem, purchase or otherwise acquire any such capital stock or equity interests;

(7) made any change in any method of accounting or accounting principle, method, estimate or practice except for any such change required by reason of a concurrent change in GAAP, or written down the value of any inventory or written off as uncollectible any accounts receivable except in the ordinary course of business consistent with past practice;

(8) settled, released or forgiven any claim or litigation or waived any right thereto;

(9) made, entered into, modified, amended or terminated any Contract, including any Third Party Payor Agreement or bid with respect to any of the Businesses, that could be materially adverse to any Seller;

(10) deferred the payment of any expense or liability, or prepaid any expense or liability, in anticipation of the consummation of the transactions contemplated hereby;

(11) accelerated the collection of any accounts receivable or any other amounts owed to it;

(12) decreased by a material amount the quantity of Equipment and Machinery or Inventory maintained for use in its Business;

(13) failed to discharge or satisfy any Encumbrance or pay or satisfy any obligation or liability (whether absolute, accrued, contingent or otherwise) arising from the operation of its Business in a timely manner, other than liabilities being contested in good faith and for which adequate reserves have been provided, each of which is set forth on SCHEDULE 5.6(B)(13) hereof, and Permitted Encumbrances;

(14) failed to continue to maintain the Purchased Property in accordance with past practice; or

(15) entered into any agreement or made any commitment to do any of the foregoing or taken any other action that would cause any of the representations and warranties made by any Seller in this Agreement not to remain true and correct.

(c) Except as set forth on SCHEDULE 5.6(C):

(1) from and after July 1, 1997, no Seller has declared, set aside, paid or made any dividend or other distribution or payment (whether in cash, stock, interests, equity or property) with respect to, or purchased or redeemed, any shares of the capital stock or any partnership interests or other equity interests (including profit sharing plans or distributions relating to such Seller's financial results) of such Seller, or otherwise withdrawn any cash from such Seller for the direct or indirect benefit of the holders of any such shares or interests or for any third party, or made or agreed to make any other

payments to any Shareholder or any of his or her Affiliates; PROVIDED, HOWEVER, that nothing set forth in this Section 5.6(c)shall prohibit or require disclosure of cash distributions to the extent that after giving effect to such cash distributions the Sellers still have at least $1,000,000 in Unrestricted Cash in the aggregate;

(2) from and after July 1, 1997, no Seller has entered into any new (or amended any existing) employee benefit plan, program or arrangement or any new (or amend any existing) employment, independent contractor, severance or consulting agreement, granted any general increase in the compensation of officers or Employees (including any such increase pursuant to any bonus, pension, profit-sharing or other plan or commitment) or granted any increase in the compensation payable or to become payable to any Network Physician, Consultant or Employee, except (i) in accordance with pre-existing contractual provisions or consistent with past practice, (ii) increases on an annual basis for the 1997 calendar year up to a maximum amount of five percent in excess of such Person's aggregate compensation for the 1996 calendar year and (iii) in respect of the Executive Shareholders, as permitted in Section 7.2(i) below; and

(3) from and after July 1, 1997, no Seller has made or agreed to make any payment or incurred or agreed to incur any obligation or liability (whether absolute, accrued, contingent or otherwise) with respect to any Contract except in accordance with the terms of such Seller's Contracts as in effect on June 30, 1997, or in accordance with the terms of Contracts which such Seller has modified or entered into after June 30, 1997 with the prior written consent of the Buyer.

Section 5.7 TAX MATTERS.

(a) The Sellers have provided the Buyer a true and complete copy of all Tax Returns filed by each Seller since January 1, 1994.

(b) Except as set forth in SCHEDULE 5.7(B), all Tax Returns required to be filed before the Closing Date in respect of each Seller have been filed on a timely basis, and each Seller has paid when due, Taxes required to be paid in respect of the periods covered by such Tax Returns and has adequately reserved for the payment of all Taxes with respect to periods ended on or before the Closing Date for which tax returns have not yet been filed. All Taxes of each Seller have been paid or adequately provided for, there are not any proposed additional Tax assessments against any Seller not adequately provided for in the June 30, 1997 Combined Balance Sheet. There are no unpaid Taxes which are or could become an Encumbrance on the Purchased Property. No Tax liens have been filed against the Purchased Property of any Seller and there are no audits pending with respect to any Seller with any Governmental Authority. The charges, accruals and reserves with respect to Taxes on the books of each Seller are adequate (as determined in accordance with GAAP). All Taxes that any Seller is or was legally required to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper Governmental Authority.

(c) To the knowledge of each Seller and each Executive Shareholder, SCHEDULE 5.7(C) sets forth each state and locality with jurisdiction to impose any Tax on the Purchased Property or the Business at any time prior to the Closing Date. Each of the Sellers represent that they have properly and timely filed all Tax Returns required to be filed in such jurisdictions on or before the Closing Date.

Section 5.8 ABSENCE OF UNDISCLOSED LIABILITIES. None of the Sellers has any indebtedness or liability, absolute or contingent, known or unknown relating to its Business, which is not shown or provided for on the most recent Management Prepared Financial Statements, other than liabilities as shall have been incurred or accrued in the ordinary course of business since the date of such Management Prepared Financial Statements, and which are consistent in amount and type with those incurred during the year ended December 31, 1996. Except as shown in the most recent Management Prepared Financial Statements, none of the Sellers is directly or indirectly liable upon or with respect to (by discount, repurchase agreements or otherwise), or obliged in any other way to provide funds in respect of, or to guarantee or

assume, any debt, obligation or dividend of any Person in connection with its Business, except endorsements in the ordinary course of business in connection with the deposit, in banks or other financial institutions, of items for collection.

Section 5.9 ACCOUNTS RECEIVABLE; BANKING.

(a) All Accounts Receivable (i) reflected on the June 30, 1997 Combined Balance Sheet or (ii) acquired by each Business after June 30, 1997 have been collected or are (or will be) current and collectible in amounts not less than the aggregate amount thereof (net of reserves established in accordance with prior practice) carried or to be carried on the books of each Business, are not subject to any counterclaims or set-offs, and have arisen only in the ordinary course of business in accordance with the customary credit policies of each of the Sellers.

(b) SCHEDULE 5.9(B) contains a complete list of all of each Seller's bank accounts (including name, location, and account number)and all lines of credit owned or used by each Seller, and the names of all persons with authority to withdraw funds from, or execute drafts or checks on, each such account.

Section 5.10 REAL PROPERTY; LEASES.

(a) None of the Sellers, the Shareholders or their respective Affiliates owns, directly or indirectly, any real property that is used in its Business except as set forth on SCHEDULE 5.10(A).

(b) SCHEDULE 5.10(B) sets forth a list of all properties in which any Seller has a leasehold interest and which is used in connection with its Business (each, a "LEASE" and collectively, the "LEASES"; the property covered by such Leases is referred to herein as the "LEASED REAL PROPERTY"). None of the Leased Real Property consists of a Lease of an entire building.

(c) Except as set forth in SCHEDULE 5.10(C), no Lease has been modified or amended in writing. No party to any Lease has given any Seller written notice of or made a claim with respect to any breach or default.

(d) Except as set forth in SCHEDULE 5.10(D), none of the Leased Real Property is subject to (i) any sublease, license or other agreement granting to any person or entity any right to the use, occupancy or enjoyment of such property or any portion thereof or (ii) to the knowledge of each Seller and each Executive Shareholder, any restrictive covenant, zoning ordinance, building code, use or occupancy restriction that restricts the use of such Leased Real Property in connection with the Businesses.

(e) To the knowledge of each Seller and each Executive Shareholder, the plumbing, electrical, heating, air conditioning, elevator, ventilating and all other mechanical or structural systems for which any Seller is responsible under the Leases in the buildings or improvements are in good working order and condition, and the roof, basement and foundation walls of such buildings and improvements for which such Seller is responsible under the Leases are in good condition and free of leaks and other defects. To the knowledge of each Seller and each Executive Shareholder, all such mechanical and structural systems and such roofs, basement and foundation walls for which others are responsible under said Leases are in good working order and condition and free of leaks and other defects. To each Seller's and each Executive Shareholder's knowledge, there is no asbestos-containing material in any of the buildings or facilities on the Leased Real Property or any polychlorinated biphenyls in any hydraulic oils, transformers, capacitors or other electrical equipment, nor does any Seller or Executive Shareholder operate any underground or aboveground tanks on the Leased Real Property.

Section 5.11 EQUIPMENT AND MACHINERY. SCHEDULE 5.11 sets forth a complete and correct list and brief description of each item of Equipment and Machinery having an original purchase cost or aggregate lease cost exceeding $2,500. Each Seller has good title, free and clear of all title defects and objections, and Encumbrances (other than the Encumbrance of current property taxes and assessments not yet due and payable, if any), to the Equipment and Machinery owned by it. Except as set forth on SCHEDULE 5.3, each Seller holds good and transferable leaseholds in all of the Equipment and Machinery leased by it, in each

case under valid and enforceable leases. No Seller is in default with respect to any item of Equipment and Machinery purported to be leased by it, and no event has occurred that constitutes or with due notice or lapse of time or both may constitute a default under any lease thereof. To the knowledge of each Seller and each Executive Shareholder, the Equipment and Machinery is sufficient and adequate to carry on the Business of each Seller as presently conducted and, to the knowledge of each Seller and each Executive Shareholder, all material items thereof have generally been maintained in satisfactory operating condition and repair, ordinary wear and tear excepted.

Section 5.12 INTELLECTUAL PROPERTY; INTANGIBLE ASSETS.

(a) SCHEDULE 5.12(A) sets forth a complete and correct listing of the Intellectual Property. Except as described in SCHEDULE 5.12, all Intellectual Property listed therein is owned by the Sellers, free and clear of all Encumbrances and is in good standing and is not known to be the subject of any challenge. As of the date hereof, except as described in SCHEDULE 5.12(A), there are no unresolved claims made and there has not been communicated to any of the Sellers the threat of any claim that the holder of such Intellectual Property is in violation or infringement of any service mark, patent, trademark, trade name, trademark or trade name registration, copyright, copyright registration or other intellectual property of any other Person. Each Seller is the owner of the Intellectual Property and other proprietary and trade rights necessary for the conduct of its Business as now conducted, and without any known conflict with the rights of others, and no Seller has knowingly forfeited or otherwise relinquished any such Intellectual Property or other proprietary right necessary for the conduct of its Business as conducted on the date hereof. Each Seller owns or has the right to use all computer software, software systems and databases and all other information systems included in the Purchased Property and has the right to transfer title thereto or such rights of the use thereof to the Buyer free and clear of any Encumbrances. All of the Intellectual Property listed on SCHEDULE 5.12(A) are subsisting and have not been abandoned, and all required annuities, renewal fees, maintenance fees, royalty payments, amendments and/or other filings or payments which are necessary to preserve and maintain such Intellectual Property have been filed and/or made.

(b) SCHEDULE 5.12(B) sets forth a true and complete list of all of the Intangible Assets. There is no restriction affecting the use of any of the Intangible Assets, and no license has been granted with respect thereto. Each of the Intangible Assets is valid and in good standing, is not currently being challenged, is not involved in any pending or, to the knowledge of each Seller and each Executive Shareholder, threatened administrative or judicial proceeding, and, to the knowledge of each Seller and each Executive Shareholder, does not conflict with any rights of any other Person. Each Seller's rights in and to the Intangible Assets are sufficient and adequate in all respects to permit the conduct of its Business as now conducted and none of the products or operations of such Business involves any infringement of any proprietary right of any other Person.

Section 5.13 LICENSES AND PERMITS.

(a) SCHEDULE 5.13(A) sets forth a true and complete list of all licenses, permits, franchises, authorizations and approvals issued or granted to each Seller with respect to its Business by any Governmental Authority (the "LICENSES AND PERMITS"), and all pending applications therefor. Such list, where applicable, specifies the date issued, granted or applied for, the expiration date and the current status thereof. Each License and Permit has been duly obtained, is valid and in full force and effect, and is not subject to any pending or threatened administrative or judicial proceeding to revoke, cancel, suspend or declare such License and Permit invalid in any respect. To the knowledge of each Seller and each Executive Shareholder, no license, permit, franchise, authorization or approval by or from any Governmental Authority, other than the Licenses and Permits, is required to permit the continued lawful conduct of the Businesses in the manner now conducted and none of the operations of the Businesses are being conducted in a manner that violates any of the terms or conditions under which any License and Permit was granted. Except as set forth in SCHEDULE 5.13(A), no such License and Permit will in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement.

(b) To the knowledge of each Seller and Executive Shareholder, no Network Physician ever has (i) had his/her license to practice medicine in any jurisdiction denied, surrendered, limited, suspended, revoked or subject to probationary conditions or is subject to any pending proceedings regarding any of the foregoing, (ii) had his/her Federal or State Drug Enforcement Agency controlled substance authorization denied, revoked, suspended, reduced or not renewed or has been subject to institution of, or is subject to any pending or threatened proceedings regarding any of the foregoing, or (iii) been the subject of administrative sanctions or been suspended from or lost eligibility for participating in Medicare, Medicaid or other medical insurance programs offered by any Governmental Authority or any non-governmental body or is subject to any pending or threatened proceedings regarding any of the foregoing.

Section 5.14 LITIGATION. Except as set forth in SCHEDULE 5.14, there are no claims, actions, suits, proceedings, labor disputes or investigations pending or, to the knowledge of each Seller and each Executive Shareholder, threatened, before any Governmental Authority, or before any arbitrator or mediator of any nature, domestic or foreign, brought by or against any Seller or any of its officers, directors, employees, agents or Affiliates involving, affecting or relating to its Business, the Purchased Property or the transactions contemplated by this Agreement, nor is any basis known to any Seller or any Executive Shareholder for any such action, suit, proceeding or investigation. SCHEDULE 5.14 sets forth a list and a summary description of all such pending actions, suits, proceedings, disputes or investigations. Neither any Business nor any Purchased Property is subject to any order, writ, judgment, award, injunction or decree of any Governmental Authority or arbitrator, domestic or foreign, that affects any Businesses or Purchased Property, or that would or might interfere with the transactions contemplated by this Agreement.

Section 5.15 PROFESSIONAL LIABILITY CLAIMS.

(a) Except as set forth in SCHEDULE 5.15(A), to the knowledge of each Seller and each Executive Shareholder, in respect of Network Physicians: (i) there is no notice, demand, claim, action, suit, inquiry, hearing, proceeding, notice of violation or investigation of a civil, criminal or administrative nature before any Governmental Authority or before any arbitrator or mediator of any nature against or involving any professional services performed in connection with or on behalf of any Business, or class of claims or lawsuits involving the same or similar services performed in connection with or on behalf of any Business which, in any such case, is pending or, to the knowledge of the Sellers and the Executive Shareholders, threatened (collectively, "PROFESSIONAL LIABILITY CLAIMS") and (ii) there has not been any Occurrence (as such term is defined below).

(b) The term "OCCURRENCE" shall mean any accident, happening or event which takes place at any time which is caused or allegedly caused by any such accident, happening or event otherwise involving any professional services performed in connection with or on behalf of any Business that is likely to result in a claim or loss.

Section 5.16 CONTRACTS.

(a) SCHEDULE 5.16(A) sets forth a complete and correct list of all Contracts (as in effect on the date hereof), which list of Contracts constitutes all the contracts, agreements, understandings or commitments, whether or not the same are in writing, to which each Seller is a party in connection its Business.

(b) Each Contract is valid, binding and enforceable against the parties thereto in accordance with its terms, and in full force and effect. Each Seller has performed all material obligations required to be performed by it under, and is not in default or delinquent in performance, status or any other respect (claimed or actual) in connection with any Contract, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default. To the knowledge of each Seller and each Executive Shareholder, no other party to any Contract is in default in respect thereof, and no event has occurred which, with due notice or lapse of time or both, would constitute such a default.

(c) Except as set forth in SCHEDULE 5.16(C), with respect to each Contract, each Seller which is a party thereto has complied in all material respects with and expects to comply in all material respects with all material terms thereof, all certifications and representations of such Seller with respect thereto and all statutes and regulations applicable thereto. By way of example, and not by way of limitation, "material obligations" or "material terms" shall include (i) any obligation to comply with rules or regulations imposed by any party to a Third Party Payor Agreement, whether or not such rules or regulations are attached to the relevant Contract, (ii) any obligation to provide most favored pricing terms, (iii) non-competition agreements, (iv) exclusive service requirements, (v) requirements to report information, or to furnish reports, (vi) confidentiality obligations, (vii) indemnification obligations and obligations to maintain insurance, and (viii) any term in respect of which the failure to observe or comply with would, with due notice or lapse of time or both, constitute a ground for default or termination.

(d) Each Seller has permitted the Buyer to inspect and review true and complete copies of all of the Contracts to which it is a party (and, in the case of oral agreements, true and complete written summaries of the material terms of such oral agreements), all attachments, schedules, exhibits, annexes, all rules, regulations or other documents referenced in such Contracts, together with and all amendments and addendums thereto (including any and all oral modifications to such agreements and all amendments that do not require the consent of any Seller). Except as set forth in SCHEDULE 5.16(D), each Seller has full legal power and authority to assign its rights under such Contracts to the Buyer in accordance with this Agreement, and such assignment will not affect the validity, enforceability or continuity of any of such Contracts. All consents, waivers, approvals and authorizations which may be required under the Contracts with respect to the transactions contemplated hereby are listed on SCHEDULE 5.16(D).

(e) Except as set forth in SCHEDULE 5.16(E), none of the Contracts that any Seller has with its Network Physicians, Consultants or Employees provides or requires that (i) any Person other than the aforementioned personnel and such Seller will be a party to such Contracts (including any party to any Third Party Payor Agreement), and the assignment of each Seller's agreements with such Persons to the Buyer does not require the consent or approval of any party to any Third Party Payor Agreement or any other Person, or (ii) any compensation or payment be made to any such Person (a "CHANGE OF CONTROL PAYMENT") by reason of (A) the transactions contemplated by this Agreement, including by reason of the sale of all or substantially all of the assets relating to the Businesses or (B) the acquisition by any Person of beneficial ownership of 50% or more of the voting securities of the Buyer or any of its Affiliates or (C) the merger of the Buyer or any of its Affiliates with and into another Person.

(f) Set forth in SCHEDULE 5.16(F) is a true and correct schedule reflecting the monthly capitation fees required to be paid by each party to a Third Party Payor Agreement to any Seller in accordance with each Third Party Payor Agreement.

(g) None of the Sellers is required to make any payments to, or to receive lower capitation fees from, any party to any Third Party Payor Agreement in accordance with the foregoing provisions or by reason of any other provision in any Third Party Payor Agreement, and none of the Sellers has any reason to believe that any such payment or reduction in capitation fees will be required under the terms of any Third Party Payor Agreement in the foreseeable future.

(h) Except as set forth in SCHEDULE 5.16(H), there are no non-competition or exclusive service agreements (i) between any Executive Shareholder, any Seller or their respective Affiliates, and any party to any Third Party Payor Agreement, that would restrict any such Seller, Executive Shareholder or Affiliate in the manner in which it conducts, or could conduct, its Business, or that would restrict the manner in which the Buyer or its Affiliates conducts, or could conduct, its (or their) businesses, including, after the Closing, the Businesses or (ii) between any Seller and any Network Physician, Consultant, Employee or Shareholder, that would restrict any such Person from performing services for the Buyer or its Affiliates. Each Seller has previously furnished the Buyer with true, correct and complete copies of all the agreements (including all amendments thereto) set forth in SCHEDULE 5.16(H).

(i) Except as set forth on SCHEDULE 5.16(I), since June 30, 1997, no party to any Third Party Payor Agreement has terminated or changed significantly, or to the knowledge of the Sellers and the Executive Shareholders, intends to terminate or change significantly, its relationship with any of the Businesses.

(j) There has been no material change in the terms of or manner of administering any of the Contracts since June 30, 1997.

(k) To the knowledge of each Seller and each Executive Shareholder, no current Network Physician, Consultant, or Employee intends to terminate or materially change the terms of his agreements with any of the Sellers relating to its Business.

Section 5.17 EMPLOYEE PLANS AND BENEFITS; EMPLOYEES AND INDEPENDENT CONTRACTORS.

(a) Except as set forth on SCHEDULE 5.17(A), neither any Seller nor any member of a "controlled group" (within the meaning of Section 4971(e)(2)(B) of the Code) that includes a Seller (hereinafter referred to as an "ERISA AFFILIATE") is a party to or participates in or has any liability or contingent liability with respect to:

any "employee welfare benefit plan" or "employee pension plan" (as those terms are respectively defined in ERISA Sections 3(1)and 3(2)) or a Multiemployer Plan (referred to collectively as the "PLANS"); or

any retirement or deferred compensation plan, incentive compensation plan, stock plan, unemployment compensation plan, vacation pay, severance pay, bonus or benefit arrangement, insurance or hospitalization program or any other fringe benefit arrangements for any employee, director, consultant or agent, whether pursuant to contract, arrangement, custom or informal understanding, which does not constitute an "employee benefit plan," as defined in Section 3(3) of ERISA (referred to collectively as "COMPENSATION ARRANGEMENTS".

Complete and accurate copies of any such written Plans and Compensation Arrangements (or related insurance policies), including any amendments thereto, have been furnished to Buyer, along with copies of any employee handbooks or similar documents describing such Employee Plans and Compensation Arrangements. Any unwritten Employee Plans or Compensation Arrangements also are listed in SCHEDULE 5.17(A), and complete descriptions thereof have been furnished to Buyer. Except as disclosed in SCHEDULE 5.17(A), neither Seller nor any ERISA Affiliate is a party to and or has in effect or to become effective after the date of this Agreement any plan or arrangement that will become a Plan or Compensation Arrangement.

(b) Each Plan and Compensation Arrangement has been administered in compliance with its own terms and in material compliance with the provisions of ERISA, the Code, the Age Discrimination in Employment Act and any other applicable Federal or state laws.

(c) No Seller has within the last six (6) years, does or is required to contribute to any Multiemployer Plan with respect to the Employees, and neither any or the Sellers nor any ERISA Affiliate of any of them has incurred, within the last six (6) years, or reasonably expect to incur any "withdrawal liability," as defined under Section 4201 et seq. of ERISA.

(d) Except as described in SCHEDULE 5.17(D), with respect to each Plan and, to the extent applicable, each Compensation Arrangement: (i) each Plan that is intended to be tax-qualified, and each amendment thereto, is the subject of a favorable determination letter, and no plan amendment that is not the subject of a favorable determination letter would affect the validity of a Plan's letter; (ii) no condition or event exists or is expected to occur that could subject, directly or indirectly, any assets to any material liability, contingent or otherwise, or the imposition of any lien under the Code or Title IV of ERISA.

(e) Attached hereto as SCHEDULES 5.17(E)(I), (II) AND (III), respectively, are true and complete lists, as of ten Business Days prior to the date of this Agreement, of (i) all Network Physicians, (ii) all Consultants,

and (iii) all Employees. Set forth opposite the name of each Employee is such Employee's employment position title, the base salary, any bonus provisions, any additional compensation arrangements, all other benefits to which such person is entitled. Each Seller, for each of the persons who are, or may be deemed, Employees of such Seller's Business, as listed on SCHEDULE 5.17(E)(III), has either paid or adequately provided for the payment of all accrued benefits such Employees are entitled to receive as of the Closing Date as set forth on SCHEDULE 5.17(E)(III), including all accrued vacation, sick or personal time and benefits due under any Plans.

(f) There are no severance pay, stay or retention bonus, continuation pay or termination pay arrangements between any Seller and any officer, director, employee, independent contractor, consultant or Shareholder thereof, that will become Assumed Liabilities. Each Seller has paid on a current basis and will continue to pay on a current basis through the Closing Date all amounts owed to any officer, employee, independent contractor and consultant. Each Seller has previously permitted Buyer to inspect and review true and correct copies of all the agreements described in the foregoing sentence. The Buyer assumes no liability or obligation with respect to, and receives no right or interest in, any of the employment, consulting or independent contractor agreements to which any Seller or Affiliate thereof is or was from time to time a party.

(g) None of the Sellers or the Executive Shareholders has received notice or has any knowledge (i) of any discrepancy in any application filed with any Seller at any time by such Network Physician or (ii) that any Network Physician (whether or not credentialed by any Seller) has been decredentialed by any party to a Third Party Payor Agreement or otherwise. With respect to each Network Physician, (i) no regulatory authority has asserted any claim against any Seller challenging the characterization of such Network Physician as an independent contractor, and no such assertion is pending, or to each of the Seller's and Executive Shareholder's knowledge, threatened, and (ii) no liability exists or is pending or, to each of the Seller's and Executive Shareholder's knowledge, threatened, which results from characterization of any Network Physician as an independent contractor.

(h) The Sellers have permitted Buyer to inspect and review true, complete and correct copies of their forms of independent contractor or employment agreements used with respect to each of the Network Physicians.

Section 5.18 INSURANCE.

(a) SCHEDULE 5.18(A) lists (i) the fidelity bonds, (ii) the aggregate coverage amount, (iii) the type and generally applicable deductibles, (iv) a brief description of each claim of more than $10,000, and (v) the aggregate amounts paid out under each such policy during the period from January 1, 1995 to the date hereof, of or relating to all policies of general and professional liability and other forms of insurance of each Seller insuring each Business, Consultants and all Employees of the Sellers, the Purchased Property, and all insurance required under the Contracts or the Leases. Each Seller has furnished a true, complete and accurate copy of all such policies and bonds to the Buyer. Except as set forth in SCHEDULE 5.18(A), all such policies and bonds are in full force and effect, and are sufficient for all Contracts and, to the knowledge of the Sellers and the Executive Shareholders, all applicable requirements of law. None of the Sellers is in material default under any provisions of any such policy of insurance or has received notice of cancellation of any such insurance. None of the Sellers has received (i) any notice that any issuer of any such policy has filed for protection under applicable bankruptcy laws or is otherwise in the process of liquidating or has been liquidated, (ii) any other indication that such policies are no longer in full force and effect or that the issuer of any such policy is no longer willing or able to perform its obligations thereunder. There is no claim by any Seller pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds or any notice that a defense will be afforded with reservation of rights. Since December 31, 1996, except as set forth in SCHEDULE 5.18(A), none of the Sellers or the Executive Shareholders has received any written notice from or on behalf of any insurance carrier issuing such policies, that there will hereafter be a cancellation, or an increase in a

deductible or non-renewal of existing policies. All premiums due on such policies have been paid, and the aggregate amount of all claims under such policies do not exceed policy limits. Each Seller has given notice to the insurers of all claims that may be insured thereunder. The insurance maintained by each Seller in connection with its Business is adequate in accordance with the requirements of any applicable Leases. After the Closing each Seller will provide the Buyer with all reasonable assistance and information necessary to enable the Buyer to obtain and maintain insurance coverage for the Businesses and the Purchased Property.

(b) Except as set forth on SCHEDULE 5.18(B), none of the Sellers is obligated, pursuant to any of the Contracts or otherwise, to maintain insurance for the benefit of any Person (including any Network Physician or customer), or to name any Person (including any Network Physician or customer) as an additional insured party.

Section 5.19 COMPLIANCE WITH LAW.

(a) Except as set forth on SCHEDULE 5.19, and except with respect to Environmental Laws which are referred to in Section 5.19(f), the operations of each Business have been conducted in accordance with all applicable laws, regulations, orders and other requirements of all courts and other Governmental Authorities having jurisdiction over any Seller or its Network Physicians, Consultants, Employees, assets, properties and operations, including all such laws, regulations, orders and requirements promulgated by or relating to consumer protection, equal opportunity, health, architectural barriers to the handicapped, fire, zoning and building and occupation safety, and, to the knowledge of each Seller and each Executive Shareholder, there are no circumstances arising out of the operation of any Business prior to the Closing that will give rise to any claim against the Buyer under any such laws if the Closing occurs, except where the failure to comply would not have material adverse effect on the Purchased Property, operations, prospects, net income or condition (financial or other) of such Business. None of the Sellers, Executive Shareholders or their respective Affiliates has received notice of any violation of any such law, regulation, order or other legal requirement or, to the best knowledge of each Seller and each Executive Shareholder, are in default with respect to any order, writ, judgment, award, injunction or decree of any Governmental Authority or arbitrator, domestic or foreign, applicable to any Business or any of the assets, properties or operations with respect thereto.

(b) None of the Sellers, the Shareholders, or persons or entities providing professional services for any Business, and, to the knowledge of the Sellers and the Executive Shareholders, the Network Physicians, have engaged in any activities which are prohibited under Section 1320a-7b to Title 42 of the United States Code or the regulations promulgated thereunder, or related state or local statutes or regulations, or which are prohibited by rules of professional conduct including, but not limited to, the following: (i) knowingly and willfully making or causing to be made any false statement or representation of a fact in any application for any benefit or payment; (ii) any failure by a claimant to disclose knowledge of the occurrence of any event affecting the initial or continued right to any benefit or payment on its own behalf or on behalf of another, with the intent to secure fraudulently such benefit or payment; (iii) knowingly and willfully offering, paying, soliciting or receiving any remuneration (including any kickback, bribe or rebate) directly or indirectly, overtly or covertly, in cash or in kind, or offering to receive such remuneration (A) in return for referring an individual to a person or accepting a referral of an individual from a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by the Medicare or Medicaid programs, or (B) in return for purchasing, leasing or ordering or arranging for, or recommending any good, facility, service or item for which payment may be made in whole or in part by the Medicare or Medicaid programs or (iv) knowingly and willfully making or causing to be made, agreeing to be made, or aware that there is any agreement to make, any political contribution or any contributions, payments or gifts of their respective funds or property to or for the private use of any employee, official or agent of any Governmental Authority, in circumstances in which the payment or the purpose of such contribution, payment or gift relates to any Business and is illegal under the laws of any Governmental Authority. Furthermore, each Seller has at all

times billed for professional services in accordance with 42 U.S.C. Section 1395nn and the regulations promulgated thereunder, and has not been engaged in any conduct violation of 42 U.S.C. Section 1395nn or the regulations thereunder, including, without limitation, billing for or receiving payment for a service which arose out of a refund prohibited by that Section.

(c) All bills submitted by or on behalf of each Seller, its Consultants, Employees or Executive Shareholders, and, to the knowledge of each Seller and Executive Shareholder, its Network Physicians, to Medicare or Medicaid have been submitted in compliance with all laws, regulations and manual instructions pertaining to billing for services rendered to recipients and beneficiaries of the Medicaid and Medicare programs.

(d) Each Seller and each Executive Shareholder has at all times complied with the requirements of all state laws relating to self referrals, including, without limitation, the 1992 Florida Patient Self Referral Act, as amended, and codified at Sections 455.236 and 455.237, Florida Statutes, which prohibits physicians who have an ownership or investment interest in certain health care facilities from referring patients to such facilities for the provisions of designated and other health services. Furthermore, each Seller and each Executive Shareholder has filed all reports required to be filed by state and federal law regarding compensation arrangements and financial relationships between a physician and an entity to which the physician refers patients.

(e) Each Seller is in compliance with all federal, state and local laws, rules and regulations relating to the employment authorization of its employees and independent contractors (including the Immigration Reform and Control Act of 1986, as amended and supplemented, and Sections 212(n) and 274A of the Immigration and Nationality Act, as amended and supplemented, and all implementing regulations relating thereto), and no Seller is employing or engaging as an independent contractor any unauthorized aliens (as such term is defined under 8 CFR Section274a.1(a)(1994)). No Seller or Executive Shareholder is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, non-competition or proprietary rights agreement, between such individual and any other Person that in any way adversely affects the performance of his duties or the ability of any Seller to conduct its Business.

(f) To the knowledge of the Sellers, the operations of each Business have been conducted in accordance with all applicable Environmental Laws except where the failure to comply would not have a material adverse effect on the Purchased Property, operations, prospects, net income or condition (financial or other) of such Business. None of the Sellers or Executive Shareholders has received notice from any Governmental Authority with respect to, nor do they have any knowledge of, any material violation by any Seller of any law, regulation or ordinance of any federal, state or local government relating to the storage, disposal or release of Hazardous Materials. For purposes of this Section 5.19(f), the term "Hazardous Materials" means any flammable materials, explosives, radioactive materials, hazardous wastes, hazardous or toxic substances, infectious wastes, medical wastes or related or similar materials.

Section 5.20 CHANGE IN OWNERSHIP. Neither the purchase of the Purchased Property by the Buyer nor the consummation of the transactions contemplated by this Agreement will result in any material adverse change in the Businesses or in the loss of the benefits of any material relationship with any party to any Third Party Payor Agreement or any other customer or supplier.

Section 5.21 FILES AND RECORDS. All the Files and Records included in the Purchased Property are true and complete in all material respects, are maintained in accordance with good business practice and all laws and regulations of any Governmental Authority applicable to the business, and accurately present and reflect in all material respects all of the transactions therein described.

Section 5.22 RELATED PARTY TRANSACTIONS. SCHEDULE 5.22 hereto sets forth, in respect of the Businesses, (i) all management, computer, telephone or other services, and all space, facilities and services, provided by any Seller or its Affiliates to any other Seller or its Affiliates at any time since January 1, 1994 that could or will result in aggregate payments by any Seller of $2,500 or more, and (ii) all other Contracts

and transactions between any Seller or its Affiliates and any other Seller or its Affiliates currently in effect or which were in effect or occurred since January 1, 1994 that resulted in or will result in aggregate payments by any Seller of $2,500 or more.

Section 5.23 SUFFICIENCY OF AND TITLE TO ASSETS. Upon the consummation of the transactions contemplated by this Agreement, the Sellers will have assigned, transferred and conveyed to the Buyer all of the Purchased Property free and clear of any Encumbrances, except for Permitted Encumbrances, which Purchased Property (a) constitutes all of the properties and assets now held or employed by the Sellers or any of their Affiliates that are attributable to the Businesses, (b) constitutes and on the Closing Date will constitute, all of the property and assets that are necessary to permit the operation of the Businesses as historically and currently conducted, (c) is suitable for the purposes for which it is currently used, and (d) is to be conveyed hereunder in good operating condition and repair, subject to reasonable use, wear and tear. No assets used in the Businesses are owned by any party other than one of the Sellers except for property that is the subject of the Contracts.

Section 5.24 ACCURACY OF INFORMATION. None of the Sellers' or Executive Shareholders' representations, warranties or statements contained in this Agreement, or in the schedules, exhibits and other attachments hereto, contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any of such representations, warranties or statements in light of the circumstances under which they were made not misleading.

Section 5.25 BROKERS. Except for Mr. Jeffrey Binder of JeMJ Financial Services, Inc. and for Mr. Joseph Farrell, the fees and expenses of which shall be the sole responsibility of the Sellers and the Executive Shareholders, no broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of any Seller. The Sellers and the Executive Shareholders, jointly and severally, agree to indemnify and hold harmless the Buyer against any fee, loss or expense arising out of any claim by any broker of finder employed or alleged to have been employed by any of them.

Section 5.26 DISCLOSURE. Each of the Shareholders has been furnished with a copy of this Agreement and has been given sufficient opportunity to ask questions and receive answers from the Sellers and the Executive Shareholders as to all financial terms and all other material terms of this Agreement.

Section 5.27 SURVIVAL. Each of the representations and warranties set forth in this Article 5 shall survive the Closing, notwithstanding any investigation on the part of the Buyer, for a period terminating on the second anniversary of the Closing Date; PROVIDED, HOWEVER, that the representations and warranties contained in Sections 5.1, 5.2, 5.7, 5.14, 5.15, 5.17 and 5.19 shall survive until the fourth anniversary of the Closing Date.

SECTION 6. REPRESENTATIONS AND WARRANTIES OF THE BUYER AND PARENT.

The Buyer and Parent hereby, jointly and severally represent and warrant to, and covenant with, the Sellers as follows:

Section 6.1 CORPORATE ORGANIZATION. Each of the Buyer and Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida and the State of Delaware, respectively, is duly qualified as a foreign corporation in each jurisdiction in which it is required to be so qualified, and each has all requisite corporate power and authority to own its properties and assets and to conduct its businesses as now conducted. The Buyer is a wholly owned subsidiary of Parent. Each of Parent and the Buyer has furnished to the Sellers true, complete and correct copies of its Articles or Certificate of Incorporation and By-laws, with all amendments thereto.

Section 6.2 AUTHORIZATION AND VALIDITY OF AGREEMENT. Each of the Buyer and Parent has all requisite corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. The

execution and delivery of this Agreement and the performance of the respective obligations of the Buyer and Parent hereunder have been duly authorized by all necessary corporate action by the Buyer and Parent, respectively, and no other corporate or shareholder proceedings on the part of the Buyer or Parent are necessary to authorize such execution, delivery and performance. This Agreement has been duly executed and delivered by each of the Buyer and Parent, respectively, and constitutes the legal, valid and binding obligation of the Buyer and Parent, enforceable against each in accordance with its terms.

Section 6.3 NO CONFLICT OR VIOLATION. Except as set forth on SCHEDULE 6.3, the execution, delivery and performance by the Buyer and Parent of this Agreement do not and will not violate or conflict with any provision of the Articles or Certificate of Incorporation or By-Laws of the Buyer or Parent, respectively, and do not and will not violate any provision of law, or any order, judgment or decree of any Governmental Authority, nor violate nor will result in a breach of or constitute (with due notice or lapse of time or both) a default under, or give rise to a right to terminate or modify, any contract, lease, loan agreement, mortgage, security agreement, trust indenture or other agreement or instrument to which the Buyer or Parent is a party or by which it is bound or to which any of its properties or assets is subject.

Section 6.4 CONSENTS AND APPROVALS. Except as disclosed on SCHEDULE 6.4, the execution, delivery and performance of this Agreement on behalf of the Buyer and Parent does not require the consent or approval of, or filing with, any Governmental Authority or other entity or person except such consents, approvals and filings, of which the failure to obtain or make would not, individually or in the aggregate, have a material adverse effect on the ability of the Buyer or Parent to consummate the transactions contemplated hereby.

Section 6.5 LITIGATION. There are no claims, actions, suits, proceedings, labor disputes or investigations pending, or to the knowledge of the Buyer or Parent, threatened, before any Governmental Authority, or before any arbitrator or mediator of any nature, domestic or foreign, brought by or against the Buyer or Parent or any of their respective officers, directors, employees, agents or Affiliates, involving, affecting or relating to the transactions contemplated by this Agreement or which would prohibit the Buyer or Parent from consummating the transactions contemplated by this Agreement nor is any basis known to the Buyer or Parent for any such action, suit, proceeding or investigation.

Section 6.6 FINANCING. As of the date hereof, neither the Buyer nor Parent has any reason to believe that the Buyer will not be able to obtain the financing necessary for it to consummate the transactions contemplated by this Agreement.

Section 6.7 BROKERS. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based on arrangements made by or on behalf of the Buyer. The Buyer and the Parent, jointly and severally, agree to indemnify and hold harmless the Sellers and the Shareholders against any fee, loss or expense arising out of any claim by any broker or finder employed or alleged to have been employed by Buyer or Parent.

Section 6.8 ACCURACY OF REPRESENTATIONS AND WARRANTIES. None of the Buyer's or Parent's representations, warranties or statements contained in this Agreement contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any such representations or warranties not misleading or includes any untrue statement of a material fact or omits to state any material fact necessary in order to make such statements, in the light of the circumstances under which they were made, not misleading.

Section 6.9 SURVIVAL. Each of the representations and warranties set forth in this Article 6 shall survive the Closing, notwithstanding any investigation on the part of the Sellers or the Executive Shareholders, for a period terminating on the second anniversary of the Closing Date; PROVIDED, HOWEVER, that the representation and warranty contained in Sections 6.1, 6.2 and 6.5 shall survive until the fourth anniversary of the Closing Date.

SECTION 7. COVENANTS.

Each Seller and each of the Executive Shareholders, jointly and severally, and, to the extent expressly specified, the Buyer and Parent, covenants as follows:

Section 7.1 INFORMATION AND CERTAIN TAX MATTERS.

(a) Each Seller will give to the Buyer and to its officers, employees, accountants, counsel and other representatives reasonable access during its normal business hours throughout the period prior to the Closing to all of such Seller's properties, Files and Records, Licenses and Permits, Contracts, Tax Returns, and other Purchased Property relating to the Businesses (subject to any limitations that are reasonably required to preserve any applicable attorney-client privilege or third-party confidentiality obligation). Such access by the Buyer will be coordinated through one of the Executive Shareholders, as representatives of the Sellers.

(b) After the Closing Date, the Sellers and the Buyer will provide to each other and to their respective officers, employees, counsel and other representatives, upon request (subject to any limitations that are reasonably required to preserve any applicable attorney-client privilege or third-party confidentiality obligation), access for inspection and copying, of all Files and Records, Licenses and Permits, Contracts and any other information existing as of the Closing Date and relating to the Businesses or the Purchased Property, and will make their respective personnel reasonably available to provide information relating to the Businesses or the Purchased Property prior to the Closing Date, and as otherwise may be necessary or desirable to enable the party requesting such assistance to: (i) comply with reporting, filing or other requirements imposed by any foreign, local, state or federal court, agency or regulatory body; (ii) assert or defend any claims or allegations in any litigation or arbitration or in any administrative or legal proceeding other than claims or allegations that one party to this Agreement has asserted against the other; or (iii) subject to clause (ii) above, perform its obligations under this Agreement. The party requesting such information or assistance shall reimburse the other party for all out-of-pocket costs and expenses incurred by such party in providing such information and in rendering such assistance. The access to files, books and records contemplated by this Section 7.1(b) shall be during normal business hours and upon not less than two Business Days' prior written request and shall be subject to such reasonable limitations as the party having custody or control thereof may impose to preserve the confidentiality of information contained therein. For a period of seven years after the Closing Date, the Buyer shall keep and preserve all medical and other records of the Sellers in its possession which are existing as of the Closing Date and which are required to be kept and preserved (i) by any applicable federal or state law or regulation or (ii) in connection with any claim or controversy still pending involving any of the Sellers.

(c) The Buyer, Parent, the Sellers and the Executive Shareholders shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with any Tax audit, litigation or other Tax proceeding relating to the Businesses or the Purchased Property. Such cooperation shall include the retention and, upon the other party's request, the provision of records and information reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any records and information provided hereunder. The Buyer, Parent, the Sellers and the Executive Shareholders further agree to furnish or cause to be furnished to each other, as promptly as practicable, such information and assistance relating to the Businesses as is reasonably necessary to the preparation and filing of any Tax Return, claim for refund or other required or optional filings relating to Tax matters, for the preparation for and proof of facts during any Tax audit, for the preparation for any Tax protest, for the prosecution or defense of any suit or other proceeding relating to Tax matters and for the answer to any inquiry relating to Tax matters by any Governmental Authority.

(d) Without limiting the generality of the foregoing, each Seller agrees (i) to provide both before and after the Closing Date financial information reasonably requested by the Buyer from time to time in connection with the preparation by the Buyer of financial statements relating to the Businesses and (ii) to

use its Best Efforts to cause Sellers' independent accountants to provide any such information (including copies of all workpapers) reasonably promptly upon the request of the Buyer. The Buyer will use such information for its normal business purposes only, including, without limitation, preparation of financial information required to be included in reports filed with the Securities Exchange Commission and each Seller will use its Best Efforts to provide or cause to be provided to the Buyer such information in a timely fashion.

(e) The Sellers agree to retain possession of all accounting, business, financial and Tax records and information (i) relating to the Businesses in existence on the Closing Date transferred to the Buyer hereunder and (ii) coming into existence after the Closing Date which relate to the Businesses before the Closing Date, for the period not less than seven years from the Closing Date. In addition, from and after the Closing Date, the Sellers agree that they will not unreasonably withhold access by the Buyer and its attorneys, accountants and other representatives (after reasonable notice and during normal business hours and with reasonable charge), to such personnel, books, records, documents and any or all other information relating to the Businesses as the Buyer may reasonably deem necessary to properly prepare for, file, prove, answer, prosecute and/or defend any such return, filing, audit, protest, claim, suit, inquiry or other proceeding or for other legitimate business purposes. Such access shall include, without limitation, access to any computerized information retrieval systems relating to the Businesses.

Section 7.2 CONDUCT OF THE BUSINESSES.

From and after the date of this Agreement and until the Closing Date, except as set forth on SCHEDULE 7.2 or as otherwise contemplated by this Agreement or as the Buyer shall otherwise consent to in writing, each Seller will, with respect to its Business, and each Executive Shareholder will cause each Seller in which he or his Affiliates have any direct or indirect ownership interest to:

(a) carry on its Business in the ordinary course in a manner consistent with past practice, including without limitation by keeping in full force and effect insurance comparable in amount and scope to the coverage maintained by it (or on behalf of it) on the date hereof, not cancel any debts or claims, or waive or release any rights material to such Business relating to the operations of such Business, or default on any material obligation relating to the operations of its Business;

(b) not permit all or any of the Purchased Property (real or personal, tangible or intangible) to be sold, licensed or subjected to any Encumbrance (other than a Permitted Encumbrance) except in dispositions of inventory or of worn-out or obsolete equipment for fair or reasonable value in the ordinary course of business consistent with past practices;

(c) exercise all Best Efforts to maintain and preserve for the Buyer its relationships with customers, suppliers, managers, Employees, Network Physicians, Consultants, parties to Third Party Payor Agreements and actively sought prospective parties to Third Party Payor Agreements (including, without limitation PruCare) and others having business relationships with the Business;

(d) not acquire any assets or properties, or enter into any other transaction, other than in the ordinary course of business consistent with past practice and which does not require payment of aggregate amounts exceeding $10,000;

(e) not enter into any new (or amend any existing) Plan, including, any employee benefit plan, program or arrangement or any new (or amend any existing) employment, independent contractor, severance or consulting agreement, grant any general increase in the compensation of officers or Employees (including any such increase pursuant to any bonus, pension, profit-sharing or other plan or commitment) or grant any increase in the compensation payable or to become payable to any Network Physician, Consultant or Employee, except (i) in accordance with pre-existing contractual provisions or consistent with past practice, (ii) increases on an annual basis for the 1997 calendar year up to a maximum amount of five percent in excess of such Person's aggregate compensation for the 1996 calendar year and (iii) in respect of the Executive Shareholders, as permitted in Section 7.2(i)(B) below;

(f) not issue, grant or sell any capital stock, partnership interests, options, or other right to purchase any equity interests in such Seller, or issue any security convertible into such capital stock, partnership interests or equity interests, or enter into any subscription contract or other arrangements obligating such Seller to issue or sell any of the foregoing, or redeem, purchase or otherwise acquire any such capital stock or equity interests;

(g) not make or commit to make any capital expenditure except as expressly contemplated by the Information Technologies Budget, other than ordinary repairs or maintenance;

(h) not pay, lend or advance any amount to, or sell, transfer or lease any properties or assets to, or enter into any agreement or arrangement with, any of its Affiliates;

(i) not declare, set aside, pay or make any dividend or other distribution or payment (whether in cash, stock, interests, equity or property) with respect to, or purchase or redeem, any shares of the capital stock or any partnership interests or other equity interests (including profit sharing plans or distributions relating to such Seller's financial results) of such Seller, or otherwise withdraw any cash from such Seller for the direct or indirect benefit of the holders of any such shares or interests or for any third party, or make or agree to make any other payments to any Shareholder or any of his or her Affiliates; PROVIDED, HOWEVER, that nothing set forth in this Section 7.2(i) shall prohibit cash distributions to the extent that after giving effect to such cash distributions the Sellers still have at least $1,000,000 in Unrestricted Cash in the aggregate;

(j) not make any change in any method of accounting or accounting principle, method, estimate or practice except for any such change required by reason of a concurrent change in GAAP, or write down the value of any inventory or write off as uncollectible any accounts receivable except in the ordinary course of business consistent with past practice;

(k) not settle, release or forgive any claim or litigation or waive any right thereto;

(l) not make, enter into, modify, amend or terminate any Contract, including any Third Party Payor Agreement or bid with respect to any of the Businesses;

(m) not defer the payment of any expense or liability, or prepay any expense or liability, in anticipation of the consummation of the transactions contemplated hereby;

(n) not accelerate the collection of any accounts receivable or any other amounts owed to it;

(o) not decrease by a material amount the quantity of Equipment and Machinery or Inventory maintained for use in its Business;

(p) discharge or satisfy all Encumbrances and pay or satisfy all obligations or liabilities (whether absolute, accrued, contingent or otherwise) arising from the operation of its Business in a timely manner, other than liabilities being contested in good faith and for which adequate reserves have been provided, each of which is set forth on SCHEDULE 5.6(B)(13) hereof, and Permitted Encumbrances;

(q) continue to maintain the Purchased Property in accordance with present practice; and

(r) not enter into any agreement or make any commitment not in compliance with any of the foregoing and not take any other action that would cause any of the representations and warranties made by any Seller in this Agreement not to remain true and correct.

Section 7.3 TAX REPORTING AND ALLOCATION OF CONSIDERATION.

(a) Each of the Sellers and the Buyer acknowledge and agree that (i) the Sellers will be responsible for and will perform all Tax withholding, payment and reporting duties with respect to any wages and other compensation paid by any Seller to any Transferred Employee (and, if applicable, any Transferred Consultant) in connection with operating the Businesses prior to or on the Closing Date and (ii) the Buyer will be responsible for and will perform all Tax withholding payment and reporting duties with respect to

any wages and other compensation paid by Buyer to any employee or independent contractor in connection with operating the Businesses after the Closing Date.

(b) The Buyer and each of the Sellers recognize their mutual obligations pursuant to Section 1060 of the Code to timely file IRS Form 8594 (the "ASSET ACQUISITION STATEMENT") with each of their respective federal income Tax Returns. The Buyer and each of the Sellers acknowledge that they will allocate the Purchase Price and the Assumed Liabilities among the Purchased Property in the manner set forth on SCHEDULE 7.3(B) (such agreed allocation hereinafter referred to as the "ALLOCATION"). The Buyer and each of the Sellers further agree to act in accordance with the Allocation, if any, in any Tax Returns or similar filings. In the event that any Tax authority disputes the Allocation, if any, the Sellers or the Buyer, as the case may be, shall promptly notify the other party of the nature of such dispute and shall provide reasonable cooperation with the goal of resolving such dispute.

Section 7.4 SUPPLEMENTAL SCHEDULES. The Sellers and the Executive Shareholders shall, from time to time prior to the Closing (but no later than three Business Days prior to the Closing), by notice in accordance with this Agreement, supplement or amend any Schedule to correct any matter which would constitute a breach of any representation or warranty herein contained. No such supplemental or amended Schedule shall be deemed to cure any breach of such representation or warranty for purposes of conditions to Closing or termination, or for any other purpose, and the Buyer shall continue to have all of its rights and remedies hereunder.

Section 7.5 TRANSFERRED PERSONS.

(a) The Buyer, in its sole discretion, may offer employment or engagement, as the case may be, to as many Consultants and Employees whose Contracts are not being assumed by the Buyer as is consistent with, and subject to, the Buyer's requirements and employment policies. Notwithstanding anything to the contrary in the previous sentence, within five Business Days prior to the Closing, the Buyer shall offer employment to the Employees listed on SCHEDULE 7.5(A), such terms of employment to be no more advantageous to such Employees than the terms on which such Employees are currently employed as set forth on SCHEDULE 5.17(E)(III) opposite their respective names (an "ENGAGEMENT NOTICE"), PROVIDED, HOWEVER, that nothing herein requires the Buyer to employ any such Employees for any period of time after the Closing Date except that (i) the Buyer agrees not to terminate the employment of any such Employees without the prior consent of the Executive Shareholders, which consent will not be unreasonably withheld or delayed, for a period ending 90 days after the Closing Date, and (ii) the Buyer agrees to offer to employ each of Judith Margulies and Greta Gottlieb at her respective current salary and not to terminate the employment of either one without the prior consent of the Executive Shareholders, which consent will not be unreasonably withheld or delayed, for a period ending one year after the Closing Date. All Employees hired by Buyer shall be referred to as "TRANSFERRED EMPLOYEES" and all Consultants engaged by Buyer, including Consultants relating to Contracts assumed by Buyer, shall be referred to as "TRANSFERRED CONSULTANTS." Promptly following the delivery by the Buyer of the list of Transferred Consultants and Transferred Employees, each Seller will make appropriate arrangements with each of its Consultants, and Employees being so transferred, in order to terminate any existing agreements which are not being assigned to the Buyer, including any non-competition restrictions that may be contained in related agreements, or, if requested by the Buyer, provide for the assignment of such employment, consulting or independent contractor agreements to the Buyer at the Closing to the extent such contracts or agreements constitute Contracts.

(b) All Transferred Employees (but not Network Physicians or Transferred Consultants) shall participate in the employee benefit plans, programs, policies and arrangements of the Buyer in accordance with the terms thereof generally applicable to employees of the Buyer. Except to the extent expressly provided for in Section 7.5(a), nothing herein requires the Buyer to employ any Transferred Employee or to engage any Network Physicians, or Transferred Consultants for any period of time after the Closing Date.

(c) Except as otherwise expressly provided in Section 2.4, neither the Buyer nor its Affiliates shall assume or have any direct or indirect obligation or liability of any nature, whether matured or unmatured, accrued or contingent, due or to become due or otherwise, to any Network Physician, Transferred Consultant or Transferred Employee or other present or former employee of or independent contractor with any of the Sellers or its Affiliates, or to any dependent, survivor or beneficiary thereof, arising out of or in relation to such person's employment or engagement with any of the Sellers or its Affiliates or the termination of such employment, nor shall the Buyer or its Affiliates have any such liability to any such Person to make any Change of Control Payments.

(d) Sellers shall assume full responsibility and liability for offering and providing "continuation coverage" to any "qualified beneficiary" who is covered by a "group health plan" sponsored or contributed to by any Seller and who has experienced a "qualifying event" or is receiving "continuation coverage" on or prior to the Closing. "Continuation coverage," "qualified beneficiary," "qualifying event" and "group health plan" all shall have the meanings given such terms under Section 4980B of the Code and Section 601 et seq. of ERISA. Sellers, jointly and severally, shall hold Buyer and any entity required to be combined with Buyer (within the meaning of Sections 414(b), (c), (m) or (i) of the Code) harmless from and fully indemnify them against any costs, expenses, losses, damages and liabilities incurred or suffered by them directly or indirectly, including, but not limited to, reasonable attorneys' fees and expenses, which relate to continuation coverage and arise as a result of any action or omission by Seller or because Buyer is deemed to be a successor employer to any Seller.

Section 7.6 CONSENTS AND APPROVALS. The Sellers and the Executive Shareholders (a) shall, at their own cost and expense, use their Best Efforts to obtain all necessary consents, waivers, authorizations, domestic and foreign, and of all other persons, firms or corporations required in connection with the execution, delivery and performance by them of this Agreement, and (b) shall diligently assist and cooperate with the Buyer in preparing and filing all documents required to be submitted by the Buyer to any Governmental Authority in connection with such transactions and in obtaining any consents, waivers, authorizations or approvals from any Governmental Authority which may be required to be obtained by the Buyer in connection with such transactions (which assistance and cooperation shall include timely furnishing to the Buyer all information concerning the Sellers, the Executive Shareholders and their respective Affiliates that counsel to the Buyer reasonably determines is required to be included in such documents or would be helpful in obtaining any such required consent, waiver, authorization or approval).

Section 7.7 NEGOTIATIONS. From and after the date hereof through and until the earlier to occur of Closing or termination of this Agreement, neither the Sellers, nor their respective officers, directors, Employees or Shareholders nor anyone acting on behalf of the Sellers or any of the foregoing persons shall, directly or indirectly, encourage, solicit, engage in discussions or negotiations with, or provide any information to, any person, firm, or other entity or group (other than the Buyer or its representatives) concerning any merger, sale of substantial assets, purchase or sale of shares of capital stock or similar transaction involving any Seller or any of the Businesses or any other transaction inconsistent with the transactions contemplated hereby. The Sellers and the Executive Shareholders shall promptly communicate to the Buyer any inquiries or communications concerning any such transaction which they may receive or of which they may become aware prior to the termination of this Agreement.

Section 7.8 FURTHER ASSURANCES. Upon the reasonable request of the Buyer at any time after the Closing Date, each Seller shall forthwith execute and deliver such further instruments of assignment, transfer, conveyance, endorsement, direction or authorization and other documents as the Buyer or its counsel may request to perfect title of the Buyer and its successors and assigns to the Purchased Property or otherwise to effectuate the purposes of this Agreement.

Section 7.9 COVENANT NOT TO COMPETE.

(a) The Sellers and the Executive Shareholders agree for themselves and their respective Affiliates that, for a period commencing on the Closing Date hereof and ending on the fifth anniversary of the

Closing Date, without the written consent of the Buyer, they shall not, jointly or severally, provide or have any interest in any Person that provides or is engaged in, whether as an owner, employee, officer, director, shareholder, partner, contractor, consultant, agent, joint venturer, or advisor, (i) subspecialty capitated or discounted fee for service networks, or related administrative or management services, to any Person providing, directly or indirectly, health care services or (ii) the business presently engaged in, or engaged in at such time by any Seller, any Executive Shareholder, the Buyer, or any of their respective Affiliates, in either case in the United States of America, its territories and possessions.

(b) The Sellers and the Executive Shareholders acknowledge and agree that the restrictions set forth in Section 7.9(a), including the territory set forth therein, are reasonable and necessary to protect the legitimate business interests of the Buyer including the goodwill of the Sellers, the Executive Shareholders, and their respective Affiliates being purchased by the Buyer pursuant to this Agreement and the substantial relationships (as reflected, in part, in the Contracts) with payors and other medical providers and patients that are being transferred to the Buyer as contemplated by this Agreement.

(c) The Sellers and the Executive Shareholders agree that a monetary remedy for a breach of the agreement set forth in Section 7.9(a) hereof will be inadequate and impracticable and further agree that such a breach would cause the Buyer irreparable harm, and that the Buyer shall be entitled to temporary and permanent injunctive relief without the necessity of proving actual damages. In the event of such a breach, the Sellers and the Executive Shareholders agree that, in addition to all other remedies available at law or in equity, the Buyer shall be entitled to such injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions as a court of competent jurisdiction shall determine.

(d) If any provision of this Section 7.9 is invalid, void or unenforceable in part, it shall be curtailed, both as to time and location, to the minimum extent required for its validity under applicable laws and shall be binding and enforceable with respect to each Seller and each Shareholder as so curtailed.

(e) The foregoing five-year period shall be tolled for any period(s) of violation or period(s) of time required for litigation to enforce the covenants herein.

Section 7.10 NON-SOLICITATION OF EMPLOYEES. The Sellers and the Executive Shareholders agree for themselves and their respective Affiliates, for a period commencing on the Closing Date hereof and ending on the fifth anniversary of the Closing Date, not to make, offer, solicit or induce to enter into, any written or oral arrangement, agreement or understanding regarding employment or retention as a consultant or independent contractor with any person who (i) was, on the date hereof, a Network Physician, Consultant, or an Employee of any Seller and employed or engaged in any Business, or (ii) is at the time of such solicitation, or who was at any time during the six-month period prior to such solicitation, an employee or consultant or independent contractor of Buyer or an Affiliate of Buyer, without the written consent of the Buyer.

Section 7.11 ASSIGNMENT OF CONTRACTS AND WARRANTIES. Each Seller assigns to the Buyer effective from and after the Closing all right, title and interest of each Seller and its Affiliates in, to and under the Contracts. Notwithstanding the foregoing, no Contract shall be assigned contrary to law or the terms of such Contract and, with respect to Contracts that cannot be assigned to the Buyer, the performance obligations of the applicable Seller thereunder shall, unless not permitted by such Contract, be deemed to be subleased or subcontracted to the Buyer until such Contract has been assigned. The Buyer shall reasonably assist each Seller in obtaining any necessary approvals to such subleases and subcontracts. The Buyer shall take all necessary actions to perform and complete all Contracts in accordance with their terms if neither assignment, subleasing nor subcontracting is permitted by the other party, and each Seller shall pay over to the Buyer any amounts received by such Seller after the Closing Date as a result of performance by the Buyer of such Contracts; PROVIDED; HOWEVER, to the extent any such Contract is a Key Contract, nothing set forth herein shall require the Buyer to assume any obligation of any of the Sellers under such Key Contract until the consent to assignment with respect thereto has been obtained unless the

Buyer shall have waived the requirement that such consent be obtained as a condition to Closing as contemplated in Section 8.7 hereof.

Section 7.12 NOTICE OF BREACH.

(a) The Sellers and the Executive Shareholders shall promptly give the Buyer and Parent notice with particularity upon having knowledge of any matter that may constitute a breach of any of their respective representations, warranties, agreements or covenants contained in this Agreement.

(b) Each of the Buyer and Parent shall promptly give the Sellers and the Executive Shareholders written notice with particularity upon having knowledge of any matter that may constitute a breach of any of their respective representations, warranties, agreements or covenants contained in this Agreement.

Section 7.13 BULK SALES COMPLIANCE. The Sellers and the Executive Shareholders shall take all action necessary such that all transactions contemplated by this Agreement comply in all material respects with any "Bulk Transfer" provisions of the Uniform Commercial Code which may be in effect in each applicable jurisdiction.

Section 7.14 CONDUCT OF THE BUSINESSES AFTER CLOSING. Each of Parent, the Buyer, the Sellers and the Executive Shareholders covenant and agree that the business of the Buyer shall be conducted in accordance with the provisions of this Section 7.14 from and after the Closing Date through and including the third anniversary of the Closing Date:

(a) Parent, the Buyer and the Executive Shareholders acknowledge that it is their intent to exercise their Best Efforts to facilitate the growth and profitability of the Subject Business; provided, however, that nothing set forth in this Agreement shall require the Parent or any Affiliate of the Parent to refer any business to or to otherwise conduct any business through the Buyer. Parent is not prohibited from acquiring or merging with other entities engaged in the Subject Business, or from being acquired by or merged with those who are, but in the event the Buyer is sold or otherwise ceases to be an Affiliate of the Parent, the Parent will seek to obtain contractual protection from the acquiring entity or entities to agree not to interfere with the existing business of the Buyer or with the Buyer's existing contractual relationships.

(b) Notwithstanding anything to the contrary in this Section 7.14, the prior approval of the Board of Directors of the Buyer shall be required for any Third Party Payor Agreements to which the Buyer or any of its subsidiaries is a party and which involves aggregate payments or liabilities in excess of $100,000. Parent shall use its Best Efforts to cause the directors designated by it to vote in favor of any such contract unless Parent determines in good faith that the operations, prospects, net income or condition (financial or other) of Parent or any Affiliate of Parent would be adversely affected by entering into or performing the contract.

(c) Without the consent of the Executive Shareholders, Buyer shall not sell, merge, transfer, consolidate or otherwise dispose of any material part of the Businesses to any other party, other than as a whole entity or entities; PROVIDED, HOWEVER, that nothing set forth in this Section 7.14 shall prohibit or restrict Buyer from making any distributions of any kind to the Parent.

Section 7.15 MEETINGS OF THE BOARD OF DIRECTORS OF BUYER. From and after the Closing Date through and including the third anniversary of the Closing Date, the Executive Shareholders shall be entitled to attend and participate in a non-voting capacity in all meetings of the board of directors of the Buyer. In this regard, the Executive Shareholders will receive all notices and other materials distributed to members of the board of directors of the Buyer in such capacity.

Section 7.16 INFORMATION TECHNOLOGIES BUDGET. Within 30 days following the date of this Agreement, Buyer and AHG shall mutually agree upon a budget for information technologies expenditures (the "INFORMATION TECHNOLOGIES BUDGET"). The Information Technologies Budget will designate which items will be expensed and which items will be capitalized for purposes of calculating EBITDA regardless of the treatment of such items under GAAP.

Section 7.17 INDEMNIFICATION FOR CERTAIN LIABILITIES. Jacob Nudel, M.D. and Gut agree to jointly and severally indemnify and hold harmless Buyer Indemnitees (as said term is define in Section 11) from and against any Losses (as said term is defined in Section 11) arising out of, relating to or resulting from the following legal action: Charles Gluck, M.D., Plaintiff, vs. Jacob Nudel, M.D., ET AL, Defendants, filed in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida, General Jurisdiction Division, Case No. 97 04553. In the event said action has not been dismissed with prejudice on or before the Closing Date or in the event that all Encumbrances on any of the Purchased Property arising out of said litigation or the settlement thereof have not been released in full on or before the Closing Date to the Buyer's satisfaction, at the election of the Buyer, in its sole discretion, it shall withhold from the Closing Cash Installment payable to Gut an amount not to exceed 50% of such sum and to pay said sum to a mutually acceptable escrow agent to be held in escrow and released pursuant to the terms and conditions of a mutually acceptable escrow agreement in order to provide a fund for the payment of any indemnification claim to which the Buyer Indemnitees may be entitled pursuant to the terms and conditions set forth in this Section 7.17. At the election of Buyer, in its sole discretion, it may also direct that up to 50% of Gut's share of any future distributions to be made to AHG, on behalf of the Sellers, pursuant to Section 3.4 be deposited into the escrow agreement entered into pursuant to this Section 7.17. Jacob Nudel, M.D. and Gut acknowledge and agree that if the indemnification claims under this Section exceed the amount held pursuant to said indemnification agreement, Jacob Nudel, M.D. and Gut shall remain liable for any such excess.

Section 7.18 REFINANCING OF EXISTING BANK LOAN. Pursuant to that certain Business Loan Agreement dated March 7, 1997 between FSN and Executive National Bank, FSN borrowed the principal amount of $240,000. Magellan agrees to refinance the outstanding indebtedness under said bank loan as follows. At the Closing, Magellan agrees to loan the Buyer such amount as is necessary to enable the Buyer to pay said bank loan, including all accrued interest, in full. The loan from Magellan shall bear interest at the same rate as that of the bank loan and shall be payable in three equal annual installments on each of the first three anniversaries of the Closing Date. Payments of principal shall be taken into account in connection with the calculation of the earn-out and/or adjustment amounts pursuant to Section 3.3.

SECTION 8. CONDITIONS TO OBLIGATIONS OF BUYER.

The obligations of the Buyer to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by the Buyer in its sole discretion.

Section 8.1 REPRESENTATIONS AND WARRANTIES. All representations and warranties made by each Seller and each Executive Shareholder in this Agreement shall be true and correct on and as of the Closing Date as if again made by such Seller and such Executive Shareholder on and as of such date.

Section 8.2 PERFORMANCE OF SELLER'S AND SHAREHOLDERS' OBLIGATIONS. Each Seller and each Executive Shareholder shall have performed in all respects all obligations required under this Agreement to be performed by them on or before the Closing Date.

Section 8.3 CONSENTS AND APPROVALS. All consents, waivers, authorizations and approvals of any Governmental Authority, and of any other person, firm or corporation, required of each Seller and each Shareholder in connection with the execution, delivery and performance of this Agreement, shall have been duly obtained and shall be in full force and effect on the Closing Date.

Section 8.4 NO VIOLATION OF ORDERS. No preliminary or permanent injunction or other order issued by any Governmental Authority, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Authority, which declares this Agreement invalid in any respect or prevents the consummation of the transactions contemplated hereby, or which materially and adversely affects the Purchased Property, operations, prospects, net income or financial condition of any Seller shall be in effect; and no action or proceeding before any Governmental Authority shall have been instituted or

threatened by any Governmental Authority or by any other person, or entity which seeks to prevent or delay the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement.

Section 8.5 NO MATERIAL ADVERSE CHANGE. During the period from July 1, 1997 to the Closing Date, there shall not have been any material adverse change in the Purchased Property, business, operations, prospects, net income or condition (financial or other) of the Businesses of the Sellers, taken as a whole.

Section 8.6 DUE DILIGENCE WITH RESPECT TO THIRD PARTY PAYORS. The Buyer shall have completed its due diligence investigation of the Third Party Payor Agreements, the parties thereto and actively sought prospective parties to Third Party Payor Agreements (including, without limitation PruCare) and shall have concluded, in its sole and absolute discretion, that the results of such investigation are satisfactory to it and that it is willing, following such review, to consummate the transactions contemplated by this Agreement. The Sellers and the Executive Shareholders acknowledge and agree that the Buyer may conclude for any reason deemed sufficient by it that the results of such investigation are not satisfactory.

Section 8.7 CONSENTS UNDER KEY CONTRACTS. On or before the Closing Date, the Sellers shall have obtained all necessary or appropriate consents, approvals, notations, authorizations, exemptions or waivers from parties to the Contracts, Licenses and Permits listed or referred to on SCHEDULE 8.7 (as the same shall be amended at the Buyer's request to reflect Contracts, Licenses and Permits disclosed on any supplemental Schedule delivered pursuant to Section 7.4) (collectively, the "KEY CONTRACTS") on terms satisfactory to the Buyer; PROVIDED, HOWEVER, that the Buyer shall not require any changes to any such Contracts or Licenses and Permits in connection with such consents, approvals, notations, authorizations, exemptions or waivers; and PROVIDED, FURTHER that none of the Sellers shall make any changes to any such Contracts or Licenses and Permits in connection with such consents, approvals, notations, authorizations, exemptions or waivers.

Section 8.8 FARRELL CONSULTING ARRANGEMENT.

(a) The Sellers shall have demonstrated and presented evidence to the Buyer's satisfaction that the Farrell Consulting Agreement shall have been terminated as of the Closing, which termination shall provide an express exculpation of each of the Buyer and its Affiliates, the Sellers and the Executive Shareholders as to any past, present or future liability or obligation toward the Farrell Parties arising out of the Farrell Consulting Agreement and each of the Farrell Parties shall have agreed to indemnify and hold harmless, on a joint and several basis, each of the Sellers, the Executive Shareholders and the Buyer and its Affiliates from and against any damages, costs and expenses suffered by any such party arising from any such claim.

(b) Each of the Farrell Parties shall have executed and delivered to the Buyer a buy-out agreement with the Buyer (with its effectiveness conditioned on completion of the Closing) in such form as shall be mutually acceptable to the parties.

(c) Joseph Farrell shall have executed and delivered to the Buyer a consulting agreement with the Buyer (with its effectiveness conditioned on completion of the Closing) in such form as shall be mutually acceptable to the parties(the "NEW FARRELL CONSULTING AGREEMENT"). Notwithstanding anything to the contrary set forth in the New Farrell Consulting Agreement, Buyer shall not be responsible for any compensation or other benefits or expenses owing to Mr. Farrell in excess of $800,000 per year, and the Sellers and the Executive Shareholders agree, jointly and severally, to be responsible for and to indemnify and hold Buyer and its Affiliates harmless from and against any and all liability for amounts owing to Mr. Farrell in excess of $800,000 per year.

(d) Global Health Systems, Inc., a limited partner of FSN, shall have agreed to provide software support services to the Buyer relating to the Business of and the Purchased Property relating to FSN for no more than $60,000 per year during the Earn-Out Periods in substantially the same manner as Global Health Systems, Inc. performed such services prior to the Closing, such agreement to be in form and

substance reasonably satisfactory to the Buyer, and the Buyer shall have received such assurances as it deems necessary or advisable that the Buyer will continue to have a perpetual license to the underlying software with the right to make modifications.

Section 8.9 EMPLOYMENT AGREEMENT WITH DR. JONES. The Buyer and Dr. J.R. Jones shall have executed and delivered an amendment to that certain employment agreement with Dr. Jones identified on SCHEDULE 5.16(A) (with its effectiveness conditioned on completion of the Closing), containing mutually acceptable non-solicitation and non-competition provisions in favor of the Buyer in such form as shall be mutually acceptable to the parties.

Section 8.10 FINANCIAL STATEMENTS AND PROJECTIONS. On the Closing Date, the most recent Management Prepared Financial Statements available prior to the Closing reflect provision for accrued liabilities, including vacation and sick, medical claims and extended reporting endorsement for each of the Sellers (including all IBNR amounts), in an amount which the Sellers and Executive Shareholders reasonably believe will be adequate to meet such accrued liabilities. On the Closing Date, the Sellers shall have Cash and Cash Equivalents and Accounts Receivable in an amount sufficient to satisfy the aggregate current liabilities of the Sellers as set forth in the most recent Management Prepared Financial Statements. The Audited Financial Statements and the Management Prepared Financial Statements reflect all professional liability claims and reserves, including all IBNR amounts, as at the respective dates of the Audited Financial Statements and the Management Prepared Financial Statements.

Section 8.11 OPINION OF COUNSEL. The Buyer shall have received a favorable opinion, dated as of the Closing Date, from Broad and Cassel, counsel to the Sellers and the Executive Shareholders, in form and substance reasonably satisfactory to the Buyer and its counsel, to the effect set forth on EXHIBIT C.

Section 8.12 OTHER CLOSING DOCUMENTS. The Buyer shall have received such other certificates, instruments and documents in confirmation of the representations and warranties of the Sellers and the Shareholders or in furtherance of the transactions contemplated by this Agreement as the Buyer or its counsel may reasonably request, including, without limitation, the Management Agreement in form and substance satisfactory to the Buyer.

Section 8.13 LEGAL MATTERS. All certificates, instruments, opinions and other documents required to be executed or delivered by or on behalf of any of the Sellers and the Shareholders under the provisions of this Agreement, and all other actions and proceedings required to be taken by or on behalf of any of the Sellers and the Shareholders in furtherance of the transactions contemplated hereby, shall be reasonably satisfactory in form and substance to counsel for the Buyer. Each of the Sellers shall have provided the Buyer with a certificate stating that it is not a "foreign person" within the meaning of Treasury Regulations Section 1.1445-2(b). The certificate shall be in such form as shall be mutually acceptable to the parties.

Section 8.14 TPA AND UR LICENSES. The Buyer shall have received approval from all required state agencies, including Florida's and Texas' Department of Insurance, to operate as a "third party administrator" or the Buyer shall have otherwise received such assurances as the Buyer, in its sole discretion, deems necessary or advisable, that it will be able to operate the Businesses pursuant to an agreement with a holder of a TPA license upon such terms and conditions acceptable to the Buyer in its sole discretion.

SECTION 9. CONDITIONS TO OBLIGATIONS OF THE SELLERS.

The obligations of the Sellers to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing Date, of the following conditions, any one or more of which may be waived by the Sellers in their sole discretion:

Section 9.1 REPRESENTATIONS AND WARRANTIES OF THE BUYER. All representations and warranties made by the Buyer and Parent in this Agreement shall be true and correct on and as of the Closing Date as if again made by the Buyer and Parent on and as of such date.

Section 9.2 PERFORMANCE OF THE BUYER'S OBLIGATIONS. Each of the Buyer and Parent shall have performed in all respects all obligations required under this Agreement to be performed by it on or before the Closing Date.

Section 9.3 CONSENTS AND APPROVALS. All consents, waivers, authorizations and approvals of any Governmental Authority and of any other person, firm or corporation, required of the Buyer and Parent in connection with the execution, delivery and performance of this Agreement, shall have been duly obtained and shall be in full force and effect on the Closing Date.

Section 9.4 NO VIOLATION OF ORDERS. No preliminary or permanent injunction or other order issued by any Governmental Authority, nor any statute, rule, regulation, decree or executive order promulgated or enacted by any Governmental Authority which declares this Agreement invalid or unenforceable in any respect or which prevents the consummation of the transactions contemplated hereby shall be in effect and no action or proceeding before any Governmental Authority shall have been instituted or threatened by any Governmental Authority or by any other person which seeks to prevent or declare the consummation of the transactions contemplated by this Agreement or which challenges the validity or enforceability of this Agreement.

Section 9.5 OPINION OF COUNSEL. The Sellers shall have received a favorable opinion, dated as of the Closing Date, from Dow, Lohnes & Albertson, PLLC, counsel to the Buyer and Parent, in form and substance reasonably satisfactory to the Sellers and their counsel, to the effect set forth on EXHIBIT D. In addition, the Sellers shall have received a favorable opinion, dated as of the Closing Date, from in-house counsel of the Buyer and Magellan, in form and substance reasonably satisfactory to the Sellers and their counsel, to the effect that the execution and delivery of this Agreement by the Buyer and Parent did not, and the performance of this Agreement by the Buyer and Parent will not violate or conflict with any provision of the Articles or Certificate of Incorporation or By-Laws of the Buyer or Parent, respectively, and did not and will not violate any provision of any order, judgment or decree of any Governmental Authority to which either the Buyer or Parent is bound, and (other than as disclosed in SCHEDULE 6.4) did not and will not violate or result in a breach of or constitute (with due notice or lapse of time or both) a default under any material loan agreement, mortgage, security agreement or trust indenture to which the Buyer or Parent is a party or by which it is bound or to which any of its properties or assets is subject, which violation, breach or default would have a material adverse effect on the financial condition of the Buyer or Parent, taken as a whole.

Section 9.6 OTHER CLOSING DOCUMENTS. The Sellers shall have received such other certificates, instruments and documents in confirmation of the representations and warranties of the Buyer and Parent or in furtherance of the transactions contemplated by this Agreement as the Sellers, the Executive Shareholders or their counsel may reasonably request, including, without limitation, the Management Agreement in form and substance satisfactory to the Executive Shareholders.

Section 9.7 LEGAL MATTERS. All certificates, instruments, opinions and other documents required to be executed or delivered by or on behalf the Buyer and Parent under the provisions of this Agreement, and all other actions and proceedings required to be taken by or on behalf of the Buyer and Parent in furtherance of the transactions contemplated hereby, shall be reasonably satisfactory in form and substance to counsel for the Sellers.

SECTION 10. TERMINATION AND ABANDONMENT.

Section 10.1 METHODS OF TERMINATION; UPSET DATE. This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time before the Closing:

(a) By the mutual written consent of the Buyer and all of the Sellers;

(b) By the Buyer, if all the conditions set forth in Section 8 of this Agreement shall not have been satisfied or waived on or before November 30, 1997 unless such satisfaction has been frustrated or made impossible by any act or failure to act of the Buyer;

(c) By agreement of all the Sellers if all the conditions set forth in Section 9 of this Agreement shall not have been satisfied or waived on or before November 30, 1997, unless such satisfaction has been frustrated or made impossible by any act or failure to act of any Seller or any Shareholder;

(d) By either the Buyer, on the one hand, or the agreement of all the Sellers, on the other, if the Buyer, in the case of the Sellers, or any of the Sellers or the Executive Shareholders, in the case of the Buyer, fails to comply in any material respect with any of its covenants or agreements contained herein or in any document delivered in connection herewith, or breaches any of its representations and warranties in any material way;

(e) By the Buyer or agreement of all the Sellers if a Governmental Authority of competent jurisdiction shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the parties hereto shall use their reasonable efforts to lift), which permanently restrains, enjoins or otherwise prohibits the transactions contemplated by this Agreement; or

(f) By the Buyer on or before October 23, 1997, in the event Parent and the minority shareholders of Care Management Resources, Inc. (i) shall not have terminated that certain shareholders agreement with respect to their interests in said corporation, or (ii) shall not have otherwise amended said shareholders agreement to Parent's satisfaction, or (iii) shall not have otherwise entered into an agreement providing for such termination or amendment, all upon such terms and conditions acceptable to Parent, in its sole discretion.

Section 10.2 PROCEDURE UPON TERMINATION. In the event of termination and abandonment of this Agreement by the Sellers or the Buyer pursuant to Section 10.1, written notice thereof shall forthwith be given to the other party or parties, as applicable, and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned, without further action by the Sellers or the Buyer. If this Agreement is terminated as provided herein, no party to this Agreement shall have any liability or further obligation to any other party to this Agreement except as provided below and elsewhere in this Agreement, including Sections 12.3, 12.4, 12.8 and 12.14 hereof; PROVIDED, HOWEVER, that no termination of this Agreement pursuant to this Section 10 shall relieve any party of liability for a breach of any provision of this Agreement occurring before such termination. Upon the termination of this Agreement, Parent and Buyer, on the one hand, and the Sellers and Executive Shareholders, on the other, shall return all confidential materials previously furnished to the other except to the extent that a party may require such materials for purposes of enforcing its rights or pursuing any of its remedies under this Agreement, at law or in equity. This provision shall survive the termination of this Agreement.

SECTION 11. INDEMNIFICATION.

Section 11.1 INDEMNIFICATION BY THE SELLERS AND THE EXECUTIVE SHAREHOLDERS. Notwithstanding the Closing or the delivery of the Purchased Property and regardless of any investigation at any time made by or on behalf of the Buyer or Parent or of any knowledge or information that the Buyer or Parent may have, each Seller and each of the Executive Shareholders agrees to jointly and severally indemnify and fully defend, save and hold the Buyer, any Affiliate of the Buyer and their respective directors, officers and employees (the "BUYER INDEMNITEES"), harmless if any Buyer Indemnitee shall at any time or from time to time suffer any damage, liability, loss, cost, expense (including all reasonable attorneys' and experts' fees and disbursements), deficiency, interest, penalty, impositions, assessments or fines, whether or not arising with respect to any claim, charge, suit, proceeding, investigation, arbitration or mediation and, if instituted, whether at any trial or appellate level, and whether raised by the parties hereto or any third party (collectively, "LOSSES") arising out of or resulting from, or shall pay or become obliged to pay any sum on

account of, any Sellers' Event of Breach. As used herein, "SELLERS' EVENT OF BREACH" shall be and mean any one or more of the following:

(a) any untruth or inaccuracy in any representation of any Seller or any Executive Shareholder or the breach of any warranty of any Seller or Executive Shareholder, without giving effect to any "materiality" qualification or limitation stated in such representation or warranty and without regard to whether the indemnifying Seller or Executive Shareholder made such representation or breached such warranty (including, without limitation, (i) any misrepresentation in, or omission from, any statement, certificate, schedule, exhibit, annex or other document furnished pursuant to this Agreement by any Seller or any Shareholder (or any of their representatives) to the Buyer (or any representative of the Buyer) and any misrepresentation in or omission from any document furnished to the Buyer in connection with the Closing and (ii) any and all liabilities of or claims against any Business, the Purchased Property, or any Buyer Indemnitee arising out of any action, suit, proceeding, dispute or investigation or order, writ, judgment, award, injunction or decree of the character described in Section 5.15 or out of any Contract to the extent not set forth in SCHEDULE 5.16(A) or with respect to any obligation under any such Contract with respect to any period prior to the Closing Date);

(b) any failure of any Seller or any Executive Shareholder to perform or observe any term, provision, covenant, agreement or condition on the part of any Seller or any Executive Shareholder to be performed or observed;

(c) any claim or cause of action by any party against any Buyer Indemnitee, with respect to the Excluded Liabilities; or with respect to Losses arising with respect to the operation of any Business or the Purchased Property on or prior to the Closing Date or with respect to any services provided by the Seller or its employees, independent contractors or consultants on or prior to the Closing Date;

(d) any direct or indirect obligations or liabilities described in Section 7.5(c) that may arise before or after the Closing Date; or

(e) any claim or cause of action against any Buyer Indemnitee by any Shareholder (other than the Executive Shareholders) other than by reason of their employment agreements, if any, with the Buyer;

PROVIDED, HOWEVER, that, except as otherwise stated in the following proviso, the Sellers and the Executive Shareholders shall have no obligation to make any payment under Section 11.1(a) with respect to any representation or warranty made in good faith without actual knowledge or notice of falsity unless the aggregate amount to which all Buyer Indemnitees are entitled by reason of all such claims exceeds $100,000, it being understood that once such amount is exceeded, the aggregate of all such claims (including such $100,000 amount and any amount in excess thereof) shall be payable jointly and severally by the Sellers and the Executive Shareholders to the Buyer. In addition, the Sellers and the Executive Shareholders shall have no obligation to make any payment under Section 11.1(a) with respect to the representation and warranty made in Section 5.13(b), made in good faith without actual knowledge or notice of falsity, unless such Losses arise as a result of events, conditions or facts existing before the Closing Date.

Section 11.2 PROCEDURES FOR INDEMNIFICATION BY THE SELLERS. If a Sellers' Event of Breach occurs or is alleged and a Buyer Indemnitee asserts that the Sellers or any of the Executive Shareholders has become obligated to such Buyer Indemnitee pursuant to Section 11.1, or if any suit, action, investigation, mediation, claim or proceeding is begun, made or instituted as a result of which the Sellers or any of the Executive Shareholders may become obligated to a Buyer Indemnitee hereunder, such Buyer Indemnitee shall give written notice to the Sellers and the Executive Shareholders. The Sellers and the Executive Shareholders agree to jointly and severally defend, contest or otherwise protect the Buyer Indemnitee against any such suit, action, investigation, claim or proceeding at their sole cost and expense. The Buyer Indemnitee shall have the right, but not the obligation, to participate at its own expense in the defense thereof by counsel of the Buyer Indemnitee's choice and shall in any event cooperate with and assist the

Sellers and the Executive Shareholders to the extent reasonably possible. If the Sellers and the Executive Shareholders fail to timely defend, contest or otherwise protect against such suit, action, investigation, claim or proceeding, the Buyer Indemnitee shall have the right to do so, including the right to make any compromise or settlement thereof, and the Buyer Indemnitee shall be entitled to recover the entire cost thereof jointly and severally from the Sellers or the Executive Shareholders, including reasonable attorneys' fees, disbursements and amounts paid as the result of such suit, action, investigation, mediation, claim or proceeding.

Section 11.3 THE BUYER'S RIGHT OF SET-OFF. In the event the Buyer has a claim against any of Sellers or Executive Shareholders for indemnification pursuant to this Section 11 or as a result of the failure by the Sellers or the Executive Shareholders to pay the Buyer any amounts owed to it pursuant to Section 3, the Buyer may set-off the amount of such Losses against any amounts payable directly or indirectly by or on behalf of the Buyer to the Sellers from time to time pursuant to this Agreement or the agreements and documents referenced herein, including without limitation any amounts payable by the Buyer to the Escrow Agent pursuant to Section 3.

Section 11.4 INDEMNIFICATION BY THE BUYER AND PARENT. Notwithstanding the Closing or the delivery of the Purchased Property and regardless of any investigation at any time made by or on behalf of the Sellers or the Executive Shareholders or of any knowledge or information that the Sellers or the Executive Shareholders may have, the Buyer and Parent shall jointly and severally indemnify and agree to fully defend, save and hold each of the Sellers, and its directors, officers and employees, and each Executive Shareholder (collectively, the "SELLER INDEMNITEES"), harmless if any Seller Indemnitee shall at any time or from time to time suffer any Losses arising out of or resulting from, or shall pay or become obligated to pay any sum on account of, any Buyer's Event of Breach. As used herein, "BUYER'S EVENT OF BREACH" shall be and mean any one or more of the following:

(i) any untruth or inaccuracy in any representation of the Buyer or Parent or the breach of any warranty of the Buyer or Parent contained in this Agreement;

(ii) any failure of the Buyer or Parent duly to perform or observe any term, provision, covenant, agreement or condition contained in this Agreement on the part of the Buyer or Parent to be performed or observed; and

(iii) any claim or cause of action by any party against any Seller Indemnitees with respect to Assumed Liabilities;

PROVIDED, HOWEVER, that neither the Buyer nor Parent shall have any obligation to make any payment under Section 11.4(a) with respect to any representation or warranty made in good faith without actual knowledge or notice of falsity unless the aggregate amount to which all Seller Indemnitees are entitled by reason of all such claims exceeds $100,000, it being understood that once such amount is exceeded, the aggregate of all such claims (including such $100,000 amount and any amount in excess thereof) shall be payable by the Buyer and Parent on demand by the Seller Indemnitees.

Section 11.5 PROCEDURES FOR INDEMNIFICATION BY THE BUYER AND PARENT. If a Buyer's Event of Breach occurs or is alleged and a Seller Indemnitee asserts that the Buyer or Parent has become obligated to it pursuant to Section 11.4, or if any suit, action, investigation, claim or proceeding is begun, made or instituted as a result of which the Buyer or Parent may become obligated to a Seller Indemnitee hereunder, such Seller Indemnitee shall give written notice to the Buyer and Parent. The Buyer and Parent agree to defend, contest or otherwise protect such Seller Indemnitee against any such suit, action, investigation, claim or proceeding at its sole cost and expense. Such Seller Indemnitee shall have the right, but not the obligation, to participate at its own expense in the defense thereof by counsel of its choice and shall in any event cooperate with and assist the Buyer or Parent to the extent reasonably possible. If the Buyer or Parent fails timely to defend, contest or otherwise protect against such suit, action, investigation, claim or proceeding, such Seller Indemnitee shall have the right to do so, including the right to make any

compromise or settlement thereof, and such Seller Indemnitee shall be entitled to recover the entire cost thereof from the Buyer or Parent including reasonable attorneys' fees, disbursements and amounts paid as the result of such suit, action, investigation, claim or proceeding.

Section 11.6 THE SELLERS' AND EXECUTIVE SHAREHOLDERS' RIGHT OF SET-OFF. In the event the Sellers or Executive Shareholders have a claim against the Buyer or Parent for indemnification pursuant to this Section 11 or as a result of the failure by the Buyer or Parent to pay the Sellers any amounts owed to them pursuant to Section 3, the Sellers and Executive Shareholders may set-off the amount of such Losses against any amounts payable directly or indirectly by or on behalf of the Sellers or Executive Shareholders to the Buyer or Parent from time to time pursuant to this Agreement or the agreements and documents referenced herein, including without limitation any amounts payable by the Sellers or Executive Shareholders pursuant to Section 3.

Section 11.7 PURCHASE PRICE ADJUSTMENT. The Buyer and each of the Sellers agree to treat any payments under this Section 11 as an adjustment to the Purchase Price for all federal, state and local Tax purposes.

SECTION 12. MISCELLANEOUS.

Section 12.1 SUCCESSORS AND ASSIGNS; RESTRICTIONS ON ASSIGNMENT AND TRANSFER OF PURCHASE PRICE. Except as otherwise provided in this Agreement, no party hereto shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other party hereto and any such attempted assignment without such prior written consent shall be void and of no force and effect, PROVIDED, that the Buyer may assign its rights hereunder to any of its Affiliates, and the Buyer may assign its rights to indemnification or damages hereunder to the lender or lenders providing financing to the Buyer; PROVIDED, FURTHER, that no such assignment shall reduce or otherwise vitiate any of the obligations of any of the Sellers, the Executive Shareholders or Parent hereunder. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors, permitted assigns, heirs, beneficiaries, estates, executors and personal representatives.

Section 12.2 GOVERNING LAW, JURISDICTION. This Agreement shall be construed, performed and enforced in accordance with, and governed by, the laws of the State of Florida, without giving effect to the principles of conflicts of laws thereof.

Section 12.3 EXPENSES. Except as otherwise provided herein, each of the parties hereto shall pay its own expenses in connection with this Agreement and the transactions contemplated hereby, including any legal and accounting fees, whether or not the transactions contemplated hereby are consummated. The Sellers shall pay all state and local sales, use, transfer, excise, value-added or other similar Taxes and all recording and filing fees that may be imposed by reason of the sale, transfer, assignment and delivery of the Purchased Property and shall prepare and file all Tax Returns related thereto. The Buyer shall pay 50% and the Sellers shall pay 50% of the Hart-Scott-Rodino filing fee, if any, required in connection with the transaction contemplated hereby.

Section 12.4 JOINT AND SEVERAL OBLIGATIONS. Notwithstanding anything to the contrary contained in this Agreement, each and every obligation of any Seller or Executive Shareholder hereunder shall be a joint and several obligation of all the Sellers and Executive Shareholders.

Section 12.5 SEVERABILITY. In the event that any part of this Agreement is declared by any court or other judicial or administrative body to be null, void or unenforceable, said provision shall survive to the extent it is not so declared, and all of the other provisions of this Agreement shall remain in full force and effect.

Section 12.6 NOTICES. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (i) on the date of service if served personally on the party to whom notice is to be given; (ii) on the day of transmission if sent via facsimile

transmission to the facsimile number given below, and telephonic confirmation of receipt is obtained promptly after completion of transmission; (iii) on the day after delivery to Federal Express or similar overnight courier; or (iv) on the fifth day after mailing, if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid and properly addressed, to the party as follows:

If to the Sellers and/or the Executive Shareholders:

Allied Health Group, Inc.
Florida Specialty Network, Ltd.
3106 Commerce Parkway
Miramar, FL 33025

Gut Management, Inc.
2245 North University Drive
Pembroke Pines, FL 33024

Sky Management Co.
11410 North Kendall Drive
Suite 212
Miami, FL 33176

Surginet, Inc.
3106 Commerce Parkway
Miramar, FL 33025

Surgical Associates of South Florida, Inc.
3106 Commerce Parkway
Miramar, FL 33025

Florida Specialty Network, Ltd.
3106 Commerce Parkway
Miramar, FL 33025

Lawrence Schimmel, M.D.
9320 S.W. 61st Court
Miami, Florida 33156

Jacob Nudel, M.D.
4281 Casper Court
Hollywood, FL 33021

David Russin, M.D.
715 West 49th Street
Miami Beach, Florida 33140

Copy to:

Broad and Cassel
201 S. Biscayne Boulevard
Suite 3000
Miami, Florida 33131
Attention: Mike Segal, P.A.
Telecopy: (305) 373-9443

If to the Buyer and/or Parent:

Magellan Health Services, Inc.
3414 Peachtree Road, NE, Suite 1400

Atlanta, Georgia 30326
Attention: Vice President-Mergers and Acquisitions

Copy to:

Magellan Health Services, Inc.
3414 Peachtree Road, NE, Suite 1400
Atlanta, Georgia 30326
Attention: General Counsel

Any party may change its address for the purpose of this Section by giving the other party written notice of its new address in the manner set forth above.

Section 12.7 AMENDMENTS; WAIVERS. This Agreement may be amended or modified, and any of the terms, covenants, representations, warranties or conditions hereof may be waived, only by a written instrument executed by the parties hereto, or in the case of a waiver, by the party waiving compliance. Any waiver by any party of any condition, or of the breach of any provision, term, covenant, representation or warranty contained in this Agreement, in any one or more instances, shall not be deemed to be nor construed as further or continuing waiver of any such condition, or of the breach of any other provision, term, covenant, representation or warranty of this Agreement.

Section 12.8 PUBLIC ANNOUNCEMENTS. The parties agree that after the signing of this Agreement, neither party shall make any press release or public announcement concerning this transaction without the prior written approval of the other party unless, in the opinion of such party's counsel, a press release or public announcement is required by applicable law or stock exchange rules. If, in the opinion of such party's counsel, any such announcement or other disclosure is required by applicable law or stock exchange rules, the disclosing party agrees to give the nondisclosing party prior notice and an opportunity to comment on the proposed disclosure.

Section 12.9 ENTIRE AGREEMENT. This Agreement contains the entire understanding between the parties hereto with respect to the transactions contemplated hereby and supersedes and replaces all prior and contemporaneous agreements and understandings, oral or written, with regard to such transactions. All exhibits and schedules hereto and any documents and instruments delivered pursuant to any provision hereof are expressly made a part of this Agreement as fully as though completely set forth herein.

Section 12.10 PARTIES IN INTEREST. Nothing in this Agreement is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the Sellers, and the Buyer and their respective successors and permitted assigns. Nothing in this Agreement is intended to relieve or discharge the obligations or liability of any third persons to the Sellers or the Buyer. No provision of this Agreement shall give any third persons any right of subrogation or action over or against the Sellers or the Buyer.

Section 12.11 SCHEDULED DISCLOSURES. Disclosure of any matter, fact or circumstance in a Schedule to this Agreement shall not be deemed to be disclosure thereof for purposes of any other Schedule hereto.

Section 12.12 SECTION AND PARAGRAPH HEADINGS. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

Section 12.13 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute the same instrument.

Section 12.14 POST-CLOSING SURVIVAL. All covenants and agreements which by their respective terms are intended to survive the consummation of the transactions contemplated by this Agreement shall survive such consummation in accordance with their respective terms and conditions.

Section 12.15 CONFIDENTIALITY. After the Closing, the Sellers and the Executive Shareholders hereby agree to hold in strict confidence all business and other information relating to the Purchased Property and

the Business and, except as otherwise required by law or as to information which becomes publicly available, not to disclose or otherwise reveal any such confidential information to any other person or entity without in each instance the prior written consent of the Buyer.

Section 12.16 LITIGATION. It is recognized by the parties to this Agreement that litigation may arise at some time in the future relating to the Sellers, the Buyer, Parent, the Purchased Property or the Assumed Liabilities which may be related directly or indirectly to the period prior to the Closing or the period subsequent to the Closing, or both. Each of the parties to this Agreement agrees, therefore, that to the extent reasonable under the circumstances, it will fully cooperate with and provide information, records, documents and assistance of employees to the other parties with respect to any litigation or potential litigation in which the other party is or may be involved.

Section 12.17 SPECIFIC PERFORMANCE. Each of the Sellers and the Executive Shareholders acknowledge that the Buyer will be irreparably harmed and the Buyer will have no adequate remedy at law if any of the Sellers or the Executive Shareholders fail to perform any of their obligations under this Agreement. It is accordingly agreed that, in addition to any other remedies which may be available to it, the Buyer will have the right to obtain injunctive relief to restrain a breach or threatened breach of, or otherwise obtain specific performance of, the Sellers' and the Executive Shareholders' covenants and other agreements contained in this Agreement.

Section 12.18 RETENTION OF INDEPENDENT ACCOUNTING FIRMS. If an Independent Accounting Firm is retained pursuant to Section 3 of this Agreement, the Buyer, the Sellers and the Executive Shareholders shall each execute such accounting firm's retention agreement, if any, and shall each be bound by the obligation, if any, contained therein to provide indemnification, contribution and related expense reimbursement to such Independent Accounting Firm.

Section 12.19 LIMITED OBLIGATIONS OF PARENT. Parent hereby guarantees the full and prompt payment when due of the Purchase Price payable pursuant to and in accordance with the provisions set forth in Section 3. The parties expressly agree that, notwithstanding anything to the contrary contained in this Agreement, Parent shall not be liable to any third parties in respect of any of the Assumed Liabilities or in respect of any other matter not related to Parent's express obligations as set forth in this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed either in an individual capacity or by their respective officers thereunto duly authorized, as the case may be, as of the date first above written.

CMSF, INC.

By: ---
Name:
Title:

ALLIED HEALTH GROUP, INC.

By: ---
Name:
Title:

GUT MANAGEMENT, INC.

By: ---
Name:
Title:

SKY MANAGEMENT CO.

By: ---
Name:
Title:

FLORIDA SPECIALTY NETWORK, LTD., BY ITS GENERAL PARTNER, FLORIDA SPECIALTY NETWORK, INC.

By: ---
Name:
Title:

SURGICAL ASSOCIATES OF SOUTH FLORIDA, INC.

By: ---
Name:
Title:

SURGINET, INC.

By: --
Name:
Title:

THE EXECUTIVE SHAREHOLDERS:

Lawrence Schimmel, M.D.,
Individually

Jacob Nudel, M.D., Individually

David Russin, M.D., Individually

MAGELLAN HEALTH SERVICES, INC.

By: --
Name:
Title:

EXHIBIT 2(f)

FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT

THIS FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT (this "FIRST AMENDMENT"), made this 5th day of December, 1997, among Allied Specialty Care Services, Inc., a Florida corporation, f/ k/a CMSF, Inc. (the "BUYER"), Allied Health Group, Inc., a Florida corporation ("AHG"), Gut Management, Inc., a Florida corporation ("GUT"), Sky Management Co., a Florida corporation ("SKY"), Florida Specialty Network, Ltd., a Florida limited partnership ("FSN"), Surgical Associates of South Florida, Inc., a Florida corporation ("SASF"), Surginet, Inc., a Florida corporation ("SURGINET" and, together with AHG, Gut, Sky, FSN and SASF, the "SELLERS"), and Jacob Nudel, M.D., David Russin, M.D. and Lawrence Schimmel, M.D. (each, in his individual capacity, an "EXECUTIVE SHAREHOLDER", and collectively, the "EXECUTIVE SHAREHOLDERS"), and Magellan Health Services, Inc., a Delaware corporation, the ultimate corporate parent of the Buyer ("PARENT"),

W I T N E S S E T H:

WHEREAS, the Buyer, the Sellers, the Executive Shareholders and the Parent entered into that certain Asset Purchase Agreement (the "AGREEMENT") as of October 16, 1997, pursuant to which the Buyer will acquire substantially all of the assets of the Sellers upon the terms and conditions set forth therein; and

WHEREAS, the Buyer, the Sellers, the Executive Shareholders and the Parent desire to amend the Agreement as set forth hereinafter;

NOW, THEREFORE, in consideration of the premises, the mutual promises and covenants contained herein and in the Agreement, and of other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. Capitalized terms used in this First Amendment and not otherwise defined herein shall have the respective meanings assigned to them in the Agreement.

2. The Schedules to the Agreement are hereby amended as set forth in the supplemental Schedules attached hereto.

3. Notwithstanding anything set forth in the Agreement to the contrary and notwithstanding the actual time the Closing occurs on the Closing Date, the parties hereto agree that to the extent permissible under applicable law the Closing shall be effective and deemed to have occurred as of 12:01 a.m. local time on December 1, 1997 (the "EFFECTIVE DATE").

4. Section 3.2(c) is hereby amended by deleting said Section in its entirety and inserting in lieu thereof the following:

> (c) Upon final determination of the Post-Closing Statement in accordance with the foregoing, in the event that the current assets of the Businesses (taken as a whole and to the extent purchased by the Buyer) less the current liabilities of the Businesses (taken as a whole and to the extent assumed by the Buyer), as stated in the Post-Closing Statement (the "WORKING CAPITAL AMOUNT"), is an amount which is less than $600,000 (the "MINIMUM AMOUNT"), then the Purchase Price shall be reduced by the difference between the Working Capital Amount and the Minimum Amount and the Sellers shall be jointly and severally obligated to pay to the Buyer an amount equal to such difference within 5 Business Days of the final determination of the Post-Closing Statement. In the event the Working Capital Amount is an amount which is greater than the Minimum Amount, then the Purchase Price shall be increased by the difference between the Working Capital Amount and the Minimum Amount and the Buyer shall to pay to the Sellers an amount equal to such difference within 5 Business Days of the final determination of the Post-Closing Statement.

5. Sections 3.3(a)(17), 3.3(a)(18) and 3.3(a)(19) are hereby amended by deleting said Sections in their entirety and inserting in lieu thereof the following:

(17) 'Year 1 Earn-Out Period" shall mean the 12-month period ending on November 30, 1998.

(18) 'Year 2 Earn-Out Period" shall mean the 12-month period ending on November 30, 1999.

(19) 'Year 3 Earn-Out Period" shall mean the 12-month period ending on November 30, 2000.

6. Section 3.5(a) is hereby amended by inserting in the 8th line thereof before the word "shall" the phrase "except as otherwise provided on SCHEDULE 2.4(B)" such that the first sentence of Section 3.5(a) shall read as follows:

All revenues and expenses arising from the business and operations of the Businesses, including without limitation business and license fees (and any retroactive adjustments thereof), utility charges, property and equipment rentals, real and personal property Taxes and assessments, and similar prepaid and deferred items shall be prorated between the Buyer and the Sellers in accordance with the principle that the Sellers shall receive all revenues and all refunds and, except as otherwise provided on SCHEDULE 2.4(B), shall be responsible for all expenses, payables, costs, liabilities and obligations allocable to the conduct and operations of the Businesses for the period on or prior to the Closing Date, and the Buyer shall receive all revenues and be responsible for all expenses, payables, costs, liabilities and obligations allocable to the conduct and operations of the Businesses for the period after the Closing Date; provided, however, that the parties shall allocate any real property Tax in accordance with Section 164(d) of the Code.

7. Section 5.6(c)(1) is hereby amended by deleting the proviso at the end of said Section in its entirety and inserting in lieu thereof the following:

PROVIDED, HOWEVER, that nothing set forth in this Section 5.6(c)shall prohibit or require disclosure of cash distributions to the extent that after giving effect to such cash distributions the Sellers still have Unrestricted Cash and the account receivable from Prudential Health Care Plan, Inc. [Tri-State] in the approximate amount of $118,000, in the aggregate, in excess of the current liabilities of the Businesses by an amount of at least $600,000.

8. Section 7.2(i) is hereby amended by deleting the proviso at the end of said Section in its entirety and inserting in lieu thereof the following:

PROVIDED, HOWEVER, that nothing set forth in this Section 7.2(i) shall prohibit cash distributions to the extent that after giving effect to such cash distributions the Sellers still have Unrestricted Cash and the account receivable from Prudential Health Care Plan, Inc. [Tri-State] in the approximate amount of $118,000, in the aggregate, in excess of the current liabilities of the Businesses by an amount of at least $600,000.

9. Notwithstanding anything set forth in the Agreement to the contrary, the parties agree to finalize the Allocation and to deliver SCHEDULE 7.3(B) for each Seller as soon as reasonably practicable following the Closing but in no event later than December 31, 1997.

10. Notwithstanding anything to the contrary set forth in Section 7.5 of the Agreement or in the Assumption Agreement with respect to Dr. Jones, the parties agree that Employees of the Sellers shall not become Transferred Employees until January 1, 1998. Until December 31, 1997, the Sellers shall loan the Employees to the Buyer pursuant to and in accordance with that certain Loaned Employees Agreement of even date herewith between the Sellers and the Buyer.

11. Notwithstanding anything set forth in Section 7.16 of the Agreement to the contrary, the parties agree to finalize and deliver the Information Technologies Budget as soon as reasonably practicable following the Closing but in no event later than December 31, 1997.

12. Notwithstanding anything to the contrary set forth in the Agreement, until such time as new bank accounts are opened by the Buyer for the operation of the Business, the Sellers will continue to maintain its existing bank accounts used in the operation of the Business for the sole and exclusive benefit and account of the Buyer. During said period, the Sellers will only make such deposits into and withdrawals from said bank accounts as shall be authorized by the Buyer. At such times as new bank accounts are opened by the Buyer, the Sellers will transfer the account balances in the applicable bank accounts of the Sellers to such of Buyer's bank accounts designated by the Buyer.

13. All other terms and conditions of the Agreement shall remain in full force and effect and are hereby preserved, affirmed, adopted and ratified.

14. This First Amendment may be executed in multiple counterpart copies, each of which will be considered an original and all of which constitute one and the same instrument, binding on all parties hereto, even though all the parties are not signatory to the same counterpart. Any counterpart of this First Amendment which has attached to it separate signature pages, which together contain the signature of all parties hereto, shall for all purposes be deemed a fully executed original.

[SIGNATURES ON FOLLOWING PAGES]

IN WITNESS WHEREOF, the parties hereto have duly executed this First Amendment as of the day and year first above written.

ALLIED SPECIALTY CARE SERVICES, INC.

By: ---------------------------------------

Title: ---------------------------------------

ALLIED HEALTH GROUP, INC.

By: ---------------------------------------

Title: ---------------------------------------

GUT MANAGEMENT, INC.

By: ---------------------------------------

Title: ---------------------------------------

SKY MANAGEMENT CO.

By: ---------------------------------------

Title: ---------------------------------------

FLORIDA SPECIALTY NETWORK, LTD., BY ITS GENERAL PARTNER, FLORIDA SPECIALTY NETWORK, INC.

By: ---------------------------------------

Title: ---------------------------------------

SURGICAL ASSOCIATES OF SOUTH FLORIDA, INC.

By: ---------------------------------------

Title: ---------------------------------------

SURGINET, INC.

By: --

Title: --

Lawrence Schimmel, M.D., Individually

Jacob Nudel, M.D., Individually

David Russin, M.D., Individually

MAGELLAN HEALTH SERVICES, INC.

By: --

Title: --

EXHIBIT 2(g)

AGREEMENT AND PLAN OF MERGER
DATED AS OF OCTOBER 24, 1997
AMONG
MERIT BEHAVIORAL CARE CORPORATION
MAGELLAN HEALTH SERVICES, INC.
AND
MBC MERGER CORPORATION

TABLE OF CONTENTS

	PAGE
ARTICLE I. DEFINITIONS	2
SECTION 1.01. Certain Defined Terms	2
SECTION 1.02. Other Defined Terms	6
ARTICLE II. MERGER	8
SECTION 2.01. The Merger	8
SECTION 2.02. Effective Time of the Merger	8
SECTION 2.03. Closing	8
SECTION 2.04. Effect of the Merger	8
SECTION 2.05. Certificate of Incorporation and Bylaws of the Surviving Corporation	8
SECTION 2.06. Directors and Officers of the Surviving Corporation	8
SECTION 2.07. Conversion of Securities	9
SECTION 2.08. Exchange of Certificates	10
SECTION 2.09. Stock Transfer Books	12
SECTION 2.10. Company Options	12
SECTION 2.11. Dissenting Shares	13
ARTICLE III. REPRESENTATIONS AND WARRANTIES OF THE COMPANY	14
SECTION 3.01. Incorporation and Authority of the Company	14
SECTION 3.02. Incorporation and Qualification of the Company and the Company Subsidiaries	14
SECTION 3.03. Capital Stock of the Company	14
SECTION 3.04. Subsidiaries	15
SECTION 3.05. No Conflict	16
SECTION 3.06. Financial Statements	17
SECTION 3.07. Labor Matters	17
SECTION 3.08. Absence of Certain Changes or Events	17
SECTION 3.09. Absence of Litigation	19
SECTION 3.10. Compliance with Laws	19
SECTION 3.11. Consents, Approvals, Licenses	19
SECTION 3.12. Personal Property; Information Systems	20
SECTION 3.13. Real Property	21
SECTION 3.14. Employee Benefit Matters	21
SECTION 3.15. Taxes	23
SECTION 3.16. Certain Contracts	24
SECTION 3.17. Customers	25
SECTION 3.18. Undisclosed Liabilities	26
SECTION 3.19. Transactions with Affiliates	26
SECTION 3.20. Undisclosed Liabilities	26
SECTION 3.21. Brokers	26
SECTION 3.22. Restricted Cash	27
SECTION 3.23. SEC Documents	27
SECTION 3.24. Accounts Receivable	27

PAGE

	PAGE
ARTICLE IV. REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB	27
SECTION 4.01. Incorporation and Authority of Parent and Merger Sub	27
SECTION 4.02. No Conflict	28
SECTION 4.03. Consents and Approvals	28
SECTION 4.04. Absence of Litigation	28
SECTION 4.05. Financing	28
SECTION 4.06. Other Transactions	29
SECTION 4.07. Brokers	29
ARTICLE V. ADDITIONAL AGREEMENTS	29
SECTION 5.01. Conduct of Business Prior to the Closing	29
SECTION 5.02. Parent Action Prior to the Closing	32
SECTION 5.03. Access to Information	32
SECTION 5.04. Confidentiality	33
SECTION 5.05. Efforts; Regulatory and Other Authorizations; Consents	33
SECTION 5.06. Further Action	35
SECTION 5.07. No Solicitation	35
SECTION 5.08. Notification of Certain Matters	35
SECTION 5.09. Indemnification of Officers and Directors	36
SECTION 5.10. Repayment of Bank Debt and Senior Subordinated Notes	36
ARTICLE VI. EMPLOYEE MATTERS	37
Section 6.01. Employee Benefits	37
Section 6.02. Severance Arrangements	37
ARTICLE VII. CONDITIONS TO CLOSING	37
SECTION 7.01. Conditions to Obligations of the Company	37
SECTION 7.02. Conditions to Obligations of Parent and Merger Sub	38
ARTICLE VIII. TERMINATION, AMENDMENT AND WAIVER	39
SECTION 8.01. Termination	39
SECTION 8.02. Effect of Termination	40
SECTION 8.03. Waiver	40
ARTICLE IX. GENERAL PROVISIONS	40
SECTION 9.01. Nonsurvival of Representations, Warranties and Agreements	40
SECTION 9.02. Expenses	40
SECTION 9.03. Notices	40
SECTION 9.04. Public Announcements	41
SECTION 9.05. Headings	42
SECTION 9.06. Severability	42
SECTION 9.07. Entire Agreement	42
SECTION 9.08. Assignment	42
SECTION 9.09. No Third Party Beneficiaries	42
SECTION 9.10. Waivers and Amendments	42
SECTION 9.11. Specific Performance	42
SECTION 9.12. Governing Law	43
SECTION 9.13. Counterparts	43

AGREEMENT AND PLAN OF MERGER, dated as of October 24, 1997 (the "Agreement"), among MAGELLAN HEALTH SERVICES, INC., a Delaware corporation ("Parent"), MERIT BEHAVIORAL CARE CORPORATION, a Delaware corporation (the "Company"), and MBC MERGER CORPORATION, a Delaware corporation and a wholly owned Subsidiary of Parent ("Merger Sub").

WITNESSETH:

WHEREAS, the Directors of the Company have unanimously determined that the merger of Merger Sub with and into the Company, upon the terms and subject to the conditions set forth in this Agreement (the "Merger"), is fair to and in the best interests of the Company and its stockholders;

WHEREAS, in the Merger, the Company will be the surviving corporation, and each share of common stock, par value $.01 per share, of the Company (the "Common Stock") will be converted into the right to receive the cash consideration specified in Section 2.07(c) hereof;

WHEREAS, the Boards of Directors of the Company, the Parent and Merger Sub have each approved and adopted this Agreement and approved the Merger and the other transactions contemplated hereby, and the Company has recommended approval and adoption of this Agreement and the Merger by its stockholders;

WHEREAS, MBC Associates, L.P., a Delaware limited partnership ("MBC Associates"), and KKR Partners II, L.P., a Delaware limited partnership ("KKR Partners"), collectively own 21,000,000 shares of Common Stock, 38 Newbury Ventures/MBC Limited Partnership, a Massachusetts limited partnership ("Newbury"), owns 600,000 shares of Common Stock, Albert S. Waxman, the Albert S. Waxman Family Charitable Remainder Unitrust (the "Waxman Trust") collectively own 2,055,100 shares of Common Stock, Arthur H. Halper owns 100,000 shares of Common Stock, Michael G. Lenahan owns 100,000 shares of Common Stock and John A. Budnick owns 50,000 shares of Common Stock, all of which shares represent, as of the date hereof, in the aggregate approximately 81.3% of the outstanding Common Stock; and

WHEREAS, MBC Associates, KKR Partners, Newbury, the Waxman Trust and Messrs. Waxman, Halper, Lenahan and Budnick (collectively, the "Company Stockholders") have approved this Agreement and the Merger.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants hereinafter set forth, Parent, the Company and Merger Sub agree as follows:

ARTICLE I.
DEFINITIONS

SECTION 1.01. CERTAIN DEFINED TERMS. As used in this Agreement, the following terms have the following meanings:

"Action" means any claim, action, suit or proceeding, arbitral action, governmental inquiry, criminal prosecution or other investigation as to which written notice has been provided to the applicable party.

"Affiliate" means, when used with respect to a specified Person, another Person that either directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with the Person specified.

"Aggregate Cash Consideration" means an amount equal to (i) $750,000,000, plus (ii) Aggregate Option Exercise Price, less (iii) Net Debt, less (iv) fees and expenses incurred by the Company in connection with the transactions contemplated hereby (including without limitation the fees referenced in Section 3.21 and specifically excluding any fees and expenses associated with obtaining the financing under the Commitment Letter).

"Aggregate Option Exercise Price" means an amount equal to the aggregate dollar amount of the exercise price on all Company Options outstanding immediately prior to the Effective Time.

"Agreement" means this Agreement and Plan of Merger, dated as of October 24, 1997, by and among Parent, the Company and Merger Sub (including the Disclosure Schedule and Parent Disclosure Schedule) and all amendments hereto made in accordance with Section 9.10.

"Balance Sheet" means the unaudited consolidated balance sheet of the Company and the Company Subsidiaries as of the Balance Sheet Date, together with related notes thereto.

"Balance Sheet Date" means August 31, 1997.

"Books and Records" means all books of account and other financial records pertaining to the Company and the Company Subsidiaries.

"Business" means the business of providing or administering managed behavioral health care services or providing behavioral health care services, including managed mental health programs and substance abuse programs and employee assistance programs and utilization management, care management and network management concerning behavioral health care services, throughout the United States, as conducted by the Company and the Company Subsidiaries.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

"Company Financial Statements" means audited consolidated financial statements of the Company for the twelve months ended September 30, 1996, September 30, 1995 and September 30, 1994 and unaudited condensed financial statements for the eleven months ended on the Balance Sheet Date.

"Company Options" means options to purchase Common Stock granted pursuant to the 1995 Plan and the 1996 Plan.

"Company Subsidiaries" means the Subsidiaries of the Company (each of which is individually referred to as a "Company Subsidiary").

"Compensation Arrangement" means any written plan or compensation arrangement, other than an Employee Plan, with respect to which the Company or any ERISA Affiliate contributes, which the Company or any ERISA Affiliate sponsors or maintains or to which it or any ERISA Affiliate otherwise is bound, which provides to employees, or former employees, of the Company or any ERISA Affiliate, with respect to the period of their employment, any compensation or other benefits, whether deferred or not, in excess of base salary or wages, including, but not limited to, any bonus or incentive plan, stock rights plan, deferred compensation arrangement, life insurance, stock purchase plan, severance pay plan, vacation pay and any other employee fringe benefit plan.

"Confidentiality Agreement" means the letter agreement between the Company and Parent dated as of September 2, 1997.

"Contract" means any contract, agreement, indenture, note, bond, loan, letter of credit, instrument, lease, conditional sales contract, mortgage, license, franchise agreement, insurance policy, binding commitment or other agreement, whether written or oral.

"Debt" means any indebtedness, obligation or liability of the Company or any Company Subsidiary for borrowed money, capitalized leases, and obligations under reimbursement agreements related to letters of credit (excluding intercompany indebtedness). The amount of Debt related to a capitalized lease shall equal that amount required by GAAP to be set forth on a balance sheet.

"DGCL" means the General Corporation Law of the State of Delaware.

"Disclosure Schedule" means the Disclosure Schedule dated as of the date of this Agreement delivered to Parent by the Company.

"Employee Plan" means any pension, profit-sharing, deferred compensation, vacation, bonus, severance, incentive, medical, vision, dental, disability, life insurance or any other employee benefit plan as defined in Section 3(3) of ERISA to which the Company or any ERISA Affiliate contributes, which the Company or any ERISA Affiliate sponsors or maintains, or to which the Company or any ERISA Affiliate otherwise is bound.

"Encumbrance" means any security interest, pledge, mortgage, lien, charge, adverse claim of ownership or use, option, right to purchase, right to convert, judgement or other encumbrance of any kind.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means any trade or business under common control with the Company within the meaning of Sections 414(b), (c), (m) or (o) of the Code.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"GAAP" means generally accepted accounting principles in the United States.

"Governmental Authority" means any government, governmental entity, department, commission, board, agency or instrumentality, and any court, tribunal, or judicial body, whether federal, state or local.

"Governmental Order" means any statute, rule, regulation, order, judgment, injunction, decree, stipulation or determination issued, promulgated or entered by or with any Governmental Authority.

"HSR Act" means the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

"Internal Revenue Code" or "Code" each means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"IRS" means the United States Internal Revenue Service.

"Knowledge" or "known" means, with respect to any matter in question, if any of Albert Waxman, Arthur Halper, John Budnick, Michael Lenahan, Richard Surles, David Stone, Doug Wiley, Ken Hawes, John Docherty and Pat Schmiedeler of the Company and the members of the Board of Directors of the Company designated by KKR Partners have actual knowledge of such matter as of the date of this Agreement.

"Law" means any federal, state or local statute, law, ordinance, regulation, rule, code, order or rule of common law.

"Leased Real Property" means the real property leased by the Company and the Company Subsidiaries, as tenant, together with, to the extent leased by the Company and the Company Subsidiaries, all buildings and other structures, facilities or improvements currently or hereafter located thereon, all fixtures, systems, equipment and items of personal property of the Company and the Company Subsidiaries attached or appurtenant thereto, and all easements, licenses, rights and appurtenances relating to the foregoing.

"Leases" means the leases for the Leased Real Property.

"Liabilities" means any and all debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or determinable.

"Licenses" means all of the licenses, permits and other governmental authorizations required for the operation of the Business as conducted as of the date of this Agreement.

"Material Adverse Effect" means any change or effect that is materially adverse to the operations, business, financial condition or results of operations of the Company and the Company Subsidiaries, taken as a whole, except for any such changes or effects resulting directly or primarily from (i) the announcement or other disclosure or consummation of the transactions contemplated by this Agreement, (including, without limitation, the breach, termination, cancellation or non-renewal by any customer of any customer contracts primarily as a result of such announcement, disclosure or consummation), (ii) regulatory changes or changes in the managed behavioral health care services industry, or (iii) general economic conditions.

"Merger" shall mean the merger of Merger Sub with and into the Company, with the Company being the surviving corporation, in accordance with this Agreement and the Certificate of Merger.

"Multiemployer Plan" means a plan, as defined in ERISA Section 3(37).

"Net Debt" means an amount equal to (i) Debt outstanding at September 30, 1997, less (ii) Unrestricted Cash at September 30, 1997, less (iii) the amount of notes receivable from officers of the Company outstanding at September 30, 1997, plus (iv) $8,200,000.

"Parent Disclosure Schedule" means the Parent Disclosure Schedule dated as of the date of this Agreement delivered to the Company by Parent.

"Permitted Encumbrances" means (i) Encumbrances for inchoate mechanics' and materialmen's liens for construction in progress and workmen's, repairmen's, warehousemen's and carriers' liens arising in the ordinary course of the Business, (ii) Encumbrances for Taxes not yet payable and for Taxes being contested in good faith, (iii) Encumbrances in favor of Parent or Merger Sub arising out of, under or in connection with this Agreement and (iv) Encumbrances and imperfections of title that do not secure payment of indebtedness and the existence of which would not materially affect the use of the property subject thereto, consistent with past practice.

"Person" means any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, as well as any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

"Subsidiaries" with respect to a Person means any other Person in which such Person has a direct or indirect equity or ownership interest in excess of 50% or has the right to appoint a majority of directors, in the case of a corporation, or managers, in the case of a limited liability company (or persons performing similar functions).

"Tax" or "Taxes" means all federal, state, local and foreign income, estimated income, gross receipts, sales, use, social security, employees' withholding, unemployment, disability, excise, franchise, profits, property, capital stock, premium, minimum and alternative minimum or other taxes, fees, stamp taxes and duties, assessments or charges of any kind whatsoever (whether payable directly or by withholding), together with any interest and any penalties, additions to tax or additional amounts imposed by any taxing authority with respect thereto.

"Unrestricted Cash" means the aggregate of all amounts included on the consolidated September 30, 1997 balance sheet of the Company under the line items "Operating--MBC," "Operating-- CMG" and "Temporary Borrowings," plus $4,735,000.

SECTION 1.02. OTHER DEFINED TERMS. The following terms have the meanings defined for such terms in the Sections set forth below:

TERM	SECTION
Annual Gross Revenue Amount	5.05(b)
Antitrust Laws	5.05(b)
Bank Debt	5.10
Cash Consideration	2.07(c)
Certificate of Merger	2.02
Certificates	2.08(b)
Closing	2.03
Closing Date	2.03
Commitment Letter	4.05
Common Stock	Recitals
Company	Preamble
Company Active Entity	3.04
Company Inactive Entity	3.04
Company Other Entity	3.04
Company Stockholders	Recitals
Dissenting Shares	2.10
Effective Time	2.02
Excess Amount	5.05(b)
Exchange Agent	2.08(a)
Exchange Fund	2.08(a)
Hardware	3.12
Indemnified Parties	5.09(a)
Listed Contracts	3.16(a)
KKR Partners	Recitals
MBC Associates	Recitals
Merger Sub	Preamble
Newbury	Recitals
1995 Plan	2.10(a)
1996 Plan	2.10(b)
Option Certificate	2.08(b)
Parent	Preamble
Preliminary Schedule	2.07(d)
Section 3.13 Leases	3.13
Section 3.19 Affiliates	3.19
Senior Subordinated Notes	5.10
Software	3.12
Stock Certificate	2.08(b)
Sub Capital Stock	2.07(a)
Subsidiary Shares	3.04(b)
Term	Section
Surviving Corporation	2.04
Threshhold Amount	5.05(b)
Waxman Trust	Recitals

ARTICLE II.
MERGER

SECTION 2.01. THE MERGER. Upon the terms and subject to the provisions of this Agreement, and in accordance with the DGCL, Merger Sub will merge with and into the Company at the Effective Time (as defined in Section 2.02).

SECTION 2.02. EFFECTIVE TIME OF THE MERGER. Subject to the provisions of this Agreement, a certificate of merger with respect to the Merger in form and substance satisfactory to the parties and in such form as is required by the relevant provisions of the DGCL (the "Certificate of Merger") shall be duly prepared, executed and acknowledged and thereafter delivered to the Secretary of State of the State of Delaware for filing, as provided in the DGCL, as early as practicable on the Closing Date (as defined in Section 2.03). The Merger shall become effective at such time as is specified in the Certificate of Merger (the time at which the Merger has become fully effective being hereinafter referred to as the "Effective Time").

SECTION 2.03. CLOSING. The closing of the Merger (the "Closing") will take place at 10:00 a.m., New York time, on a date to be specified by Parent and the Company, which shall be no earlier than the 45th day following the date of this Agreement and after such date, shall be no later than the second Business Day after satisfaction or, if permissible, waiver of the conditions set forth in Article VII (the "Closing Date"), at the offices of Latham & Watkins, 885 Third Avenue, Suite 1000, New York, New York, 10022, unless another date, place or time is agreed to in writing by Parent and the Company. At the Closing (i) the documents, certificates and instruments referred to in Article VII shall be executed and delivered, (ii) the cash to be deposited (in immediately available funds) with the Exchange Agent for disbursement pursuant to Section 2.08 shall be deposited, and (iii) all amounts contemplated by Section 5.10(i) to be paid at Closing shall be paid.

SECTION 2.04. EFFECT OF THE MERGER. As a result of the Merger, the separate corporate existence of Merger Sub shall cease and the Company shall continue as the surviving corporation (the "Surviving Corporation"). Upon becoming effective, the Merger shall have the effects set forth in the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all properties, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 2.05. CERTIFICATE OF INCORPORATION AND BYLAWS OF THE SURVIVING CORPORATION. At the Effective Time, the Certificate of Incorporation and Bylaws of the Surviving Corporation shall be amended to be identical to the Certificate of Incorporation and Bylaws, respectively, of Merger Sub as in effect immediately prior to the Effective Time until duly amended in accordance with applicable laws.

SECTION 2.06. DIRECTORS AND OFFICERS OF THE SURVIVING CORPORATION . The directors of Merger Sub immediately prior to the Effective Time shall become the initial directors of the Surviving Corporation, each to hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in accordance with the Certificate of Incorporation and Bylaws of the Surviving Corporation. The officers of the Company specified in the Certificate of Merger shall be the initial officers of the Surviving Corporation, each to hold office until their respective successors are duly elected or appointed and qualified in accordance with the Certificate of Incorporation and Bylaws of the Surviving Corporation. The Company shall use reasonable efforts to cause each director of the Company to tender his or her resignation prior to the Effective Time, each such resignation to be effective as of the Effective Time.

SECTION 2.07. CONVERSION OF SECURITIES. At the Effective Time, by virtue of the Merger and without any action on the part of any of the parties hereto or the holders of any shares of the following securities:

(a) CAPITAL STOCK OF MERGER SUB. Each issued and outstanding share of capital stock, par value $.01 per share, of Merger Sub (the "Sub Capital Stock") shall be converted into and become one fully

paid and nonassessable share of common stock, par value $.01 per share, of the Surviving Corporation. At the Effective Time, Parent, as the sole holder of the Sub Capital Stock, shall surrender any and all certificates representing such Sub Capital Stock to the Surviving Corporation and shall be entitled to receive in exchange therefor a certificate representing the number of shares of common stock of the Surviving Corporation into which the Sub Capital Stock theretofore represented by the certificates so surrendered shall have been converted as provided in this Section 2.07(a). From and after the Effective Time, until so surrendered, each certificate theretofore representing shares of issued and outstanding Sub Capital Stock shall be deemed for all corporate purposes to evidence the number of shares of common stock of the Surviving Corporation into which such shares of Sub Capital Stock shall have been converted.

(b) CANCELLATION OF TREASURY STOCK. All shares of Common Stock that are owned by the Company as treasury stock shall be automatically canceled, retired and extinguished and shall cease to exist and no payment or consideration shall be made or delivered with respect thereto.

(c) COMMON STOCK OF THE COMPANY. Each issued and outstanding share of Common Stock (other than shares to be canceled in accordance with Section 2.07(b) and any Dissenting Shares, as defined below) shall be converted into and represent the right to receive an amount, in cash, equal to the quotient obtained by dividing (i) the Aggregate Cash Consideration, by (ii) the total number of shares of Common Stock outstanding immediately prior to the Effective Time (other than shares to be cancelled in accordance with Section 2.07(b)) plus the number of shares issuable upon exercise of Company Options outstanding immediately prior to the Effective Time (the "Cash Consideration"). All such shares of Common Stock, when so converted, shall no longer be outstanding and shall automatically be canceled, retired and extinguished and shall cease to exist, and each certificate which immediately prior to the Effective Time represented any such shares (other than any Dissenting Shares) shall thereafter represent the right to receive, upon surrender of such certificate in accordance with the provisions of Section 2.08, the Cash Consideration into which such shares have been converted in accordance herewith.

(d) ESTABLISHING THE CASH CONSIDERATION. Five days prior to the Effective Time, the Company shall provide Parent with a schedule (the "Preliminary Schedule"), setting forth in reasonable detail, the estimated Cash Consideration as of the Effective Time. Parent shall promptly review such schedule and provide any disagreements on such schedule within two days of receipt of such schedule. The Company and Parent shall resolve any disputes on the preparation of the Preliminary Schedule and agree upon a final Cash Consideration which reflects changes, if any, between the date of delivery of the Preliminary Schedule and the Effective Time.

SECTION 2.08. EXCHANGE OF CERTIFICATES. The procedures for exchanging certificates which prior to the Effective Time represented shares of Common Stock for the Cash Consideration pursuant to the Merger are as follows:

(a) EXCHANGE AGENT. As of the Effective Time, Parent shall deposit with a bank or trust company designated by Parent and the Company (the "Exchange Agent"), for the benefit of the holders of shares of Common Stock and Company Options outstanding immediately prior to the Effective Time (other than Dissenting Shares), for exchange in accordance with this Section 2.08, through the Exchange Agent, cash in the aggregate amount sufficient to pay the Cash Consideration for all shares of Common Stock converted pursuant to Section 2.07(c) and to pay amounts payable to holders of Company Options pursuant to Section 2.10 (such cash being hereinafter referred to in the aggregate as the "Exchange Fund"). The Exchange Agent shall, pursuant to irrevocable instructions, deliver the cash required to be delivered pursuant to Section 2.07(c) and Section 2.10 out of the Exchange Fund to holders of shares of Common Stock and Company Options, respectively. Except as contemplated by Section 2.08(e), the Exchange Fund shall not be used for any other purpose.

(b) EXCHANGE PROCEDURES. Commencing on the 35th day after the date hereof, Parent shall cause the Exchange Agent to promptly deliver to each holder of record of a certificate or certificates representing outstanding shares of Common Stock (the "Stock Certificates") and to each holder of record of a certificate or instrument which immediately prior to the Effective Time represented any outstanding Company Options (the "Option Certificates" and, collectively together with the Stock Certificates, the "Certificates") from whom the Exchange Agent receives a written request (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only at or following the Effective Time and upon delivery of the Certificates to the Exchange Agent and which shall be in such form and have such other provisions as Parent and the Company may reasonably specify) and (ii) instructions for effecting the surrender of the Certificates in exchange for the cash payable pursuant to Section 2.07(c) or 2.10, as the case may be, with respect to the shares of Common Stock or Company Options formerly represented thereby. The letter of transmittal with respect to Option Certificates shall contain language waiving any claims the holders thereof may have against Parent or the Company or any Affiliates of either with respect to the Company Options. As soon as reasonably practicable (and in any event not later than three (3) Business Days) after the Effective Time, Parent shall cause the Exchange Agent to mail a letter of transmittal and the instructions described above to each holder of record of a Certificate who has not previously requested such documents from the Exchange Agent.

Each holder of a Certificate shall be entitled to surrender such Certificate to the Exchange Agent at the Effective Time in accordance with the procedures described herein. Upon surrender of a Stock Certificate or Option Certificate, as the case may be, to the Exchange Agent, together with such letter of transmittal, duly executed,

(x) the holder of such Stock Certificate shall be entitled to receive promptly in exchange therefor the Cash Consideration (to be paid in immediately available funds) which such holder has the right to receive pursuant to the provisions of Section 2.07(c) (provided that Stock Certificates delivered to the Exchange Agent at the Closing shall be paid at the Closing) and the Stock Certificate so surrendered shall immediately be canceled, and

(y) the holder of such Option Certificate shall be entitled to receive (to be paid in immediately available funds) promptly (but no earlier than the seventh day after the Closing Date) in exchange therefor the consideration which such holder has the right to receive pursuant to Section 2.10 hereof (which shall include the interest payment specified in Section 2.10).

(c) DISTRIBUTIONS WITH RESPECT TO UNEXCHANGED SHARES. No payment shall be made to the holder of any unsurrendered Certificate in respect thereof until the holder of record of such Certificate shall surrender such Certificate to Parent in accordance herewith.

(d) NO FURTHER OWNERSHIP RIGHTS IN COMMON STOCK OR COMPANY OPTIONS. The payment made upon the surrender for exchange of Certificates in accordance with the terms hereof shall be deemed to have been issued in full satisfaction of all rights pertaining to the shares of Common Stock or Company Options, as appropriate, theretofore represented by such Certificates.

(e) TERMINATION OF EXCHANGE FUND. Any portion of the Exchange Fund which remains undistributed for 180 days after the Effective Time shall be delivered to Parent upon demand, and any former holder of shares of Common Stock or Company Options, as appropriate, who has not previously complied with this Section 2.08 shall thereafter look only to Parent for payment of such former holder's claim for payment in respect of such holder's shares of Common Stock or Company Options, as appropriate.

(f) NO LIABILITY. None of the Company, Parent, Merger Sub or the Exchange Agent shall be liable to any holder of shares of Common Stock for any cash, stock or other property delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(g) WITHHOLDING RIGHTS. Parent, the Surviving Corporation or the Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of Certificates such amounts as it is required by Law to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law provided, however, that if a zero or reduced rate is available by Law, Parent, the Surviving Corporation and Exchange Agent shall deduct or withhold such lower amounts. To the extent that amounts are so withheld by Parent, the Surviving Corporation or the Exchange Agent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Common Stock or Company Options, as appropriate, in respect of which such deduction and withholding was made.

(h) LOST CERTIFICATES. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed in such form as Parent may reasonably require and, if required by Parent or the Surviving Corporation, the posting by such Person of a bond in such reasonable amount as Parent or the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the payment deliverable in respect thereof pursuant to this Agreement.

SECTION 2.09. STOCK TRANSFER BOOKS. From and after the Effective Time, the stock transfer books of the Company shall be closed, and there shall be no further registration of transfers of shares of Common Stock on the books and records of the Company or the Surviving Corporation. If, after the Effective Time, any Certificates are presented to the Exchange Agent or the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Section 2.09.

SECTION 2.10. COMPANY OPTIONS.

(a) 1995 OPTION PLAN. Prior to the Effective Time, the Compensation Committee of the Board of Directors of the Company, as administrator of the 1995 Stock Purchase and Option Plan for Employees of the Company (the "1995 Plan"), shall pursuant to its authority under Section 9 of the 1995 Plan provide that each option issued under the 1995 Plan shall (i) upon stockholder approval pursuant to Code Section 280G(b)(5)(A)(ii) become exercisable immediately prior to the Effective Time, and (ii) after the Effective Time be exercisable only for an amount of cash equal to that which would have been received by the holder of such option as a result of the Merger if such holder had exercised such option immediately prior to the Effective Time. The Company shall, prior to the Effective Time, pursuant to the provisions of Section 2.08, offer to pay, subject to consummation of the Merger, each holder of an option issued under the 1995 Plan an amount equal to (x) the aggregate Cash Consideration into which the shares of Common Stock issuable upon exercise of such option would have been converted if such option had been exercised immediately prior to the Effective Time, reduced by (y)(I) the aggregate exercise price for the shares of Common Stock then issuable upon exercise of such option, and (II) the amount of any withholding taxes which may be required thereon, in return for the cancellation of such option, plus (z) an amount equal to the interest which would accrue at a fluctuating rate per annum equal to the prime interest rate announced by The Chase Manhattan Bank, N.A., from time to time, compounded daily, on such remainder for the period commencing on the Closing Date and ending on the such payment is made (but in no event shall interest accrue for more than seven days).

(b) 1996 OPTION PLAN. Prior to the Effective Time, the Compensation Committee of the Board of Directors of the Company, as administrator of the Company 1996 Employee Stock Option Plan (the "1996 Plan"), shall pursuant to its authority under Section 11 of the 1996 Plan provide that each option issued under the 1996 Plan shall after the Effective Time be exercisable only for an amount of cash equal to that which would have been received by the holder of such option as a result of the Merger if such holder had exercised such option immediately prior to the Effective Time. Subject to stockholder approval pursuant to Code Section 280G(b)(5)(A)(ii), the Company shall, prior to the Effective Time, pursuant to the

provisions of Section 2.08, offer to pay, subject to consummation of the Merger, each holder of an option issued under the 1996 Plan an amount equal to (x) the aggregate Cash Consideration into which the shares of Common Stock issuable upon exercise of such option would have been converted if such option had been exercised immediately prior to the Effective Time, reduced by (y)(i) the aggregate exercise price for the shares of Common Stock then issuable upon exercise of such option, and (ii) the amount of any withholding taxes which may be required thereon, in return for the cancellation of such option, plus (z) an amount equal to the interest which would accrue at a fluctuating rate per annum equal to the prime interest rate announced by The Chase Manhattan Bank, N.A., from time to time, compounded daily, on such remainder for the period commencing on the Closing Date and ending on the such payment is made (but in no event shall interest accrue for more than seven days).

SECTION 2.11. DISSENTING SHARES.

(a) Notwithstanding any other provision of this Agreement to the contrary, shares of Common Stock that are outstanding immediately prior to the Effective Time and which are held by stockholders who shall have not consented to the Merger in writing and who shall have properly delivered a written demand for appraisal of such shares in accordance with Section 262 of the DGCL and shall not have failed to perfect or shall not have effectively withdrawn such demand or otherwise lost their appraisal rights (the "Dissenting Shares") shall not be converted into or represent the right to receive Cash Consideration. Such stockholders shall be entitled to have such shares of Common Stock held by them appraised in accordance with the provisions of Section 262 of the DGCL, except that all Dissenting Shares held by stockholders who shall have failed to perfect or shall have effectively withdrawn or otherwise lost their right to appraisal of such shares of Common Stock under such Section 262 shall thereupon be deemed to have been converted into and to have become exchangeable for, as of the Effective Time, the right to receive, without any interest thereon, the Cash Consideration therefor, upon surrender in accordance with Section 2.08(b) of the Stock Certificate or Stock Certificates that formerly evidenced such shares of Common Stock.

(b) The Company shall give Parent (i) prompt notice of any demands for appraisal received by the Company, withdrawals of demands for appraisal, and any other instruments served pursuant to the DGCL and received by the Company and (ii) the opportunity to participate in all negotiations and proceedings with respect to demands for appraisal under the DGCL. The Company will not, except with the prior written consent of Parent, make any payment with respect to any demands for appraisal, or offer to settle, or settle, any such demand for appraisal rights.

ARTICLE III.
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and Merger Sub as follows:

SECTION 3.01. INCORPORATION AND AUTHORITY OF THE COMPANY. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all necessary corporate power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company, the performance by the Company of its obligations hereunder and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of the Company. This Agreement has been duly executed and delivered by the Company and (assuming due authorization, execution and delivery by Parent and Merger Sub) this Agreement constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and to the effect of general

principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 3.02. INCORPORATION AND QUALIFICATION OF THE COMPANY AND THE COMPANY SUBSIDIARIES.The Company and each Company Subsidiary is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has the requisite corporate or other organizational power and authority to own, operate or lease the properties and assets now owned, operated or leased by it and to carry on its business in all material respects as currently conducted by the Company or such Company Subsidiary. The Company and each Company Subsidiary is duly qualified as a foreign organization to do business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except for such failures which, when taken together with all other such failures, would not have a Material Adverse Effect. Except as set forth on Section 3.02 of the Disclosure Schedule, true and complete copies of the Certificate of Incorporation and Bylaws and stock and minute books of the Company and each Company Subsidiary, each of the foregoing as amended to the date of this Agreement, have been made available for review by Parent.

SECTION 3.03. CAPITAL STOCK OF THE COMPANY. The authorized capital stock of the Company consists of 40,000,000 shares of Common Stock and 1,000,000 shares of Preferred Stock, par value $.01 per share. As of the date of this Agreement, 29,396,158 shares of Common Stock are issued and outstanding; and no shares of Preferred Stock are outstanding; and the Company has no other voting securities outstanding. Such shares of Common Stock have been duly authorized and validly issued and are fully paid and nonassessable and were not issued in violation of any preemptive rights. Section 3.03 of the Disclosure Schedule sets forth, as of the date hereof, all of the record owners of the outstanding Common Stock and their respective holdings of shares of Common Stock. Except as set forth on Section 3.03 of the Disclosure Schedule, there are no options, warrants or rights of conversion or other rights, agreements, arrangements or commitments relating to the capital stock of the Company obligating the Company to issue or sell any of its shares of capital stock other than the outstanding Company Options representing the right to purchase up to 6,992,725 shares of Common Stock. Except as set forth on Section 3.03 of the Disclosure Schedule, there are no voting trusts, stockholder agreements, proxies or other agreements in effect to which the Company is a party with respect to the governance of the Company or voting or transfer of its shares of capital stock. Except as set forth on Section 3.03 of the Disclosure Schedule, there are no outstanding obligations of the Company to repurchase, redeem or otherwise acquire any capital stock or other securities or equity interests of the Company.

SECTION 3.04. SUBSIDIARIES.

(a) Other than the Company Subsidiaries, and except as set forth in Section 3.04(a) of the Disclosure Schedule, there are no other corporations, partnerships, joint ventures, limited liability companies, associations or other entities in which the Company or any Company Subsidiary owns, of record or beneficially, any direct or indirect equity interest or any right (contingent or otherwise) to acquire such an equity interest. Except as set forth in Section 3.04(a) of the Disclosure Schedule, neither the Company nor any Company Subsidiary is a member of any partnership, nor is the Company or any Company Subsidiary a participant in any joint venture or similar arrangement constituting a legal entity. The entities disclosed on Section 3.04(a) of the Disclosure Schedule are referred to each as a "Company Other Entity" and collectively as the "Company Other Entities." Section 3.04(a) of the Disclosure Schedule sets forth the jurisdiction of organization of each Company Other Entity and the current ownership of the Company or any Company Subsidiary of such equity interest of each Company Other Entity. The equity interest of each such Company Other Entity owned by the Company or any Company Subsidiary is owned free and clear of all Encumbrances, except those set forth on Section 3.04(a) of the Disclosure Schedule and Encumbrances arising pursuant to this Agreement. Except as disclosed on Section 3.04(a) of the Disclosure Schedule, neither the Company nor any Company Subsidiary is required to make any additional capital contribution or provide additional funding to, or acquire any securities or equity interests of any Company Other Entity.

Section 3.04(aa) of the Disclosure Schedule sets forth those Company Other Entities which are currently inactive and have not previously been actively engaged in any material business activity or operations (the "Company Inactive Entities"; and those Company Other Entities that are not Company Inactive Entities are referred to as "Company Active Entities"). To the Knowledge of the Company as of the date hereof, each of the Company Active Entities is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has the requisite corporate or other organizational power and authority to own, operate or lease the properties and assets now owned, operated or leased by it and to carry on its business in all material respects as currently conducted by such Company Active Entity and is duly qualified as a foreign organization in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except for such failure which would not have a Material Adverse Effect. Except as set forth on Section 3.04(aa) of the Disclosure Schedule, to the Company's Knowledge as of the date hereof, there are no voting trusts, stockholders agreements, proxies or other agreements in effect to which any Company Active Entity is a party with respect to the voting or transfer of any equity interest of such Company Active Entity or the repurchase, redemption or acquisition of any equity interest of such Company Active Entity.

(b) Section 3.04(b) of the Disclosure Schedule sets forth the jurisdiction of organization of each Company Subsidiary, its authorized capital stock, the number and type of its issued and outstanding shares of capital stock, and the current ownership by the Company and the Company Subsidiaries of such shares (collectively, the "Subsidiary Shares"). The Subsidiary Shares constitute all the issued and outstanding shares of capital stock of the Company Subsidiaries owned by the Company and Company Subsidiaries. The Subsidiary Shares have been duly authorized and validly issued and are fully paid and nonassessable and were not issued in violation of any preemptive rights. There are no options, warrants or rights of conversion or other rights, agreements, arrangements or commitments relating to the capital stock of any Company Subsidiary obligating any Company Subsidiary to issue or sell any of its shares of capital stock. Either the Company or another Company Subsidiary owns the Subsidiary Shares issued by the respective Company Subsidiaries, free and clear of all Encumbrances, except (i) as set forth in Section 3.04(b) of the Disclosure Schedule and (ii) Encumbrances arising pursuant to this Agreement. Except as set forth in Section 3.04(b) of the Disclosure Schedule, there are no voting trusts, stockholder agreements, proxies or other agreements in effect to which the Company or any Company Subsidiary is a party with respect to the governance of a Company Subsidiary, the voting or transfer of the Subsidiary Shares or the repurchase, redemption or acquisition of any capital stock or other securities or equity interests of such Company Subsidiary.

(c) Section 3.04(a) and (b) of the Disclosure Schedule describe any material earnout arrangement or similar obligation of the Company or any Company Subsidiary arising from any merger, consolidation or acquisition of stock or assets or other similar acquisition by the Company or any Company Subsidiary.

SECTION 3.05. NO CONFLICT. Assuming all consents, approvals, authorizations and other actions described in Section 3.11 have been obtained and all filings and notifications listed in Section 3.11 of the Disclosure Schedule have been made, and except as may result from any facts or circumstances relating solely to Parent or as described in Section 3.05 of the Disclosure Schedule, the execution, delivery and performance of this Agreement by the Company does not and will not (a) violate or conflict with the Certificate of Incorporation or Bylaws of the Company, (b) conflict with or violate in any material respect any material Law or Governmental Order applicable to the Company, any Company Subsidiary or, to the Company's Knowledge, any Company Active Entity, or (c) result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Encumbrance on any of the assets or properties of the Company or any Company Subsidiary pursuant to, any material note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument relating to such assets or properties to which the Company or any Company Subsidiary is a party or by which any of such assets or properties is bound or affected.

SECTION 3.06. FINANCIAL STATEMENTS. The Company has caused to be prepared and delivered to Parent the Company Financial Statements (copies of which are included in the Disclosure Schedule). The Company Financial Statements have been prepared in accordance with GAAP and except as set forth in the Company Financial Statements, on a consistent basis, and present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of the Company at the date and for the period indicated, subject in the case of unaudited interim financial statements, to normal recurring year-end adjustments.

SECTION 3.07. LABOR MATTERS. Neither the Company nor any Company Subsidiary is a party to any labor agreement with respect to its employees with any labor organization, group or association nor within the last year, have there been any material attempts to organize. Except as set forth in Section 3.07 of the Disclosure Schedule, to the Company's Knowledge as of the date hereof, (a) the Company and each Company Subsidiary is in material compliance with all applicable Laws respecting employment practices, terms and conditions of employment and wages and hours, (b) there is no unfair labor practice charge or complaint against the Company or any Company Subsidiary pending before the National Labor Relations Board or any comparable state agency, (c) there is no material complaint, charge or claim pending or threatened in writing against the Company or any Company Subsidiary with any Governmental Authority, arising out of, in connection with, or otherwise relating to the employment by the Company or any Company Subsidiary of any individual, and (d) there is no labor strike, labor disturbance or work stoppage pending against the Company or any Company Subsidiary.

SECTION 3.08. ABSENCE OF CERTAIN CHANGES OR EVENTS. Since June 30, 1997 to the date of this Agreement and except as set forth in Section 3.08 of the Disclosure Schedule or as expressly contemplated by this Agreement, there has not been:

(a) any damage, destruction or loss to any of the material assets or properties of the Company or any Company Subsidiary;

(b) any declaration, setting aside or payment of any dividend or distribution or capital return in respect of any shares of Common Stock or any redemption, purchase or other acquisition by the Company or any Company Subsidiaries of any shares of Common Stock;

(c) any sale, assignment, transfer, lease or other disposition or agreement to sell, assign, transfer, lease or otherwise dispose of any of the assets of the Company or any Company Subsidiary having a value individually exceeding $2,000,000;

(d) any acquisition (by merger, consolidation, or acquisition of stock or assets) by the Company or any Company Subsidiary of any corporation, partnership or other business organization or division thereof for consideration individually in excess of $1,000,000;

(e) except as reflected in the Company Financial Statements, (i) any incurrence by the Company or any Company Subsidiary of any indebtedness for borrowed money, (ii) any issuance by the Company or any Company Subsidiary of any debt securities or (iii) any assumption, granting, guarantee or endorsement, or other accommodation arrangement making the Company or any Company Subsidiary responsible for, the indebtedness for borrowed money of any Person (other than another Company Subsidiary), in the case of (i), (ii) and (iii) above, having an aggregate value exceeding $2,000,000 for all such occurrences;

(f) except as reflected in the Company Financial Statements, any change in any method of accounting or accounting practice used by the Company or any Company Subsidiary, other than such changes required by GAAP;

(g) any Material Adverse Effect;

(h)(i) any employment, deferred compensation, severance or similar agreement entered into or amended by the Company or any Company Subsidiary, except any employment agreement providing

for compensation of less than $100,000 per annum entered into in the ordinary course of business, (ii) increase in the compensation payable or to become payable by it to any of its directors or officers, or (iii) any increase in the coverage or benefits available under any severance pay, termination pay, vacation pay, company awards, salary continuation or disability, sick leave, deferred compensation, bonus or other incentive compensation, insurance, pension or other employee benefit plan, payment or arrangement made to, for or with such directors, officers, employees, agents or representatives, other than, in the case of (ii) and (iii) above, normal increases in the ordinary course of business consistent with past practice and that in the aggregate have not resulted in a material increase in the benefits or compensation expense of the Company or the Company Subsidiaries;

(i) any material adverse change in the business relationship of the Company or any Company Subsidiary with any customer referred to in Section 3.17;

(j) except as reflected in the Company Financial Statements, any writing down, in accordance with GAAP and consistent with past practice, of the value of any material accounts receivable or any revaluation by the Company or any Company Subsidiary of any of its material assets or any cancellation or writing off as worthless and uncollectible of any debt, note or account receivable by the Company or any Company Subsidiary, excluding writeoffs and writedowns individually less than $50,000;

(k) any cancellation, termination or non-renewal of any contract with a customer which was one of the Company's largest 30 customers (measured by contribution margin) during the nine months ended June 30, 1997;

(l) Except as set forth in the Company Financial Statements, any loans, letters of credit, advances or material capital contributions made by or issued for the account of the Company or any Company Subsidiary to, or investments by any such party in, any Person (other than another wholly-owned Company Subsidiary, as to which the uses of the transferred cash or property are not subject to restrictions greater than those imposed prior to such transfer), including, without limitation, to any employee, officer or member of the Board of Directors of the Company or any Company Subsidiary; or

(m) any agreement to take any actions specified in this Section 3.08, except for this Agreement.

SECTION 3.09. ABSENCE OF LITIGATION. Section 3.09 of the Disclosure Schedule sets forth as of the date hereof, all material pending Actions, and, to the Company's Knowledge, material Actions threatened in writing or otherwise, against the Company or any Company Subsidiary or to the Company's Knowledge as of the date hereof, against any Company Active Entity. Except as set forth in Section 3.09 of the Disclosure Schedule, (a) there are no Actions pending or, to the Company's Knowledge, threatened, against the Company or any Company Subsidiary or any of the assets or properties of the Company or any Company Subsidiary that, individually or in the aggregate, reasonably could be expected to have a Material Adverse Effect and (b) the Company, each Company Subsidiary and their respective assets and properties are not subject to any material order, judgment, injunction, decree, stipulation or determination entered by or with any Governmental Authority.

SECTION 3.10. COMPLIANCE WITH LAWS. The Company and each Company Subsidiary and the conduct of their respective businesses and operations are in compliance in all material respects with all applicable material Laws. As of the date hereof, neither the Company nor any Company Subsidiary nor, to the Company's Knowledge as of the date hereof, any Company Active Entity has received any written notice to the effect that the Company or any Company Subsidiary or Company Active Entity is not in material compliance with any applicable material Laws except as set forth in Section 3.10 of the Disclosure Schedule.

SECTION 3.11. CONSENTS, APPROVALS, LICENSES. No material consent, approval, authorization, license, order or permit of, or declaration, filing or registration with, or notification to, any Governmental

Authority or third party is required to be made or obtained by the Company or the Company Subsidiaries in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, except: (a) as set forth in Section 3.11 of the Disclosure Schedule; (b) applicable requirements, if any, of the DGCL, the Exchange Act, state securities or blue sky laws and the HSR Act; and (c) as may be necessary as a result of any facts or circumstances relating solely to Parent. The Company, each Company Subsidiary and to the Company's Knowledge as of the date hereof, each Company Active Entity has all material Licenses necessary to conduct its business and operations and is duly qualified and in good standing under the HMO laws, utilization review laws, third party administrative laws, preferred provider organization laws or insurance laws of each State in which the conduct of its business requires such qualification or authorization, except for such failures, when taken together with all such other failures, would not materially impair the Company, the Company Subsidiaries and the Company Active Entities, taken as a whole, from conducting their respective businesses and operations as presently conducted. Other than as set forth in Section 3.11 of the Disclosure Schedule, as of the date hereof no audit of the Company or any Company Subsidiary is pending before, or to the Company's Knowledge as of the date hereof has been threatened by, any Governmental Authority (other than the IRS). As of the date hereof all of the material Licenses of the Company, each Company Subsidiary and, to the Company's Knowledge as of the date hereof, each Company Active Entity are in full force and effect and the Company, each Company Subsidiary and to the Company's Knowledge as of the date hereof, each Company Active Entity is in material compliance with the respective material Licenses issued to it, except for such failures, when taken together with all such other failures, would not materially impair the Company, the Company Subsidiaries and the Company Active Entities, taken as a whole, from conducting their respective businesses and operations as presently conducted.

SECTION 3.12. PERSONAL PROPERTY; INFORMATION SYSTEMS.

(a) Except as set forth in Section 3.12 of the Disclosure Schedule, the Company and the Company Subsidiaries collectively own, have a valid leasehold interest in or have legal right to use all of the material tangible personal property necessary to carry on their business and operations, free and clear of all Encumbrances, except Permitted Encumbrances and Encumbrances reflected on the Company Financial Statements.

(b) To the Company's Knowledge as of the date hereof, the operating and applications computer programs and data bases ("Software") which the Company and the Company Subsidiaries currently use or have available for use are adequate and sufficient in all material respects to service their existing customers on the date hereof through the end of the current term of the contracts with such customers. All material Software is owned outright by the Company or the applicable Company Subsidiary or, if not so owned, the Company or such Company Subsidiary has the right to use the same pursuant to valid licenses thereof. To the Company's Knowledge as of the date hereof, none of the material Software owned by the Company or any Company Subsidiaries and none of the Software licensed by the Company or any Company Subsidiary infringes upon or violates any patent, copyright, trade secret or other proprietary right of any other Person.

(c) To the Company's Knowledge as of the date hereof, the central processing units, monitors, printers and other computer-related hardware ("Hardware") which the Company and any Company Subsidiaries currently use or have available for use are adequate and sufficient to service their existing customers on the date hereof through the end of the current term of the contracts with such customers. All such Hardware is owned outright by the Company or the applicable Company Subsidiary or if not so owned, the Company or such Company Subsidiary has the right to use the same pursuant to valid licenses therefor, except as would not materially impair the ability of the Company and the Company Subsidiaries, taken as a whole, to conduct their business and operations, as presently conducted

SECTION 3.13. REAL PROPERTY

(a) Neither the Company nor any Company Subsidiary owns any real property.

(b) Section 3.13 of the Disclosure Schedule lists all material Leases to which the Company or any Company Subsidiary is a party or is bound as of the date hereof. Except as disclosed in Section 3.13 of the Disclosure Schedule as of the date of this Agreement, the Company or Company Subsidiary party to the Leases on Section 3.13 of the Disclosure Schedule which relate to Leased Real Property with square footage in excess of 15,000 (the "Section 3.13 Leases") (i) has a valid and subsisting leasehold interest in each such Section 3.13 Lease, (ii) is in undisturbed possession of all space that it is currently entitled to possess under each such Section 3.13 Lease and no rights adverse to the rights of the Company or Company Subsidiary have, to the Knowledge of the Company, been asserted by any third Persons, and (iii) has not received any written notice of material default under any such Section 3.13 Lease which is still in effect.

(c) Each of the Section 3.13 Leases is in full force and effect and is valid and enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity), and there is no default under any Section 3.13 Lease either by the Company or the Company Subsidiary party thereto, and no event has occurred that with the lapse of time or the giving of notice or both would constitute a default thereunder.

SECTION 3.14. EMPLOYEE BENEFIT MATTERS.

(a) All of the material Employee Plans and Compensation Arrangements are listed in Section 3.14(a) of the Disclosure Schedule, and complete and accurate copies of (including any amendments to) any such Employee Plans and Compensation Arrangements (or related insurance policies), including any related trust documents, have been made available to Parent along with copies of any current employee handbook of general circulation. Any material unwritten arrangements which would be Compensation Arrangements except for the fact that they are unwritten also are listed in Section 3.14(a) of the Disclosure Schedule. Except as disclosed in Section 3.14(a) of the Disclosure Schedule or expressly contemplated in this Agreement, neither the Company nor any ERISA Affiliate has any obligations to put into effect any plan, arrangement or other scheme which will become an Employee Plan or Compensation Arrangement (including, but not limited to, any bonus, cash or deferred compensation, severance, medical, pension, profit sharing or thrift, stock option, employee stock ownership, life or group insurance, death benefit, vacation, sick leave, disability or trust agreement or arrangement), or any amendment to an Employee Plan or Compensation Arrangement.

(b) The Company has made available to Parent the Forms 5500 filed for each of the Employee Plans (including all attachments and schedules), actuarial reports, summaries of material modifications, summary annual reports, and any other governmental filings relating to the Employee Plans for the last three plan years, and also has furnished the current summary plan descriptions. Copies of the most recent determination letters issued by the IRS with respect to any Employee Plan have been furnished to Parent.

(c) Each Employee Plan and Compensation Arrangement has been administered in material compliance with its own terms and in material compliance with the provisions of ERISA, the Code, the Age Discrimination in Employment Act and any other applicable federal or state laws.

(d) Neither the Company nor any ERISA Affiliate is contributing to, is required to contribute to, or has contributed within the last six years to, any Multiemployer Plan, and neither the Company nor any ERISA Affiliate has incurred within the last six years, or reasonably expects to incur, any "withdrawal liability," as defined under Section 4201 et seq of ERISA.

(e) Except as set forth in Section 3.14(e) of the Disclosure Schedule, to the Company's Knowledge as of the date hereof, there are neither any active governmental inspections, investigations, audits or examinations of any Employee Plans or Compensation Arrangements nor any actions, suits or claims (other than routine claims for benefits) with respect to any Employee Plan or Compensation Arrangement pending or threatened against any such plan or arrangement.

(f) Except as described in Section 3.14(f) of the Disclosure Schedule, neither the Company nor any ERISA Affiliate sponsors, maintains or contributes to any Employee Plan or Compensation Arrangement that provides medical or death benefit coverage to former employees of the Company or any ERISA Affiliate, except to the extent required by Section 4980B of the Code.

(g) Except as described in Section 3.14(g) of the Disclosure Schedule, with respect to each Employee Plan and, to the extent applicable, each Compensation Arrangement: (i) each Employee Plan that is intended to be tax-qualified, and each amendment thereto, is the subject of a favorable determination letter, and no plan amendment that is not the subject of a favorable determination letter would affect the validity of an Employee Plan's letter; (ii) no Employee Plan is subject to Code Section 412; and (iii) to the Knowledge of the Company as of the date hereof, no prohibited transaction, within the definition of Section 4975 of the Code or Title I, Part 4 of ERISA, has occurred which would subject the Company or any ERISA Affiliate to any material liability.

(h) Except as disclosed on Section 3.14(h) of the Disclosure Schedule, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any material payment (including, without limitation, severance, or unemployment compensation) becoming due to any director or employee of the Company; (ii) result in the acceleration of vesting under any Employee Plan or Compensation Arrangement; or (iii) materially increase any benefits otherwise payable under any Employee Plan. Subject to stockholder approval under Code Section 280G(b)(5)(A)(ii), any such payment or increase in benefits shall not fail to be deductible by reason of Code Sections 162(m), 280G or 404. Except as disclosed on Section 3.14(h) of the Disclosure Schedule, deductibility of future compensation payments to employees of the Company are not subject to the limitations of Code Section 280G solely as a result of prior corporate transactions involving the Company.

(i) The Company has made available to Parent (i) copies of all employment agreements with officers of the Company and each Company Subsidiary involving payments in excess of $100,000 and not terminable within 60 days, (ii) copies of all material severance agreements and plans of the Company and each Company Subsidiary with or relating to their employees, and (iii) copies of all material plans and agreements of the Company and each Company Subsidiary with or relating to its respective employees which contain change in control provisions. Section 3.14(i) of the Disclosure Schedule sets forth a list of all employee agreements described in this Section 3.14(i).

(j) Except as set forth on Section 3.14(j) of the Disclosure Schedule, there are no third party agreements which could affect the ability of the Company and the ERISA Affiliates to terminate or modify the terms of the Employee Plans or Compensation Arrangements.

(k) Section 3.14(k) of the Disclosure Schedule is a document received by the Company from Merck & Co., Inc. ("Merck") indicating Merck's records of the employees of the Company and its ERISA Affiliates who currently possess the right to exercise options to purchase shares of the common stock of Merck, the number of shares covered by such options and their respective exercise prices.

SECTION 3.15. TAXES.

(a) (i) All material Tax returns and reports required to be filed before the Closing Date in respect of the Company and each Company Subsidiary have been filed on a timely basis; (ii) the Company and each Company Subsidiary has paid when due all Taxes shown to be due on such returns and reports in respect of the periods covered by such Tax returns and reports, has paid when due all estimated Taxes in respect of periods ended on or before the Closing Date and has adequately reserved for the payment of all Taxes with respect to periods ended on or before the Closing Date for which Tax returns have not yet been filed; (iii) there are no proposed additional Tax assessments against the Company or any Company Subsidiary not adequately provided for in the Company Financial Statements; (iv) there are no unpaid Taxes which are or could become a lien on the property of the Company or any Company Subsidiary, and no Tax liens have been filed against the property of the Company or any Company Subsidiary; (v) the charges, accruals

and reserves with respect to Taxes on the Books and Records and Company Financial Statements are adequate (as determined in accordance with GAAP); and (vi) all Taxes that the Company and the Company Subsidiaries are or were legally required to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper Governmental Authority.

(b) As of the date hereof except as set forth in Section 3.15 of the Disclosure Schedule, with respect to the Company or any Company Subsidiary, no waivers of statutes of limitations have been given with respect to any Tax returns and reports, which waivers are currently in effect, and no request for any such waiver is currently pending. No requests for ruling or determination letters or competent authority relief with respect to the Company or any Company Subsidiary is pending with any taxing agency with respect to any Taxes. Section 3.15 of the Disclosure Schedule identifies all Tax returns of the Company or any Company Subsidiary with respect to which an audit is in progress as of the date hereof.

(c) Except as set forth on Section 3.15 of the Disclosure Schedule, no material issues have been raised in writing (and are currently pending) by any Governmental Authority in connection with any of the Tax returns and reports referred to in Section 3.15(a), and all material deficiencies asserted or assessments made as a result of any examination by a taxing authority of the Tax returns and reports referred to in Section 3.15(a) have been paid in full.

(d) The Company has delivered to Parent true and complete copies of each of the federal and state income Tax returns of the Company and Company Subsidiaries, as well as tax depreciation and amortization schedules and schedules of any tax carryforward items of the Company and Company Subsidiaries set forth on Section 3.15 of the Disclosure Schedule.

(e) Except as set forth in Section 3.15 of the Disclosure Schedule, neither the Company nor any Company Subsidiary has been a member of any affiliated group (as defined in Section 1504(a) of the Code or as defined for applicable state, local or foreign Tax purposes) that has filed or is required to file consolidated or combined federal or state income Tax returns for any period.

(f) Except as set forth in Section 3.15 of the Disclosure Schedule, neither the Company nor any Company Subsidiary has any liability for Taxes, whether currently due or deferred, of any Person under Treasury Regulation Section 1.1502-6 (or any similar provision of state or local law). Except as set forth in Section 3.15 of the Disclosure Schedule, there will be no tax sharing agreement or tax indemnification agreement in effect on the Closing Date under which the Company or any Company Subsidiary has liability for Taxes of any other Person. All tax sharing agreements or tax indemnification agreements in effect on the date hereof under which the Company or any Company Subsidiary has the right to indemnification against any other Person for Taxes of the Company or such Company Subsidiary shall remain in full force and effect on the Closing Date.

(g) Neither the Company nor any Company Subsidiary will be required to include any amount in its income or exclude any amount from its deductions in any taxable period ending after the Closing Date by reason of a change in method of accounting or use of the installment method of accounting in any period ending on or prior to the Closing Date.

(h) Section 3.15(h) of the Disclosure Schedule sets forth each state and locality with jurisdiction to impose any Tax on the property or business of the Company and the Company Subsidiaries at any time prior to the Closing Date.

SECTION 3.16. CERTAIN CONTRACTS.

(a) Section 3.16 of the Disclosure Schedule lists the following agreements or contracts, written or oral (collectively, with the Section 3.13 Leases and the customer contracts with those customers referenced in Section 3.17, the "Listed Contracts"), in effect as of the date of this Agreement to which the Company or any Company Subsidiary is a party:

(i) any commitment, contract or agreement (other than the Leases listed on Section 3.13 of the Disclosure Schedule, the customer contracts listed on Section 3.17 of the Disclosure Schedule and provider contracts), involving aggregate payments by the Company or any Company Subsidiary for the six months ended on the Balance Sheet Date of more than $500,000 and that is not cancelable by the Company without liability within 60 days;

(ii) any lease of personal property involving any annual expense in excess of $500,000 and not cancelable by the Company without liability within 60 days;

(iii) any material joint venture agreement for a Company Active Entity;

(iv) any agreement with a hospital or provider, including a professional corporation, involving payments by or to the Company or any Company Subsidiary in the six months ended on the Balance Sheet Date in excess of $2,500,000 and not cancelable by the Company without liability within 90 days;

(v) any note, loan, letter of credit, bond or contract relating to indebtedness for borrowed money or capitalized leases, or other Contract in respect of which the Company or any Company Subsidiaries are obligated in any way after the date hereof to provide funds in respect of, or to guarantee or assume, any debt, obligation or dividend of any Person, other than intercompany indebtedness between the Company and a wholly-owned Subsidiary;

(vi) any indemnity arrangement arising in connection with any sale or disposition of assets for proceeds in excess of $1,000,000 wherein the Company or any Company Subsidiary is the indemnitor;

(vii) any agreement containing covenants presently limiting, in any material respect, the freedom of the Company, any Company Subsidiary or, to the Company's Knowledge as of the date hereof, any Company Active Entity, to compete with any person in any line of business or in any area or territory (including exclusivity arrangements binding upon the Company or any Company Subsidiary) or which contains a "most favored nations" provision or similar provision affecting the pricing of customer contracts;

(viii) contracts for capital expenditures requiring payments by the Company or any Company Subsidiary after the date hereof in excess of $500,000 for any single project;

(ix) any "Administrative Services Only" contract relating to plans (whether public or private) with more than 10,000 covered lives or any risk-based customer contracts which provided in excess of $10 million in annual revenue during fiscal year 1997; and

(x) any executory contracts of the Company or any Company Subsidiary for the acquisition or disposition of assets or businesses for proceeds individually in excess of $1,000,000.

(b) Except as set forth in Section 3.16(b) of the Disclosure Schedule, neither the Company nor any Company Subsidiary is in material breach or violation of, or material default under, any of the Listed Contracts. Except as set forth on Section 3.16(b) of the Disclosure Schedule, each Listed Contract is a valid agreement, arrangement or commitment of the Company or Company Subsidiary which is a party thereto, enforceable against the Company or Company Subsidiary in accordance with its terms and is a valid agreement, arrangement or commitment of each other party thereto, enforceable against such party in accordance with its terms, except in each case where enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights generally and the application of equitable principles or remedies.

SECTION 3.17. CUSTOMERS. Section 3.17 of the Disclosure Schedule contains a complete and accurate list, as of the date of this Agreement, of the 30 largest customers (together with the commencement and expiration date of the contract with each such customer) of the Company and the Company Subsidiaries taken as a whole in terms of revenues during the nine months ended on June 30, 1997, and

certain other customers showing the approximate total sales by the Company and the Company Subsidiaries to each such customer during such period. As of the date hereof, neither the Company nor any Company Subsidiary has been notified by any such customer that it intends to terminate its contract with the Company or any Company Subsidiary or not renew any such contract or received any threat that such customer may terminate or not renew its contract.

SECTION 3.18. UNDISCLOSED LIABILITIES. Neither the Company nor any Company Subsidiary nor, to the Company's Knowledge as of the date hereof, any Company Active Entity has any material liability or obligation of any kind or nature (fixed or contingent) that is required to be reflected on a balance sheet or in the financial footnotes thereto in accordance with GAAP except those (i) reflected, reserved against or disclosed in the Company Financial Statements, (ii) disclosed in Section 3.18 of the Disclosure Schedule, (iii) incurred in the ordinary course of business since the Balance Sheet Date, or (iv) that would not have a Material Adverse Effect.

SECTION 3.19. TRANSACTIONS WITH AFFILIATES. Except as disclosed in Section 3.19 of the Disclosure Schedule, no Company Stockholder, or director or officer of the Company listed in the definition of "Knowledge" in Section 1.01 or any entity (other than the Company) in which any such Person owns any beneficial interest (other than a publicly held corporation whose stock is traded on a national securities exchange or in the over-the-counter market and less than 1% of the stock of which is beneficially owned by all such Persons) (collectively, "Section 3.19 Affiliates") has any interest in: (i) any contract, arrangement or understanding with, or relating to, the business or operations of the Company or any Company Subsidiary or, to the Company's Knowledge as of the date hereof, any Company Active Entity; (ii) any loan, arrangement, understanding, agreement or contract for or relating to indebtedness of the Company or any Company Subsidiary or, to the Company's Knowledge as of the date hereof, any Company Active Entity; or (iii) any property (real, personal or mixed), tangible or intangible, used in the business or operations of the Company or any Company Subsidiary or, to the Company's Knowledge as of the date hereof, any Company Active Entity; excluding any such contract, arrangement, understanding or agreement constituting an Employee Plan or Compensation Arrangement. Following the Closing, except for obligations set forth herein, neither the Company nor any Company Subsidiary nor, to the Company's Knowledge as of the date hereof, any Company Active Entity will have any obligations of any kind to any Section 3.19 Affiliate except for (i) accrued salary for the pay period commencing immediately prior to the Closing Date and (ii) the obligations set forth in Section 3.19 of the Company Disclosure Schedule.

SECTION 3.20. INSURANCE. Section 3.20 of the Disclosure Schedule sets forth a true and correct list of all material liability insurance policies which are in force and under which the Company or any Company Subsidiary is a named insured or beneficiary. All such policies are (i) binding and effective upon the issuers thereof in accordance with their respective terms and (ii) based solely on the past claims experience of the Company and each Company Subsidiary, reasonably likely to adequately cover any loss contingencies of a type covered by such policies relating to occurrences on or prior to the Balance Sheet Date, subject to any applicable reserves, deductibles, copayments or self retention amounts.

SECTION 3.21. BROKERS. Except for Morgan Stanley & Co. Incorporated and Kohlberg Kravis Roberts & Co. (the fees and expenses of each of which shall be paid in full by the Company, and the amount of which has been disclosed to Parent) no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company.

SECTION 3.22. RESTRICTED CASH. As of the date hereof, except as set forth on Section 3.22 of the Disclosure Schedule, there are no regulatory or contractual restrictions on the ability of the Company and any Company Subsidiaries to freely transfer their respective cash and cash equivalents.

SECTION 3.23. SEC DOCUMENTS. As of their respective filing dates, none of the documents filed by the Company with the Securities and Exchange Commission since October 1, 1996 pursuant to Section 15(d) of the Exchange Act contained any untrue statement of a material fact or omitted to state a material

fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, except to the extent corrected by any document subsequently filed by the Company with the Securities and Exchange Commission.

SECTION 3.24. ACCOUNTS RECEIVABLE. Except as set forth in Section 3.24 of the Disclosure Schedule, the accounts receivable of the Company reflected on the Balance Sheet arose from bona fide transactions in the ordinary course of business, have been recorded on a GAAP basis and are not subject to any counterclaims or setoffs (except for the amount of any applicable existing reserves for counterclaims or setoffs) and are fully collectable, except for any allowances for doubtful accounts reflected on the Balance Sheet. The amount of allowance for doubtful accounts on a GAAP basis in the Balance Sheet was calculated consistent with past practice and is adequate.

ARTICLE IV.
REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Except as set forth on the Parent Disclosure Schedule, each of Parent and Merger Sub represents and warrants to the Company as follows:

SECTION 4.01. INCORPORATION AND AUTHORITY OF PARENT AND MERGER SUB. Each of Parent and Merger Sub is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all necessary corporate power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by each of Parent and Merger Sub, the performance by each of Parent and Merger Sub of its obligations hereunder and the consummation by each of Parent and Merger Sub of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of each of Parent and Merger Sub. This Agreement has been duly executed and delivered by each of Parent and Merger Sub, and (assuming due authorization, execution and delivery by Company) constitutes a legal, valid and binding obligation of each of Parent and Merger Sub enforceable against it in accordance with its terms, subject to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 4.02. NO CONFLICT. Assuming all consents, approvals, authorizations and other actions described in Section 4.03 have been obtained and all filings and notifications listed on Section 4.03 of the Parent Disclosure Schedule, have been made, and except as may result from any facts or circumstances relating solely to the Company, the execution, delivery and performance of this Agreement by each of Parent and Merger Sub does not and will not: (a) violate or conflict with the Certificate of Incorporation or Bylaws of Parent or Merger Sub; (b) conflict with or violate any Law or Governmental Order applicable to Parent or its Subsidiaries; or (c) result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Encumbrance on any of the assets or properties of Parent pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument relating to such assets or properties to which Parent or any of its Subsidiaries is a party or by which any of such assets or properties is bound or affected, except, in the case of clauses (b) and (c), as would not, individually or in the aggregate, have a material adverse effect on the ability of Parent or Merger Sub to consummate the transactions contemplated by this Agreement.

SECTION 4.03. CONSENTS AND APPROVALS. No consent, approval, authorization, license, order or permit of, or declaration, filing or registration with, or notification to, any Governmental Authority or third party is required to be made or obtained by Parent or any of its Subsidiaries in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby,

except (a) as set forth on Section 4.03 of the Parent Disclosure Schedule, (b) applicable requirements, if any of the DGCL, the Exchange Act, state securities or blue sky laws and the HSR Act, (c) where failure to obtain such consent, approval, authorization or action, or to make such filing or notification, would not prevent or delay, Parent or Merger Sub from performing any of its material obligations under this Agreement (including obtaining the financing contemplated in the Commitment Letter), and (d) as may be necessary as a result of any facts or circumstances relating solely to the Company.

SECTION 4.04. ABSENCE OF LITIGATION. As of the date of this Agreement (a) there are no Actions pending against Parent or any of its Subsidiaries or any of the assets or properties of Parent or any of its Subsidiaries that, individually or in the aggregate, would prevent Parent from consummating the transactions contemplated hereby and (b) Parent, its Subsidiaries and their respective assets and properties are not subject to any order, judgment, injunction, decree, stipulation or determination entered by or with any Governmental Authority that would prevent Parent from consummating the transactions contemplated hereby.

SECTION 4.05. FINANCING. Parent has provided to the Company true and complete copies of the commitment letter for the benefit of Parent (the "Commitment Letter") relating to the Merger and the transactions contemplated thereby. The financing outlined in the Commitment Letter is sufficient, assuming funding of such amounts, to make the payments required under Article II with respect to all outstanding shares of Common Stock and Company Options, to repay the Bank Debt and the Senior Subordinated Notes and to pay all fees and expenses to be paid by Parent in connection with the transactions contemplated hereby.

SECTION 4.06. OTHER TRANSACTIONS. Set forth on Section 4.06 of the Parent Disclosure Schedule is a description of each executory contract, agreement, commitment or other arrangement of Parent or any of its Subsidiaries to acquire (by merger, consolidation or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof (other than as contemplated by the Merger) which is in the business of providing managed behavioral health care services within the United States, including managed mental health programs, substance abuse programs and employee assistance programs, for consideration in excess of $10,000,000.

SECTION 4.07. BROKERS. Except for Chase Securities Inc. and Smith Barney Inc. (the fees and expenses of which shall be paid in full by Parent), no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Parent or its Affiliates.

ARTICLE V.
ADDITIONAL AGREEMENTS

SECTION 5.01. CONDUCT OF BUSINESS PRIOR TO THE CLOSING.

(a) Unless Parent otherwise agrees in writing and except as expressly contemplated by this Agreement, between the date of this Agreement and the Closing Date, the Company will, and will cause each Company Subsidiary to, and will use reasonable efforts to cause each Company Active Entity with respect to which the Company or any Company Subsidiary has a representative on the board of directors or other managing body to, (i) conduct its business and operations only in the ordinary course consistent with past practice; (ii) use commercially reasonable best efforts, subject to the limitations set forth herein, to preserve the current relationships of the Company and the Company Subsidiaries with their respective customers, suppliers, distributors, officers and other key employees and other Persons with which the Company and the Company Subsidiaries have significant business relationships; (iii) use reasonable efforts to maintain its assets and properties in good repair condition in all material respects, normal wear and tear excepted; (iv) maintain its books, accounts and records in the usual, regular and ordinary manner, on a GAAP basis consistently applied; (v) keep in full force and effect insurance and bonds comparable in

amount and scope of coverage to that currently maintained; (vi) deliver to Parent, within fifteen (15) Business Days after the end of each calendar month, an unaudited, consolidated balance sheet, statement of operations, statement of stockholders' equity and cash flow statement for the Company for such month just ended prepared on a GAAP basis, schedules showing the results of operations and variances in revenue for each of the items set forth therein and within 45 days after the end of each fiscal quarter, an unaudited, condensed balance sheet, statement of operations, statement of stockholders' equity and cash flow statement for the Company for such fiscal quarter just ended; and (vii) notify Parent of any material Action commenced by or against the Company or any Company Subsidiary or any Actions commenced or threatened which relate to the transactions contemplated by this Agreement.

(b) Except as expressly provided in this Agreement or Section 5.01(b) of the Disclosure Schedule, between the date of this Agreement and the Closing Date, the Company will not, and shall cause the Company Subsidiaries not to, and will use reasonable efforts, consistent with their fiduciary duties, to cause its Company Active Entities not to, do any of the following without the prior written consent of Parent:

(i) create any Encumbrance of any kind on any properties or assets (whether tangible or intangible) of the Company or any Company Subsidiary, other than (A) Permitted Encumbrances, (B) Encumbrances that will be released at or prior to the Closing and (C) Encumbrances on assets having a value not exceeding $250,000 in the aggregate;

(ii) except for transactions among the Company and Company Subsidiaries, sell, assign, transfer, lease or otherwise dispose of or agree to sell, assign, transfer, lease or otherwise dispose of any of the assets of the Company or any Company Subsidiary having a value individually of more than $500,000 or $1,000,000 in the aggregate;

(iii) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or equity or other interest therein, other than in connection with the transactions set forth in Section 5.01(b) of the Disclosure Schedule and except for transactions with an individual fair market value of less than $500,000 or $1,000,000 in the aggregate;

(iv) (A) increase the rate of compensation payable or to become payable to any of its employees or agents, other than normal increases in the ordinary course of business consistent with past practice to Persons receiving cash compensation of less than $100,000 per annum; (B) pay or provide for any bonus, profit sharing, deferred compensation, pension, retirement or other similar payment or arrangement to or in respect of any such employee or agent except to the extent the Company or the Company Subsidiaries are, on the date hereof, contractually obligated to do so or required to do so by Law ; and (C) enter into any new, or amend in any material respect any existing employment, severance, or consulting agreement, sales agency or other Contract with respect to the performance of personal services, except (x) any such new agreement providing for cash compensation of less than $100,000 per annum entered into in the ordinary course of business, which such new agreements shall not provide for cash compensation of more than $500,000 per annum in the aggregate; and (y) any individuals hired on an at-will basis to replace current employees or to service customer contracts which commence after the date hereof;

(v) change any method of accounting or accounting practice used by the Company or any Company Subsidiary, other than such changes required by changes in GAAP;

(vi) issue or sell any shares of the capital stock of, or other equity interests in, the Company or any Company Subsidiary, or securities convertible into or exchangeable for such shares or equity interests, or issue or grant of any options, warrants, calls, subscription rights or other rights of any kind to acquire additional shares of such capital stock, such other equity interests, or such securities; except

the issuance of Common Stock upon exercise of Company Options outstanding on the date hereof or pursuant to other rights set forth on Section 3.03 of the Disclosure Schedule;

(vii) amend the Company's or any Company Subsidiary's Certificate of Incorporation or By laws or equivalent organizational documents;

(viii) take any action which would materially interfere with the consummation of the transactions contemplated hereby, or make such consummation more difficult or materially delay the consummation of such transactions;

(ix) incur, guarantee or assume any indebtedness for borrowed money or assume any reimbursement obligations relating to any letters of credit, including borrowings under revolving credit agreements in existence on the date hereof, including any renewals or extensions thereof, to finance ordinary course working capital needs, provided that the amount of such indebtedness outstanding at any time shall not exceed $15,000,000 in the aggregate in excess of the amount outstanding as of the date hereof (provided, however, that this limitation shall not restrict the Company and its Subsidiaries from incurring indebtedness in order to pay the fees and expenses relating to the transactions contemplated hereby, including the fees and expenses referenced in Section 3.21);

(x) declare, set aside or pay any dividend or distribution or capital return in respect of any shares of Common Stock, or redeem, purchase or acquire any shares of Common Stock or other equity interests in the Company, any Company Subsidiary or any Company Active Entity;

(xi) make any loans or advances to any Person, except for (x) travel advances or for other routine business expenses incurred in the ordinary course of business; (y) loans or advances made in connection with obtaining or commencing new customer contracts not to exceed $1,000,000 outstanding at any time in the aggregate; and (z) loans or advances made in the ordinary course of business not to exceed $100,000 outstanding at any time in the aggregate;

(xii) settle or compromise any Action for any amount in excess of $250,000 or which involves a commitment that may have a Material Adverse Effect;

(xiii) (A) enter into any new customer contract, excluding any customer contract entered into in the ordinary course of business consistent with past practices (and in the case of risk contracts, consistent with reasonable and customary underwriting practices), provided such contract does not have estimated annual revenues in excess of $10,000,000; provided, further that the prohibition applicable to contracts in excess of $10,000,000 shall not be applicable if the Company has received a written opinion of the Company's outside legal counsel that such prohibition would be reasonably likely to violate applicable Law (which opinion will be made available to Parent); or (B) make any material amendment or modification to those customer contracts which are Listed Contracts;

(xiv) make capital expenditures in excess of $500,000 individually or $2,300,000 in the aggregate per month during the first three months following the date hereof and $1,800,000 in the aggregate during each month thereafter;

(xv) enter into any contract or agreement which would have been required to be listed on Section 3.16 of the Disclosure Schedule as a result of clauses (iii), (iv), (vi), (vii) or (x) of Section 3.16 had such contract or agreement been entered into prior to the date hereof or make any material amendments or modifications to the Listed Contracts that are set forth on Section 3.16 of the Disclosure Schedule as a result of such clauses;

(xvi) enter into any new contract or agreement with a Section 3.19 Affiliate; or

(xvii) agree to take any of the actions specified in this Section 5.01(b).

SECTION 5.02. PARENT ACTION PRIOR TO THE CLOSING.

(a) Between the date of this Agreement and the Closing Date, Parent shall not, and shall cause its Subsidiaries not to, (a) take any action which would materially interfere with the consummation of the transactions contemplated hereby, or make such consummation more difficult or materially delay the consummation of such transactions, or (b) except as set forth on Section 5.02 of the Disclosure Schedule, solicit, initiate or continue any discussions or negotiations with, or encourage or respond to any inquiries or proposals by, or participate in any negotiations with or enter into any agreement or commitment with, or provide or request any information from, or otherwise cooperate in any way with, any Person, other than the Company and its officers, directors, employees, agents and representatives, concerning any acquisition of assets, contracts, securities, businesses or other property (whether by merger, consolidation or otherwise) with an aggregate fair market value in excess of $10,000,000 that relate to the business of providing managed behavioral health care services in the United States, including managed mental health programs, substance abuse programs and employee assistance programs.

(b) Parent shall notify the Company of any material Action commenced by or against Parent or any Subsidiary thereof or any Actions commenced or threatened which relate to the transactions contemplated by this Agreement.

(c) Parent shall use its best efforts to obtain the financing contemplated by the Commitment Letter as promptly as practicable, including, without limitation: (i) negotiating and executing definitive agreements for the financing contemplated by the Commitment Letter; (ii) consummating the Green Springs Transactions (as defined in the Commitment Letter); (iii) repurchasing the necessary percentage of the 11-1/4% Senior Subordinated Notes of Parent and the Senior Subordinated Notes, and amending the terms thereof upon the terms set forth on Section 5.02(c) of the Parent Disclosure Schedule; and (iv) not taking, or failing to take, any action that would result in any of the conditions to the funding of such financing not being satisfied.

SECTION 5.03. ACCESS TO INFORMATION. Subject to the terms of the Confidentiality Agreement, from the date of this Agreement until the Closing, upon reasonable notice, the Company shall, and shall cause the officers, employees, auditors and agents of the Company and each Company Subsidiary, to, (i) afford the officers, employees and authorized agents and representatives of Parent reasonable access, during normal business hours, to the offices, properties, books and records of the Company and the Company Subsidiaries and furnish Parent or its representatives copies of such documents and other information as reasonably requested, including communications with any Governmental Authority, and (ii) furnish to the officers, employees and authorized agents and representatives of Parent such additional financial and operating data and other information regarding the assets, properties, goodwill and business of the Company and the Company Subsidiaries as Parent may from time to time reasonably request in order to assist Parent in fulfilling its obligations under this Agreement and to facilitate the consummation of the transactions contemplated hereby, including such information as may be reasonably requested by Parent in connection with obtaining the financing under the Commitment Letter; provided, however, that (x) Parent shall not unreasonably interfere with any of the businesses or operations of the Company, or any Company Subsidiaries, and (y) the Company and each Company Subsidiary shall not be obligated to provide information which, based upon the written advice of Company counsel, would reasonably be likely violate applicable Law.

SECTION 5.04. CONFIDENTIALITY. The terms of the Confidentiality Agreement are hereby incorporated herein by reference and shall continue in full force and effect until the Closing, at which time such Confidentiality Agreement and the obligations of the Parties hereto under this Section 5.04 shall terminate.

SECTION 5.05. EFFORTS; REGULATORY AND OTHER AUTHORIZATIONS; CONSENTS.

(a) Each party hereto shall use its best efforts to (i) take, or cause to be taken, all appropriate action, and do, or cause to be done, all things necessary, proper or advisable under applicable Law or otherwise to promptly consummate and make effective the transactions contemplated by this Agreement (including, in the case of Parent, obtaining the financing necessary to consummate the transactions contemplated hereby), (ii) obtain all authorizations, consents, orders and approvals of, and give all notices to and make all filings with, all Governmental Authorities and other third parties that may be or become necessary for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement including, without limitation, those consents set forth in the Disclosure Schedule, (iii) lift or rescind any injunction or restraining order or other order adversely affecting the ability of the parties hereto to consummate the transactions contemplated hereby, and (iv) fulfill all conditions to this Agreement. Each party will cooperate fully with the other party in promptly seeking to obtain all such authorizations, consents, orders and approvals, giving such notices, and making such filings. In connection with obtaining such consents from third parties, neither party shall be required to make payments, commence litigation or agree to modifications of the terms of any agreements with such third parties (other than payments and modifications which individually, and in the aggregate, would not have a Material Adverse Effect), and (except for modifications which individually, and in the aggregate, would not have a Material Adverse Effect) no such modification shall be made to any contract of the Company or any Company Subsidiary without the consent of Parent, which consent shall not be unreasonably withheld. The parties hereto agree not to take any action that will have the effect of unreasonably delaying, impairing or impeding the receipt of any required authorizations, consents, orders or approvals. The Company shall cooperate with Parent in connection with effecting a tender offer for the Senior Subordinated Notes.

(b) In furtherance and not in limitation of the foregoing, each party hereto agrees to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated hereby within ten Business Days of the date hereof and to supply promptly any additional information and documentary material that may be requested pursuant to the HSR Act and cooperate in connection with any filing under applicable Antitrust Laws and in connection with resolving any investigation or other inquiry concerning the transactions contemplated by this Agreement commenced by any of the Federal Trade Commission, the Antitrust Division of the Department of Justice or state attorneys general. In addition, Parent shall use its best efforts to resolve such objections, if any, as may be asserted with respect to the transactions contemplated hereby under any antitrust or trade regulatory laws of any Governmental Authority ("Antitrust Laws"). It is further agreed that in connection with resolving such objections, Parent, the Company and their respective Affiliates, as determined by Parent, will, not withstanding any provision of this Agreement, if necessary, divest or hold separate (i) customer contracts ("Disposed Contracts") which in the aggregate represent annual gross revenues in an amount (the "Annual Gross Revenue Amount") not to exceed $45,000,000, as determined below, and (ii) any interest of Parent, the Company or their respective Affiliates in the TennCare Partners Program implemented by the State of Tennessee, including without limitation any interest in the behavioral health organizations participating in the TennCare Partners Program or in the customer contract held by such behavioral health organization. Annual Gross Revenue Amounts shall, (x) exclude gross revenues with respect to contracts referred to in clause (ii) above and with respect to Disposed Contracts for which Parent, the Company or the relevant Affiliate shall have received a notice of nonrenewal or termination from the customer prior to the date of receipt of objections, (y) with respect to Disposed Contracts that have been in force for at least twelve months, be the product of the gross revenues generated during the immediately preceding twelve-month period multiplied by Parent's, the Company's or the relevant Affiliate's direct or indirect percentage interest in such contract, and (z) with respect to Disposed Contracts that have been in force for less than twelve months, be the product of the gross revenues generated during the time the contract has been in force annualized, multiplied by Parent's, the Company's or the relevant Affiliate's direct or indirect percentage interest in such contract. To the extent the Annual Gross Revenue Amount for Disposed Contracts does not exceed $25,000,000 (the "Threshold Amount"), no adjustment will be made to the Aggregate Cash Consideration. To the extent the Annual Gross

Revenue Amount for Disposed Contracts exceeds the Threshold Amount (such excess, the "Excess Amount", which shall in no event be greater than $20,000,000), the Aggregate Cash Consideration shall be reduced by an amount equal to (A) .8 multiplied by the Excess Amount, less (B) an amount equal to (a) the fraction equal to the Excess Amount, divided by the Annual Gross Revenue Amount, multiplied by (b) an amount equal to the proceeds received in connection with the divestiture or other transfer of the Disposed Contracts. In no event shall Parent or the Company be required to breach any customer contract in connection with this provision. If any suit is instituted challenging any of the transactions contemplated hereby as violative of any Antitrust Law, Parent and the Company shall each cooperate to contest and resist any such action or proceeding, and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order (whether temporary, preliminary or permanent) that is in effect and that restricts, prevents or prohibits consummation of the transactions contemplated by this Agreement, including, without limitation, by pursuing all reasonable avenues of administrative and judicial appeal.

(c) Either party hereto shall promptly inform the other of any material communication from the Federal Trade Commission, the Department of Justice or any other Governmental Authority regarding any of the transactions contemplated hereby. If either party or any Affiliate thereof receives a request for additional information or documentary material from any such Governmental Authority with respect to the transactions contemplated hereby, then such party will endeavor in good faith to make, or cause to be made, as soon as reasonably practicable and after consultation with the other party, an appropriate response in substantial compliance with such request. The Company and Parent will consult and cooperate with one another, and will consider in good faith the views of one another in connection with any analyses, appearances, presentations, memoranda, briefs, and other similar items and proposals made or submitted by or on behalf of any party hereto in connection with proceedings under or relating to any proceedings with any Governmental Authority. Parent will consult with the Company in advance and provide the Company with the opportunity to participate in any discussion in respect of any understanding, undertaking, or agreement which Parent proposes to make or enter into with the Federal Trade Commission, the Department of Justice or any other Governmental Authority in connection with the transactions contemplated hereby.

SECTION 5.06. FURTHER ACTION. Subject to the terms and conditions herein provided, each of the parties hereto covenants and agrees to use its best efforts to deliver or cause to be delivered such documents and other papers and to take or cause to be taken such further actions as may be necessary, proper or advisable under applicable Laws to consummate and make effective the transactions contemplated hereby.

SECTION 5.07. NO SOLICITATION. From the date hereof through the Closing or the earlier termination of this Agreement in accordance with its terms, each of the Company, its Subsidiaries and Affiliates and their respective officers, directors, employees, agents and representatives shall not, directly or indirectly, enter into, solicit, initiate or continue any discussions or negotiations with, or encourage or respond to any inquiries or proposals by, or participate in any negotiations with, or provide any information to, or otherwise cooperate in any other way with, any corporation, partnership, person or other entity or group, other than Parent and its officers, directors, employee, agents and representatives, concerning any sale of the Company or all or a substantial portion of its assets, the Business or any merger, consolidation, liquidation, dissolution or similar transaction involving the Company or any of its Subsidiaries. The Company will promptly notify Parent if after the date hereof, it (or any Company Subsidiary) receives any such inquiry or proposal or offer to discuss or negotiate any such transaction

SECTION 5.08. NOTIFICATION OF CERTAIN MATTERS. Each of the Company and Parent shall give prompt written notice to the other party of the occurrence, or non-occurrence, of any events the occurrence, or non-occurrence of which would cause either (i) a representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at any time from the date hereof to the Effective Time, or (ii) any of the conditions set forth in Article VII to be unsatisfied in any material respect at any time from the date hereof to the Effective Time; provided that the parties hereto need not give notice with

respect to events that are reported in the financial or general interest newspapers that do not specifically relate to the Company or Parent and their respective businesses. Nothing in this Section 5.08 shall affect any representation or warranty made by the parties herein.

SECTION 5.09. INDEMNIFICATION OF OFFICERS AND DIRECTORS.

(a) From and after the Effective Time, Parent agrees that it will, and will cause the Company to, indemnify and hold harmless each present and former director and officer (the "Indemnified Parties"), against any costs or expenses (including attorneys' fees), judgments, fines, losses, claims, damages, liabilities or amounts paid in settlement incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the Effective Time, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent that the Company would have been permitted under Delaware law and its Certificate of Incorporation or bylaws in effect on the date hereof to indemnify such Indemnified Party (and Parent and the Company shall also advance expenses as incurred to the fullest extent permitted under applicable Law, provided the Indemnified Party to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that such Indemnified Party is not entitled to indemnification).

(b) For a period of six years after the Effective Time, Parent shall maintain or shall cause the Company to maintain (to the extent available in the market) in effect a directors' and officers' liability insurance policy covering those persons who are currently covered by the Company's directors' and officers' liability insurance policy (copies of which have been heretofore delivered by the Company to Parent) with coverage in amount and scope at least as favorable as the Company's existing coverage; provided that in no event shall Parent or the Company be required to expend in the aggregate in excess of 200% of the annual premium currently paid by the Company for such coverage; and if such premium would at any time exceed 200% of the such amount, then Parent or the Company shall maintain insurance policies which provide the maximum and best coverage available at an annual premium equal to 200% of such amount.

(c) The provisions of this Section 5.09 are intended to be in addition to the rights otherwise available to the current officers and directors of the Company by Law, charter, bylaw or agreement, and shall operate for the benefit of, and shall be enforceable by, each of the Indemnified Parties, their heirs and their representatives.

SECTION 5.10. REPAYMENT OF BANK DEBT AND SENIOR SUBORDINATED NOTES. Parent agrees to cause the Company to, and provide the Company with sufficient funds to, (i) at the Effective Time repay all amounts outstanding under that certain Credit Agreement, as amended, among the Company, various lending institutions and The Chase Manhattan Bank, N.A. dated as of October 6, 1995 (the "Bank Debt") in the manner required by such agreement, and (ii) perform the Company's obligations set forth in Section 4.15 (Change of Control) of that certain Indenture dated as of November 22, 1995 between the Company and Marine Midland Bank, as Trustee with respect to the Company's $100,000,000 11-1/2% Senior Subordinated Notes (the "Senior Subordinated Notes").

ARTICLE VI.
EMPLOYEE MATTERS

Section 6.01. EMPLOYEE BENEFITS.

(a) Parent shall or shall cause the Company to maintain in effect employee benefit plans and arrangements which provide benefits which have a value which is substantially comparable, in the aggregate, to the benefits provided by the benefit plans and arrangements of the Company and Company Subsidiaries immediately prior to the Effective Time (not taking into account the value of any benefits

under any such plans or arrangements which are equity based) for a period of one year after the Effective Time.

(b) For purposes of determining eligibility to participate, vesting, entitlement to benefits and in all other respects where length of service is relevant under any employee benefit plan or arrangement of Parent or the Company (including for severance but not for pension benefit accruals to the extent not permitted by Law), employees of the Company or any Company Subsidiaries employed as of the Effective Time shall receive service credit for service with the Company or any Company Subsidiaries to the same extent such service was credited under the benefit plans and arrangements of the Company and Company Subsidiaries immediately prior to the Effective Time.

SECTION 6.02. SEVERANCE ARRANGEMENTS.

Parent shall require the Company to (i) honor the terms of the severance agreement included in the Non-Competition Agreements entered into between the Company and each of Messrs. Waxman, Halper, Lenahan and Budnick as of the date hereof; (ii) honor the terms of the severance agreements entered into prior to the date hereof with the employees of the Company and the Company Subsidiaries identified in Section 3.14(i) of the Disclosure Schedule; and (iii) subject to the approval by the Company's stockholders under Code Section 280G(b)(5)(A)(ii), maintain the Company severance policy, to be adopted as of the Effective Time, the terms of which are set forth in Section 3.14(a) of the Disclosure Schedule.

ARTICLE VII.
CONDITIONS TO CLOSING

SECTION 7.01. CONDITIONS TO OBLIGATIONS OF THE COMPANY. The obligations of the Company to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or waiver, at or prior to the Closing, of each of the following conditions:

(a) REPRESENTATIONS AND WARRANTIES; COVENANTS. (i) The representations and warranties of Parent and Merger Sub contained in this Agreement shall be true and correct as of the Closing, with the same force and effect as if made as of the Closing (or, in the case of representations and warranties of Parent and Merger Sub which address matters only as of a particular date, as of such date), except where the failure to be so true and correct would not have a material adverse effect on the ability of Parent and Merger Sub to perform its obligations hereunder; (ii) the covenants and agreements contained in this Agreement to be complied with by Parent and Merger Sub at or prior to the Closing, shall have been complied with in all material respects; and (iii) the Company shall have received a certificate of Parent as to the matters set forth in clauses (i) and (ii) above signed by a duly authorized officer of Parent;

(b) NO ORDER. No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any Governmental Order which is in effect and has the effect of making the transactions contemplated by this Agreement illegal or otherwise prohibiting consummation of such transactions: provided, however, that the provisions of this Section 7.01(b) shall not apply if the Company has directly or indirectly solicited or encouraged any such action;

(c) HSR ACT. The applicable waiting period under the HSR Act shall have expired or been terminated; and

(d) APPROVALS. All consents and approvals of Governmental Authorities necessary for consummation of the transactions contemplated hereby shall have been obtained.

SECTION 7.02. CONDITIONS TO OBLIGATIONS OF PARENT AND MERGER SUB. The obligations of Parent and Merger Sub to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or waiver, at or prior to the Closing, of each of the following conditions:

(a) REPRESENTATIONS AND WARRANTIES; COVENANTS. (i) The representations and warranties of the Company contained in this Agreement shall be true and correct as of the Closing, with the same force and effect as if made as of the Closing (or, in the case of representations and warranties of the Company which address matters only as of a particular date, as of such date), except where the failure to be so true and correct would not have a Material Adverse Effect; (ii) the covenants and agreements contained in this Agreement to be complied with by the Company at or prior to the Closing shall have been complied with in all material respects; and (iii) Parent shall have received a certificate of the Company as to the matters set forth in clauses (i) and (ii) above signed by a duly authorized officer of the Company;

(b) NO ORDER. No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other Governmental Order which is in effect and has the effect of making the transactions contemplated by this Agreement illegal or otherwise prohibiting consummation of such transactions; provided, however, that the provisions of this Section 7.02(b) shall not apply if Parent or Merger Sub has directly or indirectly solicited or encouraged any such action;

(c) HSR ACT. The applicable waiting period under the HSR Act shall have expired or been terminated;

(d) MATERIAL ADVERSE EFFECT. Since the date of this Agreement there has not been any Material Adverse Effect;

(e) APPROVALS. All consents and approvals of Governmental Authorities necessary for consummation of the transactions contemplated hereby shall have been obtained;

(f) COMMITMENT LETTER. Parent and/or Merger Sub shall have obtained the financing set forth in the Commitment Letter on the terms set forth in such Commitment Letter or other terms reasonably acceptable to Parent, and such financing shall have been funded on such terms; provided, however, that this condition shall be deemed satisfied if the financing shall not have been obtained or funded directly or primarily due to the nonconsummation of the "Green Springs Transactions" (as defined in the Commitment Letter);

(g) TERMINATION OF CERTAIN AGREEMENTS. Each of the agreements listed in Exhibit 7.02(g) shall have been terminated without cost or liability to the Company, Parent or Merger Sub, and shall be of no further force or legal effect;

(h) STOCKHOLDER SUPPORT AGREEMENTS. Each of the Company Stockholders shall be in compliance with the Stockholder Support Agreement as of the Closing;

(i) LOAN REPAYMENTS. The loans made by the Company to certain of its officers in connection with their purchase of Common Stock shall be repaid in full at the Effective Time either by delivery of funds or offset against the total Cash Consideration due such officers pursuant to this Agreement;

(j) GOVERNMENTAL ACTIONS. There shall not be any pending litigation or administrative proceeding brought by a Governmental Authority against Parent or the Company relative to the Merger that would reasonably likely result in a material adverse effect on the operations, business, financial conditions or results of operations of Parent and the Company and their respective Subsidiaries, taken as a whole; and

(k) RESIGNATIONS. Prior to the Effective Time, each member of the Board of Directors of the Company immediately prior to the Effective Time shall have executed letters of resignation which shall become effective as of the Effective Time.

ARTICLE VIII.
TERMINATION, AMENDMENT AND WAIVER

SECTION 8.01. TERMINATION. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Closing:

(a) by the mutual written consent of the Company and Parent;

(b) by either the Company or Parent, if any Governmental Authority with jurisdiction over such matters shall have issued a Governmental Order restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action shall have become final and unappealable; provided, however, that the provisions of this Section 8.01(b) shall not be available to any party unless such party shall have used best efforts (consistent with the terms hereof) to oppose any such Governmental Order or to have such Governmental Order vacated or made inapplicable to the transactions contemplated by this Agreement;

(c) by Parent, if the Closing shall not have occurred prior to the date five months after the date of this Agreement; provided, however, that Parent shall not have the right to terminate this Agreement under this Section 8.01(c) if Parent's failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur prior to the applicable date; or

(d) by the Company, if the Closing shall not have occurred prior to the date five months after the date of this Agreement; provided, however, that the Company shall not have the right to terminate this Agreement under this Section 8.01(d) if the Company's failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur prior to the applicable date.

SECTION 8.02. EFFECT OF TERMINATION. In the event of termination of this Agreement and abandonment of the Merger as provided in Section 8.01, this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto except (a) as set forth in Section 5.04 and Section 9.02 and (b) that nothing herein shall relieve either party from liability for any willful breach hereof.

SECTION 8.03. WAIVER. At any time prior to the Closing, either party hereto may (a) extend the time for the performance of any of the obligations or other acts of the other party hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, or (c) waive compliance with any of the agreements or conditions contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby.

ARTICLE IX.
GENERAL PROVISIONS

SECTION 9.01. NONSURVIVAL OF REPRESENTATIONS, WARRANTIES AND AGREEMENTS. None of the representations, warranties and agreements in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time, except for the agreements contained in Article II, Section 5.09, Section 5.10, Article VI and Article IX and any other agreement which contemplates performance after the Effective Time.

SECTION 9.02. EXPENSES. All costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

SECTION 9.03. NOTICES. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by courier service, by cable, by telecopy, by telegram, by telex or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 9.03):

(a) if to the Company:

Merit Behavioral Care Corporation
One Maynard Drive
Park Ridge, New Jersey 07656
Telecopier: (201) 391-2411
Attention: Chairman and Chief Executive Officer

with copies to:

Latham & Watkins
75 Willow Road
Menlo Park, California 94002
Telecopier: (650) 463-2600
Attention: Peter F. Kerman

(b) if to Parent or Merger Sub:

Magellan Health Services, Inc.
3414 Peachtree Road, N.E.
Suite 1400
Atlanta, Georgia 30326
Telecopier: (404) 814-2720
Attention: Chief Executive Officer and President

with a copy to:

Dow, Lohnes & Albertson, PLLC
One Ravinia Drive
Suite 1600
Atlanta, Georgia 30346
Telecopier: (770) 901-8800
Attention: J. Eric Dahlgren

SECTION 9.04. PUBLIC ANNOUNCEMENTS. Unless otherwise required by applicable Law or stock exchange requirements, no party to this Agreement shall make any public announcements in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other party (which consent shall not be unreasonably withheld). If a public statement is required to be made pursuant to the foregoing sentence, the parties shall consult with each other, to the extent reasonably practicable, in advance as to the contents and timing thereof.

SECTION 9.05. HEADINGS. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 9.06. SEVERABILITY. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of

the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

SECTION 9.07. ENTIRE AGREEMENT. This Agreement (including the Disclosure Schedule hereto) and the Confidentiality Agreement constitute the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and undertakings, both written and oral, among the Company, Parent and Merger Sub with respect to the subject matter hereof and except as otherwise expressly provided herein.

SECTION 9.08. ASSIGNMENT. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

SECTION 9.09. NO THIRD PARTY BENEFICIARIES. Except as specifically provided in Section 5.09 (and solely with respect to parties indemnified thereunder), this Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

SECTION 9.10. WAIVERS AND AMENDMENTS. This Agreement may be amended or modified, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties hereto or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any other right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies which any party may otherwise have at Law or in equity.

SECTION 9.11. SPECIFIC PERFORMANCE. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement required to be performed prior to the Closing was not performed in accordance with the terms hereof and that, prior to the Closing, the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at Law or in equity.

SECTION 9.12. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts executed in and to be performed in that State. All actions and proceedings arising out of or relating to this Agreement shall be heard and determined in a New York state or federal court sitting in the City of New York, and the parties hereto hereby irrevocable submit to the exclusive jurisdiction of such courts in any such action or proceeding and irrevocably waive the defense of an inconvenient forum to the maintenance of any such action or proceeding.

SECTION 9.13. COUNTERPARTS. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the Company, Parent and Merger Sub have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

MERIT BEHAVIORAL CARE CORPORATION
BY: ALBERT S. WAXMAN__________________
NAME: ALBERT S. WAXMAN________________
TITLE: CHAIRMAN & CEO_________________

MAGELLAN HEALTH SERVICES, INC.

BY: CRAIG MCKNIGHT____________________
NAME: CRAIG MCKNIGHT__________________
TITLE: EXECUTIVE VICE PRESIDENT &
CFO___________________________________

MBC MERGER CORPORATION

BY: CRAIG MCKNIGHT____________________
NAME: CRAIG MCKNIGHT__________________
TITLE: EXECUTIVE VICE PRESIDENT &
CFO___________________________________

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONDENSED BALANCE SHEETS AND CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOUND ON PAGES 1, 2, AND 3 OF THE COMPANY'S FORM 10-Q FOR THE YEAR-TO-DATE,
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS
SEP-30-1998
DEC-31-1997
170,459,000
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140,219,000
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