

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: June 30, 1997

Date of earliest event reported: June 17, 1997

MAGELLAN HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter).

Delaware

1-6639

58-1076737

(State of incorporation) (Commission File Number) (IRS Employer Identification No)

3414 Peachtree Road, N.E., Suite 1400, Atlanta, Georgia 30326

(Address of principal executive offices) (Zip Code)

(404) 841-9200

(Registrant's telephone number, including area code)

Item 2. Disposition of Assets

On January 30, 1997, the Registrant ("Company" or "Magellan") announced that it had entered into a series of transactions (the "Crescent Transactions") including an agreement to sell substantially all of its domestic hospital real estate and related personal property (the "Assets") to Crescent Real Estate Equities Limited Partnership ("Crescent") and CBHS (as hereinafter defined). The Crescent Transactions were approved by Magellan stockholders on May 30, 1997 and were consummated on June 17, 1997. The Crescent Transactions are more fully described in the Company's Proxy Statement filed on Schedule 14A on April 24, 1997, which is incorporated herein by reference. In addition, the Company's domestic portion of its provider business segment will be operated as a joint venture ("CBHS") that is initially owned equally by Magellan and Crescent Operating, Inc., an affiliate of Crescent ("COI"). The Company received \$417.2 million in cash (before costs estimated to be \$12.5 million), which includes \$17.2 million for hospitals acquired after January 30, 1997, and warrants in COI for the purchase of 2.5% of COI's common stock, exercisable over 12 years, as consideration for the Assets. In addition to the Assets, Crescent and COI each received 1,283,311 warrants (2,566,622 warrants in aggregate) to purchase Magellan Common Stock at \$30 per share, exercisable over 12 years.

In related agreements, (i) Crescent leased the real estate and related assets to CBHS for annual rent beginning at \$41.7 million, which includes \$1.7 million for hospitals acquired after January 30, 1997 that were sold to Crescent, with a 5% annual escalation clause, compounded annually, (the "Facilities Lease") and (ii) CBHS will pay Magellan approximately \$78 million in annual franchise fees, subject to increase, for the use of assets retained by Magellan and for support in certain areas. The franchise fees to be paid by CBHS to the Company are subordinated to the lease obligations in favor of Crescent. The assets retained by Magellan include, but are not limited to, the "CHARTER" name, intellectual property, protocols and procedures, clinical quality management, operating processes and the "1-800- CHARTER" telephone call center. Magellan will provide CBHS ongoing support in areas including advertising and marketing assistance, risk management services, outcomes monitoring, and consultation on matters relating to reimbursement, government relations, clinical strategies, regulatory matters, strategic planning and business development.

The Company intends to initially use the proceeds from the sale of the Assets to reduce its long-term debt, including borrowings under its Revolving Credit Agreement. Under the terms of its Senior Subordinated Notes (the "Notes") indentures, the Noteholders will have the right to put their Notes to the Company at 101% of face value. The Company intends to maintain adequate cash reserves and borrowing capacity to extinguish all the Notes, if necessary. The Noteholder's right to put the Notes will expire on July 21, 1997. The Company intends to use the remaining proceeds from the sale of the Assets, if any, after debt reductions, to pursue acquisitions in its managed care and public sector business segments, develop new products and increase managed care and public sector marketing efforts.

The Company will account for its 50% investment in CBHS under the equity method of accounting. The Company expects to record a loss before income taxes of approximately \$55 million to \$60 million as a result of these transactions, including, but not limited to, the write-off of certain hospital-based intangible assets, collection fees associated with accounts receivable, certain construction commitments and exit costs and the loss on the sale of the Assets.

Item 7. Financial Statements and Exhibits

Unaudited Pro Forma Consolidated Financial Information

The Unaudited Pro Forma Consolidated Financial Statements are based on the historical presentation of the consolidated financial statements of Magellan and the historical operating results and financial position of the divested operations and assets of CBHS. The Unaudited Pro Forma Consolidated Statements of Operations for the year ended September 30, 1996 and the six months ended March 31, 1997 give effect to the Crescent Transactions as if they had occurred on October 1, 1995. The Unaudited Pro Forma Consolidated Statement of Operations for the year ended September 30, 1996 also gives effect to the following transactions completed during fiscal 1996 as if such transactions had been completed on October 1, 1995: (i) the Green Spring Health Services, Inc. ("Green Spring") acquisition, (ii)

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the issuance of the Shares (as hereinafter defined), (iii) the Share Repurchase (as hereinafter defined) and (iv) the pre-closure operating results for the nine acute care psychiatric hospitals that were closed or sold during fiscal 1996. The Company acquired a 61% ownership interest in Green Spring in December 1995. The "Shares" represent the 4,000,000 shares issued to Rainwater-Magellan Holdings, L.P. on January 25, 1996. The "Share Repurchase" represents the Company's repurchase of approximately 3,962,000 shares of Common Stock on September 27, 1996. The Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 1997 gives effect to the Crescent Transactions as if they had occurred on March 31, 1997. The pro forma consolidated statements of operations and balance sheets do not effect for hospital acquisitions and closures during fiscal 1997 as such transactions and events are not considered material to the pro forma presentation.

On March 19, 1997, the Company announced that it had signed definitive

agreements to sell its three European Hospitals to Priory Hospitals Limited ("Priory") and enter into a franchise agreement with Priory for approximately \$76 million in aggregate consideration. On June 17, 1997, the Company announced that the sale of its two United Kingdom hospitals had been referred to the Monopolies and Mergers Commission ("MMC") by the Office of Fair Trade under the provisions of the Fair Trading Act. The MMC is required to make their report by September 15, 1997. The time period for receiving regulatory approval under the definitive agreements has expired and the Company has begun exploring other strategic alternatives related to its European hospitals. Accordingly, the sale of the European Hospitals has been excluded from the pro forma presentations.

The Crescent Transactions resulted in (i) the sale of substantially all of the Company's domestic provider real estate and related equipment (the "Purchased Facilities") for \$417.2 million (before costs estimated at \$12.5 million) and the COI warrants to acquire 2.5% of the outstanding common stock of COI, (ii) the creation of CBHS, which is 50% owned by the Company and engage in the behavioral healthcare provider business and (iii) the Company's entry into the healthcare franchising business. CBHS leased the Purchased Facilities from Crescent under a twelve-year operating lease (subject to renewal) for \$41.7 million annually, subject to adjustment, with a 5% escalator, compounded annually. Magellan issued 2,566,622 warrants to Crescent and COI (1,283,311 Warrants each) with an exercise price of \$30 per share. The Warrants issued to Crescent and COI have been valued at \$25 million in the Pro Forma Balance Sheet. The exercise price of the COI Warrants will be determined after 30 days of initial trading of COI common stock. The COI Warrants have been ascribed no value in the Pro Forma Balance Sheet as the COI Warrants have nominal fair value. The Company will account for its 50% investment in CBHS under the equity method of accounting, which will significantly reduce the revenues and related operating expenses presented in the Company's Statement of Operations. Divested Operations in the Pro Forma Statements of Operations represent the businesses that will be operated by CBHS after the closing. CBHS will include a significant portion of the business included in Magellan's provider business segment and a portion of Magellan's corporate overhead. A summary of Magellan's provider business operations for the year ended September 30, 1996 is as follows (000's):

| | Net Revenue | Earnings Before Interest, Income Taxes and Minority Interest | Depreciation and Amortization |
|-------------------------------------|-------------|--|----------------------------------|
| | ----- | ----- | ----- |
| CBHS | \$ 808,744 | \$ 103,536 | \$ 28,863 |
| Hospital-based joint ventures | 107,253 | 14,683 | 4,129 |
| European hospitals | 32,230 | 8,853 | 1,078 |
| General hospitals | 32,796 | (89) | 290 |
| Other | 56,916 | 1,289 | (580) |
| | ----- | ----- | ----- |
| | \$1,037,939 | \$ 128,272 | \$ 33,780 |
| | ===== | ===== | ===== |

The Company would have incurred a loss before income taxes, minority interest and extraordinary items of approximately \$59 million if the Crescent Transactions were consummated on March 31, 1997. The components of

the loss from the Crescent Transactions are more fully described in Note 21 to the Pro Forma Consolidated Financial Statements.

The Unaudited Pro Forma Consolidated Financial Statements are presented using two different assumptions. Under the terms of the Indenture, Noteholders may elect to have the Company repurchase their Notes at 101% of the face value of the Notes after the Closing. The Company mailed a notice to the Noteholders on June 19, 1997 which, among other things, stated the latest date which the holders of the Notes will have to tender their Notes to the Company (the "Notes Payment Date"). The Notes Payment Date is July 21, 1997. On the Notes Payment Date, the Company will be required to provide sufficient funds to the Trustee to

redeem all tendered Notes plus accrued interest to the Notes Payment Date. The Company will not hire any outside agents to assist in this process. Noteholder consent or approval of the Crescent Transactions was not required. Noteholders may elect to have the Company repurchase their Notes for various reasons including, but not limited to, concerns about the Company's prospects after the Crescent Transactions, liquidity of the Notes in the open market and prevailing bond and equity market conditions at the Notes Payment Date.

The first presentation assumes that no Noteholders elect to have their Notes repurchased and the net proceeds from the Crescent Transactions are deposited with no investment return after payment of indebtedness outstanding under the Company's Revolving Credit Agreement and industrial revenue bonds for certain of the Purchased Facilities. If the excess proceeds from the Crescent Transactions were assumed to be invested at Magellan's historic temporary cash investment rate of 5.4% for the year ended September 30, 1996 and 5.25% for the six months ended March 31, 1997, pro forma consolidated net income and net income per common share would be \$27.4 million and \$0.96, respectively, for the year ended September 30, 1996 and \$20.1 million and \$0.70, respectively, for the six months ended March 31, 1997.

The second presentation assumes that no Noteholders elect to have their Notes repurchased by the Company and no net proceeds from the Crescent Transactions are available for deposit. On January 29, 1997, the date preceding public announcement of the Crescent Transactions, the bid and asked prices of the Notes on the New York Stock Exchange were 110.75% and 111.25% of the face value of the Notes, respectively. On June 16, 1997, the bid and asked prices of the Notes on the New York Stock Exchange were 111.0% and 112.25% of the face value of the Notes, respectively.

The Unaudited Pro Forma Consolidated Financial Statements do not purport to be indicative of the results that actually would have been obtained if the operations had been conducted as presented and they are not necessarily indicative of operating results to be expected in future periods. The Company's hospital business 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 Franchise Fees are recognized ratably throughout the year for purposes of the Unaudited Pro Forma Consolidated Financial Statements. Accordingly, the Unaudited Pro Forma Statement of Operations for the six months ended March 31, 1997 are not necessarily indicative of the pro forma results expected for a full year. The Unaudited Pro Forma Consolidated Financial Statements and notes thereto should be read in conjunction with the historical consolidated financial statements and notes thereto of Magellan, which are incorporated herein by reference.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(Assumes No Noteholders Elect to Have Their Notes Repurchased)
(Unaudited)
For The Year Ended September 30, 1996
(in thousands, except per share amounts)

| | Magellan As Reported | Green Spring | Operations Closed or Sold In Fiscal 1996 | Pro Forma Adjustments | Pro Forma Combined | Divested Operations |
|-------------------|-------------------------|-----------------|--|-----------------------------|--------------------------|------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Revenue | \$ 1,345,279 | \$ 46,232 | \$ (32,718) | \$ 0 | \$ 1,358,793 | \$ (808,744) |
| | ----- | ----- | ----- | ----- | ----- | ----- |

| | | | | | | |
|---|-----------|----------|----------|-------------|-----------|-------------|
| Salaries, supplies and other operating expenses | 1,064,445 | 40,120 | (29,320) | 0 | 1,075,245 | (608,127) |
| Bad debt expense | 81,470 | 0 | (2,306) | 0 | 79,164 | (70,021) |
| Depreciation and amortization . | 48,924 | 1,693 | (1,193) | 381 (1) | 49,805 | (28,863) |
| Interest, net | 48,017 | (215) | 0 | 4,246 (2) | 52,048 | (4,852) |
| Stock option expense | 914 | 0 | 0 | 0 | 914 | 0 |
| Equity in loss of CBHS | 0 | 0 | 0 | 0 | 0 | 0 |
| Unusual items | 37,271 | 0 | 0 | 0 | 37,271 | (997) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 1,281,041 | 41,598 | (32,819) | 4,627 | 1,294,447 | (712,860) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Income before income taxes and minority interest | 64,238 | 4,634 | 101 | (4,627) | 64,346 | (95,884) |
| Provision for income taxes | 25,695 | 1,900 | 40 | (1,698) (3) | 25,937 | (38,354) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Income before minority interest | 38,543 | 2,734 | 61 | (2,929) | 38,409 | (57,530) |
| Minority interest | 6,160 | 0 | 0 | 1,016 | 7,176 | 0 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Net income | \$ 32,383 | \$ 2,734 | \$ 61 | \$ (3,945) | \$ 31,233 | \$ (57,530) |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Average number of common shares outstanding | 31,014 | | | (2,597) (5) | 28,417 | |
| | ===== | | | ===== | ===== | |
| Net income per common share ... | \$ 1.04 | | | | \$ 1.10 | |
| | ===== | | | | ===== | |

| | | |
|---|-----------------------------|------------------------------|
| | Pro Forma Adjustments | Pro Forma Consolidated |
| | ----- | ----- |
| Net Revenue | \$ 78,200 (6) | \$ 628,249 |
| | ----- | ----- |
| Salaries, supplies and other operating expenses | 3,360 | 470,478 |
| Bad debt expense | 0 | 9,143 |
| Depreciation and amortization . | (308) (8) | 20,634 |
| Interest, net | (10,474) (9) | 36,722 |
| Stock option expense | 0 | 914 |
| Equity in loss of CBHS | 7,659 (10) | 7,659 |
| Unusual items | 0 | 36,274 |
| | ----- | ----- |
| | 237 | 581,824 |
| | ----- | ----- |
| Income before income taxes and minority interest | 77,963 | 46,425 |
| Provision for income taxes | 31,185 (11) | 18,768 |
| | ----- | ----- |
| Income before minority interest | 46,778 | 27,657 |
| Minority interest | 0 | 7,176 |
| | ----- | ----- |
| Net income | \$ 46,778 | \$ 20,481 (9) |
| | ===== | ===== |
| Average number of common shares outstanding | | 28,417 |
| | | ===== |
| Net income per common share ... | | \$ 0.72 (9) |
| | | ===== |

See Notes to the Pro forma Consolidated Financial Statements (Unaudited)

For The Six Months Ended March 31, 1997
(in thousands, except per share amounts)

| | Magellan As Reported | Divested Operations | Pro Forma Adjustments | Pro Forma Consolidated |
|--|-------------------------|------------------------|--------------------------|---------------------------|
| Net Revenue | \$ 696,741 | \$ (382,606) | \$ 39,100 (6) | \$ 353,235 |
| Salaries, supplies and other operating expenses..... | 566,333 | (298,111) | 3,222 (7) | 271,444 |
| Bad debt expense..... | 35,375 | (32,599) | 0 | 2,776 |
| Depreciation and amortization..... | 26,187 | (14,406) | (131) (8) | 11,650 |
| Interest, net..... | 26,722 | (2,096) | (5,011) (9) | 19,615 |
| Stock option expense..... | 1,433 | 0 | 0 | 1,433 |
| Equity in loss of CBHS..... | 0 | 0 | 11,475 (10) | 11,475 |
| Unusual items..... | 1,395 | (2,500) | 0 | (1,105) |
| | 657,445 | (349,712) | 9,555 | 317,288 |
| Income before income taxes and minority interest..... | 39,296 | (32,894) | 29,545 | 35,947 |
| Provision for income taxes..... | 15,718 | (13,158) | 11,818 (11) | 14,378 |
| Income before minority interest.... | 23,578 | (19,736) | 17,727 | 21,569 |
| Minority interest..... | 4,545 | 0 | 0 | 4,545 |
| Net income..... | \$ 19,033 | \$ (19,736) | \$ 17,727 | \$ 17,024 (9) |
| Average number of common shares outstanding..... | 28,657 | | | 28,657 |
| Net income per common share..... | \$ 0.66 | | \$ 0.59 (9) | |

See Notes to the Pro forma Consolidated Financial Statements(Unaudited)

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(Assumes All Noteholders Elect to Have Their Notes Repurchased)
(Unaudited)
For The Year Ended September 30, 1996
(in thousands, except per share amounts)

| | Magellan As Reported | Green Spring | Operations Closed or Sold In Fiscal 1996 | Pro Forma Adjustments | Pro Forma Combined |
|--|-------------------------|-----------------|--|--------------------------|--------------------------|
| Net revenue..... | \$ 1,345,279 | \$ 46,232 | \$ (32,718) | \$ 0 | \$ 1,358,793 |
| Salaries, supplies and other operating expenses..... | 1,064,445 | 40,120 | (29,320) | 0 | 1,075,245 |
| Bad debt expense..... | 81,470 | 0 | (2,306) | 0 | 79,164 |
| Depreciation and amortization.... | 48,924 | 1,693 | (1,193) | 381 (1) | 49,805 |
| Interest, net..... | 48,017 | (215) | 0 | 4,246 (2) | 52,048 |
| Stock option expense..... | 914 | 0 | 0 | 0 | 914 |
| Equity in loss of CBHS..... | 0 | 0 | 0 | 0 | 0 |
| Unusual items..... | 37,271 | 0 | 0 | 0 | 37,271 |
| | 1,281,041 | 41,598 | (32,819) | 4,627 | 1,294,447 |
| Income before income taxes and minority interest..... | 64,238 | 4,634 | 101 | (4,627) | 64,346 |
| Provision for income taxes..... | 25,695 | 1,900 | 40 | (1,698) (3) | 25,937 |

| | | | | | |
|--|------------------------|--------------------------|---------------------------|-------------|-----------|
| Income before minority interest.. | 38,543 | 2,734 | 61 | (2,929) | 38,409 |
| Minority interest..... | 6,160 | 0 | 0 | 1,016 (4) | 7,176 |
| | ----- | ----- | ----- | ----- | ----- |
| Net income..... | \$ 32,383 | \$ 2,734 | \$ 61 | \$ (3,945) | \$ 31,233 |
| | ===== | ===== | ===== | ===== | ===== |
| Average number of common shares outstanding..... | 31,014 | | | (2,597) (5) | 28,417 |
| | ===== | | | ===== | ===== |
| Net income per common share..... | \$ 1.04 | | | | \$ 1.10 |
| | ===== | | | | ===== |
| | Divested Operations | Pro Forma Adjustments | Pro Forma Consolidated | | |
| | ----- | ----- | ----- | | |
| Net revenue..... | \$ (808,744) | \$ 78,200 (6) | \$ 628,249 | | |
| | ----- | ----- | ----- | | |
| Salaries, supplies and other operating expenses..... | (608,127) | 3,360 (7) | 470,478 | | |
| Bad debt expense..... | (70,021) | 0 | 9,143 | | |
| Depreciation and amortization... | (28,863) | (308) (8) | 20,634 | | |
| Interest, net..... | (4,852) | (37,010) (9) | 10,186 | | |
| Stock option expense..... | 0 | 0 | 914 | | |
| Equity in loss of CBHS..... | 0 | 7,659 (10) | 7,659 | | |
| Unusual items..... | (997) | 0 | 36,274 | | |
| | ----- | ----- | ----- | | |
| | (712,860) | (26,299) | 555,288 | | |
| | ----- | ----- | ----- | | |
| Income before income taxes and minority interest..... | (95,884) | 104,499 | 72,961 | | |
| Provision for income taxes..... | (38,354) | 41,800 (11) | 29,383 | | |
| | ----- | ----- | ----- | | |
| Income before minority interest.. | (57,530) | 62,699 | 43,578 | | |
| Minority interest..... | 0 | 0 | 7,176 | | |
| | ----- | ----- | ----- | | |
| Net income..... | \$ (57,530) | \$ 62,699 | \$ 36,402 | | |
| | ===== | ===== | ===== | | |
| Average number of common shares outstanding..... | | | 28,417 | | |
| | | | ===== | | |
| Net income per common share..... | | | \$ 1.28 | | |
| | | | ===== | | |

See Notes to the Pro Forma Consolidated Financial Statements(Unaudited)

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(Assumes All Noteholders Elect to Have Their Notes Repurchased)
(Unaudited)
For The Six Months Ended March 31, 1997
(in thousands, except per share amounts)

| | Magellan As Reported | Divested Operations | Pro Forma Adjustments | Pro Forma Consolidated |
|--|-------------------------|------------------------|--------------------------|---------------------------|
| Net revenue..... | \$ 696,741 | \$ (382,606) | \$ 39,100 (6) | \$ 353,235 |
| Salaries, supplies and other operating expenses..... | 566,333 | (298,111) | 3,222 (7) | 271,444 |
| Bad debt expense..... | 35,375 | (32,599) | 0 | 2,776 |
| Depreciation and amortization... | 26,187 | (14,406) | (131) (8) | 11,650 |
| Interest, net..... | 26,722 | (2,096) | (18,677) (9) | 5,949 |
| Stock option expense..... | 1,433 | 0 | 0 | 1,433 |
| Equity in loss of CBHS..... | 0 | 0 | 11,475 (10) | 11,475 |
| Unusual items..... | 1,395 | (2,500) | 0 | (1,105) |
| | 657,445 | (349,712) | (4,111) | 303,622 |
| Income before income taxes and minority interest..... | 39,296 | (32,894) | 43,211 | 49,613 |
| Provision for income taxes..... | 15,718 | (13,158) | 17,285 (11) | 19,845 |
| Income before minority interest. | 23,578 | (19,736) | 25,926 | 29,768 |
| Minority interest..... | 4,545 | 0 | 0 | 4,545 |
| Net income..... | \$ 19,033 | \$ (19,736) | \$ 25,926 | \$ 25,223 |
| Average number of common shares outstanding..... | 28,657 | | | 28,657 |
| Net income per common share..... | \$ 0.66 | | | \$ 0.88 |

See Notes to the Pro forma Consolidated Financial Statements(Unaudited)

PRO FORMA CONSOLIDATED BALANCE SHEET
(Assumes All Noteholders Elect to Have Their Notes Repurchased)
(Unaudited)
March 31, 1997
(In thousands)

ASSETS

| Magellan as Reported | Pro Forma Adjustments | Pro Forma Consolidated |
|-------------------------|--------------------------|---------------------------|
| ----- | ----- | ----- |

| | | | |
|--|--------------|-----------------|------------|
| Current Assets: | | | |
| Cash and cash equivalents..... | \$ 114,245 | \$ 375,000 (18) | \$ 113,937 |
| | | 12,500 (18) | |
| | | 12,500 (18) | |
| | | 7,683 (18) | |
| | | (12,475) (18) | |
| | | (10,000) (18) | |
| | | (381,766) (18) | |
| | | (3,750) (18) | |
| Accounts receivable, net..... | 192,394 | (19,660) (12) | 172,734 |
| Supplies..... | 4,465 | (2,944) (13) | 1,521 |
| Other..... | 25,299 | (4,396) (13) | 20,903 |
| | ----- | ----- | ----- |
| Total Current Assets..... | 336,403 | (27,308) | 309,095 |
| Assets Restricted for Settlement of Unpaid | | | |
| Claims and Other Long-Term Liabilities.. | 96,402 | 0 | 96,402 |
| Property and Equipment: | | | |
| Land..... | 82,705 | (70,091) (14) | 12,614 |
| Buildings and improvements..... | 393,814 | (325,229) (14) | 68,585 |
| Equipment..... | 154,831 | (100,099) (14) | 54,732 |
| | ----- | ----- | ----- |
| | 631,350 | (495,419) | 135,931 |
| Accumulated depreciation..... | (143,724) | 111,894 (14) | (31,830) |
| | ----- | ----- | ----- |
| | 487,626 | (383,525) | 104,101 |
| Construction in progress..... | 3,735 | (2,049) (14) | 1,686 |
| | ----- | ----- | ----- |
| | 491,361 | (385,574) | 105,787 |
| Other long-term assets..... | 32,126 | (343) (13) | 31,783 |
| Deferred income tax assets..... | 0 | 13,265 (19) | 13,265 |
| Investment in/Advances to CBHS..... | 0 | 15,493 (15) | 15,493 |
| Goodwill, net..... | 125,329 | (13,768) (16) | 111,561 |
| Other intangible assets, net..... | 40,766 | (9,943) (16) | 30,823 |
| | ----- | ----- | ----- |
| | \$ 1,122,387 | \$ (408,178) | \$ 714,209 |
| | ===== | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | |
|---|--------------|----------------|------------|
| Current Liabilities: | | | |
| Accounts payable..... | \$ 69,920 | \$ 0 | \$ 69,920 |
| Accrued liabilities..... | 165,358 | (12,333) (17) | 153,025 |
| Current maturities of long-term debt and capital lease obligations..... | 5,845 | (2,003) (18) | 3,842 |
| | ----- | ----- | ----- |
| Total Current Liabilities..... | 241,123 | (14,336) | 226,787 |
| Long-term debt and capital lease obligations... | 580,536 | (360,708) (18) | 219,828 |
| Deferred income tax liabilities..... | 15,295 | (15,295) (19) | 0 |
| Reserve for unpaid claims..... | 62,316 | 0 | 62,316 |
| Deferred credits and other long-term liabilities | 24,211 | 0 | 24,211 |
| Minority interest..... | 56,698 | 0 | 56,698 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock..... | 8,307 | 0 | 8,307 |
| Additional paid-in capital..... | 332,905 | 0 | 332,905 |
| Accumulated deficit..... | (113,374) | (42,839) (21) | (156,213) |
| Warrants outstanding..... | 50 | 25,000 (20) | 25,050 |
| Common stock in treasury..... | (82,731) | 0 | (82,731) |
| Cumulative foreign currency adjustments. | (2,949) | 0 | (2,949) |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 142,208 | (17,839) | 124,369 |
| | ----- | ----- | ----- |
| | \$ 1,122,387 | \$ (408,178) | \$ 714,209 |
| | ===== | ===== | ===== |

See Notes to the Pro Forma Consolidated Financial Statements(Unaudited)

PRO FORMA CONSOLIDATED BALANCE SHEET
(Assumes No Noteholders Elect to Have Their Notes Repurchased)
(Unaudited)
March 31, 1997
(In thousands)

ASSETS

| | Magellan as Reported | Pro Forma Adjustments | Pro Forma Consolidated |
|--|-------------------------|--------------------------|---------------------------|
| | ----- | ----- | ----- |
| Current Assets: | | | |
| Cash and cash equivalents..... | \$ 114,245 | \$ 375,000 (18) | \$ 312,140 |
| | | 12,500 (18) | |
| | | 12,500 (18) | |
| | | 7,683 (18) | |
| | | (12,475) (18) | |
| | | (10,000) (18) | |
| | | (187,313) (18) | |
| Accounts receivable, net..... | 192,394 | (19,660) (12) | 172,734 |
| Supplies..... | 4,465 | (2,944) (13) | 1,521 |
| Other..... | 25,299 | (4,396) (13) | 20,903 |
| | ----- | ----- | ----- |
| Total Current Assets..... | 336,403 | 170,895 | 507,298 |
| Assets Restricted for Settlement of Unpaid Claims and Other Long-Term Liabilities.. | 96,402 | 0 | 96,402 |
| Property and Equipment: | | | |
| Land..... | 82,705 | (70,091) (14) | 12,614 |
| Buildings and improvements..... | 393,814 | (325,229) (14) | 68,585 |
| Equipment..... | 154,831 | (100,099) (14) | 54,732 |
| | ----- | ----- | ----- |
| | 631,350 | (495,419) | 135,931 |
| Accumulated depreciation..... | (143,724) | 111,894 (14) | (31,830) |
| | ----- | ----- | ----- |
| | 487,626 | (383,525) | 104,101 |
| Construction in progress..... | 3,735 | (2,049) (14) | 1,686 |
| | ----- | ----- | ----- |
| | 491,361 | (385,574) | 105,787 |
| Other long-term assets..... | 32,126 | (343) (13) | 31,783 |
| Deferred income tax assets..... | 0 | 8,210 (19) | 8,210 |
| Investment in/Advances to CBHS..... | 0 | 15,493 (15) | 15,493 |
| Goodwill, net..... | 125,329 | (13,768) (16) | 111,561 |
| Other intangible assets, net..... | 40,766 | (1,056) (16) | 39,710 |
| | ----- | ----- | ----- |
| | \$ 1,122,387 | \$ (206,143) | \$ 916,244 |
| | ===== | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | |
|--|--------------|----------------|------------|
| Current Liabilities: | | | |
| Accounts payable..... | \$ 69,920 | \$ 0 | \$ 69,920 |
| Accrued liabilities..... | 165,358 | 7,120 (17) | 172,478 |
| Current maturities of long-term debt and capital lease obligations..... | 5,845 | (2,003) (18) | 3,842 |
| | ----- | ----- | ----- |
| Total Current Liabilities..... | 241,123 | 5,117 | 246,240 |
| Long-term debt and capital lease obligations... | 580,536 | (185,708) (18) | 394,828 |
| Deferred income tax liabilities..... | 15,295 | (15,295) (19) | 0 |
| Reserve for unpaid claims..... | 62,316 | 0 | 62,316 |
| Deferred credits and other long-term liabilities | 24,211 | 0 | 24,211 |
| Minority interest..... | 56,698 | 0 | 56,698 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock..... | 8,307 | 0 | 8,307 |
| Additional paid-in capital..... | 332,905 | 0 | 332,905 |
| Accumulated deficit..... | (113,374) | (35,257) (21) | (148,631) |
| Warrants outstanding..... | 50 | 25,000 (20) | 25,050 |
| Common stock in treasury..... | (82,731) | 0 | (82,731) |
| Cumulative foreign currency adjustments. | (2,949) | 0 | (2,949) |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 142,208 | (10,257) | 131,951 |
| | ----- | ----- | ----- |
| | \$ 1,122,387 | \$ (206,143) | \$ 916,244 |
| | ===== | ===== | ===== |

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Notes (1) through (5) relate to the effect of the Green Spring Acquisition, the issuance of the Shares and the Share Repurchase as if such transactions occurred on October 1, 1995.

- (1) The pro forma adjustments to amortization expense represent an increase to amortization expense in conjunction with the 61% acquisition of Green Spring.
- (2) The pro forma adjustments to interest expense, net, represent the interest expense incurred and the interest income forgone by Magellan as a result of the Green Spring Acquisition and the Share Repurchase, net of reductions in interest expense as a result of the issuance of the Shares. Historic interest rates used for borrowings and temporary cash investments were approximately 7.6% and 5.4%, respectively.
- (3) The pro forma adjustments to income taxes represent the tax effect of the pro forma adjustment to interest expense at Magellan's historic effective tax rate of 40%.
- (4) The pro forma adjustments to minority interest represent the 39% minority interest in Green Spring and GPA as a result of the Green Spring Acquisition.
- (5) The pro forma adjustments to average number of common shares outstanding give effect to the issuance of shares in the Green Spring Acquisition and the issuance of the Shares, offset by the Share Repurchase.
- (6) The pro forma adjustments to net revenue represent Franchise Fees paid to Magellan by CBHS pursuant to the Master Franchise Agreement. As part of the Crescent Transactions, CBHS will lease the Purchased Facilities from Crescent under the Facilities Lease. The annual base rent under the Facilities Lease begins at \$40 million for pro forma purposes and escalates 5% per year, compounded annually. The Subordination Agreement provides that the Franchise Fees are subordinated in payment to the \$40 million annual base rent, 5% escalator rent and the additional rent under the Facilities Lease due Crescent, in certain circumstances. The Company will be entitled to pursue all available remedies for breach of the Master Franchise Agreement, except that the Company does not have the right to take any action that could reasonably be expected to force CBHS into bankruptcy or receivership. If CBHS encounters a decline in earnings or financial difficulties, such amounts due Crescent will be paid before any Franchise Fees are paid. After the Crescent Transactions, the Company will receive from CBHS initial Franchise Fees of approximately \$78 million, subject to increase. The Company will provide CBHS with an array of services, including advertising and marketing assistance, risk management services, outcomes monitoring, consultation with respect to matters relating to CBHS' business in which the Company has expertise and the Company's operation of a telephone call center utilizing the "1- 800-CHARTER" telephone number.
- (7) The pro forma adjustments to salaries, supplies and other operating expenses represent fees payable to CBHS of \$10.6 million and \$5.2 million for the year ended September 30, 1996 and the six months ended March 31, 1997, respectively, for the management of hospital-based businesses controlled by Magellan that are less than wholly-owned by Magellan, net of reductions in corporate overhead of \$7.2 million and \$2.0 million for the year ended September 30, 1996 and the six months

ended March 31, 1997, respectively, related to the transfer of existing personnel and functions between Magellan and CBHS. The Company and CBHS expect to incur incremental corporate overhead of approximately \$1 million annually as a result of the Crescent Transactions. Magellan personnel transferred to CBHS and incremental corporate overhead will occur primarily in the human resource, legal and finance and accounting functions.

- (8) The pro forma adjustments to depreciation and amortization represent the amortization expense related to other intangible assets that would become impaired as a result of the Crescent Transactions. The impaired other intangible assets have a remaining net book value of approximately \$105,000 at March 31, 1997, which are included in the impairment losses referred to in Note (16).

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- (9) The pro forma adjustments to interest expense, net, assuming all of the Notes are repurchased, represent the reduction in interest expense for the assumed repurchase of the Notes at 101% of the aggregate principal amount pursuant to the provisions of the Indenture, offset by additional borrowings under the new credit agreement required to fund the assumed repurchase of the Notes. The pro forma adjustment to interest expense, net, assuming the Notes are not repurchased, represents reductions in interest expense as a result of paying off the outstanding borrowings under the Revolving Credit Agreement (historic and pro forma) with no assumed investment of the excess proceeds from the Crescent Transactions. If the excess proceeds from the Crescent Transactions were assumed to be invested at Magellan's historic temporary cash investment rate of 5.4% for the year ended September 30, 1996 and 5.25% for the six months ended March 31, 1997, pro forma consolidated net income and net income per common share would be \$27.4 million and \$0.96 million, respectively, for the year ended September 30, 1996 and \$20.1 million and \$0.70, respectively, for the six months ended March 31, 1997.

- (10) The pro forma adjustments to equity in loss of CBHS represent Magellan's percentage interest (50%) in CBHS' pro forma loss for the year ended September 30, 1996 and the six months ended March 31, 1997. Magellan's investment in CBHS will be accounted for under the equity method of accounting. The timing and terms of a 10% equity interest grant to CBHS management will be addressed by the governing board of CBHS at a later date. The Company anticipates that the granting of a 10% equity interest to CBHS management will result in equally shared dilution of ownership interest between Magellan and COI and that the grant will be at an exercise price at least equal to the fair value of the underlying equity at the date of grant, which will not result in compensation expense under the provisions of APB Opinion 25. Magellan's ownership interest in CBHS is reflected at its initial ownership percentage of 50% for the purposes of computing pro forma equity in loss of CBHS. The Condensed Pro Forma Statements of Operations and Balance Sheet of CBHS are as follows (000's).

| STATEMENTS OF OPERATIONS: | For the Year Ended September 30, 1996 | | |
|---|---------------------------------------|--------------------------|---------------------------|
| | Divested Operations | Pro Forma Adjustments | Pro Forma Consolidated |
| Net revenue..... | \$ 808,744 | \$ 10,615 (i) | \$ 819,359 |
| Salaries, supplies and other operating expenses..... | 608,127 | 149,512 (ii) | 757,639 |
| Bad debt expense..... | 70,021 | -- | 70,021 |
| Depreciation and amortization..... | 28,863 | (26,444) (iii) | 2,419 |
| Interest, net..... | 4,852 | (1,252) (iv) | 3,600 |
| Unusual items..... | 997 | -- | 997 |

| | | | |
|--|-----------|--------------|-------------|
| | 712,860 | 121,816 | 834,676 |
| Income (loss) before income taxes..... | 95,884 | (111,201) | (15,317) |
| Provision for income taxes..... | 38,354 | (38,354) (v) | -- |
| Net income (loss)..... | \$ 57,530 | \$ (72,847) | \$ (15,317) |

For the Six Months Ended
March 31, 1997

| STATEMENTS OF OPERATIONS: | Divested Operations | Pro Forma Adjustments | Pro Forma Consolidated |
|---|------------------------|--------------------------|---------------------------|
| Net revenue..... | \$ 382,606 | \$ 5,186 (i) | \$ 387,792 |
| Salaries, supplies and other operating expenses..... | 298,111 | 73,093 (ii) | 371,204 |
| Bad debt expense..... | 32,599 | -- | 32,599 |
| Depreciation and amortization..... | 14,406 | (12,367) (iii) | 2,039 |
| Interest, net..... | 2,096 | 304 (iv) | 2,400 |
| Unusual items..... | 2,500 | -- | 2,500 |
| | 349,712 | 61,030 | 410,742 |
| Income (loss) before income taxes..... | 32,894 | (55,844) | (22,950) |
| Provision for income taxes..... | 13,158 | (13,158) (v) | -- |
| Net income (loss)..... | \$ 19,736 | \$ (42,686) | \$ (22,950) |

(i) Fees from Magellan for the management of hospital-based businesses controlled by Magellan that are less than wholly-owned by

(ii) The pro forma adjustments to salaries, supplies and other operating expenses are as follows (000's):

| | Year Ended September 30, 1996 | Six Months Ended March 31, 1997 |
|---|----------------------------------|---------------------------------------|
| Franchise Fees (See Note 6)..... | \$ 78,200 | \$ 39,100 |
| Rent Expense under the Facilities Lease..... | 63,057 | 31,529 |
| Additional Corporate Overhead (See Note 7)... | 8,255 | 2,464 |
| | \$ 149,512 | \$ 73,093 |

(iii) The pro forma adjustment to depreciation and amortization represents

the decrease in depreciation expense as a result of the sale of property and equipment to Crescent by Magellan and the elimination of amortization expense related to impaired intangible assets (See Note 16).

- (iv) The pro forma adjustment to interest, net, is computed as follows (000's):

| | Year Ended September 30, 1996 | Six Months Ended March 31, 1997 |
|-------------------------------------|----------------------------------|---------------------------------------|
| | ----- | ----- |
| Interest expense on serviced IRBs | \$ (4,852) | \$ (2,096) |
| Interest expense for new borrowings | 3,600 | 2,400 |
| | ----- | ----- |
| | \$ (1,252) | \$ 304 |
| | ===== | ===== |
| Average borrowings | \$ 45,000 | 60,000 |
| Borrowing rate | 8.0% | 8.0% |
| | ----- | ----- |
| Annual Interest | \$ 3,600 | \$ 4,800 |
| | ===== | ===== |
| Semi-Annual Interest | | \$ 2,400 |
| | | ===== |

- (v) CBHS will be formed as a limited liability company. Accordingly, no tax benefit is presented as the tax consequences will pass through to Magellan and COI.

| BALANCE SHEET | March 31, 1997 |
|---|----------------|
| - - - - - | - - - - - |
| Current assets..... | \$ 9,657 |
| Property and equipment, net..... | 18,418 |
| Other long-term assets..... | 343 |
| | ----- |
| Total assets..... | \$ 28,418 |
| | ===== |
| Accrued liabilities..... | \$ 6,984 |
| Capital lease obligation..... | 53 |
| Note payable - Magellan..... | 10,000 |
| | ----- |
| Total current liabilities..... | 17,037 |
| Capital lease obligation..... | 888 |
| Member capital..... | 10,493 |
| | ----- |
| Total liabilities and member capital..... | \$ 28,418 |
| | ===== |

- (11) The pro forma adjustments to provision for income taxes represent the tax expense related to the pro forma adjustments at the Company's historic effective tax rate of 40%.
- (12) The pro forma adjustments to accounts receivable, net, represent the reduction in the net realizable value of accounts receivable for estimated collection fees on hospital-based receivables of \$125.2 million for the divested operations pursuant to a contractual obligation with CBHS, whereby CBHS will receive a fee equal to 5% of collections for the first 120 days after the Closing (\$4.4 million) and estimated bad debt agency fees of 40% for receivables collected subsequent to 120 days after the Closing (\$15.3 million).
- (13) The pro forma adjustments to supplies, other current assets and other long-term assets represent the sale of such assets to CBHS at their recorded amounts.
- (14) The pro forma adjustments to land, buildings and improvements, equipment, accumulated depreciation and construction in progress

represent the basis of real and personal property sold to Crescent and contributed and sold by Magellan to CBHS. A summary of these transactions is as follows (000's):

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| | |
|--|------------|
| Sales price..... | \$ 400,000 |
| Less: transaction costs..... | (12,475) |
| Warrant valuation..... | (25,000) |
| | ----- |
| Transaction consideration, net..... | 362,525 |
| Net book value of Property and Equipment sold to Crescent and CBHS.. | 372,156 |
| | ----- |
| Loss on sale of Property and Equipment to Crescent..... | \$ (9,631) |
| | ===== |
| Net book value of Property and Equipment contributed to CBHS..... | \$ 13,418 |
| | ===== |
| Total net book value of Property and Equipment sold and contributed. | \$ 385,574 |
| | ===== |

- (15) The pro forma adjustments to Investment in/Advances to CBHS represent Magellan's capital contribution for its 50% ownership and voting interest in CBHS in the form of contributed net assets and advances to CBHS for working capital purposes. Magellan will provide a guarantee under certain circumstances, not to exceed \$65 million, for a CBHS bank line of credit secured by CBHS' receivables. CBHS consummated a senior secured credit facility at closing with a group of commercial banks of up to \$100 million pursuant to a 5-year revolving credit facility. Each of the Company and COI will make a commitment to loan CBHS up to \$17.5 million each, for a period of five years. The Company will have the right to require CBHS to draw down a portion of its loan commitment, which will be funded equally by the Company and COI, and will be used in the manner directed by the Company. The fair value of the net assets contributed to CBHS by Magellan is approximately \$5.5 million and the pro forma advance to CBHS by Magellan is approximately \$10.0 million.
- (16) The pro forma adjustments to goodwill and other intangible assets represent impairment losses related primarily to hospital-based goodwill and other intangible assets as a result of the Crescent Transactions, including the write-off of approximately \$8.9 million in unamortized deferred financing costs if the Notes are repurchased. The Company is disposing of a significant portion of its provider business segment. The impairment loss results from reducing the book value of the Company's investment in CBHS to its approximate fair value. The impairment losses represent the carrying amount of goodwill and other intangible assets related to the divested or contributed operations.
- (17) The pro forma adjustments to accrued liabilities represent the accrual of \$5.0 million of exit costs and the remaining obligation to construct the Philadelphia Purchased Facility of \$9.6 million, less the payment of accrued interest for debt serviced as a result of the Crescent Transactions of \$20.0 million if the Notes are repurchased and \$0.5 million if the Notes are not repurchased, and \$7.0 million of accrued vacation liabilities assumed by CBHS. The Company is exiting the domestic provider business as a result of the Crescent Transactions. The type and amount of exit costs accrued are as follows (000's):

Incremental staffing, consulting and related costs to prepare and coordinate

| | |
|---|----------|
| audits of terminating Medicare cost reports for divested businesses..... | \$ 2,000 |
| Incremental staffing and related costs to perform accounting functions related to retained hospital-based assets and liabilities..... | 2,000 |
| Incremental staffing and related costs to prepare and file final income tax, property tax, sales and use tax and other tax returns for divested businesses.. | 1,000 |
| | ----- |
| | \$ 5,000 |
| | ===== |

The Company is constructing a hospital in Philadelphia to replace its existing Philadelphia hospital. The Company has incurred \$1.4 million in construction costs through March 31, 1997 and is committed to incur up to \$11.0 million in total construction costs as part of the Crescent Purchase Agreement.

- (18) The pro forma adjustments to cash and cash equivalents, current maturities of long-term debt and capital lease obligations ("CLOs") and long-term debt and CLOs represent inflows and outflows of cash and the changes in the Company's debt structure as a result of the Crescent Transactions. A summary of the pro forma adjustments to cash and cash equivalents is as follows (000's):

| | No Notes Repurchased ----- | All Notes Repurchased ----- |
|--|----------------------------------|-----------------------------------|
| Sale of Property and Equipment | \$ 375,000 | \$ 375,000 |
| Issuance of warrants to Crescent | 12,500 | 12,500 |
| Issuance of warrants to COI | 12,500 | 12,500 |
| Sale of supplies and other assets | 7,683 | 7,683 |
| Transaction costs | (12,475) | (12,475) |
| Advance to CBHS | (10,000) | (10,000) |
| Debt and accrued interest payments | (187,313) | (381,766) |
| Premium on Notes | -- | (3,750) |
| | ----- | ----- |
| | \$ 197,895 | \$ (308) |
| | ===== | ===== |

A summary of the Company's pro forma combined debt structure before the Crescent Transactions and after the Crescent Transactions is as follows (000's):

| | Pro Forma Combined Before the Crescent Transactions ----- | Pro Forma After the Crescent Transactions (1) ----- | Pro Forma After the Crescent Transactions (2) ----- |
|---|--|---|---|
| Revolving credit agreement..... | \$ 121,000 | \$ 200,000 | \$ -- |
| 11.25% Senior Subordinated Notes..... | 375,000 | -- | 375,000 |
| Other long-term debt and CLOs..... | 84,536 | 19,828 | 19,828 |
| | ----- | ----- | ----- |
| Subtotal | \$ 580,536 | \$ 219,828 | \$ 394,828 |
| | ----- | ----- | ----- |
| Current maturities of long-term debt and CLOs..... | \$ 5,845 | \$ 3,842 | \$ 3,842 |
| | ===== | ===== | ===== |

- (1) Assumes all Noteholders elect to have their Notes repurchased.
(2) Assumes no Noteholders elect to have their Notes repurchased.

- (19) The pro forma adjustments to deferred income tax assets and liabilities

represent the tax consequences related to (i) accounts receivable collection fees, (ii) loss on the sale of real and personal property to Crescent, (iii) impairment losses related to intangible assets, (iv) exit costs and related commitments and (v) the premium required to service the Notes if the Notes are repurchased at the Company's historic effective tax rate of 40%.

- (20) The pro forma adjustments to warrants outstanding represent the fair value of the 2,566,622 Warrants issued to Crescent and COI having an exercise price of \$30 per share. The Company will receive \$12.5 million each from Crescent and COI as consideration for the Warrants. The fair value of the warrants was determined using the Black-Scholes method of valuation. The Warrants will be exercisable by Crescent and COI at the following times and in the following amounts:

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| Date First Exercisable June 17 | Number of Shares of Common Stock Issuable Upon Exercise of Warrants | End of Exercise Period June 17 |
|--------------------------------------|---|---|
| ----- | ----- | ----- |
| 1998 | 30,000 | 2001 |
| 1999 | 62,325 | 2002 |
| 2000 | 97,114 | 2003 |
| 2001 | 134,513 | 2004 |
| 2002 | 174,678 | 2005 |
| 2003 | 217,770 | 2006 |
| 2004 | 263,961 | 2007 |
| 2005 | 313,433 | 2008 |
| 2006 | 366,376 | 2009 |
| 2007 | 422,961 | 2009 |
| 2008 | 483,491 | 2009 |

- (21) The pro forma adjustments to accumulated deficit represent the net loss related to (i) estimated accounts receivable collection fees, (ii) loss on the sale of real and personal property to Crescent, (iii) impairment losses related to intangible assets, (iv) exit costs and related commitments and (v) the premium required to service the Notes, if the Notes are repurchased. The pre-tax loss and after-tax loss are summarized as follows (000's):

| | Pre-tax Loss | After-tax Loss | Note Reference |
|--|-----------------|-------------------|-------------------|
| ----- | ----- | ----- | ----- |
| Accounts receivable collection fees | \$ 19,660 | \$ 11,796 | (12) |
| Impairment losses on intangible assets | 14,824 | 8,894 | (16) |
| Exit costs and construction obligation | 14,647 | 8,788 | (17) |
| Loss on the sale of property and equipment | 9,631 | 5,779 | (14) |
| ----- | ----- | ----- | |
| | \$ 58,762 | \$ 35,257 | |
| ===== | ===== | ===== | |

The extraordinary loss on the early extinguishment of debt would be approximately \$7.6 million, net of tax, if all the Notes are repurchased. The Closing of the Crescent Transactions will result in accelerated vesting for options to purchase 1,210,375 shares of Common Stock under the 1996 Stock Option Plan. The accelerated vesting of options under the 1996 Stock Option Plan is triggered by the Closing of the Crescent Transactions. The Company believes the Crescent Transactions meet the definition of a "sale...of all or substantially all" of the Company's assets included in the 1996 Stock Option Plan, which is supported by relevant Delaware case law.

Exhibits

- 2(a) Real Estate Purchase and Sale Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership, which was filed as Exhibit 2(a) to the Company's current report on Form 8-K filed on April 23, 1997, and is incorporated herein by reference.
- 2(b) Amendment No. 1, dated February 28, 1997, to the Real Estate Purchase and Sale Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership, which was filed as Exhibit 2(b) to the Company's current report on Form 8-K filed on April 23, 1997, and is incorporated herein by reference.
- 2(c) Amendment No. 2, dated May 29, 1997, to the Real Estate Purchase and Sale Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership.
- 2(d) Contribution Agreement, dated June 16, 1997 between the Company and Crescent Operating, Inc.

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- 4(a) Warrant Purchase Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership which was filed as Exhibit 4(a) to the Company's current report on Form 8-K, which was filed on April 23, 1997, and is incorporated herein by reference.
- 4(b) Amendment No. 1, dated June 17, 1997, to the Warrant Purchase Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership.
- 99(a) Press release, dated June 17, 1997.
- 99(b) Master Lease Agreement, dated June 16, 1997, between Crescent Real Estate Funding VII, L.P., as Landlord, and Charter Behavioral Health Systems, LLC, as Tenant.
- 99(c) Master Franchise Agreement, dated June 17, 1997, between the Company and Charter Behavioral Health Systems, LLC.
- 99(d) Form of Franchise Agreement, dated June 17, 1997, between the Company, as Franchisor, and Franchise Owners.
- 99(e) Subordination Agreement, dated June 16, 1997, between the Company, Charter Behavioral Health Systems, LLC and Crescent Real Estate Equities Limited Partnership.
- 99(f) Operating Agreement of Charter Behavioral Health Systems, LLC, dated June 16, 1997, between the Company and Crescent Operating, Inc.
- 99(g) Warrant Purchase Agreement, dated June 16, 1997, between the Company and Crescent Operating, Inc.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 30, 1997

Magellan Health Services, Inc.

By: /s/ Craig L. McKnight

Executive Vice President and
Chief Financial Officer

SECOND AMENDMENT TO
REAL ESTATE PURCHASE AND SALE AGREEMENT

THIS SECOND AMENDMENT TO REAL ESTATE PURCHASE AND SALE AGREEMENT (this "Second Amendment") is made as of the 29th day of May, 1997, by and between MAGELLAN HEALTH SERVICES, INC., a Delaware corporation ("Magellan" or the "Seller"), and CRESCENT REAL ESTATE EQUITIES LIMITED PARTNERSHIP, a Delaware limited partnership (the "Purchaser").

R E C I T A L S

A. The parties entered into that certain Real Estate Purchase and Sale Agreement dated as of January 29, 1997 (the "Agreement") and amended as of February 28, 1997 (the "First Amendment"). Capitalized terms used but not defined herein have the meanings ascribed to them in the Agreement and First Amendment.

B. The parties desire to enter into this Second Amendment to evidence their agreement to certain changes to the Agreement, as hereinafter set forth.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, the parties hereby agree as follows:

Exhibit B, as attached to the Agreement, is hereby amended to delete from entry number five hundred and fifty-eight (558) the Laurel Brook/Charter Laurel Heights Behavioral Health Systems, Inc. Facility located at 3920 North Peachford Road, Atlanta, Georgia, 30341. Pursuant to this Second Amendment, such Facility shall no longer be a part of Exhibit B or entry number 558 contained therein.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered this 29th day of May, 1997.

MAGELLAN HEALTH SERVICES, INC.,
a Delaware Corporation

By:\s\ Linton C. Newlin

Title: Vice President and Secretary

CRESCENT REAL ESTATE EQUITIES
LIMITED PARTNERSHIP, a Delaware
limited partnership

Equities,

By: Crescent Real Estate
Ltd., A Delaware
corporation, its sole general
partner

By: \s\ David M. Dean

Title: Senior Vice President, Law

CONTRIBUTION AGREEMENT

This CONTRIBUTION AGREEMENT, dated as of June 16, 1997 (the "Agreement"), is entered into by and among Magellan Health Services, Inc., a Delaware corporation ("Magellan"), Crescent Operating, Inc., a Delaware corporation ("Crescent"), and Charter Behavioral Health Systems, LLC, formed under the laws of the State of Delaware ("Charter LLC").

WHEREAS, Magellan and Crescent Real Estate Equities Limited Partnership, a Delaware limited partnership ("CREELP"), have entered into a Real Estate Purchase and Sale Agreement dated January 29, 1997, as amended by the First Amendment to Real Estate Purchase and Sale Agreement dated as of February 28, 1997 and as further amended ("Real Estate Purchase and Sale Agreement"), pursuant to which Magellan has agreed to cause certain of its subsidiaries listed on Exhibit A to the Real Estate Purchase and Sale Agreement to sell to CREELP or an affiliate of CREELP ("Crescent Affiliate"), and CREELP has agreed to purchase, or to cause Crescent Affiliate to purchase, from those subsidiaries, certain of the real property, related improvements, furniture, equipment and fixtures owned by those subsidiaries (the "Facilities") and used in the operation of Magellan's acute care psychiatric hospitals;

WHEREAS, Magellan and Crescent desire to operate and maintain Charter LLC to (i) operate the Facilities and certain leased facilities (together, the "Hospitals"); and (ii) engage in the business of hospital-based behavioral healthcare using Charter LLC as the operating entity;

WHEREAS, it is a condition to the consummation of the Real Estate Purchase and Sale Agreement and the other Transaction Documents (as defined in the Real Estate Purchase and Sale Agreement) that Magellan cause its subsidiaries listed on Exhibit A to this Agreement (each a "Magellan Subsidiary" and together the "Magellan Subsidiaries") to contribute certain assets to Charter LLC, and that Crescent contribute certain assets to Charter LLC, in exchange for all of the interests in Charter LLC (the "Contribution");

WHEREAS, upon closing of the transactions contemplated by this Agreement and the Real Estate Purchase and Sale Agreement, (i) Charter LLC and Magellan, through its wholly owned subsidiary Charter Franchise Services, LLC ("CFS," collectively with Magellan, "Franchisor"), will enter into a Franchise Agreement, dated the date hereof (the "Franchise Agreement") and will cause each Charter LLC Subsidiary (as hereafter defined) to enter into a Franchise Agreement dated the date hereof (the "Subsidiary Franchise Agreement" and, collectively with the Master Franchise Agreement, the "Franchise Agreement"), (ii) Charter Behavioral Health Systems, Inc. ("Charter Inc.") and Crescent will enter into that certain Operating Agreement of Charter LLC dated the date hereof (the "Charter LLC Agreement"), and (iii) Magellan, Crescent Affiliate, CFS and Charter LLC will enter into a Subordination Agreement dated the date hereof (the "Subordination Agreement");

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A G R E E M E N T:

In consideration of the mutual covenants contained in this Agreement the parties agree as follows:

SECTION 1.

DEFINITIONS

1.1 Definitions. As used in this Agreement, the following terms shall have the following meanings unless the context otherwise requires:

"Business" shall mean the business of the operation of an acute care psychiatric hospital, part of an acute care general hospital operating an acute

care psychiatric unit, a behavioral healthcare residential treatment center, a part of a facility operating a behavioral healthcare residential treatment center, or other similar facility providing 24-hour behavioral healthcare, and the delivery of behavioral healthcare from such facility and other affiliated facilities; such behavioral healthcare to include inpatient hospitalization, partial hospitalization programs, outpatient therapy, intensive outpatient therapy, ambulatory detoxification, behavioral modification programs and related services.

"Contribution Date" shall mean the moment in time immediately prior to the Closing Date.

1.2 Other Defined Terms. Capitalized terms not otherwise defined in this Agreement shall have the meanings given them in the Real Estate Purchase and Sale Agreement.

SECTION 2.

CONTRIBUTION

2.1 Contribution of Assets Relating to the Hospitals by Magellan. On the Contribution Date, on the terms and subject to the conditions set forth in this Agreement, and in consideration for a 50% interest in Charter LLC, Magellan will cause the relevant Magellan Subsidiary to (either directly or through Magellan) contribute or assign to Charter LLC or a relevant, wholly owned subsidiary of Charter LLC (a "Charter LLC Subsidiary") all of such Magellan Subsidiary's right, title and interest in the following assets (the "Contributed Assets") related to the Hospitals:

- (a) All patient medical records;
- (b) All licenses and permits used in the operation of the Hospitals, to the extent that such licenses and permits are transferable;
- (c) All of the leasehold interests held by any Magellan Subsidiary as lessee, in real or personal property including, but not limited to the leasehold interests in those Hospitals set forth on Schedule 2.1(c);
- (d) All of the furniture, fixtures equipment and leasehold improvements owned by Magellan or a Magellan Subsidiary and located at a Hospital set forth on Schedule 2.1(c) or any other leased premises included in Section 2.1(c);
- (e) All contracts with physicians and other healthcare professionals;
- (f) All operating, service, maintenance and loaned employee contracts;
- (g) All payor contracts including but not limited to contracts with employers, health maintenance organizations, preferred provider organizations, managed care companies, and insurance companies but excluding all national and regional contracts with vendors and payors, the benefits of which will be provided to Charter LLC by Franchisor pursuant to the Franchise Agreement;
- (h) The employment contract between Magellan and John M. DeStefanis;
- (i) The stock of Charter Medical Executive Corporation ("CMEC"); and
- (j) Employment files and records.

2.2 Excluded Assets. Magellan and Crescent expressly understand and agree that neither Magellan nor any Magellan Subsidiary is conveying or contributing to Charter LLC or any Charter LLC Subsidiary pursuant to Section 2.1 any of the following assets, rights or properties or any assets which are not used in the conduct of the business of the Hospitals (the "Excluded Assets"):

- (a) Supplies and inventory relating to the Hospitals;

- (b) Notes receivable relating to the Hospitals;
- (c) Prepaid assets relating to the Hospitals;
- (d) Prepaid expenses relating to the Hospitals;
- (e) Lease deposits paid by either Magellan or any Magellan Subsidiary as tenant in any lease relating to the Hospitals;
- (f) Utility deposits relating to the Hospitals;
- (g) Cash held in escrow accounts relating to the Hospitals;

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(h) The capital stock of any subsidiary of Magellan (other than CMEC) or Magellan's interest in any joint venture including but not limited to the joint ventures set forth on Schedule 2.2(h) (except as provided in Section 3.1);

(i) Corporate seals, minute books, stock ledgers or other books and records pertaining to the organization, issuance of stock and capitalization of the Magellan Subsidiaries;

(j) All rights, properties, and assets used by Magellan primarily in a business other than the Business and not reasonably necessary for the operation of the Business;

(k) All rights, properties, and assets that shall have been transferred or disposed of by Magellan or any of its subsidiaries prior to the date of this Agreement or prior to Closing in the ordinary course of business;

(l) Trademarks, trade names (including the "Charter" name), corporate names and logos owned by Magellan and any of its subsidiaries;

(m) All real estate, furniture, fixtures and equipment to be transferred to Crescent under the Real Estate Purchase and Sale Agreement;

(n) Any deferred tax asset of a Magellan Subsidiary at the Closing Date;

(o) The Charter System (as defined in the Franchise Agreement) including but not limited to all treatment protocols, written or unwritten, and future improvements and modifications, whether made by CFS, Magellan, a Magellan subsidiary, Charter LLC or a Charter LLC Franchisee as defined in the Franchise Agreement;

(p) Policy and procedure manuals, written or unwritten, and future improvements and modifications to such manuals, whether made by CFS, Magellan, a Magellan subsidiary, Charter LLC or an Charter LLC Subsidiary;

(q) All cash, cash equivalents, short-term investments, marketable securities, and accounts receivable of Magellan and each Magellan Subsidiary;

(r) Patient related software systems;

(s) TRIMS system;

(t) Purchasing/ordering systems;

(u) Accounting systems;

(v) Call center system;

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(w) Intellectual property rights;

(x) Tax refunds, cost report adjustments and settlements relating to periods prior to the Closing Date and liabilities or assets related to depreciation recapture relating to periods prior to the Closing Date;

(y) Disproportionate Share Payments; and

(z) Assets (including business records) required in order to provide the services to be provided by Franchisor pursuant to the Franchise Agreement.

2.3 Assumed Obligations. Magellan and Crescent expressly understand and agree that all of the debts, obligations, duties and liabilities, liquidated or unliquidated, contingent or fixed, relating to or arising out of the operation of the Hospitals and the business of Charter LLC after the Closing (as well as those in subsections (c) and (d) below) but excluding each and every liability and obligation for which Magellan has agreed to indemnify Charter LLC pursuant to Section 8 of this Agreement (the "Assumed Obligations") shall be assumed by Charter LLC as of the Contribution Date regardless of whether such liabilities are accrued on the books of Magellan or a Magellan Subsidiary, (or Charter LLC shall otherwise be responsible for such debts, liabilities, duties and liabilities), including, without limitation, the following:

(a) All such liabilities and obligations relating to the Contributed Assets;

(b) All such liabilities and obligations relating to the Purchased Assets (as hereafter defined);

(c) All liabilities and obligations relating to paid days off and accrued vacation arising prior to the Contribution Date;

(d) All liabilities and obligations relating to sick days arising prior to the Contribution Date;

(e) All such liabilities and obligations (excluding any payment obligations) arising from the Consent Decrees and Settlements listed on Schedule 6.1(p) to the Real Estate Purchase and Sale Agreement;

(f) All such liabilities and obligations arising from Charter LLC's participation in the contracts excluded from Section 2.1(g); and

(g) All such liabilities and obligations related to software sublicensed to Charter LLC pursuant to the Franchise Agreement which are licensed from third parties.

2.4 Excluded Liabilities. Any and all liabilities of Magellan or a Magellan Subsidiary arising prior to the Closing, except as set forth in Section 2.3(c) and (d) (the "Excluded Liabilities"), shall not be assumed by Charter LLC and shall remain the liabilities and

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obligations of Magellan or the relevant Magellan Subsidiary except to the extent covered by insurance, subject to Section 8.1. Without limiting the effect of the foregoing, the term "Excluded Liabilities" includes the following liabilities which arose or were incurred prior to the Closing:

(a) Any liability or obligation in respect of any federal, state, local, foreign or other tax, levy, assessment or other governmental charge, including, without limitation, income, business, occupation, franchise, property, payroll, personal property, sales, transfer, employment, occupancy, franchise or withholding taxes, and any premium, including, without limitation, interest, penalties and additions in connection therewith;

(b) Any liability (to the extent not covered by insurance) arising from any injury to or death of any person or damage to or destruction of any property, whether based on negligence, breach of warranty, strict liability, enterprise liability or any other legal or equitable theory, arising from the ownership or operation of the Hospitals or the services performed by Magellan or any of its subsidiaries prior to the Closing;

(c) The charges and taxes which Magellan has agreed to pay pursuant to Section 9.1 of this Agreement;

(d) Adjustments or refunds of payments required by Medicare, Medicaid or any other payor as a result of payments prior to the Contribution Date; and

(e) Fines or penalties assessed and arising out of activities occurring prior to the Contribution Date.

2.5 Contribution of Cash by Crescent. On the Contribution Date, on the terms and subject to the conditions set forth in this Agreement and in consideration for a 50% interest in Charter LLC, Crescent shall contribute to Charter LLC cash in the amount of \$5.0 million (the "Crescent Contribution"), which is equal to the purchase price of the Purchased Assets (as defined below).

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SECTION 3.

PURCHASE OF CERTAIN ASSETS BY CHARTER LLC

3.1 Asset Purchase. On the Closing Date, Charter LLC shall (a) purchase from Charter Medical Information Systems ("CMIS") the assets of CMIS listed on the computer printout (the "CMIS Assets") delivered by Magellan to Crescent on the date hereof, which computer printout is separately bound and (b) shall purchase from certain Magellan subsidiaries their respective interest in Alliance for Behavioral Health ("Alliance," together with the CMIS Assets, the "Purchased Assets").

3.2 Purchase of Working Capital. On the Closing Date, Charter LLC shall purchase (with payment to be made within two business days of purchase) from the Magellan Subsidiaries the following assets (the "Working Capital Assets") relating to or used in the Hospitals and as the same exist on the Closing Date:

(a) Supplies and inventory relating to the Hospitals;

(b) Notes receivable relating to the Hospitals;

(c) Prepaid assets relating to the Hospitals;

(d) Prepaid expenses relating to the Hospitals;

(e) Lease deposits paid by either Magellan or any Magellan Subsidiary as tenant in any lease relating to the Hospitals; and

(f) Utility deposits relating to the Hospitals.

3.3 Purchase Price. The aggregate purchase price for the Purchased Assets is \$5.0 million, and for the Working Capital Assets is \$8.0 million (in the aggregate, the "Purchase Price"). On the Closing Date, Charter LLC shall pay to Magellan or its designated subsidiary cash equal to \$5.0 million, with payment for the Working Capital Assets to be made at the Closing or within two business days of the Closing Date.

3.4 Post-Closing Adjustment. Within sixty (60) days after the Closing Date, Magellan shall deliver to Charter LLC a statement (the "Statement") setting forth the net book value of the Working Capital Assets as of the Closing Date, together with appropriate supporting information. The net book value of the Working Capital Assets shall be calculated from the books and records of Magellan, in accordance with past practice. Charter LLC shall have thirty (30) days to deliver to Magellan any objections ("Objections") it has to the Statement. If Charter LLC does not submit any such Objections, the Statement shall become final. If Charter LLC does deliver any Objections, Magellan and Charter LLC shall negotiate in good faith to resolve the Objections as promptly as practical. In the event Magellan and Charter LLC are unable to resolve the Objections within thirty (30) days after such Objections are delivered to Magellan,

the matter shall be referred to Arthur Andersen LLP for final resolution of the Objections, which resolution shall be binding upon the parties. Arthur Andersen LLP shall resolve the Objections as promptly as practical, but in any event within forty-five (45) days. If at any time the Objections to the Statement are resolved in any manner set forth above, the Statement shall become final (the "Final Statement"). If the Final Statement shows that the amount of Working Capital Assets as of the Closing Date are less than \$8.0 million (the difference, the "Shortfall"), Magellan shall promptly pay Charter LLC the amount of the Shortfall. If the Final Statement shows that the Working Capital Assets as of the Closing Date are greater than \$8.0 million (the "Surplus"), Charter LLC shall promptly pay Magellan the amount of the Surplus.

SECTION 4.

CONSIDERATION AND CLOSING

4.1 Amount and Form of Consideration. On the Closing Date (i) in consideration of the transfer and contribution of the Contributed Assets to Charter LLC, Charter LLC shall deliver to the Magellan Subsidiaries fifty percent (50%) (when aggregated with the membership interest held by Magellan affiliates) of the issued and outstanding capital equity interests in Charter LLC (the "Magellan Interest"), and (ii) in consideration of Crescent's transfer and contribution of the Crescent Contribution to Charter LLC, Charter LLC shall deliver to Crescent fifty percent (50%) of the issued and outstanding capital equity interests in Charter LLC (the "Crescent Interest").

4.2 The Closing.

(a) The Contribution shall occur on the date, at the time and place, and subject to the conditions set forth in the Real Estate Purchase and Sale Agreement and herein.

(b) On the Closing Date, Magellan, CFS, Crescent, Charter LLC and each Charter LLC Subsidiary (as applicable) shall execute and deliver the following documents:

- (i) the Charter LLC Agreement;
- (ii) the Franchise Agreement;
- (iii) the Warrant Agreement;
- (iv) the Warrant Agreements dated the date of this Agreement between Magellan and Crescent Operating (the "COI Warrant Agreements").
- (v) subject to obtaining any required consent, assignments of the contracts and leases included in the Contributed Assets, the Purchased Assets and the Working Capital Assets; and

(vi) such other instruments and documents, in form and substance reasonably acceptable to Magellan and Crescent, as may be necessary to effect the closing of the transactions contemplated by this Agreement or to evidence the Contribution.

(c) On the Closing Date, Magellan shall execute and deliver to Charter LLC the following:

- (i) Assignments, bills of sale or other documents or instruments of transfer to transfer to Charter LLC all tangible and intangible personal property included in the Contributed Assets, the Purchased Assets and the Working Capital Assets (which documents shall

include a general warranty to title of such assets except for those assets which are leased, purchased on an installment basis or encumbered by an Assumed Obligation);

(ii) Such instruments of assumption and other instruments or documents as may be necessary to effect Charter LLC's assumption of the Assumed Obligations; and

(iii) Such other instruments or documents as may be necessary to effect the closing of the transactions contemplated by this Agreement.

(d) At the closing, Crescent shall deliver by wire transfer, to an account number designated by Charter LLC, the Crescent Contribution in immediately available funds.

SECTION 5.

REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties of Magellan. Magellan represents and warrants to Charter LLC, as of the date hereof as follows:

(a) Organization and Power. Magellan and the Magellan Subsidiaries are corporations or limited liability companies duly organized, validly existing and in good standing under the laws of their respective states of incorporation or formation, with power and authority to conduct the businesses in which they are engaged, to lease and own the properties leased or owned by them and to enter into and perform their obligations under this Agreement. Each of Magellan and the Magellan Subsidiaries is qualified to do business and is in good standing as a foreign corporation or limited liability company in each jurisdiction where each of them is required to be so qualified, except where the failure to so qualify would not have a material adverse effect on a Hospital or on the business of the Hospitals taken as whole.

(b) Authorization. The execution and delivery of this Agreement by Magellan and the Magellan Subsidiaries, the performance by Magellan and the Magellan Subsidiaries of all obligations under this Agreement and the sale and delivery of the Contributed Assets, the Purchased Assets and the Working Capital Assets have been duly authorized by all necessary

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corporate action on the part of Magellan and the Magellan Subsidiaries. This Agreement has been duly executed and delivered by Magellan and the Magellan Subsidiaries and constitutes the legal, valid and binding obligation of each of them, enforceable against each of Magellan and the Magellan Subsidiaries in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting creditor's rights generally.

(c) No Violation. The execution and delivery of this Agreement by Magellan and the Magellan Subsidiaries, and the consummation by Magellan and the Magellan Subsidiaries of the transactions contemplated in this Agreement will not conflict with or result in the breach or violation of any of the terms or conditions of, or constitute (or with notice or lapse of time or both would constitute) a default under, (i) any organizational documents of Magellan or any Magellan Subsidiary, (ii) except as set forth on Schedule 5.1(c), any material instrument, contract or other agreement to which Magellan or any Magellan Subsidiary is a party or by which Magellan or any Magellan Subsidiary is bound, (iii) any material provision of law, statute, rule or regulation of any court or governmental authority to which Magellan or any Magellan Subsidiary is subject (assuming applicable approvals and consents in Schedule 5.1(d) are obtained), or (iv) except as set forth on Schedule 5.1(c), any judgment, decree, franchise, order, license or permit applicable to Magellan or any Magellan Subsidiary, except where such conflict, breach, violation or default would not have a material adverse effect on a Hospital or on the business of the Hospitals taken as a whole.

(d) Consents. Except as set forth in Schedule 5.1(d), no material

consent, approval, license or authorization of any third party, governmental agency, commission, board or public authority is required in connection with the execution, delivery and performance of this Agreement by Magellan or any Magellan Subsidiary.

(e) Insurance. A complete and accurate schedule of all insurance policies (including a statement of policy limits and deductibles) held by Magellan and the Magellan Subsidiaries relating to the Hospitals or the Business now in force, including, without limitation, malpractice, public liability, property damage and workers compensation or other coverage, has been made available to Crescent. All insurance policies remain in full force and effect except where such failure to remain in full force and effect will not have a material adverse effect on a Hospital or on the business of the Hospitals taken as a whole.

(f) Litigation. Except as set forth in Schedule 5.1(f), there are no lawsuits, proceedings, actions, arbitrations, claims or governmental investigations, inquiries or proceedings pending or, to the knowledge of Magellan, threatened, against Magellan or any Magellan Subsidiary seeking damages for an amount in excess of \$1 million, and there is no action, suit or proceeding by any person or agency pending or, to the knowledge of Magellan, threatened which questions the legality or validity of the transactions contemplated hereby.

(g) Licenses, Accreditation and Third-Party Payors. Magellan and the Magellan Subsidiaries hold all licenses, permits, registrations, approvals, certificates, contracts, consents, accreditations, approvals and franchises ("Licenses and Permits") necessary to own or lease the Contributed Assets and to conduct and operate the Hospitals in the manner presently operated

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and for participation in the Medicare and Medicaid reimbursement programs, including, without limitation, all licenses, certificates of need and permits required by the state in which they operate and by all other appropriate health care facility licensing agencies, federal, state, county or local governmental authorities and regulatory agencies, except where the failure to hold such Licenses and Permits would not have a material adverse effect on a Hospital or on the business of the Hospitals taken as a whole.

(h) The Business. Upon transfer to Charter LLC of the Contributed Assets, the Purchased Assets and the Working Capital Assets, and consummation of the transactions contemplated by the other Transactional Documents, (i) Charter LLC will have or, through the Franchise Agreement or the Administrative Services Agreement dated the date of this Agreement between Magellan and Charter LLC, will have access to all tangible and intangible assets and all personnel reasonably necessary to conduct a business that is substantially the same as and that operates in accordance with the same standards of operation as the business of the Hospitals prior to the Closing, and (ii) Charter LLC will have the means to provide the services specified in Section 7.9.

(i) Contracts. Schedule 5.1(i) contains a listing of all contracts or series of related contracts which are material to the business of the Hospitals, taken as a whole ("Material Contracts"), including all amendments, modifications and side letters thereto, currently in existence. With respect to each Material Contract, neither Magellan nor any Magellan Subsidiary has received a notice of termination, has sent a notice of termination, is in default, or has any knowledge that any other party to such Material Contracts is in default thereunder.

(j) No Other Owned Hospitals. Except as described on Schedule 5.1(j), no Magellan Subsidiary owns or operates any Hospital other than the Hospitals operated using the assets which are being contributed or sold pursuant to this Agreement.

(k) Financial Statements. All books and records relating to operating income and expenses of the Hospitals made available to CREELP or Crescent by Magellan were and shall be those maintained by Magellan in regard to the Hospitals in the normal course of business. The audited Financial Statements as of and for the year ended September 30, 1996 (the "1996 Financial Statements") furnished by Magellan to CREELP as a part of Magellan's Deliveries (as defined

in the Real Estate Purchase and Sale Agreement) have been prepared from the books and records of Magellan in the ordinary course of business and present fairly in all material respects the results of operations of Magellan for the periods then ended and the financial condition of Magellan as of the date of the 1996 Financial Statements.

(l) No Material Adverse Change. Since the date of Magellan's 1996 Financial Statements, there has been no material adverse change in the business or results of operations of Magellan and the Magellan Subsidiaries taken as a whole or the business of the Hospitals taken as a whole.

(m) SEC Reports. The periodic reports filed by Magellan with the Securities and Exchange Commission with respect to Magellan's immediately preceding fiscal year and any

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interim periods in its current fiscal year did not as of their respective dates contain any untrue statements of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(n) Compliance With Laws. Magellan has delivered to Crescent or CREELP its Proxy Statement to Shareholders for its 1997 Annual Meeting of Shareholders held on May 30, 1997, at which, among other matters, shareholders of Magellan approved the transactions which are the subject of the Transaction Documents. Except as described in the Proxy Statement, or in documents filed with the Securities and Exchange Commission pursuant to applicable law, Magellan is not aware of any material risk that Magellan is, in the conduct of the Business prior to the closing of the transactions contemplated by the Transaction Documents or that Charter LLC will be, in the conduct of the Business after the closing of the transactions contemplated by the Transaction Documents, in violation of any applicable federal law specifically designed to regulate the healthcare industry, which violation will have a material adverse effect on Magellan or Charter LLC.

5.2 Representations and Warranties of Crescent. Crescent hereby represents and warrants to Charter LLC as follows:

(a) Authorizations, etc. The execution and delivery of this Agreement by Crescent and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Crescent. This Agreement has been duly executed and delivered by Crescent and constitutes the valid and binding obligation of Crescent, enforceable against Crescent in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws of affecting creditor's rights generally.

(b) No Violation. Neither the execution and delivery of this Agreement, nor the consummation by Crescent of the transactions contemplated hereby will conflict with or result in the breach or violation of any of the terms or conditions of, or constitute (or with notice or lapse of time or both would constitute) a default under, (i) organizational documents of Crescent, (ii) any material instrument, contract or other agreement to which Crescent is a party or by which Crescent is bound, (iii) any material provision of law, statute, rule or regulation of any court or governmental authority to which Crescent is subject, including any provision relating to the status of Crescent Real Estate Equities Company ("CEI") as a real estate investment trust for federal income tax purposes, or (iv) any judgment, decree, franchise, order, license or permit applicable to Crescent, except where such conflict, breach, violation or default would not have a material adverse effect on Crescent.

(c) Consents. Except as set forth in Schedule 5.2(c), no material consent, approval, license or authorization of any third party, governmental agency, commission, board or public authority is required in connection with the execution, delivery and performance of this Agreement by Crescent.

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(d) SEC Reports. The Registration Statement on Form S-1 (File No. 333-25223) of Crescent, as declared effective by the Securities and Exchange Commission on June 12, 1997, did not at such time contain any untrue statements of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

SECTION 6.

CONDITIONS TO CLOSING

6.1 Pre-Closing Conditions. The consummation of the transactions contemplated by this Agreement by each party is subject to satisfaction of the following conditions, as applicable:

(a) Satisfaction of all of the conditions to closing set forth in the Real Estate Purchase and Sale Agreement;

(b) Execution of the Franchise Agreement;

(c) Execution of the Charter LLC Agreement;

(d) Execution of the Warrant Agreement and the COI Warrant Agreements;
and

(e) The truth and accuracy in all material respects of the representations and warranties made herein and compliance in all material respects with all covenants and the delivery by each party of an officer's certificate so stating.

6.2 Failure of Conditions. If any condition described in subsections (a) - (f) of Section 6.1 is not satisfied by the Closing Date, Crescent shall have the right to terminate this Agreement by giving written notice of such action to Magellan and Magellan shall have the right to terminate by giving written notice to Crescent. Upon delivery of any such termination notice, this Agreement shall terminate, and all rights and obligations of the parties hereunder shall be released and discharged, except that Magellan, on the one hand, and Crescent, on the other hand, shall each remain liable to the other for all damages suffered by the other if the unsatisfied condition was due to a breach by one party of any of the covenants, obligations, representations or warranties of such party in this Agreement or any other failure by such party to use its commercially reasonable best efforts to satisfy conditions precedent to Closing that are within the control of such party to satisfy.

SECTION 7.

COVENANTS AND AGREEMENTS

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Magellan covenants and agrees, and will cause each Magellan Subsidiary to covenant and agree, and, as applicable, Crescent and Charter LLC covenant and agree as follows:

7.1 Unlisted Assets. To the extent that, subsequent to Closing, an asset or right that is used in the conduct of the business of the Hospitals prior to Closing and that was not listed as a Contributed Asset, Purchased Asset, Working Capital Asset or an Excluded Asset is discovered to exist, either such asset or right shall be conveyed to Charter LLC without charge or Charter LLC shall receive the benefits of ownership of such asset through the Franchise Agreement at no additional charge (except to the extent that the asset results in an increase in franchise fees due to the gross revenue component of the franchise fees);

7.2 Assignment or Transfer of Contributed Assets. To the extent that any of the Contributed Assets cannot be assigned or otherwise transferred to

Charter LLC, Magellan will use its commercially reasonable best efforts to create an alternative structure that will provide Charter LLC with substantially the same rights, and produce substantially the same economic effect, as that which would have been provided or produced if the Contributed Assets had been transferred or assigned.

7.3 Parties' Commercially Reasonable Best Efforts. Magellan and Crescent agree to use their commercially reasonable best efforts to cause all their covenants and agreements and all conditions precedent to the consummation of the Transactions contemplated by this Agreement to be performed, satisfied and fulfilled.

7.4 Insurance Reserves. Magellan will cause Plymouth Insurance Company Ltd. ("Plymouth") to maintain reserves in amounts that are reasonably actuarially adequate to cover risks insured by Plymouth associated with the operation of the business of the Hospitals.

7.5 Accounts Receivable. Charter LLC shall pay to Magellan all amounts actually received by Charter LLC in payment of receivables relating to the business of the Hospitals, which receivables were existing as of (or accrued prior to) the Closing Date, in exchange for a fee payable to Charter LLC by Magellan equal to 5% of receivables collected by Charter LLC and received by Charter LLC or Magellan. The receivables will be collected in accordance with the procedures (including the level of effort to be expended) established by Charter Inc. prior to the Closing Date and disclosed to Charter LLC in writing on or before the Closing Date. Any receivables remaining uncollected 120 days or more after the Closing Date will be turned over to Magellan at its request and Charter LLC shall have no further obligations as to such receivables but will continue collection efforts for all receivables not so delivered to Magellan.

7.6 Brokers. Each party represents and warrants to the other that it has not engaged, dealt with or otherwise discussed this Agreement or the Transactions with any broker, agent or finder.

7.7 Specific Performance. The parties acknowledge and agree that their respective rights and obligations that will arise out of this Agreement are unique and irreplaceable, and that the failure of either party to perform its obligations under this Agreement or any of the

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Transaction Documents would result in damage to the other party that could not be adequately compensated by a monetary award. Subject to Section 8.4 of the Real Estate Purchase and Sale Agreement but notwithstanding anything else to the contrary, the parties therefore agree that if either party fails to perform its obligations hereunder or with respect to any of the Transaction Documents, the other party may, in addition to all other remedies, seek an order of specific performance from a court of appropriate jurisdiction.

7.8 Third Party Consents; Further Assurances.

(a) If any party shall fail to obtain any third party consent necessary, proper or advisable to effect the consummation of the Contribution, the purchase of the Purchased Assets or the purchase of the Working Capital Assets, such party shall use all commercially reasonable best efforts, and shall take any such actions reasonably requested by the other parties hereto, to minimize any adverse effect upon Charter LLC's business resulting, or that could reasonably be expected to result after the date hereof, from the failure to obtain such consent.

(b) In addition to the actions, contracts and other agreements and documents and other papers specifically required to be taken or delivered pursuant to this Agreement, each of the parties hereto shall execute such contracts and other agreements and documents and take such further actions as may be reasonably required or desirable to carry out the provisions of this Agreement.

7.9 Services Agreements. Prior to closing, Magellan, in its capacity as a joint venturer, will or will cause any Magellan Subsidiary which is a joint venturer in any Joint Venture that owns or operates a domestic Hospital, which Joint Ventures are set forth on Schedule 7.9 and defined in the Franchise

Agreement as "Existing Joint Ventures" (a "Joint Venture"), to enter into a services agreement with Charter LLC for each such Hospital owned or operated by a Joint Venture, pursuant to which Charter LLC will perform, to the extent agreed by joint venture partners, all of Magellan's obligations under the Joint Venture agreement in exchange for the payment to Charter LLC by Magellan of all distributions and fees paid to Magellan by or on behalf of the Joint Venture. Magellan will use its commercially reasonable best efforts to obtain the consent of Magellan's joint venture partners to the performance, by Charter LLC, of Magellan's obligations under the Joint Venture Agreements. Each service agreement, as referred to in this Section 7.9, shall be approved by Crescent, which approval shall not be unreasonably withheld. The services agreement(s) shall continue in effect until termination of the Facilities Lease.

7.10 Employee Benefits. The parties agree to establish employee benefit plans for the employees of Charter LLC providing for overall benefits in an amount similar to the benefits provided by the employee benefit plans in effect on the date hereof at Magellan and the Magellan Subsidiaries.

7.11 Title to Property. Magellan and the Magellan Subsidiaries shall convey at the Closing pursuant to the form of bill of sale attached as Exhibit I to the Real Estate Purchase and Sale Agreement, (i) good and marketable title to the Contributed Assets, the Purchased Assets

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and the Working Capital Assets (to Charter LLC or such Charter LLC Subsidiary as Charter LLC directs) owned by Magellan or a Magellan Subsidiary, subject to no liens, encumbrances or material claims whatsoever, except for the Assumed Obligations and except for any liens, encumbrances and claims related to the purchase of property on an installment basis in the ordinary course of business, and (ii) all of their rights and interest in the Contributed Assets, the Purchased Assets, and the Working Capital Assets leased by Magellan or a Magellan Subsidiary.

7.12 Right to Inspect. Magellan shall grant Charter LLC the right to inspect any and all business records retained by Magellan pursuant to Section 2.2(z) during reasonable business hours and upon reasonable prior notice. Charter LLC shall grant Magellan access to any business records transferred to Charter LLC during reasonable business hours and upon reasonable prior notice.

SECTION 8.

INDEMNIFICATION

8.1 Indemnification Obligations of Magellan. Magellan shall indemnify and hold harmless Charter LLC and its subsidiaries and affiliates, each of their respective officers, directors, partners, employees, agents and representatives and each of the permitted successors and assigns of any of the foregoing (collectively, the "Charter LLC Indemnified Parties") from, against and in respect of any and all claims, liabilities, obligations, losses, costs, expenses, penalties, fines and other judgments (at equity or at law) and damages (including, without limitation, amounts paid in settlement, costs of investigation and reasonable attorneys' fees and expenses) (collectively, "Claims and Damages") arising out of or relating to (i) any breach of any representation, warranty, covenant, agreement or undertaking made by Magellan in this Agreement or in any certificate, agreement, exhibit or schedule delivered pursuant to this Agreement, or (ii) the ownership, lease or operation of the Hospitals and attributable to events arising prior to the Closing (including claims made after Closing related to events occurring prior to Closing) other than Assumed Obligations or liabilities to the extent they are covered by existing insurance, provided, however, that if the insurer does not pay insured amounts under the terms of the policies, Magellan shall indemnify the Charter LLC Indemnified Parties for such debts, liabilities and obligations. The Claims and Damages of the Charter LLC Indemnified Parties described in this Section 8.1 as to which the Charter LLC Indemnified Parties are entitled to indemnification are hereinafter collectively referred to as "Charter LLC Losses." Notwithstanding anything to the contrary contained herein, Magellan's indemnity obligations hereunder will not extend to claims arising out of willful misconduct or fraud of Charter LLC.

8.2 Indemnification Obligations of Charter LLC. Charter LLC shall indemnify and hold harmless Magellan and its subsidiaries and affiliates and each of their respective officers, directors, partners, employees, agents and representatives and each of the permitted successors and assigns of any of the foregoing (collectively, the "Magellan Indemnified Parties") from, against and in respect of any and all Claims and Damages arising out of or relating to any debts, liabilities and obligations relating to (i) the ownership, lease or operation of the Hospitals and

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attributable to events which arise after the Closing or (ii) the Assumed Obligations. The Claims and Damages of the Magellan Indemnified Parties described in this Section 8.2 as to which the Magellan Indemnified Parties are entitled to indemnification are hereinafter collectively referred to as "Magellan Losses." Notwithstanding anything to the contrary contained herein, Charter LLC's indemnity obligations hereunder will not extend to claims arising out of willful misconduct or fraud of Magellan.

8.3 Indemnification Procedure.

(a) Promptly after receipt by a Charter LLC Indemnified Party or a Magellan Indemnified Party (each an "Indemnified Party") of notice by a third party of any complaint or the commencement of any action or proceeding with respect to which indemnification is being sought hereunder, such Indemnified Party shall notify Charter LLC, if the Indemnified Party is a Magellan Indemnified Party, or Magellan, if the Indemnified Party is a Charter LLC Indemnified Party (the "Indemnifying Party"), of such complaint or of the commencement of such action or proceeding; provided, however, that the failure to so notify the Indemnifying Party shall not relieve the Indemnifying Party from liability for such claim arising otherwise than under this Agreement and such failure to so notify the Indemnifying Party shall relieve the Indemnifying Party from liability which the Indemnifying Party may have under this Agreement with respect to such claim if, but only if, and only to the extent that, such failure to notify the Indemnifying Party results in the forfeiture by the Indemnifying Party of rights and defenses otherwise available to the Indemnifying Party with respect to such claim. The Indemnifying Party shall have the right, upon written notice to the Indemnified Party, to assume the defense of such action or proceeding, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of the reasonable fees and disbursements of such counsel. In the event, however, that the Indemnifying Party declines or fails to assume the defense of the action or proceeding or to employ counsel reasonably satisfactory to the Indemnified Party, in either case in a timely manner, then such Indemnified Party may employ counsel to represent or defend it in any such action or proceeding and the Indemnifying Party shall pay the reasonable fees and disbursements of such counsel as incurred; provided, however, that the Indemnifying Party shall not be required to pay the fees and disbursements of more than one counsel for all Indemnified Parties in any jurisdiction in any single action or proceeding. In any action or proceeding with respect to which indemnification is being sought hereunder, the Indemnified Party or the Indemnifying Party, whichever is not assuming the defense of such action, shall have the right to participate in such litigation and to retain its own counsel at such party's own expense. The Indemnifying Party or the Indemnified Party, as the case may be, shall at all times use reasonable efforts to keep the Indemnifying Party or the Indemnified Party, as the case may be, reasonably apprised of the status of the defense of any action, the defense of which it is maintaining and to cooperate in good faith with the Indemnifying Party or the Indemnified Party, as the case may be, with respect to the defense of any such action.

(b) No Indemnified Party may settle or compromise any claim or consent to the entry of any judgment with respect to which indemnification is being sought hereunder without the prior written consent of the Indemnifying Party, unless such settlement, compromise or consent includes an unconditional release of the Indemnifying Party from all liability arising out of such

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claim. An Indemnifying Party may not, without the prior written consent of the Indemnified Party, settle or compromise any claim or consent to the entry of any judgment with respect to which indemnification is being sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Indemnified Party from all liability arising out of such claim and does not contain any equitable order, judgment or term which in any manner affects, restrains or interferes with the business of the Indemnified Party or any of the Indemnified Party's respective affiliates.

(c) In the event an Indemnified Party shall claim a right to payment pursuant to this Agreement, such Indemnified Party shall send written notice of such claim to the appropriate Indemnifying Party. Such notice shall specify the basis for such claim. As promptly as possible after the Indemnified Party has given such notice, such Indemnified Party and the appropriate Indemnifying Party shall establish the merits and amount of such claim (by mutual agreement, litigation, arbitration or otherwise) and, within five business days of the final determination of the merits and amount of such claim, the Indemnifying Party shall deliver to the Indemnified Party immediately available funds in an amount equal to such claim as determined hereunder.

(d) Liability Limits. To the extent any claim for Charter LLC Losses against Magellan is based upon the alleged inaccuracy of any representation or warranty contained in Section 5 of this Agreement, then, for a period beginning on the Closing Date and ending two years later, Magellan shall only be liable for such Charter LLC Losses solely to the extent that any such Charter LLC Losses exceed in the aggregate in any one year, one million dollars (\$1,000,000.00). Beginning two years after the Closing Date, Magellan shall be liable for such Charter LLC Losses solely to the extent that any such Charter LLC Losses exceed in the aggregate during such period, ten million dollars (\$10,000,000.00); provided, however, that to the extent a claim for Charter LLC Losses is not based on the inaccuracy of a representation or warranty contained in Section 5 of this Agreement, then such claim shall not be subject to the limitations above, nor shall the amount of any such Charter LLC Losses be included with other Charter LLC Losses in determining whether such basket amounts have been reached.

(e) Claim Periods. Indemnification obligations under this Section 8 for pre-closing and post-closing debts, liabilities or obligations and for a breach of representations, warranties or covenants shall survive until expiration of the applicable statute of limitations.

SECTION 9.

MISCELLANEOUS

9.1 Fees and Expenses; Transfer Costs. Fees and expenses incident to the negotiation, preparation and execution of this Agreement and the performance of the Contribution (including attorneys', accountants', financial advisors' and other advisors' fees and disbursements) shall be borne by the party incurring the expense. Magellan shall pay all sales, transfer and other recording charges and conveyance taxes in connection with the transfer of the

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Contributed Assets, the Purchased Assets and the Working Capital Assets to Charter LLC and in connection with the transfer of any licenses or permits to Charter LLC.

9.2 Notices. Whenever any notice is required or permitted hereunder, such notice shall be in writing and (a) sent by certified mail, postage prepaid, return receipt requested, (b) given by established overnight commercial courier for delivery on the next business day with delivery charges prepaid or duly charged, (c) personally hand-delivered or (d) sent by facsimile transmission with confirmation of receipt received, to the applicable address or facsimile number set forth below:

(i) if to Crescent:

Gerald W. Haddock, Esq.

President and Chief Operating Officer
Crescent
777 Main Street
Suite 2100
Fort Worth, Texas 76102
Facsimile: (817) 878-0429

with a copy to:

David M. Dean, Esq.
Senior Vice President, Law
Crescent
777 Main Street
Suite 2100
Fort Worth, Texas 76102
Facsimile: (817) 878-0429

Wendelin A. White, Esq.
Shaw, Pittman, Potts & Trowbridge
2300 N Street, N.W.
Washington, D.C. 20037
Facsimile: (202) 663-8007

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(ii) if to Magellan:

Steve J. Davis, Esq.
Executive Vice President,
Administrative Services and General Counsel
3414 Peachtree Road, N.E.
Suite 1400
Atlanta, Georgia 30326
Facsimile: (404) 814-5793

with a copy to:

Robert W. Miller, Esq.
King & Spalding
191 Peachtree Street
Atlanta, Georgia 30303-1763
Facsimile: (404) 572-5100

Notices which are mailed shall be deemed effective upon receipt. Notices which are hand-delivered shall be deemed effective upon tender to a natural person at the address shown. Notices which are delivered by overnight courier shall be deemed given on the next business day after delivery to such courier. Notices which are delivered by facsimile transmission shall be deemed received upon electronic confirmation of delivery.

9.3 Entire Agreement. This Agreement and the Transaction Documents (together with the exhibits and schedules hereto and thereto) supersede all prior agreements and understandings, both oral and written, between the parties with respect to the subject matter hereof, all of which are null, void and of no force or effect.

9.4 Waivers and Amendments. This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms and conditions of this Agreement 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.

9.5 Governing Law. This Agreement shall be governed by the laws of the State of Delaware, without regard to the application of choice of law principles. The rule that an Agreement should be construed against the party drafting it shall not apply to this Agreement because all parties have played a significant role in negotiating and drafting this Agreement.

9.6 Severability. If any term, covenant or condition of this Agreement is held to be invalid or unenforceable in any respect, such invalidity or unenforceability shall not affect any other provision, and this Agreement shall

be construed as if such invalid or unenforceable provision had never been contained in this Agreement.

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9.7 Binding Effect; Benefit. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. Nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

9.8 No Assignment. This Agreement may not be assigned without the prior written consent of the other party.

9.9 Arbitration.

(a) Following Closing, any controversy, claim or question of interpretation arising out of or relating to this Agreement or the breach thereof shall be finally settled by arbitration in Delaware, under the then-effective Commercial Arbitration Rules of the American Arbitration Association as modified by this Agreement, and judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction. The award rendered by the arbitrators shall be final and binding on the parties and not subject to further appeal. Such arbitration can be initiated by written notice by either party (the "Claimant") to the other party, which notice shall identify the Claimant's selected arbitrator. The party receiving such notice (the "Respondent") shall identify its arbitrator within ten (10) business days following its receipt of such notice. The arbitrator selected by the Claimant and the arbitrator selected by the Respondent shall, within ten (10) business days of their appointment, select a third neutral arbitrator. In the event that they are unable to do so, either party may request the American Arbitration Association to appoint the third neutral arbitrator. The arbitrators shall have the authority to award any remedy or relief that a court in Delaware could order or grant, including, without limitation, specific performance of any obligation created under this Agreement, the issuance of injunctive or other provisional relief, or the imposition of sanctions for abuse or frustration of the arbitration process. The arbitration award will be in writing and specify the factual and legal basis for the award.

(b) The arbitrators shall instruct the non-prevailing party to pay all costs of the proceedings, including the fees and expenses of the arbitrators and the reasonable attorneys' fees and expenses of the prevailing party. If the arbitrators determine that there is not a prevailing party, each party shall be instructed to bear its own costs and to pay one-half of the fees and expenses of the arbitrators.

9.10 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument.

9.11 Exhibits and Schedules. The exhibits and schedules delivered or to be delivered pursuant to this Agreement are a part of this Agreement as if set forth in full within the Agreement.

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9.12 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

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IN WITNESS WHEREOF, the parties have executed this Agreement
as of the date first above written.

CRESCENT OPERATING, INC.

By: \s\ Jeffrey L. Stevens

Name: Jeffrey L. Stevens
Title: Chief Financial Officer,
Treasurer and Secretary

MAGELLAN HEALTH SERVICES, INC.

By: \s\ Linton C. Newlin

Name: Linton C. Newlin
Title: Vice President and Secretary

FIRST AMENDMENT TO THE
WARRANT PURCHASE AGREEMENT

THIS FIRST AMENDMENT TO THE WARRANT PURCHASE AGREEMENT (this "First Amendment") is made as of the 17th day of June, 1997, by and between MAGELLAN HEALTH SERVICES, INC., a Delaware corporation (the "Company"), and CRESCENT REAL ESTATE EQUITIES LIMITED PARTNERSHIP, a Delaware limited partnership ("Buyer").

R E C I T A L S

A. The Company and Buyer entered into that certain Warrant Purchase Agreement dated as of January 29, 1997 (the "Agreement"). Capitalized terms used but not defined herein have the meanings ascribed to them in the Agreement.

B. The parties desire to enter into this First Amendment to evidence their agreement to certain changes to the Agreement, as hereinafter set forth.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, the Company and the Buyer hereby agree as follows:

1. Section 1.2 is deleted in its entirety and replaced with the following:

1.2 Purchase Price and Payment. The parties hereto acknowledge that the Purchase Price for the Warrants was made by them in arm's length negotiation. The aggregate purchase price for the Warrants is Twelve Million Five Hundred Thousand Dollars (\$12,500,000) (the "Purchase Price"). The Purchase Price payable by Buyer for the Warrants shall be paid by Buyer on or before Closing Date (as hereinafter defined) in immediately available funds by confirmed wire transfer to a bank account to be designated by the Company (such designation to occur no later than the third Business Day prior to the Closing Date).

2. Section 3.8 is deleted in its entirety and replaced with the following:

3.8 Rights Plan. Based upon the representation of Buyer in Section 4.6 hereof and relying upon the information in the most recent Schedule 13D filed by Rainwater-Magellan Holdings, L.P. related to stock ownership in the Company, the execution of this Agreement and the issuance of the Warrant Shares (assuming the continued validity of the representation of Buyer in Section 4.6 hereof) shall not cause an issuance of certificates within the

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meaning of Section 3 of the Rights Agreement dated as of July 21, 1992, as amended by the First Amendment to Rights Agreement dated as of May 30, 1997, between the Company and First Union National Bank of North Carolina (the "Rights Agreement") or a Triggering Event as defined in the Rights Agreement.

3. The reference to "Crescent Opportunity Corporation ("COC")" in Section 5.5 should read "Crescent Operating, Inc. ("COI")".

4. Section 5.12 of the Agreement is deleted in its entirety.

5. The definition of "Rights Agreement" contained in Section 11.1 is deleted in its entirety and replaced with the following:

"Rights Agreement" means that certain Rights Agreement, dated

as of July 21, 1992, as amended by the First Amendment to Rights Agreement, dated as of May 30, 1997, between the Company and First Union National Bank of North Carolina, as rights agent.

6. Annex I is deleted in its entirety and replace with Annex I attached hereto.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered this 17th day of June, 1997.

MAGELLAN HEALTH SERVICES, INC., a
Delaware corporation

By: \s\ Linton C. Newlin

Title: Vice President and Secretary

CRESCENT REAL ESTATE EQUITIES
LIMITED PARTNERSHIP, a Delaware limited
partnership

By: Crescent Real Estate Equities,
Ltd., A Delaware corporation, its sole
general partner

By: \s\ David M. Dean

Title: Senior Vice President, Law

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FOR IMMEDIATE RELEASE

Investor Contact: Kevin Helmtoller
(404) 814-5742
Media Contact: Robert Mead
(212) 445-8208

MAGELLAN ANNOUNCES THE CLOSING OF THE CRESCENT
TRANSACTIONS, AN AMENDED BANK FACILITY, BOND REPURCHASE
OFFER AND EXPIRATION OF EUROPEAN SALE

- - - - -

ATLANTA, GA, June 17, 1997 -- Magellan Health Services, Inc. (NYSE:MGL) announced that the transactions with Crescent Real Estate Equities Co. (NYSE:CEI) and its affiliates closed today. Charter Behavioral Health Systems began operations as a privately held joint venture owned by Magellan and Crescent Operating Inc. Magellan will now focus on the higher growth segments of behavioral and other specialty managed care, public sector privatization and franchise operations. Simultaneously with this closing, Magellan entered into an amended \$200 million credit facility with a group of commercial banks to assist the Company in its acquisition and product expansion strategy.

As a result of the Crescent transactions the Company is also offering to repurchase the 11.25% Senior Subordinated Notes at 101% of face value per the terms of the indenture. Notices are being distributed immediately and bondholders will have until July 17 to respond.

Separately, Magellan announced that the sale of the European operations to Priory Hospitals Limited has been referred to the Monopolies and Mergers Commission (MMC) by the Office of Fair Trade under the provisions of the Fair Trading Act. The MMC is required to make

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their report by September 15, 1997. However, the time period for receiving regulatory approval per the agreement with Priory has expired and Magellan is exploring other alternatives.

Mac Crawford, chairman, president, and CEO said, "The closing of the Crescent transactions marks a significant step in the continuing development of Magellan's strategy. Management has concentrated heavily on closing these transactions and can now focus on the growth of the other segments of our business. Proceeds from the Crescent transactions will immediately strengthen Magellan's balance sheet. Nearly \$200 million will be used to pay down the Company's current bank credit facility and outstanding industrial revenue bonds and the Company will have over \$500 million in cash and available credit."

Crawford continued, "Though I am disappointed that the sale to Priory has not closed, it is important to remember that the European facilities are some of our most profitable operations and contribute significantly to earnings per share on a quarterly basis. We also believe there are opportunities to pursue franchise expansion in Europe."

Magellan Health Services, Inc. is one of the country's largest integrated behavioral health care companies. Its business units include: Majority owned Green Spring Health Services, a leader in behavioral managed care services; Magellan Public Solutions, serving public sector agencies with privatized behavioral health services; Charter Franchise Services, an international franchisor of behavioral health care systems; and 50% interest in Charter Behavioral Health Systems, the largest operator of free-standing behavioral facilities in the U.S.

###

MASTER LEASE AGREEMENT

DATED JUNE 16, 1997

BY AND BETWEEN

CRESCENT REAL ESTATE FUNDING VII, L.P.
AS LANDLORD,

AND

CHARTER BEHAVIORAL HEALTH SYSTEMS, LLC
AND EACH OF THE FACILITY SUBSIDIARIES LISTED ON EXHIBIT B,
AS TENANT

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MASTER LEASE AGREEMENT

THIS MASTER LEASE AGREEMENT is entered into as of the 16th day of June, 1997, by and between CRESCENT REAL ESTATE FUNDING VII, L.P., a Delaware limited partnership, having its principal office at 777 Main Street, Suite 2100, Fort Worth, Texas 76102 ("Landlord"), CHARTER BEHAVIORAL HEALTH SYSTEMS, LLC, a Delaware limited liability company, having its principal office at Suite 900, 3414 Peachtree Rd., N.E., Atlanta, GA 30326 ("OpCo"), and each of the entities listed on Exhibit B attached hereto.

W I T N E S S E T H :

WHEREAS, Landlord owns fee simple title to the Collective Leased Properties (this and other capitalized terms used and not otherwise defined herein having the meanings ascribed to such terms in Article 1); and

WHEREAS, Landlord wishes to lease the Collective Leased Properties to Tenant and Tenant wishes to lease the Collective Leased Properties from Landlord, all subject to and upon the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the mutual receipt and legal sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

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DEFINITIONS

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, (i) the terms defined in this Article shall have the meanings assigned to them in this Article and include the plural as well as the singular, (ii) all accounting terms not otherwise defined herein shall have the meanings assigned to them in accordance with GAAP, (iii) all references in this Agreement to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this Agreement, and (iv) the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision.

1.1 "Additional Charges" shall have the meaning given such term in Section

3.1.3.

1.2 "Additional Rent" shall mean the monthly sum of One Million Six Hundred and Sixty-Six Thousand Six Hundred Sixty-Seven Dollars (\$1,666,667.00).

1.3 "Affiliated Person" shall mean, with respect to any Person, (a) in the case of any such Person which is a partnership, any partner in such partnership, (b) in the case of any such

Person which is a limited liability company, any member of such company, and (c) any other Person which is a Parent, a Subsidiary, or a Subsidiary of a Parent with respect to such Person or to one or more of the Persons referred to in the preceding clauses (a) and (b).

1.4 "Agreement" shall mean this Master Lease Agreement, including Exhibits A and B hereto, as it and they may be amended from time to time as herein provided.

1.5 "Allowance" shall mean an annual amount with respect to each Lease Year not to exceed the additional rent for each such Lease Year. The Allowance shall be paid by Landlord to Tenant pursuant to Section 3.5 hereof.

1.6 "Applicable Laws" shall mean all applicable laws, statutes, regulations, rules, ordinances, codes, licenses, permits and orders (whether now existing or hereafter enacted or promulgated irrespective of whether its enactment is foreseeable or contemplated), of all courts of competent jurisdiction and Government Agencies, and all applicable judicial and administrative and regulatory decrees, judgments and orders, including common law rulings, relating to injury to, or the protection of, real or personal property or human health (except those requirements which, by definition, are solely the responsibility of employers) or the Environment, including, without limitation, all valid requirements of courts and other Government Agencies pertaining to reporting, licensing, permitting, investigation, remediation and removal of underground improvements (including, without limitation, treatment or storage tanks, or water, gas or oil wells), or emissions, discharges, releases or threatened releases of Hazardous Substances, chemical substances, pesticides, petroleum or petroleum products, pollutants, contaminants or hazardous or toxic substances, materials or wastes whether solid, liquid or gaseous in nature, into the Environment, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances or Regulated Medical Wastes, underground improvements (including, without limitation, treatment or storage tanks, or water, gas or oil wells), or pollutants, contaminants or hazardous or toxic substances, materials or wastes, whether solid, liquid or gaseous in nature.

1.7 "Award" shall mean all compensation, sums or other value awarded, paid or received by virtue of a total or partial Condemnation of any of the Collective Leased Properties (after deduction of all reasonable legal fees and other reasonable costs and expenses, including, without limitation, expert witness fees, incurred by Landlord, in connection with obtaining any such award).

1.8 "Business Day" shall mean any day other than Saturday, Sunday, or any other day on which banking institutions in the states of Texas, Georgia and the State are authorized by law or executive action to close.

1.9 "Capital Addition" shall mean one or more new buildings, or one or more additional structures annexed to any portion of any of the Leased Improvements with respect to any of the Collective Leased Properties, or the material expansion of existing improvements, which are constructed on any parcel or portion of the Land during the Term, including the

construction of a new wing or new story, the renovation of existing improvements on any of the Collective Leased Properties in order to provide a functionally new facility needed to provide services not previously offered, or any material expansion, construction, renovation or conversion in order to increase by more than 10% the bed capacity of any Facility, to change the purpose for which such beds are utilized or to improve materially the quality of any Facility.

1.10 "Capital Additions Cost" shall mean the cost of any Capital Addition proposed to be made by Tenant at any of the Collective Leased Properties, whether paid for by Tenant or Landlord. Such cost shall include (a) the cost of construction of the Capital Addition, including site preparation and improvement, materials, labor, supervision, developer and administrative fees, legal fees, and related design, engineering and architectural services, the cost of any fixtures, the cost of equipment and other personalty, the cost of construction financing (including, but not limited to, capitalized interest) and other miscellaneous costs approved by Landlord, (b) if agreed to by Landlord in writing, in advance, the cost of any land (including all related acquisition costs incurred by Tenant) contiguous to the applicable Leased Property which is to become a part of such Leased Property purchased for the purpose of placing thereon a Capital Addition or any portion thereof or for providing means of access thereto, or parking facilities therefor, including the cost of surveying the same, (c) the cost of insurance, real estate taxes, water and sewage charges and other carrying charges for such Capital Addition during construction, (d) title insurance charges, (e) filing, registration and recording taxes and fees, (f) documentary stamp or transfer taxes, and (g) all actual and reasonable costs and expenses of Landlord and Tenant and, if agreed to by Landlord in writing, in advance, any Lending Institution committed to finance the Capital Addition relating to financing for the Capital Addition, including, but not limited to, all (i) reasonable attorneys' fees and expenses, (ii) printing expenses, (iii) filing, registration and recording taxes and fees, (iv) documentary stamp or transfer taxes, (v) title insurance charges and appraisal fees, (vi) rating agency fees, and (vii) commitment fees charged by any Lending Institution advancing or offering to advance any portion of any financing to which Landlord has consented in writing for such Capital Addition.

1.11 "Capital Expenditure" shall mean any expenditure with respect to the Collective Leased Properties that is properly categorized as a capital expenditure in accordance with GAAP.

1.12 "Change in Control" shall mean the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the SEC) of 50% or more, or rights, options or warrants to acquire 50% or more, of the outstanding shares of voting stock of Tenant or any Facility Subsidiary, as the case may be, or the merger or consolidation of Tenant or any Facility Subsidiary (except with OpCo, a Facility Subsidiary or a wholly-owned Subsidiary of OpCo), as the case may be with or into any other Person or any one or a series of related sales or conveyances to any Person (except to OpCo, a Facility Subsidiary or a wholly-owned subsidiary of OpCo) of all or substantially all of the assets of Tenant or any Facility Subsidiary, as the case may be. In the case of OpCo, only the following shall constitute a Change in Control; (i) a sale or conveyance in one or a related series of transactions of all or substantially all the assets of OpCo to any Person and (ii) a merger or consolidation in which

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OpCo is not the surviving or resulting entity or of which the holders of the equity interests of OpCo immediately prior to the merger or consolidation do not own more than 50% of the equity interests in the surviving or resulting entity immediately after the merger or consolidation.

1.13 "Code" shall mean the Internal Revenue Code of 1986 and, to the extent applicable, the Treasury Regulations promulgated thereunder, each as from time to time amended.

1.14 "Collective Leased Properties" shall have the meaning given such term in Section 2.1.

1.15 "Commencement Date" shall mean June 17, 1997.

1.16 "Comparable Facility" shall mean a facility having as its primary use the Primary Intended Use and which is reasonably acceptable to Landlord, with an expected future profitability substantially equivalent to or greater than that of the Designated Leased Property which Tenant proposes that it replace, both immediately prior to such substitution and as reasonably projected over the term of this Agreement, taking into account any cash paid or received in connection with the substitution and any other relevant factors.

1.17 "Condemnation" shall mean, with respect to any of the Collective Leased Properties, (a) the exercise of any governmental power with respect to such Leased Property, whether by legal proceedings or otherwise, by a Condemnor of its power of condemnation, (b) a voluntary sale or transfer of such Leased Property by Landlord to any Condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending, and (c) a taking or voluntary conveyance of all or part of such Leased Property, or any interest therein, or right accruing thereto or use thereof, as the result or in settlement of any Condemnation or other eminent domain proceeding affecting such Leased Property, whether or not the same shall have actually been commenced.

1.18 "Condemnor" shall mean any public or quasi-public authority, or private corporation or individual, having the power of Condemnation.

1.19 "Contractor" shall have the meaning given such term in Section 9.8.

1.20 "Contractor's Insurance Certificate" shall have the meaning given such term in Section 9.8.

1.21 "Default" shall mean any event or condition which with the giving of notice and/or lapse of time may ripen into an Event of Default.

1.22 "Designated Leased Property" shall mean a property designated by Tenant pursuant to Section 22.15 on which there exists a Comparable Facility which Tenant proposes to substitute for a Leased Property.

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1.23 "Encumbrance" shall have the meaning given such term in Section 20.1.

1.24 "Entity" shall mean any corporation, general or limited partnership, limited liability company or artnership, stock company or association, joint venture, association, company, trust, bank, trust company, land trust, business trust, cooperative, any government or agency or political subdivision thereof or any other entity.

1.25 "Environment" shall mean soil, surface waters, ground waters, land, stream, sediments, surface or subsurface strata, ambient air, physical structures and equipment, and where radon gas is present, the interior air of buildings.

1.26 "Environmental Notice" shall have the meaning given such term in Section 4.4.1.

1.27 "Environmental Obligation" shall have the meaning given such term in

Section 4.

1.28 "Environmental Report" shall have the meaning given such term in Section 4.4.2.

1.29 "Event of Default" shall have the meaning given such term in Section 12.1.

1.30 "Extended Terms" shall have the meaning given such term in Section 2.4.

1.31 "Facility" shall mean, with respect to any of the Collective Leased Properties, the facility offering health care or related services being operated or proposed to be operated on such Leased Property.

1.32 "Facility Mortgage" shall mean, with respect to any of the Collective Leased Properties, any Encumbrance placed upon such Leased Property in accordance with Article 20.

1.33 "Facility Mortgagee" shall mean the holder of any Facility Mortgage.

1.34 "Facility Subsidiaries" shall mean the Entities listed on Exhibit B attached hereto, each of which is a wholly owned Subsidiary of OpCo.

1.35 "Facility Trade Name" shall mean, with respect to any Facility, any name under which Tenant has conducted the business of operating such Facility at any time during the Term.

1.36 "Fair Market Rental" shall mean, with respect to any of the Collective Leased Properties, the rental which a willing tenant not compelled to rent would pay a willing landlord not compelled to lease for the use and occupancy of such Leased Property (including all Capital Additions) on the terms and conditions of this Agreement or the term in question, assuming Tenant is not in default hereunder and determined by agreement between Landlord and Tenant or, failing agreement, in accordance with the appraisal procedures set forth in Article 19.

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1.37 "Fair Market Value" shall mean, with respect to any of the Collective Leased Properties, the price that a willing buyer not compelled to buy would pay a willing seller not compelled to sell for such Leased Property (without taking into account any reduction in value resulting from any indebtedness to which such Leased Property is subject), assuming the same is unencumbered by this Agreement and determined by agreement between Landlord and Tenant or, failing agreement, the appraisal procedures set forth in Article 19.

1.38 "Financial Officer's Certificate" shall mean, as to any Person, a certificate of the chief financial officer of such Person, duly authorized, accompanying the financial statements required to be delivered by such Person pursuant to Section 17.2, in which such officer shall certify (a) that such statements have been properly prepared in accordance with GAAP and fairly present in all material respects the financial condition of such Person at and as of the dates thereof and the results of its and their operations for the periods covered thereby, (except that, in the case of financial statements delivered pursuant to Sections 17.2(a) and 17.2(c), the certificate shall state the extent to which such financial statements are not in accordance with GAAP) and (b) certify that such officer has reviewed this Agreement and has no knowledge of any Default or Event of Default hereunder.

1.39 "Financials" shall mean, for any Fiscal Year or other accounting period of OpCo, annual audited and quarterly unaudited financial statements for OpCo, including OpCo's balance sheet and the related statements of income and cash flows, all in reasonable detail, and setting forth in comparative form the corresponding figures for the corresponding period in the preceding Fiscal Year,

and prepared in accordance with GAAP throughout the periods reflected, except to the extent GAAP is customarily not complied with by OpCo in preparing quarterly unaudited financial statements.

1.40 "Fiscal Year" shall mean the twelve (12) month period from October 1 to September 30.

1.41 "Fixed Term" shall have the meaning given such term in Section 2.3.

1.42 "Fixtures" shall have the meaning given such term in Section 2.1(d).

1.43 "Franchise Agreement" shall mean, collectively, that certain Franchise Agreement of even date herewith by and between Franchisor, as franchisor, and OpCo, as franchisee and those certain Franchise Agreements of even date herewith by and between Franchisor, as franchisor, and each of the Facility Subsidiaries, as franchisee.

1.44 "Franchise Fees" shall mean all amounts payable by Tenant to Franchisor under the Franchise Agreement.

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1.45 "Franchise Subordination Agreement" shall mean that certain Subordination Agreement of even date herewith, as the same may be amended from time to time, by and among OpCo, Landlord and Franchisor.

1.46 "Franchisor" shall mean, collectively, Magellan Health Services, Inc., a Delaware corporation, and Charter Franchise Services, LLC, a Delaware limited liability company.

1.47 "GAAP" shall mean generally accepted accounting principles consistently applied.

1.48 "Government Agencies" shall mean any court, agency, authority, board (including, without limitation, environmental protection, planning and zoning), bureau, commission, department, office or instrumentality of any nature whatsoever of any governmental unit of the United States or the State or any county or any political subdivision of any of the foregoing, whether now or hereafter in existence, having jurisdiction over Tenant or the Collective Leased Properties or any portion thereof or the Facilities operated thereon.

1.49 "Hazardous Substances" shall mean any substance:

(a) the presence of which requires or may hereafter require notification, investigation or remediation under any federal, state or local statute, regulation, rule, ordinance, order, action or policy; or

(b) which is or becomes defined as a "hazardous waste," "hazardous material" or "hazardous substance" or "pollutant" or contaminant" under any present or future federal, state or local statute, regulation, rule or ordinance or amendments thereto including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. et seq.) and the Resource Conservation and Recovery Act (42 U.S.C. section 6901 et seq.) and the regulations promulgated thereunder; or

(c) which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous and is or becomes regulated by any governmental authority, agency, department,

commission, board, agency or instrumentality of the United States, any state of the United States, or any political subdivision thereof; or

(d) the presence of which on any of the Collective Leased Properties causes or threatens to cause a nuisance upon such Leased Property or to adjacent properties or poses or threatens to pose a hazard to any of the Collective Leased Properties or to the health or safety of persons on or about any of the Collective Leased Properties; or

(e) without limitation, which contains gasoline, diesel fuel or other petroleum hydrocarbons or volatile organic compounds; or

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(f) without limitation, which contains polychlorinated biphenyls (PCBs) or asbestos or urea formaldehyde foam insulation; or

(g) without limitation, which contains or emits radioactive particles, waves or material; or

1.50 "Impositions" shall mean, with respect to any of the Collective Leased Properties, collectively, all taxes (including, without limitation, all taxes imposed under the laws of the State, as such laws may be amended from time to time, and all ad valorem, sales and use, single business, gross receipts, transaction privilege, rent or similar taxes as the same relate to or are imposed upon Landlord, Tenant or the business conducted upon such Leased Property), assessments (including, without limitation, all assessments for public improvements or benefit, whether or not commenced or completed prior to the date hereof and whether or not to be completed within the Term), ground rents, water, sewer or other rents and charges, excises, tax levies, fees (including, without limitation, license, permit, inspection, authorization and similar fees) and all other governmental charges, in each case whether general or special, ordinary or extraordinary, or foreseen or unforeseen, of every character in respect of such Leased Property or the business conducted thereon by Tenant (including all interest and penalties thereon due to any failure in payment by Tenant), which at any time prior to, during or in respect of the Term hereof may be assessed or imposed on or in respect of or be a lien upon (a) Landlord's interest in such Leased Property, (b) such Leased Property or any part thereof or any rent therefrom or any estate, right, title or interest therein, or (c) any occupancy, operation, use or possession of, or sales from, or activity conducted on, or in connection with such Leased Property or the leasing or use of such Leased Property or any part thereof by Tenant; provided, however, that nothing contained herein shall be construed to require Tenant to pay (i) any tax based on net income imposed on Landlord, (ii) any net revenue tax of Landlord, (iii) any transfer fee or other tax imposed with respect to the sale, exchange, financing, mortgaging, or other disposition by Landlord of the applicable Leased Property or the proceeds thereof (other than in connection with the sale, exchange or other disposition to, or in connection with a transaction involving, Tenant), or (iv) any single business, franchise fees, gross receipts (other than a tax on any rent received by Landlord from Tenant), transaction privilege, rent or similar taxes as the same relate to or are imposed upon Landlord, except to the extent that any tax, assessment, tax levy or charge that Tenant is obligated to pay pursuant to the first sentence of this definition and that is in effect at any time during the Term hereof is totally or partially repealed, and a tax, assessment, tax levy or charge set forth in clause (i) or (ii) preceding is levied, assessed or imposed expressly in lieu thereof.

1.51 "Indebtedness" shall mean all obligations, contingent or otherwise, which in accordance with GAAP should be reflected on the obligor's balance sheet as debt.

1.52 "Insurance Requirements" shall mean all terms of any insurance policy required by this Agreement and all requirements of the issuer of any such policy.

1.53 "Land" shall have the meaning given such term in Section 2.1(a).

1.54 "Landlord" shall have the meaning given such term in the preamble to this Agreement.

1.55 "Lease Year" shall mean any consecutive annual period starting on the Commencement Date and ending on the day prior to the anniversary thereof; provided that if the Commencement Date is not the first day of a calendar month then the first (1st) Lease Year shall end on the last day of the calendar month in which occurs the date which would otherwise be the last day of such Lease Year.

1.56 "Leased Improvements" shall have the meaning given such term in Section 2.1(b).

1.57 "Leased Personal Property" shall have the meaning given such term in Section 2.1(e).

1.58 "Leased Property" shall mean any one of the Collective Leased Properties.

1.59 "Legal Requirements" shall mean, with respect to any of the Collective Leased Properties, all federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, ordinances, judgments, decrees and injunctions affecting such Leased Property or the maintenance, construction, alteration or operation thereof, whether now or hereafter enacted or in existence, including, without limitation, (a) all permits, licenses, certificates of need, authorizations and regulations necessary to operate such Leased Property for its Primary Intended Use, and (b) all covenants, agreements, restrictions and encumbrances contained in any instruments at any time in force affecting such Leased Property, including those which may (i) require material repairs, modifications or alterations in or to such Leased Property or (ii) in any way adversely affect the use and enjoyment thereof.

1.60 "Lending Institution" shall mean any insurance company, federally insured commercial or savings bank, national banking association, savings and loan association, employees' welfare, pension or retirement fund or system, syndicated lenders' group, commercial finance company, leasing company, corporate profit sharing or pension trust, college or university, or real estate investment trust, including any corporation qualified to be treated for federal tax purposes as a real estate investment trust, such trust having a net worth of at least \$50,000,000.

1.61 "Lien" shall mean any mortgage, security interest, pledge, collateral assignment, or other encumbrance, lien or charge of any kind, or any transfer of any property or assets for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of any Person's general creditors.

1.62 "Management Agreement" shall mean any agreement whether written or oral entered into between Tenant and any other party (including any Affiliated Person as to Tenant) pursuant to which management services are provided to all or substantially all of any Facility, together with all amendments, modifications or supplements thereto.

1.63 "Manager" shall mean the management party under any Management Agreement

1.64 "Minimum Rent" shall mean the following monthly sums with respect to the Fixed Term:

| Lease Year | Minimum Rent | Lease Year |
|------------|----------------|------------|
| 1 | \$3,476,666.67 | |
| 2 | \$3,650,500.00 | |
| 3 | \$3,833,025.00 | |
| 4 | \$4,024,676.25 | |
| 5 | \$4,225,910.06 | |
| 6 | \$4,437,205.56 | |
| 7 | \$4,659,065.84 | |
| 8 | \$4,892,019.13 | |
| 9 | \$5,136,620.09 | |
| 10 | \$5,393,451.09 | |
| 11 | \$5,663,123.64 | |
| 12 | \$5,946,279.82 | |

With respect to each Extended Term, the Minimum Rent shall be an amount determined in accordance with Section 2.5.

1.65 "Notice" shall mean a notice given in accordance with Section 22.11.

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1.66 "Non-Priority Additional Rent" shall mean the installments of additional rent with respect to any Lease Year in excess of the Priority Additional Rent Base Amount.

1.67 "Officer's Certificate" shall mean a certificate signed by an officer of Tenant.

1.68 "OpCo" shall have the meaning given such term in the preamble to this Agreement.

1.69 "Overdue Rate" shall mean, on any date, a per annum rate of interest equal to the lesser of the Prime Rate plus six (6) percentage points and the maximum rate then permitted under applicable law.

1.70 "Parent" shall mean, with respect to any Person, any Person which owns directly, or indirectly through one or more Subsidiaries, more than fifty percent (50%) of beneficial equity interest in such Person.

1.71 "Permitted Encumbrances" shall mean with respect to any of the Collective Leased Properties, all rights, restrictions, and easements of record set forth on Schedule B to the applicable owner's or leasehold title insurance policy

issued to Landlord on the date hereof, plus any other such encumbrances as may have been consented to in writing by Landlord from time to time, plus items that constitute Permitted Exceptions under and as that term is defined in the Purchase Agreement.

1.72 "Person" shall mean any individual or Entity, and the heirs, executors, administrators, legal representatives, successors and assigns of such Person where the context so admits.

1.73 "Philadelphia Facility" shall mean the "Charter Fairmount" Facility currently under renovation and located in Philadelphia, Pennsylvania.

1.74 "Primary Intended Use" shall have the meaning given such term in Section 4.1.1.

1.75 "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by The Chase Manhattan Bank (or its successor) as its prime rate in effect at its principal office in New York City, New York.

1.76 "Priority Additional Rent Base Amount" for any Lease Year shall mean an amount of Additional Rent equal to Ten Million Dollars (\$10,000,000); provided, however, that if Landlord funds, or makes an irrevocable commitment to fund, Capital Expenditures for any Lease Year in an amount in excess of Ten Million Dollars (\$10,000,000) at Tenant's request, then the Priority Additional Rent Base Amount for such Lease Year shall be increased to the amount of Capital Expenditures funded or committed to be funded by Landlord for such Lease Year. Notwithstanding the foregoing, in the event that, and for so long as, the accrued and unpaid Franchise Fees, including interest thereon, if any, equal or exceed Fifteen Million Dollars

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(\$15,000,000), then the Priority Additional Rent Base Amount for any such Lease Year shall be reduced to \$0.00; provided, however, that if Landlord funds, or makes an irrevocable commitment to fund, Capital Expenditures for any Lease Year in any amount at Tenant's request, then the Priority Additional Rent Base Amount for such Lease Year shall be increased from \$0.00 to the amount of Capital Expenditures funded or committed to be funded by Landlord for such Lease Year. The Priority Additional Rent Base Amount shall be computed monthly in advance of the payment of Rent due hereunder for the next succeeding month. Such calculation shall be made on the 25th day of the month, unless the 25th day of the month is not a Business Day, in which event such calculation for such month shall be made on the first Business Day following such 25th day. Notwithstanding anything set forth above to the contrary, if any request by Tenant to Landlord for a disbursement of the Allowance in any Fiscal Year is for an amount in excess of the amount budgeted for capital expenditures in Tenant's approved annual budget for such Fiscal Year, then the Priority Additional Rent Base Amount shall not be increased as provided above to the extent that the amount of such request is above the budgeted amount unless such request is accompanied by Franchisor's consent to such requested amount.

1.77 "Purchase Agreement" shall have the meaning given such term in Section 22.15 hereof.

1.78 "Qualified Affiliate" shall mean any (x) Parent or Subsidiary of OpCo, or (y) partnership or limited liability company in which OpCo has an ownership interest of not less than 25%, whether or not such interest is controlling.

1.79 "Qualified Appraiser" shall mean an appraiser who is not in control of, controlled by or under common control with either Landlord or Tenant and has not been an employee of Landlord or Tenant or any Affiliated Person with respect to either of Landlord or Tenant at any time, who is qualified to appraise commercial real estate in the State and is a member of the American Institute of Real Estate Appraisers (or any successor association or body of comparable

standin if such Institute is not then in existence) and who has held his or her certificate as an M.A.I, or its equivalent for a period of not less than three (3) years, and has been actively engaged in the appraisal of commercial real estate in such area for a period of not less than five (5) years, immediately preceding his or her appointment hereunder.

1.80 "Regulated Medical Wastes" shall mean all materials generated by Tenant, subtenants, patients, occupants or the operators of the Collective Leased Properties which are now or may hereafter be subject to regulation pursuant to the Material Waste Tracking Act of 1988, or any Applicable Laws promulgated by any Government Agencies.

1.81 "Rent" shall mean, collectively, the Minimum Rent, Additional Rent and Additional Charges.

1.82 "SEC" shall mean the Securities and Exchange Commission.

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1.83 "State" shall mean, as to each Leased Property, the state in which such Leased Property is located.

1.84 "Subordinated Creditor" shall mean any creditor of Tenant which is a party to a Subordination Agreement in favor of Landlord.

1.85 "Subordination Agreement" shall mean any agreement executed by a Subordinated Creditor pursuant to which the payment and performance of Tenant's obligations to such Subordinated Creditor are subordinated to the payment and performance of Tenant's obligations to Landlord under this Agreement.

1.86 "Subsidiary" shall mean, with respect to any Person, any Entity in which such Person owns directly, or indirectly through one or more Subsidiaries, more than fifty percent (50%) of the beneficial equity interest of such Person.

1.87 "Substitute Leased Property" shall have the meaning given such term in Section 22.15 hereof.

1.88 "Substitution Date" shall have the meaning given such term in Section 22.15 hereof.

1.89 "Tenant" shall mean OpCo and the Facility Subsidiaries listed in Exhibit B, jointly and severally.

1.90 "Tenant's Personal Property" shall mean all tangible personal property now owned or hereafter acquired by Tenant on or after the date hereof and located at any of the Collective Leased Properties or used in connection with Tenant's business at any of the Collective Leased Properties, including, without limitation, all motor vehicles and consumable inventory and supplies, furniture, furnishings, movable walls and partitions, equipment and machinery and all other tangible personal property of Tenant, and all modifications, replacements, alterations and additions to such personal property installed at the expense of Tenant.

1.91 "Term" shall mean, collectively, the Fixed Term and the Extended Terms, to the extent properly exercised pursuant to the provisions of Section 2.4, unless sooner terminated pursuant to the provisions of this Agreement.

1.92 "Unsuitable for Its Primary Intended Use" shall mean, with respect to any Facility, a state or condition of such Facility such that (a) following any

damage or destruction involving such Leased Property, such Leased Property cannot reasonably be expected to be restored to substantially the same condition as existed immediately before such damage or destruction, and as otherwise required by Section 10.2.3, within six (6) months following such damage or destruction or such shorter period of time as to which business interruption insurance

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is available to cover Rent and other costs related to such Leased Property following such damage or destruction, or (b) as the result of a partial taking by Condemnation, such Facility cannot be operated, in the good faith judgment of OpCo, on a commercially practicable basis for its Primary Intended Use taking into account, among other relevant factors, the number of usable beds, the amount of square footage, or the revenues affected by such damage or destruction or partial taking.

1.93 "Work" shall have the meaning given such term in Section 10.2.3.

2

COLLECTIVE LEASED PROPERTIES AND TERM

2.1 Collective Leased Properties.

Upon and subject to the terms and conditions hereinafter set forth, Landlord leases to Tenant and Tenant leases from Landlord all of the following (collectively, the "Collective Leased Properties"):

(a) those certain tracts, pieces and parcels of land conveyed to Landlord pursuant to Deeds dated on or about the date hereof, the common names and street addresses of which are set forth in Exhibit A attached hereto (the "Land");

(b) all buildings, structures, Fixtures and other improvements of every kind including, but not limited to, alleyways and connecting tunnels, sidewalks, utility pipes, conduits and lines (on-site and off-site), parking areas and roadways appurtenant to such buildings and structures presently situated upon the Land and all Capital Additions (collectively, the "Leased Improvements");

(c) all easements, rights and appurtenances relating to the Land and the Leased Improvements;

(d) all equipment, machinery, fixtures, and other items of property, now or hereafter permanently affixed to or incorporated into the Leased Improvements, including, without limitation, all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus, sprinkler systems and fire and theft protection equipment, all of which, to the maximum extent permitted by law, are hereby deemed by the parties hereto to constitute real estate, together with all replacements, modifications, alterations and additions thereto, but specifically excluding Tenant's Personal Property (collectively, the "Fixtures");

(e) all machinery, equipment, furniture, furnishings, moveable walls or partitions, computers or trade fixtures or other personal property of any kind or description used or

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useful in Tenant's business on or in the Leased Improvements, and located on or in the Leased Improvements, including, without limitation, all "Personal Property" as defined in the Purchase Agreement, and all modifications, replacements, alterations and additions to such personal property, except items, if any, included within the category of Fixtures, but specifically excluding Tenant's Personal Property (collectively, the "Leased Personal Property"); and

(f) all leases of space (including any security deposits held by Tenant pursuant thereto) in the Leased Improvements to tenants thereof.

Landlord hereby assigns to Tenant, and Tenant hereby assumes, all of the leases described in clause (f) immediately preceding, such assumption being to the full extent set forth in the Assignment of Leases executed at the closing pursuant to the Purchase Agreement. In connection therewith, Tenant agrees to perform any and all covenants of landlord thereunder, past, present and future. Notwithstanding the foregoing, such leases shall, without the necessity of further documentation, be deemed reassigned to Landlord upon the expiration or earlier termination of the Term. In connection with any reassignment thereof occurring following an Event of Default hereunder, such reassignment shall not release Tenant from any liability thereunder with respect to the period ending prior to the expiration of the Term.

2.2 Condition of Collective Leased Properties.

Tenant acknowledges receipt and delivery of possession of the Collective Leased Properties and Tenant accepts the Collective Leased Properties in their "as is" condition, subject to the rights of all occupants and parties in possession, the existing state of title, including all covenants, conditions, restrictions, reservations, mineral leases, easements and other matters of record or that are visible or apparent on the Collective Leased Properties, all applicable Legal Requirements, the lien of financing instruments, mortgages and deeds of trust, and such other matters which would be disclosed by an inspection of the Collective Leased Properties and the record title thereto or by an accurate survey thereof. TENANT REPRESENTS THAT IT HAS INSPECTED THE COLLECTIVE LEASED PROPERTIES AND ALL OF THE FOREGOING AND HAS FOUND THE CONDITION THEREOF SATISFACTORY AND IS NOT RELYING ON ANY REPRESENTATION OR WARRANTY OF LANDLORD OR LANDLORD'S AGENTS OR EMPLOYEES WITH RESPECT THERETO, AND TENANT WAIVES ANY CLAIM OR ACTION AGAINST LANDLORD IN RESPECT OF THE CONDITION OF THE COLLECTIVE LEASED PROPERTIES. LANDLORD MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, IN RESPECT OF THE COLLECTIVE LEASED PROPERTIES OR ANY PART THEREOF, EITHER AS TO ITS FITNESS FOR USE, DESIGN OR CONDITION FOR ANY PARTICULAR USE OR PURPOSE OR OTHERWISE, OR AS TO THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN, LATENT OR PATENT, IT BEING AGREED THAT ALL SUCH RISKS ARE TO BE BORNE BY TENANT. To the maximum extent permitted by law, however, Landlord hereby assigns to Tenant all of Landlord's rights to proceed against any predecessor in title for breaches of warranties or representations or for latent defects in the

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Collective Leased Properties. Landlord shall fully cooperate with Tenant in the prosecution of any such claims, in Landlord's or Tenant's name, all at Tenant's sole cost and expense. Tenant shall indemnify, defend, and hold harmless Landlord from and against any loss, cost, damage or liability (including reasonable attorneys' fees) incurred by Landlord in connection with such cooperation.

2.3 Fixed Term.

The initial term of this Agreement (the "Fixed Term") shall commence at 12:01 a.m. on the Commencement Date and shall expire at 11:59 p.m. on the last day of the twelfth (12th) Lease Year.

2.4 Extended Term.

Provided that no Default or Event of Default shall have occurred and be continuing and this Agreement shall be in full force and effect, Tenant shall, subject to Section 2.5 below, have the right to extend the Term for each of four (4) consecutive five (5)-year renewal terms (collectively, the "Extended Terms") for all, and not less than all, of the Collective Leased Properties.

Each Extended Term shall commence on the day succeeding the expiration of the Fixed Term or the preceding Extended Term, as the case may be. All of the terms, covenants and provisions of this Agreement (including but not limited to those with respect to Additional Rent and payments of the Allowance) shall apply to each such Extended Term, except that (x) the Minimum Rent for each Extended Term shall be the Fair Market Rental for such Extended Term and shall be determined pursuant to Section 2.5 below and (y) Tenant shall have no right to extend the Term beyond the expiration of the Extended Terms. If Tenant shall elect to exercise any of the aforesaid options, it shall do so by giving Landlord Notice thereof not later than one (1) year prior to the scheduled expiration of the then current Term of this Agreement (Fixed Term or Extended Term, as the case may be), it being understood and agreed that time shall be of the essence with respect to the giving of such Notice. Tenant may not exercise its option for more than one such Extended Term at a time. If Tenant shall fail to give any such Notice, this Agreement shall automatically terminate at the end of the Term then in effect and Tenant shall have no further option to extend the Term of this Agreement. If Tenant shall give such Notice, the extension of this Agreement shall be automatically effected without the execution of any additional documents, it being understood and agreed, however, that Tenant and Landlord shall execute such documents and agreements as either party shall reasonably require to evidence the same. Notwithstanding the provisions of the foregoing sentence, if, subsequent to the giving of such Notice, an Event of Default shall occur and be continuing, unless Landlord shall otherwise consent in writing, the extension of this Agreement shall cease to take effect and this Agreement shall automatically terminate at the end of the Term then in effect and Tenant shall have no further option to extend the Term of this Agreement.

2.5 Determination of Minimum Rent for Extended Terms.

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The Minimum Rent for each Extended Term shall be equal to the amount set forth in clause (x) in Section 2.4 above and shall be determined by the mutual agreement of Landlord and Tenant within thirty (30) days after Landlord receives Tenant's Notice exercising its option to extend with respect to such Extended Term, but in no event earlier than twelve (12) months prior to the commencement of the applicable Extended Term. In the event Landlord and Tenant are unable to agree on the Minimum Rent for such Extended Term within such period, such Minimum Rent shall be determined pursuant to appraisal in accordance with Article 19.

3

RENT

3.1 Rent.

Tenant shall pay to Landlord, in lawful money of the United States of America which shall be legal tender for the payment of public and private debts, without offset, abatement, demand or deduction, Minimum Rent, Additional Rent and Additional Charges, during the Term, except as hereinafter expressly provided. All payments to Landlord shall be made by wire transfer of immediately available federal funds or by other means acceptable to Landlord and Tenant, each in its sole discretion. Rent for any partial month shall be prorated on a per diem basis based on a 365-day year and the actual number of days elapsed.

3.1.1 Minimum Rent.

Minimum Rent shall be paid in advance on the first day of each calendar month; provided, however, that the first monthly installment of Minimum Rent shall be payable on the Commencement Date.

3.1.2 Additional Rent.

Additional Rent shall be paid in advance on the first day of each calendar month; provided, however, that the first monthly installment of Additional Rent shall be payable on the Commencement Date. Except as otherwise set forth in Section 12.1(a) hereof, Tenant's failure to pay Additional Rent shall not constitute a Default or Event of Default hereunder.

3.1.3 Additional Charges.

In addition to the Minimum Rent and Additional Rent payable hereunder, Tenant shall pay and discharge as and when due and payable the following (collectively, "Additional Charges"):

- (a) Impositions. Subject to Article 8 relating to Permitted Contests, Tenant shall pay, or cause to be paid, all Impositions before any fine, penalty, interest or cost (other

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than any opportunity cost as a result of a failure to take advantage of any discount for early payment) may be added for non-payment, such payments to be made directly to the taxing authorities where feasible, and shall promptly, upon request, furnish to Landlord copies of official receipts or other satisfactory proof evidencing such payments. If any such Imposition may, at the option of the taxpayer, lawfully be paid in installments (whether or not interest shall accrue on the unpaid balance of such Imposition), Tenant may exercise the option to pay the same (and any accrued interest on the unpaid balance of such Imposition) in installments and, in such event, shall pay such installments during the Term as the same become due and before any fine, penalty, premium, further interest or cost may be added thereto. Landlord, at its expense, shall, to the extent required or permitted by applicable law, prepare and file all tax returns in respect of Landlord's net income, gross receipts, sales and use, single business, transaction privilege, rent, ad valorem, franchise taxes and taxes on its capital stock, and Tenant, at its expense, shall, to the extent required or permitted by applicable laws and regulations, prepare and file all other tax returns and reports in respect of any Imposition as may be required by any government or Government Agency. Provided no Default or Event of Default shall have occurred and be continuing, if any refund shall be due from any taxing authority in respect of any Imposition paid by Tenant, the same shall be paid over to or retained by Tenant. Landlord and Tenant shall, upon request of the other, provide such data as is maintained by the party to whom the request is made with respect to the Collective Leased Properties as may be necessary to prepare any required returns and reports. In the event Government Agencies classify any property covered by this Agreement as personal property, Tenant shall file all personal property tax returns in such jurisdictions where it may legally so file. Each party shall, to the extent it possesses the same, provide the other, upon request, with cost and depreciation records necessary for filing returns for any property so classified as personal property. Where Landlord is legally required to file personal property tax returns, Landlord shall provide Tenant with copies of assessment notices in sufficient time for Tenant to file a protest. All Impositions assessed against such personal property shall be (irrespective of whether Landlord or Tenant shall file the relevant return) paid by Tenant not later than the last date on which the same may be made without interest or penalty. If the provisions of any Facility Mortgage require deposits on account of Impositions to be made with such Facility Mortgagee, provided the Facility Mortgagee has not elected to waive such provision, Tenant shall either pay Landlord the

monthly amounts required at the time and place that payments of Minimum Rent are required and Landlord shall transfer such amounts to such Facility Mortgagee or, pursuant to written direction by Landlord, Tenant shall make such deposits directly with such Facility Mortgagee. Landlord shall, however, use commercially reasonable best efforts to cause any Facility Mortgagee not to impose such obligation on Tenant.

Landlord shall give prompt Notice to Tenant of all Impositions payable by Tenant hereunder of which Landlord at any time has knowledge; provided, however, that Landlord's failure to give any such Notice shall in no way diminish Tenant's obligation hereunder to pay such Impositions, except that Landlord shall (unless Tenant itself knew, or should have known,

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about the existence of such Impositions obligation) pay all penalties, fines and other expenses arising out of Landlord's failure to give such Notice.

(b) Utility Charges. Tenant shall pay or cause to be paid all charges for electricity, power, gas, oil, water and other utilities used in connection with the Collective Leased Properties.

(c) Insurance Premiums. Tenant shall pay or cause to be paid all premiums for the insurance coverage required to be maintained pursuant to Article 9.

(d) Other Charges. Tenant shall pay or cause to be paid all other amounts, liabilities and obligations which Tenant assumes or agrees to pay under this Agreement, including, without limitation, all agreements to indemnify Landlord under Sections 4.4 and 9.7.

(e) Prorations. Tenant shall pay or cause to be paid all amounts required to be paid by OpCo under Section 10.4 of the Purchase Agreement.

(f) Reimbursement for Additional Charges. If Tenant pays or causes to be paid property taxes or similar Additional Charges attributable to periods after the end of the Term, whether upon expiration or sooner termination of this Agreement (other than termination following an Event of Default), Tenant may, within sixty (60) days of the end of the Term, provide Notice to Landlord of its estimate of such amounts. Landlord shall promptly reimburse Tenant for all payments of such taxes and other similar Additional Charges that are attributable to any period after the Term of this Agreement (unless this Agreement shall have been terminated following an Event of Default). Tenant acknowledges that it has no claims against Landlord for Additional Charges attributable to the periods prior to the first day of the Term.

3.2 Late Payment of Rent.

If any installment of (i) Minimum Rent, (ii) Additional Rent (with respect to which Landlord has made a disbursement of the Allowance) or (iii) Additional Charges (but only as to those Additional Charges which are payable directly to Landlord) shall not be paid on its due date, Tenant shall pay Landlord, on demand, as Additional Charges, a late charge (to the extent permitted by law) computed at the Overdue Rate on the amount of such installment, from the due date of such installment to the date of payment thereof. To the extent that Tenant pays any Additional Charges directly to Landlord or any Facility Mortgagee pursuant to any requirement of this Agreement, Tenant shall be relieved of its obligation to pay such Additional Charges to the Entity to which they would otherwise be due.

In the event of any failure by Tenant to pay any Additional Charges when due, Tenant shall promptly pay and discharge, as Additional Charges, every fine, penalty, interest and cost which may be added for non-payment or late payment of such items. Landlord shall have all legal, equitable and contractual rights,

powers and remedies provided either in this Agreement or by statute or otherwise in the case of non-payment of the Additional Charges as in the case of non-payment of

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the Minimum Rent and Additional Rent, except as otherwise specifically provided in this Agreement.

3.3 Net Lease.

The Minimum Rent shall be absolutely net to Landlord so that this Agreement shall yield to Landlord the full amount of the installments or amounts of Minimum Rent throughout the Term, subject to any other provisions of this Agreement which expressly provide for adjustment of such Minimum Rent.

3.4 No Termination, Abatement, Etc.

Except as otherwise specifically provided in this Agreement, Tenant, to the maximum extent permitted by law, shall remain bound by this Agreement in accordance with its terms and shall neither take any action without the consent of Landlord to modify, surrender or terminate this Agreement, nor seek, nor be entitled to any abatement, deduction, deferment or reduction of the Rent, or set-off against the Rent, nor shall the respective obligations of Landlord and Tenant be otherwise affected by reason of (a) any damage to or destruction of any of the Collective Leased Properties or any portion thereof from whatever cause or any Condemnation; (b) the lawful or unlawful prohibition of, or restriction upon, Tenant's use of any of the Collective Leased Properties, or any portion thereof, or the interference with such use by any Person or by reason of eviction by paramount title; (c) any claim which Tenant may have against Landlord by reason of any default or breach of any warranty by Landlord under this Agreement or any other agreement between Landlord and Tenant, or to which Landlord and Tenant are parties; (d) any bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding up or other proceedings affecting Landlord or any assignee or transferee of Landlord; or (e) for any other cause whether similar or dissimilar to any of the foregoing. Tenant hereby waives all rights arising from any occurrence whatsoever, which may now or hereafter be conferred upon it by law, to (i) modify, surrender or terminate this Agreement or quit or surrender any of the Collective Leased Properties or any portion thereof, or (ii) entitle Tenant to any abatement, reduction, suspension or deferment of the Rent or other sums payable or other obligations to be performed by Tenant hereunder, except as otherwise specifically provided in this Agreement. The obligations of Tenant hereunder shall be separate and independent covenants and agreements, and the Rent and all other sums payable by Tenant hereunder shall continue to be payable in all events unless the obligations to pay the same shall be terminated pursuant to the express provisions of this Agreement.

3.5 Annual Allowance.

Provided no Default or Event of Default pursuant to Section 12.1(a) hereof has occurred and is continuing and this Agreement shall be in full force and effect, Landlord shall pay the Allowance to, or at the direction of, Tenant during each Lease Year of the Term. At least Ten Million Dollars (\$10,000,000) of the Allowance shall be used to pay for Capital Expenditures made during such Lease Year. At Tenant's election, Tenant shall have the right to use up to Ten Million Dollars (\$10,000,000) of the Allowance to pay for Impositions, premiums for insurance required pursuant

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to Article 9 hereof and franchise fees due and owing under the Franchise Agreement. Anything in this Agreement to the contrary notwithstanding, any and all assets paid for (or which are the subject of reimbursements to Tenant) by

disbursements of the Allowance with respect to Capital Expenditures shall immediately be the property of Landlord and constitute part of the Collective Leased Properties. Any portion of the Allowance not utilized in a particular Lease Year shall, subject to the sentence immediately following, remain available for use in subsequent Lease Years. Notwithstanding the foregoing (x) in the event less than \$10,000,000 of the Allowance for any Lease Year is used to pay for Capital Expenditures, then a portion of any amount remaining to be used in subsequent Lease Years shall be used only for Capital Expenditures, such portion being equal to the amount by which Capital Expenditures funded with the Allowance for such Lease Year were less than \$10,000,000 and (y) in the event any portion of the Allowance (including amounts accrued from prior Lease Years) is not utilized as of the last day of the Term, such amount shall be deemed forfeited and Tenant will receive no payment or credit with respect thereto.

In order to receive a disbursement of the Allowance, Tenant shall submit to Landlord (but not more often than twice monthly) a statement, certified pursuant to an Officer's Certificate transmitted therewith, setting forth in reasonable detail a description of the Capital Expenditures, impositions, premiums for insurance required pursuant to Article 9 hereof, and Franchise Fees incurred or owing during such Lease Year and for which an Allowance disbursement is sought. Such Officer's Certificate shall certify that the expenditures for which reimbursement is sought are either within Tenant's approved annual budget or have been approved by Franchisor. Within five (5) Business Days after receipt thereof, Landlord shall reimburse to Tenant (or, upon Tenant's written direction, included along with such certified statement, pay third-party contractors or vendors identified therein) appropriate amounts requested. Upon two (2) Business Days prior Notice Landlord shall have the right to audit Tenant's books and records to confirm the accuracy of any such statement.

The foregoing provision hereof notwithstanding, in no event shall Landlord be obligated (x) to make disbursements in any Lease Year in excess of Ten Million Dollars (\$10,000,000) with respect to impositions, premiums for insurance required pursuant to Article 9 hereof, and Franchise Fees, except to the extent that any amounts carry over from previous years pursuant to the first paragraph of Section 3.5, (y) to make disbursements with respect to any Lease Year in excess of the Additional Rent theretofore paid for such Lease Year, except to the extent that any amounts carry over from previous years pursuant to the first paragraph of Section 3.5 or (z) to make any disbursements of the Allowance if Tenant has failed to pay any monthly installments of Additional Rent at least equal to such disbursements.

4

USE OF THE COLLECTIVE LEASED PROPERTIES

4.1 Permitted Use.

4.1.1 Primary Intended Use.

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Tenant shall, at all times during the Term and at any other time that Tenant shall be in possession of any Leased Property, subject to Section 4.5 hereof, continuously use each of the Collective Leased Properties for the operation of a licensed acute or chronic care psychiatric hospital; licensed residential treatment center; licensed subacute hospital; licensed substance abuse, neurological, geriatric, correctional, juvenile justice or other healthcare service facility providing inpatient care; outpatient facility; or any combination of the foregoing; and the healthcare services provided by or at a Leased Property may include inpatient hospitalization, partial hospitalization programs, outpatient therapy, intensive outpatient therapy, ambulatory detoxification, behavioral modification programs and related services (provided such related services constitutes services intended to be provided as part of the "Franchised Business," as such term is defined in the Franchise Agreement), and for such other uses as may be incidental or necessary thereto, including the operation of any medical office buildings located on any such Leased Property

(such use being hereinafter referred to as such Leased Property's "Primary Intended Use"). Tenant shall not use any of the Collective Leased Properties or any portion thereof for any other use without the prior written consent of Landlord. No use shall be made or permitted to be made of any of the Collective Leased Properties and no acts shall be done thereon which will cause the cancellation of any insurance policy covering any of the Collective Leased Properties or any part thereof (unless another adequate policy is available), nor shall Tenant sell or otherwise provide to residents or patients therein, or permit to be kept, used or sold in or about any of the Collective Leased Properties any article which may be prohibited by law or by the standard form of fire insurance policies, or any other insurance policies required to be carried hereunder, or fire underwriter's regulations. Tenant shall, at its sole cost, comply with all of the requirements pertaining to the Collective Leased Properties of any insurance board, association, organization or company necessary for the maintenance of insurance, as herein provided, covering the Collective Leased Properties and Tenant's Personal Property, including, without limitation, the Insurance Requirements. Tenant shall not take or omit to take any action, the taking or omission of which materially impairs the value or the usefulness of any of the Collective Leased Properties or any part thereof for its Primary Intended Use.

4.1.2 Necessary Approvals.

Tenant shall proceed with all due diligence and exercise best efforts to obtain and maintain all approvals necessary to use and operate, for its Primary Intended Use, each of the Collective Leased Properties and each Facility located thereon under applicable law and, without limiting the foregoing, shall use its commercially reasonable best efforts to maintain appropriate licensure and participation in those reimbursement programs for which a Facility is eligible and in which management of the Facility desires to participate.

4.1.3 Lawful Use, Etc.

Tenant shall not use or suffer or permit the use of any of the Collective Leased Properties or Tenant's Personal Property for any unlawful purpose. Tenant shall not commit or suffer to be committed any waste on any of the Collective Leased Properties, or in any Facility, nor shall Tenant cause or permit any nuisance thereon or therein. Tenant shall neither suffer nor permit

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any of the Collective Leased Properties or any portion thereof, including any Capital Addition or Tenant's Personal Property, to be used in such a manner as (i) might reasonably tend to impair Landlord's (or Tenant's, as the case may be) title thereto or to any portion thereof, or (ii) may reasonably make possible a claim or claims for adverse usage or adverse possession by the public, as such, or of implied dedication of the applicable Leased Property or any portion thereof.

4.2 Compliance with Legal and Insurance Requirements, Etc.

Subject to the provisions of Article 8, Tenant, at its sole expense, shall (i) comply in all material respects with Legal Requirements and Insurance Requirements in respect of the use, operation, maintenance, repair, alteration and restoration of all of the Collective Leased Properties, and (ii) procure, maintain and comply in all material respects with all appropriate licenses, certificates of need, permits, and other authorizations and agreements required for any use of the Collective Leased Properties and Tenant's Personal Property then being made, and for the proper erection, installation, operation and maintenance of the Collective Leased Properties or any part thereof, including, without limitation, any Capital Additions.

4.3 Compliance with Medicaid and Medicare Requirements.

Tenant shall, at its sole cost and expense, make whatever improvements (capital or ordinary) as are required to conform each of the Collective Leased Properties to such standards as may, from time to time, be required by Federal Medicare (Title 18) or Medicaid (Title 19), to the extent Tenant is a participant in such programs or any other applicable programs or legislation, or capital improvements required by any other governmental agency having jurisdiction over such Leased Property as a condition of the continued operation of such Leased Property for its Primary Intended Use.

4.4 Environmental Matters.

4.4.1 Restriction on Use, Etc.

Tenant shall not store, spill upon, dispose of or transfer to or from the Collective Leased Properties any Hazardous Substance, except that Tenant may store, transfer and dispose of Hazardous Substances in compliance with all Applicable Laws. Tenant shall maintain the Collective Leased Properties at all times free of any Hazardous Substance (except such Hazardous Substances as are maintained in compliance with all Applicable Laws). Tenant shall promptly: (a) notify Landlord in writing of any material change in the nature or extent of Hazardous Substances at any of the Collective Leased Properties, (b) transmit to Landlord a copy of any Community Right to Know report which is required to be filed by Tenant with respect to any of the Collective Leased Properties pursuant to SARA Title III or any other Applicable Law, (c) transmit to Landlord copies of any demand letters, complaints or other documents initiating legal action, citations, orders, notices or other material communications asserting claims by private parties or government agencies with respect to Hazardous Substances received by Tenant or its agents or representatives (collectively, "Environmental Notice"), which Environmental Notice requires a written response or any action

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to be taken and/or if such Environmental Notice gives notice of and/or could give rise to a material violation of any Applicable Law and/or could give rise to any material cost, expense, loss or damage (an "Environmental Obligation"), (d) observe and comply with all Applicable Laws relating to the use, maintenance and disposal of Hazardous Substances and all orders or directives from any official, court or agency of competent jurisdiction relating to the use or maintenance or requiring the removal, treatment, containment or other disposition thereof, and (e) pay or otherwise dispose of any fine, charge or Imposition related thereto, unless Tenant shall contest the same in good faith and by appropriate proceedings and the right to use and the value of any of the Collective Leased Properties is not materially and adversely affected thereby.

If at any time Hazardous Substances are discovered in violation of Applicable Laws on any of the Collective Leased Properties, Tenant shall take all actions and incur any and all expenses, as may be necessary or as may be required by any Government Agency, (i) to clean up and remove from and about such Leased Properties all Hazardous Substances thereon, (ii) to contain and prevent any further release or threat of release of Hazardous Substances on or about such Leased Properties and (iii) to use good faith efforts to eliminate any further release or threat of release of Hazardous Substances on or about such Leased Properties.

4.4.2 Environment Report.

Six (6) months prior to expiration of the Term, Tenant shall designate a qualified environmental engineer, satisfactory to Landlord in its sole discretion, which engineer shall conduct an environmental investigation of the Collective Leased Properties and prepare an environmental site assessment report (the "Environmental Report") with respect thereto. The scope of such Environmental Report shall include, without limitation, review of relevant records, interviews with persons knowledgeable about the Collective Leased Properties and relevant governmental agencies, a site inspection of the Collective Leased Properties, any buildings, the fencelines of the Collective

Leased Properties and adjoining properties (Phase I) and shall otherwise be reasonably satisfactory in form and substance to Landlord. If such investigation, in the opinion of the performing engineer, indicates that any of the Collective Leased Properties are not environmentally sound and free from oil, asbestos, radon and other Hazardous Substances (except in compliance with Applicable Laws), such investigation shall also include a more detailed physical site inspection, appropriate testing, subsurface and otherwise, and review of historical records (Phase II) to demonstrate the compliance of such of the Collective Leased Properties with Applicable Laws and the absence of Hazardous Substances except in compliance with Applicable Laws.

All Environmental Reports, and supplements and amendments thereto, shall be provided to Landlord contemporaneously with delivery thereof to Tenant. With respect to any recommendations contained in the Environmental Report, violations of Applicable Laws and/or the existence of any conditions at any of the Collective Leased Properties which could give rise to an Environmental Obligation, Tenant shall promptly give Notice thereof to Landlord, together with a description, setting forth in reasonable detail, all actions Tenant proposes to take in connection therewith and Tenant shall promptly take all actions, and incur any and all expenses, as may be required by Applicable Law or by any Government Agency or, in the case of conditions that could give rise to

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an Environmental Obligation, as may be reasonably required by Landlord, (i) to clean up, remove or remediate from and about the Collective Leased Properties all Hazardous Substances thereon, (ii) to contain, prevent and eliminate any further release or threat of release of Hazardous Substances on or about the Collective Leased Properties, and (iii) otherwise to eliminate such violation or condition from the Collective Leased Properties in accordance with Applicable Law .

Landlord shall, provided no Event of Default has occurred and is continuing, Landlord shall, upon receipt of a bill, along with reasonable substantiation thereof, promptly reimburse Tenant for the reasonable out-of-pocket costs incurred in the preparation of the Phase I Environmental Report. In no event shall Landlord be obligated to pay or reimburse Tenant for the costs incurred in connection with any Phase II Report or in connection with any actions taken or proposed to be taken by Tenant as described in the immediately preceding paragraph.

4.4.3 Indemnification of Landlord.

Tenant shall protect, indemnify and hold harmless Landlord and each Facility Mortgagee, their trustees, officers, agents, employees and beneficiaries, and any of their respective successors or assigns (hereafter the "Indemnities," and when referred to singly, an "Indemnatee") for, from and against any and all debts, liens, claims, causes of action, administrative orders or notices, costs, fines, penalties or expenses (including, without limitation, reasonable attorneys' fees and expenses) imposed upon, incurred by or asserted against any Indemnatee resulting from, either directly or indirectly, the presence in, the Environment or any properties surrounding any of the Collective Leased Properties of any Hazardous Substances. Tenant's duty herein includes, but is not limited to, indemnification for costs associated with personal injury or property damage claims as a result of the presence of Hazardous Substances in, upon or under the soil or ground water of any of the Collective Leased Properties in violation of any Applicable Law. Upon Notice from Landlord, Tenant shall undertake the defense, at Tenant's sole cost and expense, of any indemnification duties set forth herein. The foregoing provisions hereof notwithstanding, Tenant's indemnification of any Facility Mortgagee pursuant to this Section 4.4.3 shall not extend to or include the investigation and defense expenses (including, but not limited to, legal and consulting fees and expenses) incurred by such Facility Mortgagee.

Tenant shall, upon demand, pay to Landlord, as an Additional Charge, any cost, expense, loss or damage (including, without limitation, reasonable attorneys' fees) incurred by Landlord in asserting any right under this Section

4.4, including without limitation any right of indemnity under this Section 4.4.3 or otherwise arising from a failure of Tenant strictly to observe and perform the foregoing requirements, which amounts shall bear interest from the date incurred until paid by Tenant to Landlord at the Overdue Rate.

4.4.4 Survival.

The provisions of this Section 4.4 shall survive the expiration or sooner termination of this Agreement.

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4.5 Tenant's Right to Close Facilities.

Provided that no Default or Event of Default (except pursuant to Section 12.1(e)) shall have occurred and be continuing, Tenant shall have the right at any time and from time to time, to cease its operations in any or all of the Facilities. Nothing herein shall entitle Tenant to any reduction in Rent or diminish any of Tenant's other obligations, including without limitation obligations to (x) maintain and insure any and all facilities, and (y) surrender each Facility upon expiration or sooner termination of the Term with all Tenant's Personal Property in place.

5

MAINTENANCE AND REPAIRS

5.1 Maintenance and Repair.

5.1.1 Tenant's Obligations.

Tenant shall, at its sole cost and expense, keep each of the Collective Leased Properties and all private roadways, sidewalks and curbs appurtenant thereto (and Tenant's Personal Property) in good order and repair, reasonable wear and tear excepted (whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements or the age of the Collective Leased Properties or Tenant's Personal Property, or any portion thereof), and shall promptly make all necessary and appropriate repairs and replacements thereto of every kind and nature, whether interior or exterior, structural or nonstructural, ordinary or extraordinary, foreseen or unforeseen or arising by reason of a condition existing prior to the commencement of the Term necessary for the Primary Intended Use (concealed or otherwise); provided, however, that Tenant shall be permitted to prosecute claims against Landlord's predecessors in title for breach of any representation or warranty made to or on behalf of Landlord or for any latent defects in the Collective Leased Properties. All repairs shall be made in a good, workmanlike and first-class manner, in accordance with all applicable federal, state and local statutes, ordinances, by-laws, codes, rules and regulations relating to any such work. Except as permitted by Section 4.5, Tenant shall not take or omit to take any action, the taking or omission of which materially impairs the value or the usefulness of any of the Collective Leased Properties or any part thereof for its respective Primary Intended Use. Tenant's obligations under this Section 5.1.1 as to any of the Collective Leased Properties shall be limited, in the event of any casualty or Condemnation involving such Leased Property, as set forth in Sections 10.2 and 11.2. Notwithstanding any provisions of this Section 5.1 to the contrary, Tenant's obligations with respect to Hazardous Substances are as set forth in Section 4.4.

5.1.2 Landlord's Obligations.

Landlord shall not, under any circumstances, be required to build or rebuild any improvement on the Collective Leased Properties, or to make any

repairs, replacements, alterations, restorations or renewals of any nature or description to the Collective Leased Properties, whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen, or to make any

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expenditure whatsoever with respect thereto, or to maintain the Collective Leased Properties in any way, except as specifically provided herein. Tenant hereby waives, to the maximum extent permitted by law, the right to make repairs at the expense of Landlord pursuant to any law in effect on the date hereof or hereafter enacted. Landlord shall have the right to give, record and post, as appropriate, notices of nonresponsibility under any mechanic's lien laws now or hereafter existing.

5.1.3 Nonresponsibility of Landlord; No Mechanics Liens.

Landlord's interest in the Collective Leased Properties shall not be subject to liens for Capital Additions made by Tenant, and Tenant shall have no power or authority to create any lien or permit any lien to attach to any of the Collective Leased Properties or the present estate, reversion or other estate of Landlord in the Collective Leased Properties or on the building or other improvements thereon as a result of Capital Additions made by Tenant or for any other cause or reason. All materialmen, contractors, artisans, mechanics and laborers and other persons contracting with Tenant with respect to the Collective Leased Properties, or any part thereof, are hereby charged with notice that such liens are expressly prohibited and that they must look solely to Tenant to secure payment for any work done or material furnished for Capital Additions by Tenant or for any other purpose during the term of this Agreement.

Nothing contained in this Agreement shall be deemed or construed in any way as constituting the consent or request of Landlord, express or implied, by inference or otherwise, to any contractor, subcontractor, laborer or materialmen for the performance of any labor or the furnishing of any materials for any alteration, addition, improvement or repair to any of the Collective Leased Properties or any part thereof or as giving Tenant any right, power or authority to contract for or permit the rendering of any services or the furnishing of any materials that would give rise to the filing of any lien against any of the Collective Leased Properties or any part thereof nor to subject Landlord's estate in any of the Collective Leased Properties or any part thereof to liability under any Mechanic's Lien Law of the State in any way, it being expressly understood that Landlord's estate shall not be subject to any such liability.

5.2 Tenant's Personal Property.

Tenant may (and shall as provided hereinbelow), at its expense, install, affix or assemble or place on any parcels of the Land or in any of the Leased Improvements any items of Tenant's Personal Property, and Tenant may, subject to Section 7.2 and the conditions set forth below, remove and replace the same at any time in the ordinary course of business, provided that no Default or Event of Default has occurred and is continuing. Tenant shall provide and maintain throughout the Term all such Tenant's Personal Property as shall be necessary in order to operate all of the Facilities located at the Collective Leased Properties in compliance in all material respects with all applicable licensure and certification requirements, in compliance with applicable Legal Requirements and Insurance Requirements and otherwise in accordance with customary practice in the industry for such Primary Intended Use. All of Tenant's Personal Property (except that removed and replaced in the ordinary course of business as permitted above, but including supplies and inventory that are equivalent, on an aggregate basis, in amount and value similar to that reasonably established for use

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by the Facilities in the immediately preceding Lease Year) shall remain at the Collective Leased Properties at the expiration or earlier termination of this Agreement without the necessity of any payment by Landlord to Tenant and without any obligation to account therefor.

If Tenant uses any material item of tangible personal property on, or in connection with, any Leased Property which belongs to anyone other than Tenant, Tenant shall use its commercially reasonable best efforts to require the agreement permitting such use to provide that Landlord or its designee may assume Tenant's rights under such agreement upon management or operation of the applicable Facility by Landlord or its designee.

5.3 Yield Up.

Upon the expiration or sooner termination of this Agreement, Tenant shall vacate and surrender each of the Collective Leased Properties to Landlord in the condition in which each of the Collective Leased Properties was in on the Commencement Date, except as repaired, rebuilt, restored, altered or added to as permitted or required by the provisions of this Agreement, reasonable wear and tear excepted (and Condemnation, in the event that this Agreement is terminated with respect to any of the Collective Leased Properties following a Condemnation in accordance with Article 11). Rents, real estate taxes and utilities shall be prorated in the same manner as set forth in Section 10.4 of the Purchase Agreement. Along therewith Tenant shall surrender to Landlord any and all records and documents related to the Collective Leased Properties and Tenant's Personal Property (i.e., but not, subject to Section 12.6 hereof, documents primarily related to Tenant's business operated therein) including documents and records obtained by Tenant pursuant to Section 10.2 of the Purchase Agreement. Landlord (or its designee) shall have the right, but not the obligation, to assume any or all contracts relating to the Collective Leased Properties and Tenant's Personal Property (i.e., contracts not primarily related to the business operated therein). In no event shall Landlord (or its designee) have any liability under such contracts for obligations or liabilities accruing under such contracts prior to the date of such assumption by such party. Tenant shall deliver to Landlord keys and security deposits (for assumed leases) in the same fashion as described in Sections 10.2(e) and 10.4(d) of the Purchase Agreement.

In addition, upon the expiration or earlier termination of this Agreement, Tenant shall, at Landlord's sole cost and expense, use its commercially reasonable best efforts to transfer to and cooperate with Landlord or Landlord's nominee in connection with the processing of all applications for licenses, operating permits and other governmental authorizations and all contracts, including contracts with governmental or quasi-governmental entities which may be necessary for the operation of the Facilities located on the Collective Leased Properties. If requested by Landlord, Tenant will continue to manage any such Facility after the expiration or sooner termination of the Term and for as long thereafter as is necessary (but not to exceed six (6) months following the date of such expiration or sooner termination) to obtain all necessary licenses, operating permits and other governmental authorizations, on such reasonable terms as Landlord shall request, but in any event Landlord shall pay to Tenant a management fee equal to the sum of (i) reasonable out-of-pocket costs and expenses of Tenant in providing management services, (ii) reasonable allocated internal costs of Tenant in providing management services (including but not limited to a reasonably

allocated portion of the salaries and benefits costs of Tenant personnel who provide such services), and (iii) 10% of the sum of (i) and (ii). In connection with any such management arrangement, Tenant will, use its commercially reasonable best efforts to the extent reasonable necessary, maintain in effect during the period of its management arrangement, those contracts, including (for sixty (60) days after such expiration or sooner termination, but after sixty (60) days, only if the Franchise Agreement has been assumed pursuant to Section 12.6) the Franchise Agreement, necessary for the performance of such management responsibilities and for the operation of the Facilities for the Primary Intended Use.

5.4 Encroachments, Restrictions, Etc.

If any of the Leased Improvements shall, at any time, encroach upon any property, street or right-of-way adjacent to the affected Leased Property, or shall violate the agreements or conditions contained in any lawful restrictive covenant or other agreement affecting any of the Collective Leased Properties, or any part thereof, or shall impair the rights of others under any easement or right-of-way to which any of the Collective Leased Properties is subject, upon the request of Landlord (but only as to any encroachment, violation or impairment that is not a Permitted Encumbrance) or of any Person affected by any such encroachment, violation or impairment, Tenant shall, at its sole cost and expense, subject to its right to contest the existence of any encroachment, violation or impairment in accordance with the provisions of Article 8, either (a) obtain valid and effective waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation or impairment, whether the same shall affect Landlord or Tenant, or (b) make such changes in the Leased Improvements and take such other actions as are reasonably practicable to remove such encroachment and to end such violation or impairment, including, if necessary, the alteration of any of the Leased Improvements and, in any event, take all such actions as may be necessary in order to ensure the continued operation of the affected Leased Improvements for their respective Primary Intended Use substantially in the manner and to the extent such Leased Improvements were operated prior to the assertion of such violation, impairment or encroachment. Any such alteration shall be made in conformity with the applicable requirements of this Article 5. Tenant's obligations under this Section 5.4 shall be in addition to and shall in no way discharge or diminish any obligation of any insurer under any policy of title or other insurance.

5.5 Landlord to Grant Easements, Etc.

Landlord shall from time to time, so long as no Default or Event of Default shall have occurred and be continuing, at the request of Tenant and at Tenant's sole cost and expense, (a) grant easements and other rights in the nature of easements with respect to any of the Collective Leased Properties to third parties, (b) release existing easements or other rights in the nature of easements which are for the benefit of any of the Collective Leased Properties, (c) dedicate or transfer unimproved portions of any of the Collective Leased Properties for road, highway or other public purposes, (d) execute petitions to have any of the Collective Leased Properties annexed to any municipal corporation or utility district, (e) execute amendments to any covenants and restrictions affecting any of the Collective Leased Properties and (f) execute and deliver to any Person any instrument appropriate to confirm or effect such grants, release, dedications, transfers, petitions and

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amendments (to the extent of its interests in such Leased Property); provided, however, that Landlord shall have first determined that such grant, release, dedication, transfer, petition or amendment is not detrimental to the operation of the applicable Leased Property for its Primary Intended Use and does not materially reduce the value of such Leased Property, and Landlord shall have received an Officer's Certificate confirming such determination, together with such additional information as Landlord may request.

5.6 Philadelphia Facility.

In the event Franchisor does not complete the renovation/reconstruction of the Philadelphia Facility in a timely manner as required by the Purchase Agreement for any reason (whether or not such failure constitutes a breach of covenant by Franchisor pursuant to Section 7.1(q) of the Purchase Agreement), Tenant shall promptly do so at its sole cost. Tenant shall permit Franchisor to have access to the property on which the Philadelphia Facility is to be constructed for the purpose of performing such obligation.

CAPITAL ADDITIONS, ETC.

6.1 Construction of Capital Additions to the Leased Property.

Tenant shall not construct or install Capital Additions on any of the Collective Leased Properties without obtaining Landlord's prior written consent, which consent shall not be unreasonably withheld, provided that no consent shall be required for any Capital Addition so long as (a) the Capital Additions Costs for such Capital Addition are less than \$1,000,000, (b) such construction or installation would not adversely affect or violate any Legal Requirement or Insurance Requirement applicable to the applicable Leased Property and (c) Landlord shall have received an Officer's Certificate certifying as to the satisfaction of the conditions set out in clauses (a) and (b) above. If Landlord's consent is required, prior to commencing construction of any Capital Addition, Tenant shall submit to Landlord, in writing, a proposal setting forth, in reasonable detail, any proposed Capital Addition and shall provide to Landlord such plans and specifications, permits, licenses, contracts and other information concerning the proposed Capital Addition as Landlord may reasonably request. Landlord shall have thirty (30) days to review all materials submitted to Landlord in connection with any such proposal. Failure of Landlord to respond to Tenant's proposal within thirty (30) days after receipt of all information and materials requested by Landlord in connection with the proposed Capital Addition shall be deemed to constitute approval of such proposed Capital Addition. Without limiting the generality of the foregoing, such proposal shall indicate the approximate projected cost of constructing such Capital Addition and the use or uses to which it will be put. No Capital Addition shall be made which would tie in or connect any Leased Improvement on the applicable Leased Property with any other improvements on property adjacent to such Leased Property (and not part of the Land) including, without limitation, tie-ins of buildings or other structures or utilities. Any Capital Additions shall, upon the expiration or sooner termination of this Agreement, pass to and become the property of Landlord, free and clear of all

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encumbrances other than Permitted Encumbrances.

6.2 Financing of Capital Additions.

Tenant may arrange for financing for Capital Additions from a Lending Institution; provided, however, that (i) any security interests in any property of Tenant, including, without limitation, Tenant's leasehold interest in the Collective Leased Properties, shall be expressly and fully subordinated to this Agreement and to the interest of Landlord in the Collective Leased Properties and to the rights of any then or thereafter existing Facility Mortgagee; and (ii) Landlord shall have a right of first refusal to provide financing for Capital Additions in accordance with Section 6.6.

6.3 Capital Additions Financed by Landlord.

If Landlord shall, (i) at the request of Tenant and in Landlord's sole discretion, or (ii) in the exercise of its rights of first refusal to provide financing pursuant to Section 6.6 hereof, elect to finance any proposed Capital Addition, Tenant shall provide Landlord with such information as Landlord may from time to time request, including, without limitation, the following:

- (a) Evidence that such Capital Addition will be and, upon completion, has been, completed in compliance with the applicable requirements of State and federal law with respect to capital expenditures for health care facilities;
- (b) Copies of all building, zoning and land use permits and approvals and, upon completion of such Capital Addition, a copy of the certificate of occupancy for such Capital Addition, if required;

(c) Such information, certificates, licenses, permits or other documents necessary to confirm that Tenant will be able to use the Capital Addition upon completion thereof in accordance with the Primary Intended Use, including all required federal, State or local government licenses and approvals;

(d) An Officer's Certificate and a certificate from Tenant's architect setting forth, in reasonable detail, the projected (or actual, if available) Capital Additions Cost, and invoices and lien waivers from Tenant's contractors for such work;

(e) A deed conveying to Landlord title to any land acquired for the purpose of constructing the Capital Addition free and clear of any liens or encumbrances, except those approved by Landlord, and, upon completion of the Capital Addition, a final as-built survey thereof reasonably satisfactory to Landlord;

(f) Endorsements to any outstanding policy of title insurance covering the applicable Leased Property, or a commitment therefor, satisfactory in form and substance to Landlord, (i) updating such policy without any additional exceptions except as approved by Landlord, and (ii) increasing the coverage thereof by an amount equal to the Fair Market Value of the

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Capital Addition (except to the extent covered by the owner's policy of title insurance referred to in subparagraph (g) below);

(g) If appropriate, (i) an owner's policy of title insurance insuring fee simple title to any land conveyed to Landlord pursuant to subparagraph (e) above, free and clear of all liens and encumbrances, except those approved by Landlord, and (ii) a lender's policy of title insurance, reasonably satisfactory in form and substance to Landlord and any Facility Mortgagee;

(h) An appraisal of the applicable Leased Property by a Qualified Appraiser, acceptable to Landlord, and/or an Officer's Certificate stating that the value of the applicable Leased Property upon completion of the Capital Addition exceeds the Fair Market Value thereof prior to the commencement of such Capital Addition by an amount not less than 80% of the Capital Additions Cost; and

(l) Prints of architectural and engineering drawings relating to such Capital Addition and such other certificates, documents, opinions of counsel, appraisals, surveys, certified copies of duly adopted resolutions of the board of directors of Tenant authorizing the execution and delivery of any lease amendment, or other instruments as may be reasonably required by Landlord, any Facility Mortgagee and any Lending Institution advancing or reimbursing Landlord or Tenant for any portion of the Capital Additions Cost.

If Landlord shall finance the proposed Capital Addition, Landlord may elect (with Tenant's consent, such consent not to be unreasonably withheld) to obtain repayment of amounts so financed by an increase in the Rent payable hereunder.

6.4 Non-Capital Additions.

Tenant shall have the right, at Tenant's sole cost and expense, to make additions, modifications or improvements to the Collective Leased Properties

which are not Capital Additions ("Non-Capital Additions") from time to time as Tenant, in its discretion, may deem desirable for the applicable Primary Intended Use, provided that any such Non-Capital Addition will not materially detract from the value, operating efficiency or revenue-producing capability of the applicable Leased Property or adversely affect the ability of Tenant to comply with the provisions of this Agreement, and, without limiting the foregoing, will not violate any Legal Requirement or Insurance Requirement applicable to the applicable Leased Property. All such Non-Capital Additions shall, upon expiration or earlier termination of this Agreement, pass to and become the property of Landlord, free and clear of all liens and encumbrances, other than Permitted Encumbrances.

6.5 Salvage.

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All materials which are scrapped or removed in connection with the making of either Capital Additions or Non-Capital Additions or repairs required by Article 5 shall be the property of the Landlord.

6.6 Landlord's Right of First Refusal to Provide Financing for Capital Additions.

In the event that at any time during the Term Tenant shall elect to obtain construction financing in excess of \$1,000,000 for any Capital Additions, Tenant shall give Notice thereof to Landlord, which notice shall set forth in reasonable detail the terms of such financing, shall identify the source thereof and shall include a copy of a final form of commitment letter therefor. Landlord shall have the right, exercisable by the giving of Notice to Tenant within thirty (30) days after such notice from Tenant, to provide a final form of commitment for such financing on the same terms and conditions as described in the Notice given to Landlord. In the event that Landlord shall exercise such option, Tenant shall be obligated to obtain such financing from Landlord on the terms and conditions set forth in the Notice to Landlord. In the event that Landlord shall decline to provide such financing or shall fail to give such notice to Tenant, Tenant shall be free to obtain such financing from the party identified in, and on the terms and conditions set forth in, the Notice given to Landlord with respect thereto.

7

LIENS

7.1 Liens.

Subject to Article 8 and Section 16.5, Tenant shall not, directly or indirectly, create or allow to remain and shall promptly discharge, at its expense, any lien, encumbrance, attachment, title retention agreement or claim up on the Collective Leased Properties or a non-consensual lien against Tenant's leasehold interest therein or any attachment, levy, claim or encumbrance in respect of the Rent, other than (a) Permitted Encumbrances, (b) restrictions, liens and other encumbrances which are consented to in writing by Landlord, (c) liens for those taxes of Landlord which Tenant is not required to pay hereunder, (d) subleases permitted by Article 16, (e) liens for Impositions or for sums resulting from noncompliance with Legal Requirements so long as (i) the same are not yet payable, or (ii) are being contested in accordance with Article 8, (f) liens of mechanics, laborers, materialmen, suppliers or vendors incurred in the ordinary course of business that are not yet due and payable or are for sums that are being contested in accordance with Article 8, and (g) any Facility Mortgages or other liens which are the responsibility of Landlord pursuant to the provisions of Article 20.

7.2 Landlord's Lien.

In addition to any statutory landlord's lien and in order to secure payment of the Rent and all other sums payable hereunder by Tenant and the performance of all of Tenant's other obligations hereunder, and to secure payment of any loss, cost or damage which Landlord may suffer by reason of Tenant's breach of this Agreement, Tenant hereby grants unto Landlord a security interest in and

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an express contractual lien upon Tenant's Personal Property, and all proceeds therefrom, subject to any Permitted Encumbrances; and such Tenant's Personal Property shall not be removed from the Collective Leased Properties at any time when a Default or an Event of Default has occurred and is continuing as otherwise permitted pursuant to Section 5.2. In addition, Tenant hereby grants unto Landlord a security interest in those contracts described in Section 12.6 hereof.

Upon Landlord's request, Tenant shall execute and deliver to Landlord financing statements in form sufficient to perfect the security interest of Landlord in (x) Tenant's Personal Property and the proceeds thereof, and (y) the contracts described in Section 12.6 hereof, in accordance with the provisions of the applicable laws of the State. The security interest herein granted is in addition to any statutory lien for the Rent.

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PERMITTED CONTESTS

Tenant shall have the right to contest the amount or validity of any Imposition, Legal Requirement, Insurance Requirement, lien, attachment, levy, encumbrance, charge or claim (collectively, "Claims") as to any of the Collective Leased Properties, by appropriate legal proceedings, conducted in good faith and with due diligence, provided that (a) the foregoing shall in no way be construed as relieving, modifying or extending Tenant's obligation to pay any Claims as finally determined, (b) such contest shall not cause Landlord or Tenant to be in default under any mortgage or deed of trust (except with respect to any Facility Mortgage, the terms of which have not been fully disclosed to Tenant) encumbering such Leased Property or any interest therein or result in or reasonably be expected to result in a lien attaching to such Leased Property, (c) no part of such Leased Property nor any Rent therefrom shall be in any immediate danger of sale, forfeiture, attachment or loss, and (d) Tenant shall indemnify and hold harmless Landlord from and against any cost, claim, damage, penalty or reasonable expense, including reasonable attorneys' fees, incurred by Landlord in connection therewith or as a result thereof. Upon Landlord's request made as a result of a requirement of any Facility Mortgagee, Tenant shall either (i) provide a bond or other assurance reasonably satisfactory to Landlord that all Claims which may be assessed against any of the Collective Leased Properties, together with all interest and penalties thereon will be paid, or (ii) deposit within the time otherwise required for payment with a bank or trust company, as trustee, as security for the payment of such Claims, an amount sufficient to pay the same, together with interest and penalties in connection therewith and all Claims which may be assessed against or become a Claim on any of the Collective Leased Properties, or any part thereof, in connection with any such contest. Tenant shall furnish Landlord and any Facility Mortgagee with reasonable evidence of such deposit within five (5) days after request therefor. Landlord agrees, however, to use commercially reasonable best efforts to cause any Facility Mortgagee not to require any bond or deposit by Tenant as hereinabove provided. Landlord agrees to join in any such proceedings if required legally to prosecute such contest, provided that Landlord shall not thereby be subjected to any liability therefor (including, without limitation, for the payment of any costs or expenses in connection therewith). Tenant shall be entitled to any refund of any Claims and such charges and penalties or interest thereon which have been paid by Tenant or paid by Landlord and for which Landlord has been fully

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reimbursed by Tenant. If Tenant shall fail (x) to pay any Claims when finally determined, (y) to provide security therefor as provided in this Article 8, or (z) to prosecute any such contest diligently and in good faith, Landlord may, upon reasonable notice to Tenant (which notice may be oral and shall not be required if Landlord shall reasonably determine that the same is not practicable), pay such charges, together with interest and penalties due with respect thereto, and Tenant shall reimburse Landlord therefor, upon demand, as Additional Charges.

9

INSURANCE AND INDEMNIFICATION

9.1 General Insurance Requirements.

Tenant shall, at all times during the Term and at any other time Tenant shall be in possession of any of the Collective Leased Properties, keep each of the Collective Leased Properties and Tenant's Personal Property insured against the risks and in the amounts as follows and shall maintain (for so long as such insurance is commercially available) the following insurance:

(a) "All-risk" property insurance, including insurance against loss or damage by fire, vandalism and malicious mischief, explosion of steamboilers, pressure vessels or other similar apparatus, now or hereafter installed in the Facility located at such Leased Property, extended coverage perils, earthquake (providing annual aggregate limits of One Hundred Million Dollars (\$100,000,000) as to all locations outside of California and annual aggregate limits of Fifty Million Dollars (\$50,000,000) as to all locations within California) and all physical loss perils insurance, including, but not limited to, sprinkler leakage, in an amount (subject to Section 9.5) equal to one hundred percent (100%) of the then full Replacement Cost thereof (as defined in Section 9.2), with the usual extended coverage endorsements, including a Replacement Cost Endorsement and Builder's Risk Coverage during the continuance of any construction at such Leased Property;

(b) Business interruption and blanket earnings plus extra expense under a rental value insurance policy covering risk of loss during the lesser of the first twelve (12) months of reconstruction or the actual reconstruction period necessitated by the occurrence of any of the hazards described in subparagraphs (a) and (b) above in such amounts as may be customary for comparable properties in the area and in an amount sufficient to prevent Landlord or Tenant from becoming a co-insurer;

(c) Comprehensive general liability insurance, including bodily injury and property damage (on the broadest form available, including broad form contractual liability, fire legal liability and completed operations coverage) having policy limits as to claims with respect to the Collective Leased Properties of at least One Million Dollars (\$1,000,000) per occurrence, Three Million Dollars (\$3,000,000) aggregate per location, subject to a Five Million Dollar (\$5,000,000) aggregate limit as to all locations, and with respect to claims arising out of malpractice in an amount not less than One Million Dollars (\$1,000,000) per occurrence, subject to a Five Million Dollars (\$5,000,000) aggregate limit as to all Facilities, provided that such limits shall be modified to conform to any required underlying statutory coverage, such as State Patient Compensation Funds, or the like, and Umbrella coverage shall be provided having limits of Twenty Million Dollars (\$20,000,000) per occurrence and in the aggregate and attaching in excess of policy limits as to general liability, malpractice, Patient Compensation Fund programs, where applicable, and employer's liability coverage;

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(d) Flood (when the applicable Leased Property is located in whole or in part within an area identified as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act

of 1968, as amended, or the Flood Disaster Protection Act of 1973, as amended (or any successor acts thereto)) and such other hazards and in such amounts as may be customary for comparable properties in the area, said coverage to be in an amount equal to the lesser of the full Replacement Cost of the applicable Leased Property or the maximum amount available;

(e) Worker's compensation insurance coverage for all persons employed by Tenant on the applicable Leased Property with statutory limits and otherwise with limits of and provisions in accordance with the requirements of applicable local, State and federal law, and employer's liability insurance having a limit of \$1,000,000; and

(f) Such additional insurance and endorsements (and/or increased amounts of insurance hereinabove required) as may be reasonably required, from time to time, by Landlord.

9.2 Replacement Cost.

"Replacement Cost" as used herein, shall mean the actual replacement cost of the property requiring replacement from time to time, including an increased cost of construction endorsement, less exclusions provided in the standard form of fire insurance policy. In the event either party believes that the then full Replacement Cost has increased or decreased at any time during the Term, such party, at its own cost, shall have the right to have such full Replacement Cost redetermined by an accredited appraiser approved by the other, which approval shall not be unreasonably withheld or delayed. The party desiring to have the full Replacement Cost so redetermined shall forthwith, on receipt of such determination by such appraiser, give written notice thereof to the other. The determination of such appraiser shall be final and binding on the parties hereto, and Tenant shall forthwith conform the amount of the insurance carried to the amount so determined by the appraiser.

9.3 Waiver of Subrogation.

Landlord and Tenant agree that (insofar as and to the extent that such agreement may be effective without invalidating or making it impossible to secure insurance coverage from responsible insurance companies doing business in the State) with respect to any property loss which is covered by insurance then being carried by Landlord or Tenant, respectively, the party carrying such insurance and suffering said loss releases the other of and from any and all claims with respect to such loss; and they further agree that their respective insurance companies shall have no right of subrogation against the other on account thereof, even though extra premium may result therefrom. In the event that any extra premium is payable by Tenant as a result of this provision, Landlord shall not be liable for reimbursement to Tenant for such extra premium.

9.4 Form Satisfactory, Etc.

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All insurance policies and endorsements required pursuant to this Article 9 shall be fully paid for, nonassessable and shall contain such provisions and expiration dates and be in such form and amounts and issued by insurance carriers authorized to do business in the State, having a general policy holder's rating of at least A-in Best's latest rating guide (or such other comparable rating or such other customarily used rating agency as may be required by any Facility Mortgagee), and otherwise as shall be approved by Landlord. Without limiting the foregoing, such policies shall include only deductibles reasonably approved by Landlord and shall name Landlord and any Facility Mortgagee as additional insureds. All losses shall be payable to Landlord or Tenant as provided in Article 10. Any loss adjustment shall require the prior written consent of Landlord and Tenant. Tenant shall pay all insurance premiums and deliver policies or certificates thereof to Landlord prior to their effective date (and, with respect to any renewal policy, thirty (30) days prior to the expiration of the existing policy), and, in the event Tenant shall fail

to effect such insurance as herein required, to pay the premiums therefor or to deliver such policies or certificates to Landlord or any Facility Mortgagee at the times required, Landlord shall have the right, but not the obligation, to acquire such insurance and pay the premiums therefor, which amounts shall be payable to Landlord, upon demand, as Additional Charges, together with interest accrued thereon at the Overdue Rate from the date such payment is made until the date repaid. All such policies shall provide Landlord (and any Facility Mortgagee, if required by the same) thirty (30) days' prior written notice of any material modification, expiration or cancellation of such policy. Tenant may satisfy its insurance obligations through the use of (i) a risk retention group or purchasing group or captive insurance company with a capital structure reasonably approved by Landlord or (ii) a self insurance program with retention limits reasonably approved by Landlord and an excess policy or policies provided by an insurer meeting the requirements of this Agreement.

9.5 Blanket Policy.

Notwithstanding anything to the contrary contained in this Article 9, Tenant's obligation to maintain the insurance herein required may be brought within the coverage of a so-called blanket policy or policies of insurance carried and maintained by Tenant, provided that (a) the coverage thereby afforded will not be reduced or diminished from that which would exist under a separate policy meeting all other requirements of this Agreement, except that the blanket all-risk policy may provide coverage as to the Collective Leased Properties to a limit of Two Hundred Million Dollars (\$200,000,000) per occurrence and (b) the requirements of this Article 9 are otherwise satisfied.

9.6 No Separate Insurance.

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Tenant shall not take out separate insurance concurrent in form or contributing in the event of loss with that required by this Article 9, or increase the amount of any existing insurance by securing an additional policy or additional policies, unless all parties having an insurable interest in the subject matter of such insurance, including Landlord and all Facility Mortgagees, are included therein as additional insureds and the loss is payable under such insurance in the same manner as losses are payable under the insurance required to be carried pursuant to this Agreement. In the event Tenant shall take out any such separate insurance or increase any of the amounts of the then existing insurance, Tenant shall give Landlord prompt Notice thereof.

9.7 Indemnification of Landlord.

Notwithstanding the existence of any insurance provided for herein and without regard to the policy limits of any such insurance, Tenant shall protect, indemnify and hold harmless Landlord for, from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and reasonable expenses (including, without limitation, reasonable attorneys' fees), to the maximum extent permitted by law, imposed upon or incurred by or asserted against Landlord by reason of: (a) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Collective Leased Properties or adjoining sidewalks or rights of way, including, without limitation, any claims of malpractice, (b) any past, present or future use, misuse, non-use, condition, management, maintenance or repair of the Collective Leased Properties or Tenant's Personal Property or any litigation, proceeding or claim by governmental entities or other third parties to which Landlord is made a party or participant relating to the Collective Leased Properties or Tenant's Personal Property or such use, misuse, non-use, condition, management, maintenance, or repair thereof, including failure to perform obligations (other than Condemnation proceedings), to which Landlord is made a party, (c) any Impositions (which are the obligations of Tenant to pay pursuant to the applicable provisions of this Agreement), and (d) any failure on the part of Tenant or anyone claiming under Tenant to perform or comply with any of the terms of this Agreement. Tenant shall pay all amounts payable under this Section 9.7 within ten (10) days after demand therefor and, if not timely paid, such amounts shall bear interest at the Overdue Rate from the date of determination to the date of payment. Tenant, at its expense, shall contest, resist and defend any such claim, action or proceeding asserted or instituted against Landlord or

may compromise or otherwise dispose of the same, with Landlord's prior written consent (which consent may not be unreasonably withheld or delayed). The obligations of Tenant under this Section 9.7 are in addition to the obligations set forth in Section 4.4 and shall survive the termination of this Agreement.

9.8 Independent Contractor.

Tenant shall cause any person or company (each a "Contractor") entering upon any of the Collective Leased Properties to provide any installation, construction or repair which x) constitutes a Capital Addition or (y) has an anticipated cost in excess of \$250,000 to: (a) have in full force and effect Contractor's Liability Coverage (hereafter defined) effective throughout the period said Contractor is upon said Leased Property and (b) deliver a certificate ("Contractor's Insurance Certificate") evidencing compliance with subpart (a) to Tenant prior to the Contractor's first entry upon said Leased Property. As used herein the term Contractor's Liability Coverage means a comprehensive general liability insurance policy meeting the requirements of this Article 9 (as if

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required to be provided by Tenant) except the minimum policy limit shall be \$500,000 per occurrence and \$1,000,000 in the aggregate. Within thirty (30) days after delivery of Landlord's written request, Tenant shall deliver copies of all Contractor's Certificates to Landlord.

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CASUALTY

10.1 Insurance Proceeds.

All proceeds payable by reason of any loss or damage to the Collective Leased Properties, or any portion thereof, and insured under any policy of property or casualty insurance required by Article 9 (other than proceeds of business interruption insurance) in excess of \$1,000,000 shall be paid directly to Landlord and retained by Landlord (subject to the provisions of Section 10.2). If Tenant is required to reconstruct or repair any of the Collective Leased Properties as provided herein, such proceeds shall be paid out by Landlord from time to time for the reasonable costs of reconstruction or repair of such Leased Property necessitated by such damage or destruction, subject to the provisions of Section 10.2.3. Provided no Default or Event of Default has occurred and is continuing, any excess proceeds of insurance remaining after the completion of the restoration shall be paid to Tenant. All salvage resulting from any risk covered by insurance shall belong to Landlord.

10.2 Damage or Destruction.

10.2.1 Obligation to Restore. If, during the Term, any of the Collective Leased Properties shall be totally or partially destroyed Tenant shall promptly restore such Facility as provided in Section 10.2.3.

10.2.2 Insufficient Insurance Proceeds. If the cost of the repair or restoration of the applicable Leased Property exceeds the amount of insurance proceeds received by Landlord pursuant to Article 10, upon the demand of Landlord, Tenant shall contribute any excess amounts needed to restore such Leased Property. Such difference shall be paid by Tenant to Landlord and held by Landlord, together with any other insurance proceeds, for application to the cost of repair and restoration.

10.2.3 Disbursement of Proceeds. Tenant shall, at its sole cost and expense, commence promptly and continue diligently to perform the repair and restoration of such Leased Property (hereinafter called the "Work"), or shall cause the same to be done, so as to restore such Leased Property in full compliance with all

Legal Requirements and so that such Leased Property shall be at least equal in value and general utility to its general utility and value immediately prior to such damage or destruction. Subject to the terms hereof, Landlord shall advance such property and casualty insurance proceeds and the amounts paid to it pursuant to Section 10.2.2 to Tenant regularly during the repair and restoration period so as to permit payment for the cost of any such restoration and repair. Any such advances shall be for not less than \$100,000 (or such lesser amount

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as equals the entire balance of the repair and restoration) and Tenant shall submit to Landlord a written requisition and substantiation therefor on such form or forms as may be reasonably acceptable to Landlord. Landlord may, at its option, condition advancement of said insurance proceeds and other amounts on (i) the absence of any Default or Event of Default, (ii) its approval of plans and specifications of an architect satisfactory to Landlord, (iii) general contractors' estimates, (iv) architect's certificates, (v) unconditional lien waivers of general contractors, (vi) evidence of approval by all governmental authorities and other regulatory bodies whose approval is required and (vii) such other certificates as Landlord may, from time to time, reasonably require. Landlord's obligation to disburse insurance proceeds under this Article 10 shall be subject to the release of such proceeds by the applicable Facility Mortgagee to Landlord.

Tenant's obligation to restore the applicable Leased Property pursuant to this Article 10 shall be subject to the release of available insurance proceeds by the applicable Facility Mortgagee to Landlord; provided, however, that Tenant shall be entitled to cease operations at such Facility pursuant to and in accordance with Section 4.5 above. In the event Tenant elects to close such Facility as aforesaid, Tenant shall, as Additional Charges, pay to Landlord all property or casualty insurance proceeds received in connection therewith, along with any deductible or retention, but in no event shall Tenant pay to Landlord less than the full Replacement Cost of such Facility, including Tenant's Personal Property.

10.3 Tenant's Property.

All insurance proceeds payable by reason of any loss of or damage to any of Tenant's Personal Property shall be paid to Tenant, and, to the extent necessary to repair or replace Tenant's Personal Property in accordance with Section 10.4, Tenant shall hold such proceeds in trust to pay the cost of repairing or replacing damaged Tenant's Personal Property.

10.4 Restoration of Tenant's Property.

If Tenant is required to restore the applicable Leased Property as hereinabove provided, Tenant shall either (a) restore all alterations and improvements made by Tenant and Tenant's Personal Property, or (b) replace such alterations and improvements and Tenant's Personal Property with improvements or items of the same or better quality and utility in the operation of such Leased Property.

10.5 No Abatement of Rent.

This Agreement shall remain in full force and effect and Tenant's obligation to make all payments of Rent and to pay all other charges as and when required under this Agreement shall remain unabated during the Term notwithstanding any damage involving any of the Collective Leased Properties (provided that Landlord shall credit against such payments any amounts paid to Landlord as a consequence of such damage under any business interruption insurance obtained by Tenant hereunder). The provisions of this Article 10 shall be considered an express agreement governing any cause of damage or destruction to the applicable Leased Property and, to the

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maximum extent permitted by law, no local or State statute, laws, rules, regulation or ordinance in effect during the Term which provide for such a contingency shall have any application in such case.

10.6 Waiver.

Tenant hereby waives any statutory rights of termination which may arise by reason of any damage or destruction of any of the Collective Leased Properties.

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CONDEMNATION

11.1 Total Condemnation, Etc.

If either (i) the whole of any of the Collective Leased Properties shall be taken by Condemnation or (ii) a Condemnation of less than the whole of any of the Collective Leased Properties renders such Leased Property Unsuitable for Its Primary Intended Use, this Agreement shall terminate with respect to such Leased Property, Tenant and Landlord shall seek the Award for their interests in such Leased Property as provided in Section 11.5 and the Minimum Rent thereafter payable shall be reduced by one-twelfth (1/12th) of the product of (x) ten percent (10%), and (y) the Award received by Landlord with respect to such Leased Property, net of all expenses incurred by Landlord in obtaining the same, including reasonable attorneys' fees.

11.2 Partial Condemnation.

In the event of a Condemnation of less than the whole of any of the Collective Leased Properties such that such Leased Property is still suitable for its Primary Intended Use, Tenant shall, at its sole cost and expense, commence promptly and continue diligently to restore the untaken portion of the Leased Improvements on such Leased Property so that such Leased Improvements shall constitute a complete architectural unit of the same general character and condition (as nearly as may be possible under the circumstances) as the Leased Improvements existing immediately prior to such Condemnation, in full compliance with all Legal Requirements. Subject to the terms hereof, Landlord shall contribute to the cost of restoration that part of the Award necessary to complete such repair or restoration, together with severance and other damages awarded for the taken Leased Improvements, to Tenant regularly during the restoration period so as to permit payment for the cost of such repair or restoration. Landlord may, at its option, condition advancement of such Award and other amounts on (i) the absence of any continuing Event of Default, (ii) its approval of plans and specifications of an architect satisfactory to Landlord (which approval shall not be unreasonably withheld or delayed), (iii) general contractors' estimates, (iv) architect's certificates, (v) unconditional lien waivers of general contractors, (vi) evidence of approval by all governmental authorities and other regulatory bodies whose approval is required and (vii) such other certificates as Landlord may, from time to time, reasonably require. Landlord's obligation under this Section 11.2 to disburse the Award and such other amounts shall be subject to (x) the collection thereof by Landlord and (y) the satisfaction of any applicable requirements of any Facility Mortgage, and the release of such Award

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by the applicable Facility Mortgagee. Tenant's obligation to restore the applicable Leased Property shall be subject to the release of the Award by the applicable Facility Mortgagee to Landlord. If the cost of the restoration of the applicable Leased Property exceeds that part of the Award necessary to complete such restoration, together with severance and other damages awarded for the

taken Leased Improvements, Tenant shall contribute upon the demand of Landlord any excess amounts needed to restore such Leased Property. Such difference shall be paid by Tenant to Landlord and held by Landlord, together with such part of the Award and such severance and other damages, for application to the cost of restoration.

11.3 Abatement of Rent.

Other than as specifically provided in this Agreement, this Agreement shall remain in full force and effect and Tenant's obligation to make all payments of Rent and to pay all other charges as and when required under this Agreement shall remain unabated during the Term notwithstanding any Condemnation involving the Collective Leased Properties. The provisions of this Article 11 shall be considered an express agreement governing any Condemnation involving any or all of the Collective Leased Properties and, to the maximum extent permitted by law, no local or State statute, law, rule, regulation or ordinance in effect during the Term which provides for such a contingency shall have any application in such case.

11.4 Temporary Condemnation.

In the event of any temporary Condemnation of all or any part of the Collective Leased Properties or Tenant's interest therein, this Agreement shall continue in full force and effect, and Tenant shall continue to pay, in the manner and on the terms herein specified, the full amount of the Rent. Tenant shall continue to perform and observe all of the other terms and conditions of this Agreement on the part of Tenant to be performed and observed. Provided no Default or Event of Default has occurred and is continuing, the entire amount of any Award made for such temporary Condemnation allocable to the Term, whether paid by way of damages, rent or otherwise, shall be paid to Tenant. Tenant shall, promptly upon the termination of any such period of temporary Condemnation, at its sole cost and expense, restore such Leased Property to the condition that existed immediately prior to such Condemnation, in full compliance with all Legal Requirements, unless such period of temporary Condemnation shall extend beyond the expiration of the Term, in which event Tenant shall not be required to make such restoration. For purposes of this Section 11.4, a Condemnation shall be deemed to be temporary if the period of such Condemnation is not expected to, and does not, exceed twenty-four (24) months.

11.5 Allocation of Award.

Except as provided in the second sentence of this Section 11.5, the total Award shall be solely the property of and payable to Landlord. Any portion of the Award made for the taking of Tenant's leasehold interest in the applicable Leased Property, loss of business during the remainder of the Term, or Tenant's removal and relocation expenses shall be the sole property of and payable to Tenant (subject to the provisions of Section 11.2). In any Condemnation proceedings, Landlord

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and Tenant shall each seek its own Award in conformity herewith, at its own expense.

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DEFAULTS AND REMEDIES

12.1 Events of Default.

The occurrence of any one or more of the following events shall constitute an "Event of Default" hereunder:

(a) Tenant fails (i) to make any payment of the Rent payable hereunder when due and such failure continues for a period of ten (10) days after the date due, or (ii) to make any required payments of real estate taxes by the earlier of (a) ten (10) days following Notice from Landlord that such payment is due and owing and unpaid, and (b) the date which is 30 days prior to the date on which a Government Authority has the right to sell or initiate the process for selling the applicable Leased Property due to a failure to pay the real estate taxes. The foregoing provisions hereof notwithstanding, (x) Tenant's failure to pay Additional Rent shall not constitute an Event of Default, except if Tenant fails to pay Additional Rent in at least the amount of the Allowance disbursed to date by Landlord, and (y) with respect to the failure to pay Additional Charges that are amounts owed to third parties (other than real estate taxes), the failure to pay such amounts shall not constitute an Event of Default under this Section 12.1(a) if Tenant pays the same in full, along with all interest, penalties and late charges due and owing to such third parties, no later than ten (10) days following Notice from Landlord that such sum is due and owing. In the event Landlord gives Notice of such circumstances to Tenant twice in any Lease Year, then on each subsequent occasion for the remainder of such Lease Year when Landlord gives Tenant any such Notice, Tenant shall pay to Landlord, as Additional Charges (whether or not Tenant pays such third party within ten (10) days as aforesaid), the sum of One Thousand Five Hundred Dollars (\$1,500).

(b) Tenant fails to maintain the insurance coverages required under Article 9 within five (5) days after Notice thereof from Landlord.

(c) Tenant defaults in the due observance or performance of any of the terms, covenants or agreements contained herein to be performed or observed by it (other than as specified in clauses (a) and (b) above), and, in either case, such default continues for a period of thirty (30) days after Notice thereof from Landlord to Tenant (provided that no such Notice shall be required if Landlord reasonably determines that immediate action is necessary to protect person or property); provided, however, that if such default is susceptible of cure but such cure cannot be accomplished with due diligence within such period of time and if, in addition, Tenant commences to cure such default within thirty (30) days after Notice thereof from Landlord and thereafter prosecutes the curing of such default with all due diligence, such period of time shall be extended to such period of time (not to exceed an additional one hundred eighty (180) days in the aggregate) as may be necessary

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to cure such default with all due diligence.

(d) Any obligation of Tenant in respect of any Indebtedness in a principal amount in excess of \$10,000,000 for money borrowed or for the deferred purchase price of any material property or services, is declared to be, or is a result of acceleration becomes, due and payable prior to the stated maturity thereof.

(e) There occurs a final unappealable determination by applicable federal or State authorities of the revocation or limitation of any license, permit, certification, certificate of need or approval required for the lawful operation of any of the Facilities in accordance with its Primary Intended Use or the loss or limitation of any license, permit, certification, certificate of need or approval under any other circumstances under which Tenant is required to cease its operation of such Facility in accordance with its Primary Intended Use at the time of such loss or limitation, provided, however, that if Tenant ceases its operations in such Facility pursuant to and in accordance with its right to do so under Section 4.5 hereof, the closing thereof shall cause such Event of Default to be deemed no longer continuing.

(f) Any representation or warranty made by or on behalf of Tenant under or in connection with this Agreement, or in any document, certificate, or agreement delivered in connection herewith proves to have been false or misleading in any material respect on the date when made or deemed made.

(g) Tenant is generally not paying its debts as they become due, or Tenant makes a general assignment for the benefit of creditors.

(h) Any petition is filed by or against Tenant under the Federal bankruptcy laws, or any other proceeding is instituted by or against Tenant seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for Tenant or for any substantial part of the property of Tenant and such proceeding is not dismissed within ninety (90) days after institution thereof, or Tenant takes any action to authorize or effect any of the actions set forth above in this paragraph.

(i) Tenant causes or institutes any proceeding for its dissolution or termination.

(j) subject to Section 4.5 hereof, Tenant voluntarily ceases operation of any of the Collective Leased Properties for its Primary Intended Use for a period in excess of thirty (30) consecutive days, except as a result of damage, destruction or partial or complete Condemnation.

(k) The estate or interest of Tenant in any of the Collective Leased Properties or any

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part thereof is levied upon or attached in any proceeding and the same is not vacated or discharged within the later of (x) one hundred and twenty (120) days after commencement thereof, unless the amount in dispute is less than \$100,000 in which case Tenant shall give notice to Landlord of the dispute but Tenant may defend in any suitable way, and (y) thirty (30) days after receipt by Tenant of Notice thereof from Landlord (unless Tenant shall be contesting such lien or attachment in good faith in accordance with Article 8).

(l) Any Change in Control of Tenant occurs.

In any such event, Landlord, in addition to all other remedies available to it, may terminate this Agreement with respect to all but not less than all of the Collective Leased Properties by giving Notice thereof to Tenant and upon the expiration of the time, if any, fixed in such Notice, this Agreement shall terminate and all rights of Tenant under this Agreement shall cease. Landlord shall have and may exercise all rights and remedies available at law and in equity to Landlord as a result of Tenant's breach of this Agreement.

Upon the occurrence of an Event of Default, Landlord may, in addition to any other remedies provided herein, enter upon the Collective Leased Properties and take possession of, and either (i) retain any and all of Tenant's Personal Property on any such Leased Property, without liability for trespass or conversion (Tenant hereby waiving any right to Notice or hearing prior to such taking of possession by Landlord) or (ii) sell the same at public or private sale, after giving Tenant reasonable Notice of the time and place of any public or private sale, at which sale Tenant or its assigns may purchase all or any portion of Tenant's Personal Property. Unless otherwise provided by law and without intending to exclude any other manner of giving Tenant reasonable notice, the requirement of reasonable Notice shall be met if such Notice is

given at least five (5) days before the date of sale. The proceeds from any such disposition shall belong to Landlord and shall not be applied as a credit against the indebtedness which is secured by the security interest granted in Section 7.2.

The foregoing provisions hereof notwithstanding, Landlord shall have no right to assert any remedy hereunder, and an Event of Default shall be deemed to no longer exist, if Tenant cures an Event of Default (A) under Section 12.1(a) prior to the earlier of (x) the commencement by Landlord of the exercise of any remedy under this Agreement by Landlord or (y) Landlord's Notice to Tenant stating that an Event of Default exists and further stating Landlord's intention to assert one or more remedies hereunder; and (B) under any of Section 12.(b)-(l), prior to the commencement by Landlord of the exercise of any remedy under this Agreement by Landlord.

12.2 Remedies.

None of (a) the termination of this Agreement pursuant to Section 12.1, (b) the repossession of the Collective Leased Properties, (c) the failure of Landlord to re-let any or all of the Collective Leased Properties, or (d) the reletting of any or all of the Collective Leased Properties, shall relieve

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Tenant of its liability and obligations hereunder, all of which shall survive any such termination, repossession or re-letting. In the event of any such termination, Tenant shall forthwith pay to Landlord all Rent due and payable with respect to the Collective Leased Properties through and including the date of such termination. Thereafter, Tenant, until the end of what would have been the Term of this Agreement in the absence of such termination, and whether or not any of the Collective Leased Properties or any portion thereof shall have been re-let, shall be liable to Landlord for, and shall pay to Landlord, as current damages, the Rent and other charges which would be payable hereunder for the remainder of the Term had such termination not occurred, less the net proceeds, if any, of any re-letting of the Collective Leased Properties, after deducting all expenses in connection with such reletting, including, without limitation, all repossession costs, brokerage commissions, legal expenses, attorneys' fees, advertising, expenses of employees, alteration costs and expenses of preparation for such reletting. Tenant shall pay such current damages to Landlord monthly on the days on which the Minimum Rent would have been payable hereunder if this Agreement had not been so terminated.

At any time after such termination, whether or not Landlord shall have collected any such current damages, as liquidated final damages beyond the date of such termination, at Landlord's election, Tenant shall pay to Landlord either (a) an amount equal to the excess, if any, of the Rent and other charges which would be payable hereunder from the date of such termination (assuming that, for the purposes of this paragraph, annual payments by Tenant on account of Impositions would be the same as payments required for the immediately preceding twelve calendar months, or if less than twelve calendar months have expired since the Commencement Date, the payments required for such lesser period projected to an annual amount) for what would be the then unexpired term of this Agreement if the same remained in effect, over the Fair Market Rental for the same period, or (b) an amount equal to the lesser of (i) the Rent and other charges that would have been payable for the balance of the Term had it not been terminated, and (ii) the aggregate of the Rent and other charges accrued in the twelve (12) months ended next prior to such termination (without reduction for any free rent or other concession or abatement). In the event this Agreement is so terminated prior to the expiration of the first full year of the Term, the liquidated damages which Landlord may elect to recover pursuant to clause (b)(ii) of this paragraph shall be calculated as if such termination had occurred on the first anniversary of the Commencement Date. Nothing contained in this Agreement shall, however, limit or prejudice the right of Landlord to prove and obtain in proceedings for bankruptcy or insolvency an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater than, equal to, or less than the amount of the loss or

damages referred to above.

In case of any Event of Default, re-entry, expiration and dispossession by summary proceedings or otherwise, Landlord may (a) relet any of the Collective Leased Properties or any part or parts thereof, either in the name of Landlord or otherwise, for a term or terms which may, at Landlord's option, be equal to, less than or exceed the period which would otherwise have constituted the balance of the Term and may grant concessions or free rent to the extent that Landlord considers advisable and necessary to relet the same, and (b) may make such reasonable alterations, repairs and decorations in any applicable Leased Property or any portion thereof as

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Landlord, in its sole and absolute discretion, considers advisable and necessary for the purpose of reletting any such Leased Property; and the making of such alterations, repairs and decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid. Landlord shall in no event be liable in any way whatsoever for any failure to relet all or any portion of the Collective Leased Properties, or, in the event that any of the Collective Leased Properties is relet, for failure to collect the rent under such reletting. To the maximum extent permitted by law, Tenant hereby expressly waives any and all rights of redemption granted under any present or future laws in the event of Tenant being evicted or dispossessed, or in the event of Landlord obtaining possession of any of the Collective Leased Properties, by reason of the violation by Tenant of any of the covenants and conditions of this Agreement.

12.3 Tenant's Waiver.

IF THIS AGREEMENT IS TERMINATED PURSUANT TO SECTION 12.1 OR 12.2, TENANT WAIVES, TO THE EXTENT PERMITTED BY LAW, ANY RIGHT TO A TRIAL BY JURY IN THE EVENT OF SUMMARY PROCEEDINGS TO ENFORCE THE REMEDIES SET FORTH IN THIS ARTICLE 12 AND THE BENEFIT OF ANY LAWS NOW OR HEREAFTER IN FORCE EXEMPTING PROPERTY FROM LIABILITY FOR RENT OR FOR DEBT.

12.4 Application of Funds.

Any payments received by Landlord under any of the provisions of this Agreement during the existence or continuance of any Default or Event of Default (and any payment made to Landlord rather than Tenant due to the existence of any Default or Event of Default) shall be applied to Tenant's obligations under this Agreement in such order as Landlord may determine or as may be prescribed by the laws of the State.

12.5 Landlord's Right to Cure Tenant's Default.

If an Event of Default shall have occurred and be continuing, Landlord, after Notice to Tenant (which Notice shall not be required if Landlord shall reasonably determine immediate action is necessary to protect person or property), without waiving or releasing any obligation of Tenant and without waiving or releasing any Event of Default, may (but shall not be obligated to), at any time thereafter, make such payment or perform such act for the account and at the expense of Tenant, and may, to the maximum extent permitted by law, enter upon any of the Collective Leased Properties or any portion thereof for such purpose and take all such action thereon as, in Landlord's sole and absolute discretion, may be necessary or appropriate therefor, including the management of the Facility located thereon by Landlord or its designee, and Tenant hereby irrevocably appoints, in the event of such election by Landlord, Landlord or its designee as manager of any such Facility and its attorney in fact for such purpose, irrevocably and coupled with an interest, in the name, place and stead of Tenant. No such entry shall be deemed an eviction of Tenant. All reasonable costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by Landlord in connection therewith, together with

interest thereon (to the extent permitted by law) at the Overdue Rate from the date such sums are paid by Landlord until repaid, shall be paid by Tenant to Landlord,

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on demand.

12.6 Landlord's Right to Assume Contracts.

In the event Landlord elects to terminate this Agreement or otherwise obtains possession of the Collective Leased Properties following an Event of Default, Landlord (or its designee) shall have the right, at its sole and absolute discretion, upon Notice to Tenant within sixty (60) days after Landlord terminates this Agreement or otherwise obtains possession following an Event of Default, to assume all (but not less than all) of the contracts utilized by Tenant in the operation of its business, including the Franchise Agreement, and Tenant will cooperate in effecting such assumption. In no event will Landlord (or its designee) have any liability under such contracts for obligations or liabilities accruing under such contracts prior to the date of such assumption by such party.

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HOLDING OVER

Any holding over by Tenant after the expiration or sooner termination of this Agreement shall be treated as a daily tenancy at sufferance at a rate equal to two (2) times the Minimum Rent then in effect plus Additional Charges and other charges herein provided (prorated on a daily basis). Tenant shall also pay to Landlord all damages (direct or indirect) sustained by reason of any such holding over. Otherwise, such holding over shall be on the terms and conditions set forth in this Agreement, to the extent applicable. Nothing contained herein shall constitute the consent, express or implied, of Landlord to the holding over of Tenant after the expiration or earlier termination of this Agreement.

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LANDLORD'S DEFAULT

If Landlord shall default in the performance or observance of any of its covenants or obligations set forth in this Agreement and such default shall continue for a period of thirty (30) days after Notice thereof from Tenant to Landlord and any applicable Facility Mortgagee, or such additional period as may be reasonably required to correct the same, Tenant may declare the occurrence of a "Landlord Default" by a second Notice to Landlord and to such Facility Mortgagee. Thereafter, Tenant may forthwith cure the same and, subject to the provisions of the following paragraph, invoice Landlord for costs and expenses (including reasonable attorneys' fees and court costs) incurred by Tenant in curing the same, together with interest thereon from the date Landlord receives Tenant's invoice, at the Overdue Rate. Tenant shall have no right to terminate this Agreement for any default by Landlord hereunder and no right, for any such default, to offset or counterclaim against any Rent or other charges due hereunder.

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If Landlord shall in good faith dispute the occurrence of any Landlord Default and Landlord, before the expiration of the applicable cure period, shall give Notice thereof to Tenant, setting forth, in reasonable detail, the basis therefor, no Landlord Default shall be deemed to have occurred and Landlord shall have no obligation with respect thereto until final adverse determination thereof. If Tenant and Landlord shall fail, in good faith, to resolve any such

dispute within ten (10) days after Landlord's Notice of dispute, either may submit the matter for resolution to a court of competent jurisdiction.

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LANDLORD FINANCING

In the event that at any time during the Term, OpCo, or any Subsidiary of OpCo, shall elect to obtain financing for any health care related facilities owned or leased or to be owned or leased by OpCo, or such subsidiary, OpCo shall give (or cause such Subsidiary to give, as the case may be) Notice thereof to Landlord, which notice shall set forth in reasonable detail the terms of such financing, shall identify the source thereof and shall include a copy of an applicable commitment letter. Landlord shall have the right, exercisable by the giving of Notice to OpCo (or such Subsidiary, as the case may be) within thirty (30) days after such Notice from OpCo (or such Subsidiary, as the case may be), to provide such financing on the same terms and conditions as described in the Notice given to Landlord. In the event that Landlord shall exercise such option, OpCo (or such Subsidiary, as the case may be) shall be obligated to obtain such financing from Landlord on the terms and conditions set forth in the Notice to Landlord. In the event that Landlord shall decline to provide such financing or shall fail to give such Notice to OpCo (or such Subsidiary, as the case may be), OpCo (or such Subsidiary, as the case may be) shall be free to obtain such financing from the party identified in, and on the terms and conditions set forth in, the Notice given to Landlord with respect thereto. Notices to OpCo and any Subsidiary shall be given as if a Notice to Tenant.

16

SUBLETTING AND ASSIGNMENT

16.1 Subletting and Assignment.

Except as provided in Sections 16.3 and 16.5 below, Tenant shall not, without the prior written consent of Landlord (which consent may be given or withheld in its sole and absolute discretion), assign, mortgage, pledge, hypothecate, encumber or otherwise transfer this Agreement or sublease (which term shall be deemed to include the granting of concessions, licenses and the like), all or any part of the Collective Leased Properties or suffer or permit this Agreement or the leasehold estate created hereby or any other rights arising under this Agreement to be assigned, transferred, mortgaged, pledged, hypothecated or encumbered, in whole or in part, whether voluntarily, involuntarily or by operation of law, or permit the use or occupancy of any of the

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Collective Leased Properties by anyone other than Tenant, or any of the Collective Leased Properties to be offered or advertised for assignment or subletting. For purposes of this Section 16.1, an assignment of this Agreement shall be deemed to include any Change in Control of Tenant.

If this Agreement is assigned or if any of the Collective Leased Properties or any part thereof are sublet (or occupied by anybody other than Tenant and its employees) in contravention of this Agreement, Landlord may collect the rents from such assignee, subtenant or occupant, as the case may be, and apply the net amount collected to the Rent herein reserved, but no such collection shall be deemed a waiver of the provisions set forth in the first paragraph of this Section 16.1, the acceptance by Landlord of such assignee, subtenant or occupant, as the case may be, as a tenant, or a release of Tenant from the future performance by Tenant of its covenants, agreements or obligations contained in this Agreement.

No subletting or assignment shall in any way impair the continuing primary liability of Tenant hereunder, and no consent to any subletting or assignment in a particular instance shall be deemed to be a waiver of the prohibition set

forth in this Section 16.1. No assignment, subletting or occupancy shall affect any Primary Intended Use. Any subletting, assignment or other transfer of Tenant's interest under this Agreement in contravention of this Section 16.1 shall be voidable at Landlord's option.

16.2 Required Sublease Provisions.

Any sublease of all or any portion of any of the Collective Leased Properties shall provide (a) that it is subject and subordinate to this Agreement and to the matters to which this Agreement is or shall be subject or subordinate; (b) that in the event of termination of this Agreement or reentry or dispossession of Tenant by Landlord under this Agreement, Landlord may, at its option, terminate such sublease or take over all of the right, title and interest of Tenant, as sublessor under such sublease, and such subtenant shall, at Landlord's option, attorn to Landlord pursuant to the then executory provisions of such sublease, except that neither Landlord nor any Facility Mortgagee, as holder of a mortgage or as Landlord under this Agreement, if such mortgagee succeeds to that position, shall (i) be liable for any act or omission of Tenant under such sublease, (ii) be subject to any credit, counterclaim, offset or defense which theretofore accrued to such subtenant against Tenant, (iii) be bound by any previous modification of such sublease not consented to in writing by Landlord or by any previous prepayment of more than one (1) month's Rent, (iv) be bound by any covenant of Tenant to undertake or complete any construction of such Leased Property or any portion thereof, (v) be required to account for any security deposit of the subtenant other than any security deposit actually delivered to Landlord by Tenant, (vi) be bound by any obligation to make any payment to such subtenant or grant any credits, except for services, repairs, maintenance and restoration provided for under the sublease that are to be performed after the date of such attornment, (vii) be responsible for any monies owing by Tenant to the credit of such subtenant, or (viii) be required to remove any Person occupying any portion of the Collective Leased Properties; and (c), in the event that such subtenant receives a written Notice from Landlord or any Facility Mortgagee stating that an Event of Default has occurred and is continuing, such subtenant shall thereafter be obligated to pay all rentals accruing under such sublease directly to the party giving such Notice or

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as such party may direct. All rentals received from such subtenant by Landlord or the Facility Mortgagee, as the case may be, shall be credited against the amounts owing by Tenant under this Agreement and such sublease shall provide that the subtenant thereunder shall, at the request of Landlord, execute a suitable instrument in confirmation of such agreement to attorn. An original counterpart of each such sublease and assignment and assumption, duly executed by Tenant and such subtenant or assignee, as the case may be, in form and substance reasonably satisfactory to Landlord, shall be delivered promptly to Landlord upon request and (a) in the case of an assignment, the assignee shall assume in writing and agree to keep and perform all of the terms of this Agreement on the part of Tenant to be kept and performed and shall be, and become, jointly and severally liable with Tenant for the performance thereof and (b) in case of either an assignment or subletting, Tenant shall remain primarily liable, as principal rather than as surety, for the prompt payment of the Rent and for the performance and observance of all of the covenants and conditions to be performed by Tenant hereunder.

The provisions of this Section 16.2 shall not be deemed a waiver of the provisions set forth in the first paragraph of Section 16.1.

16.3 Permitted Assignments and Subleases.

Notwithstanding the requirements set forth in Section 16.1 that Landlord's prior written consent be obtained in connection with any assignment, mortgage, pledge, encumbrance or other transfer of this Lease or any sublease of all or any part of the Collective Leased Properties, but subject to the provisions of Section 16.4 and any other express conditions or limitations set forth in this Article 16, Tenant may, in each instance, (x) after Notice to Landlord, sublease

any or all of the Collective Leased Properties, or assign this Agreement, to any Qualified Affiliate and (y) sublease space at any of the Collective Leased Properties for laundry, commissary, child care or medical office or other purposes in furtherance of the applicable Primary Intended Use, so long as such sublease will not violate or affect any Legal Requirement or Insurance Requirement, and Tenant shall provide such additional insurance coverage applicable to the activities to be conducted in such subleased space as Landlord may require. In connection with any sublease of any Leased Property, or assignment of this Agreement, any and all Facilities affected by or the subject of such transaction shall continue to be operated under and pursuant to the Franchise Agreement, and Tenant shall provide to Landlord, upon request, documentation confirming that the operation thereof, in such manner, has the approval and consent of Franchisor.

16.4 Sublease Limitation.

Anything contained in this Agreement to the contrary notwithstanding, Tenant shall not sublet any of the Collective Leased Properties on any basis such that all or any part of the Rent would fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto. This limitation shall include, but not be limited to, situations where (a) the rental to be paid by any sublessee thereunder would be based, in whole or in part, on the income or profits derived by the business activities of such sublessee, or (b) the sublessee would have a relationship to Crescent Real Estate Equities, Inc., described in Section

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856(d)(2)(B) of the Code, or any similar or successor provision thereto.

16.5 Tenant's Right to Mortgage its Leasehold.

Tenant may, subject to Article 15 and Section 6.6 hereof, assign its interest in this Agreement to a Lending Institution as collateral for Indebtedness, provided, however, any security interests in any property of Tenant, including without limitation Tenant's leasehold interest in the Collective Leased Properties, shall be expressly and fully subordinated to this Agreement and to the interest of Landlord in the Collective Leased Properties and to the rights of any then or thereafter existing Facility Mortgagee.

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ESTOPPEL CERTIFICATES AND FINANCIAL STATEMENTS

17.1 Estoppel Certificates.

At any time and from time to time, upon not less than ten (10) days prior Notice by Landlord, Tenant shall furnish to Landlord an Officer's Certificate certifying that this Agreement is unmodified and in full force and effect (or that this Agreement is in full force and effect as modified and setting forth the modifications), the date to which the Rent has been paid, that no Default or an Event of Default has occurred and is continuing or, if a Default or an Event of Default shall exist, specifying in reasonable detail the nature thereof, and the steps being taken to remedy the same, and such additional information as Landlord may reasonably request. Any such certificate furnished pursuant to this Section 17.1 may be relied upon by Landlord, any Facility Mortgagee and any prospective purchaser or mortgagee of any of the Collective Leased Properties.

17.2 Financial Statements.

OpCo shall furnish the following statements to Landlord:

(a) within forty-five (45) days after each of the first three quarters of any Fiscal Year, the most recent Financials and the most recent unaudited financial statements of OpCo accompanied by the Financial Officer's Certificate;

(b) within one hundred twenty (120) days after the end of each Fiscal Year, the most recent Financials for such Fiscal Year, including the most recent financial statements of OpCo audited and reported upon by an independent certified public accountant reasonably satisfactory to Landlord and accompanied by a Financial Officer's Certificate;

(c) within thirty (30) days after the end of each calendar month, an unaudited statement of income of OpCo, accompanied by a Financial Officer's Certificate;

(d) promptly after the sending or filing thereof, copies of all periodic reports which

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OpCo files with the SEC or any stock exchange on which its shares are listed or traded;

(e) promptly after the delivery thereof to OpCo, a copy of any management letter or written report prepared by the certified public accountants with respect to the financial condition, operations, business or prospects of OpCo, as the case may be; and

(f) at the expense of Landlord, at any time and from time to time upon not less than forty-five (45) days Notice from Landlord, any Financials or any other financial reporting information required to be filed by Landlord with any securities and exchange commission, the SEC or any successor agency, or any other governmental authority, or required pursuant to any order issued by any court, governmental authority or arbitrator in any litigation to which Landlord is a party, for purposes of compliance therewith, promptly, upon Notice from Landlord, such other information concerning the business, financial condition and affairs of Tenant as Landlord may reasonably request from time to time.

Landlord may at any time, and from time to time, provide any Facility Mortgagee with copies of any of the foregoing statements, provided that such Facility Mortgagee has executed and delivered a confidentiality agreement reasonably satisfactory to Tenant.

17.3 General Operations.

Tenant covenants and agrees to furnish to Landlord within thirty (30) days after written request therefor:

17.3.1 Reimbursement, Licensure, Etc.

Within thirty (30) days after receipt or modification thereof :

(a) copies of all material licenses and certificates of need authorizing Tenant to operate each Facility for its Primary Intended Use;

(b) a list of all Medicare and Medicaid certifications and all related participating provider agreements; and

(c) copies of all reports of surveys, statements of deficiencies, plans of correction, and all material correspondence relating thereto, including, without limitation, all reports and material correspondence concerning compliance with or enforcement of 1. censure, Medicare/Medicaid, and accreditation requirements, including physical environment and Life Safety Code survey reports (excluding, however, correspondence which may be subject to any attorney-client privilege).

Upon Notice from Landlord from time to time, Tenant shall make available for inspection and copying by Landlord, where such records are kept and maintained in the normal course of business:

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(d) all Medicare and Medicaid certifications, together with all participating provider agreements and all material correspondence relating thereto with respect to each Facility (excluding, however, correspondence which may be subject to any attorney-client privilege); and

(e) such other confirmation as to the licensure and Medicare and Medicaid participation of Tenant as Landlord may reasonably request from time to time.

17.3.2 Annual Budgets.

Not less than sixty (60) days after the commencement of any Fiscal Year, proposed annual income and ordinary expense and capital improvement budgets setting forth projected income and costs and expenses projected to be incurred by Tenant in managing, owning, maintaining and operating the Facilities during the next succeeding Fiscal Year.

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LANDLORD'S RIGHT TO INSPECT

Tenant shall permit Landlord and its authorized representatives to inspect the Collective Leased Properties during usual business hours upon not less than twenty-four (24) hours' notice (provided that no such notice shall be required if Landlord shall reasonably determine immediate action is necessary to protect person or property), and to make such repairs as Landlord is permitted or required to make pursuant to the terms of this Agreement, provided that any inspection or repair by Landlord or its representatives will not unreasonably interfere with Tenant's use and operation of the applicable Leased Property and further provided that in the event of an emergency, as determined by Landlord in its sole discretion, prior Notice shall not be necessary.

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APPRAISAL

In the event that it becomes necessary to determine the Fair Market Value or Fair Market Rental of any of the Collective Leased Properties for any purpose of this Agreement and the parties cannot agree thereon, such Fair Market Value or Fair Market Rental, as the case may be, shall be determined upon the written demand of either party in accordance with the following procedure.

The party requesting an appraisal, by Notice given to the other, shall propose and unilaterally approve a Qualified Appraiser. The other party, by Notice given within fifteen (15) days after receipt of such Notice appointing the first Qualified Appraiser, may appoint a second Qualified Appraiser. If the other party fails to appoint the second Qualified Appraiser within such fifteen (15)-day period, such party shall have waived its right to appoint a Qualified

Appraiser, the first Qualified Appraiser shall appoint a second Qualified Appraiser within fifteen (15) days thereafter,

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and the Fair Market Value or Fair Market Rental, as the case may be, shall be determined by the Qualified Appraisers as set forth below.

The two Qualified Appraisers shall thereupon endeavor to agree upon the Fair Market Value or Fair Market Rental, as the case may be. If the two Qualified Appraisers so named cannot agree upon such value or rental, as the case may be, within thirty (30) days after the designation of the second such appraiser, each such appraiser shall, within five (5) days after the expiration of such thirty (30)-day period, submit his appraisal of fair market value to the other appraiser in writing, and if the fair market values set forth in such appraisals vary by five percent (5%) or less of the greater value, the fair market value shall be determined by calculating the average of the two fair market values determined by the two appraisers.

If the fair market values set forth in the two appraisals vary by more than five percent (5%) of the greater value, the two Qualified Appraisers shall select a third Qualified Appraiser within an additional fifteen (15) days following the expiration of the aforesaid five (5)-day period. If the two appraisers are unable to agree upon the appointment of a third appraiser within such fifteen (15)-day period, either party may, upon written notice to the other, request that such appointment be made by the then President (or equivalent officer) of the State's Chapter of the American Institute of Real Estate Appraisers, or his or her designee or, if there is no such organization or if such individual declines to make such appointment, by any state or Federal court of competent jurisdiction for the State.

In the event that all three of the appraisers cannot agree upon Fair Market Value or Fair Market Rental, as the case may be, within twenty (20) days following the selection of the third appraiser, each appraiser shall, within ten (10) days thereafter, submit his appraisal of fair market value to the other two appraisers in writing, and the fair market value shall be determined by calculating the average of the two numerically closest values (or, if the values are equidistant, the average of all three values) determined by the three appraisers.

In the event that any appraiser appointed hereunder does not or is unable to perform his or her obligation hereunder, then the party or the appraisers appointing such appraiser shall have the right to propose and approve unilaterally a substitute Qualified Appraiser, but if the party or the appraisers who have the right to appoint a substitute Qualified Appraiser fail to do so within ten (10) days after written notice from the other party (or either party in the event such appraiser was appointed by the other appraisers), either party may, upon written notice to the party having the right to appoint a substitute Qualified Appraiser, request that such appointment be made by such officer of the American Institute of Real Estate Appraisers or court of competent jurisdiction as described above; provided, however, that a party who has the right to appoint an appraiser or a substitute appraiser shall have the right to make such appointment only up until the time such appointment is made by such officer or court.

In connection with the appraisal process, Tenant shall provide the appraisers full access during normal business hours to examine the applicable Leased Property, the books, records and files of Tenant and all agreements, leases and other operating agreements relating to the applicable Leased

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Property.

The costs (other than Landlord's counsel fees) of each such appraisal shall be borne by Tenant and shall be included as part of the Additional Charges. Upon determining such value, the appraisers shall promptly notify Landlord and Tenant in writing of such determination. If any party shall fail to appear at the hearings appointed by the appraisers, the appraisers may act in the absence of such party.

The determination of the Qualified Appraisers made in accordance with the foregoing provisions shall be final and binding upon the parties, such determination may be entered as an award in arbitration in a court of competent jurisdiction, and judgment thereon may be entered.

Notwithstanding anything in this Agreement to the contrary, (x) the parties agree that the Minimum Rent for the Fixed Term provided for in Section 1.64 hereof shall not be evidence of the Fair Market Rental for any Extended Term, and (y) if Minimum Rent for any Extended Term as determined by appraisal pursuant to this Article 19 is not satisfactory to Landlord, in Landlord's sole discretion, or Franchisor elects to void Tenant's extension of the Franchise Agreement with respect to such Extended Term pursuant to the Franchise Agreement, then Landlord shall have the right to render void Tenant's election to extend the Term with respect to such Extended Term upon Notice given to Tenant no later than thirty (30) days following the later of the determination of the Minimum Rent pursuant to this Article 19, or Franchisor's election to render void the extension of the Franchise Agreement pursuant to the Franchise Agreement, in which event this Agreement shall expire on the last day of the Fixed Term or the then current Extended Term, as applicable.

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FACILITY MORTGAGES

20.1 Landlord May Grant Liens.

Without the consent of Tenant, Landlord may, subject to the terms and conditions set forth in this Section 20.1, from time to time, directly or indirectly, create or otherwise cause to exist any lien, encumbrance or title retention agreement ("Encumbrance") upon any of the Collective Leased Properties, or any portion thereof or interest therein, whether to secure any borrowing or other means of financing or refinancing. Any such Encumbrance shall include the right to prepay (whether or not subject to a prepayment penalty) and shall provide (subject to Section 20.2 below) that it is subject to the rights of Tenant under this Agreement.

20.2 Subordination of Lease.

Subject to Section 20.1, this Agreement, any and all rights of Tenant hereunder, are and shall be subject and subordinate to any ground or master lease, and all renewals, extensions, modifications and replacements thereof, and to all mortgages and deeds of trust, which may now or hereafter affect the Collective Leased Properties, or any of them, or any improvements thereon and/or any of such

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leases, whether or not such mortgages or deeds of trust shall also cover other lands and/or buildings and/or leases, to each and every advance made or hereafter to be made under such mortgages and deeds of trust, and to all renewals, modifications, replacements and extensions of such leases and such mortgages and deeds of trust and all consolidations of such mortgages and deeds of trust. This section shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, (i) Tenant shall promptly execute, acknowledge and deliver any instrument that Landlord, the lessor under any such lease or the holder of any such mortgage or the trustee or beneficiary of any deed of trust or any of their respective

successors in interest may reasonably request to evidence such subordination, and (ii) the lessor under any such lease or the holder of any such mortgage or the trustee or beneficiary of any such deed of trust shall execute and deliver to Tenant a Non-Disturbance Agreement reasonably satisfactory to Tenant (taking into account, however, the reasonable requirements of the lessor or lender, including a lender becoming such in connection with a non-recourse securitized loan), including provisions with respect to insurance and casualty matters.

Any lease to which this Agreement is, at the time referred to, subject and subordinate is herein called "Superior Lease" and the lessor of a Superior Lease or its successor in interest at the time referred to, is herein called "Superior Landlord" and any mortgage or deed of trust to which this Agreement is, at the time referred to, subject and subordinate, is herein called "Superior Mortgage" and the holder, trustee or beneficiary of a Superior Mortgage is herein called "Superior Mortgagee."

If any Superior Landlord or Superior Mortgagee or the nominee or designee of any Superior Landlord or Superior Mortgagee shall succeed to the rights of Landlord under this Agreement with respect to one or more of the Collective Leased Properties, whether through possession or foreclosure action or delivery of a new lease or deed, or otherwise, then at the request of such party so succeeding to Landlord's rights (herein called "Successor Landlord") and upon such Successor Landlord's written agreement to accept Tenant's attornment, Tenant shall attorn to and recognize such Successor Landlord as Tenant's landlord under this Agreement with respect to one or more of the Collective Leased Properties, and shall promptly execute and deliver any instrument that such Successor Landlord may reasonably request to evidence such attornment. Upon such attornment, this Agreement shall continue in full force and effect as a direct lease between the Successor Landlord and Tenant upon all of the terms, conditions and covenants as are set forth in this Agreement, except that the Successor Landlord (unless formerly the landlord under this Agreement or its nominee or designee) shall not be (a) liable in any way to Tenant for any act or omission, neglect or default on the part of Landlord under this Agreement, (b) responsible for any monies owing by or on deposit with Landlord to the credit of Tenant, (c) subject to any counterclaim or setoff which theretofore accrued to Tenant against Landlord, (d) bound by any modification of this Agreement subsequent to such Superior Lease or Mortgage, or by any previous prepayment of Minimum Rent or Additional Rent for more than one (1) month, which was not approved in writing by the Superior Landlord or the Superior Mortgagee thereto, (e) liable to Tenant beyond the Successor Landlord's interest in the applicable Leased Property and the rents, income, receipts, revenues, issues and profits issuing from such Leased Property, (f) responsible for the performance of any work to be done by the Landlord under this Agreement to render the applicable Leased

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Property ready for occupancy by Tenant, or (g) required to remove any Person occupying the applicable Leased Property or any part thereof, except if such person claims by, through or under the Successor Landlord. Tenant agrees at any time and from time to time to execute a suitable instrument in confirmation of Tenant's agreement to attorn, as aforesaid.

20.3 Notice to Mortgagee and Ground Landlord.

Subsequent to the receipt by Tenant of notice from any Person that it is a Facility Mortgagee or that it is the ground lessor under a lease with Landlord, as ground lessee, which includes the applicable Leased Property as part of the demised premises, no notice from Tenant to Landlord as to the applicable Leased Property shall be effective unless and until a copy of the same is given to such Facility Mortgagee or ground lessor, and the curing of any of Landlord's defaults by such Facility Mortgagee or ground lessor shall be treated as performance by Landlord.

21.1 Conduct of Business.

Tenant shall do or cause to be done all things necessary to preserve, renew and keep in full force and effect and in good standing its corporate existence and its rights and licenses necessary to conduct such business.

21.2 Maintenance of Accounts and Records.

Tenant shall keep records and books of account in which full, true and correct entries in all material respects will be made of dealings and transactions in relation to the business and affairs of Tenant.

21.3 Payments to Franchisor.

All payments by Tenant of Franchise Fees under the Franchise Agreement shall be subordinated to payments of Rent (other than Non-Priority Additional Rent) due to Landlord to the extent and on the terms provided in the Franchise Subordination Agreement, and Tenant shall not make any payment of the Franchise Fees, directly or indirectly, or set apart any sum or property therefor, or agree to do so, other than as permitted in and by the Franchise Subordination Agreement.

21.4 Management of Collective Leased Properties.

Tenant shall not enter into any Management Agreement unless the terms thereof have been previously approved in writing by Landlord, which approval may be given or withheld in Landlord's sole and absolute discretion, except for Management Agreements between OpCo and a Facility

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Subsidiary. All management fees, payments in connection with any extension of credit and fees for services provided in connection with the operation of the applicable Leased Property, payable by Tenant or any Affiliated Person as to Tenant shall be subordinated to all of the obligations of Tenant due under this Agreement pursuant to a Subordination Agreement. Tenant shall not agree to any change in the Manager of any of the Collective Leased Properties and/or any Facility, to any change in any Management Agreement, terminate any Management Agreement or permit any Manager to assign any Management Agreement without the prior written approval of Landlord in each instance, which approval may be given or withheld in Landlord's sole and absolute discretion. Any Management Agreement shall provide that Landlord shall be provided notice of any defaults thereunder and, at Landlord's option, an opportunity to cure such defaults and shall otherwise be in form and substance satisfactory to Landlord in its sole and absolute discretion. If Landlord shall cure any of Tenant's defaults under any Management Agreement, the cost of such cure shall be payable upon demand by Tenant to Landlord with interest accruing from the demand date at the Overdue Rate and Landlord shall have the same rights and remedies for failure to pay such costs on demand as for Tenant's failure to pay Minimum Rent. Tenant shall deliver to Landlord any instrument requested by Landlord to implement the intent of the foregoing provision.

21.5 Liens and Encumbrances.

Except as permitted by Sections 7.1 and 16.5, Tenant shall not create or incur or suffer to be created or incurred or to exist any Lien on this Agreement or Tenant's personal Property now or at any time hereafter owned, other than:

- (a) Security interests securing the purchase price of equipment or personal property acquired after the Commencement Date; provided, however, that (i) such Lien shall at all times be confined solely to the asset in question;

and (ii) the aggregate principal amount of Indebtedness secured by any such Lien shall not exceed the cost of acquisition or construction of the property subject thereto; and

(b) Permitted Encumbrances.

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MISCELLANEOUS

22.1 Limitation on Payment of Rent.

All agreements between Landlord and Tenant herein are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of Rent, or otherwise, shall the Rent or any other amounts payable to Landlord under this Agreement exceed the maximum permissible under applicable law, the benefit of which may be asserted by Tenant as a defense, and if, from any circumstance whatsoever, fulfillment of any provision of this Agreement, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, or if from any circumstances Landlord should ever receive as fulfillment of such provision such an excessive amount, then, ipso facto, the amount which would be excessive shall

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be applied to the reduction of the installment(s) of Minimum Rent next due and not to the payment of such excessive amount. This provision shall control every other provision of this Agreement and any other agreements between Landlord and Tenant.

22.2 No Waiver.

No failure by Landlord to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a breach thereof, and no acceptance of full or partial payment of Rent during the continuance of any such breach, shall constitute a waiver of any such breach or of any such term. To the maximum extent permitted by law, no waiver of any breach shall affect or alter this Agreement, which shall continue in full force and effect with respect to any other then existing or subsequent breach.

22.3 Remedies Cumulative.

To the maximum extent permitted by law, each legal, equitable or contractual right, power and remedy of Landlord, now or hereafter provided either in this Agreement or by statute or otherwise, shall be cumulative and concurrent and shall be in addition to every other right, power and remedy and the exercise or beginning of the exercise by Landlord of any one or more of such rights, powers and remedies shall not preclude the simultaneous or subsequent exercise by Landlord of any or all of such other rights, powers and remedies.

22.4 Severability.

Any clause, sentence, paragraph, section or provision of this Agreement held by a court of competent jurisdiction to be invalid, illegal or ineffective shall not impair, invalidate or nullify the remainder of this Agreement, but rather the effect thereof shall be confined to the clause, sentence, paragraph, section or provision so held to be invalid, illegal or ineffective, and this Agreement shall be construed as if such invalid, illegal or ineffective provisions had never been contained therein.

22.5 Acceptance of Surrender.

No surrender to Landlord of this Agreement or of any of the Collective Leased Properties or any part thereof, or of any interest therein, shall be valid or effective unless agreed to and accepted in writing by Landlord and no act by Landlord or any representative or agent of Landlord, other than such a written acceptance by Landlord, shall constitute an acceptance of any such surrender.

22.6 No Merger of Title.

It is expressly acknowledged and agreed that it is the intent of the parties that there shall be no merger of this Agreement or of the leasehold estate created hereby by reason of the fact that the same Person may acquire, own or hold, directly or indirectly this Agreement or the leasehold estate created her by and the fee estate or ground landlord's interest in any of the Collective Leased Properties.

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22.7 Conveyance by Landlord.

If Landlord or any successor owner of all or any portion of any of the Collective Leased Properties shall convey all or any portion of the Collective Leased Properties in accordance with the terms hereof other than as security for a debt, and the grantee or transferee of such of the Collective Leased Properties shall expressly assume all obligations of Landlord hereunder arising or accruing from and after the date of such conveyance or transfer, Landlord or such successor owner, as the case may be, shall thereupon be released from all future liabilities and obligations of Landlord under this Agreement with respect to such of the Collective Leased Properties arising or accruing from and after the date of such conveyance or other transfer and all such future liabilities and obligations shall thereupon be binding upon the new owner.

22.8 Quiet Enjoyment.

So long as Tenant shall pay the Rent as the same becomes due and shall comply with all of the terms of this Agreement, Tenant shall peaceably and quietly have, hold and enjoy the Collective Leased Properties for the Term, free of hindrance or molestation by Landlord or anyone claiming by, through or under Landlord, but subject to (a) any Encumbrance permitted under Article 20 or otherwise permitted to be created by Landlord hereunder, (b) all Permitted Encumbrances, (c) liens as to obligations of Landlord that are either not yet due or which are being contested in good faith and by proper proceedings, and (d) liens that have been consented to in writing by Tenant. Except as otherwise provided in this Agreement, no failure by Landlord to comply with the foregoing covenant shall give Tenant any right to cancel or terminate this Agreement or abate, reduce or make a deduction from or offset against the Rent or any other sum payable under this Agreement, or to fail to perform any other obligation of Tenant hereunder.

22.9 Landlord's Consent.

Where provision is made in this Agreement for Landlord's consent and Landlord shall fail or refuse to give such consent, Tenant shall not be entitled to any damages for any withholding by Landlord of its consent, it being intended that Tenant's sole remedy shall be an action for specific performance or injunction, and that such remedy shall be available only in those cases where Landlord has expressly agreed in writing not unreasonably to withhold its consent.

22.10 Memorandum of Lease.

Neither Landlord nor Tenant shall record this Agreement. However, Landlord and Tenant shall promptly, upon the request of the other, enter into a short form memorandum of this Agreement, in form suitable for recording under the laws of the State in which reference to this Agreement, and all options contained herein, shall be made. Tenant shall pay all costs and expenses of recording such memorandum.

22.11 Notices.

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(a) Any and all notices, demands, consents, approvals, offers, elections and other communications required or permitted under this Agreement shall be deemed adequately given if in writing and the same shall be delivered either in hand, by telecopier with written acknowledgment of receipt, or by mail or Federal Express or similar expedited commercial carrier, addressed to the recipient of the notice, postpaid and registered or certified with return receipt requested (if by mail), or with all freight charges prepaid (if by Federal Express or similar carrier).

(b) All notices required or permitted to be sent hereunder shall be deemed to have been given for all purposes of this Agreement upon the date of acknowledged receipt, in the case of a notice by telecopier, and, in all other cases, upon the date of receipt or refusal, except that whenever under this Agreement a notice is either received on a day which is not a Business Day or is required to be delivered on or before a specific day which is not a Business Day, the day of receipt or required delivery shall automatically be extended to the next Business Day.

(c) All such notices shall be addressed:

if to Landlord to:

Gerald W. Haddock, Esq.
Chief Executive Officer and President
CRE Management VII Corp.
777 Main Street
Suite 2100
Forth Worth, Texas 76102
Facsimile: (817) 878-0429

with copies to:

David M. Dean, Esq.
Senior Vice President, Law
CRE Management VII Corp.
777 Main Street
Suite 2100
Forth Worth, Texas 76102
Facsimile: (817) 878-0429

and

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Wendelin A. White, Esq.
Shaw, Pittman, Potts & Trowbridge
2300 N Street, N.W.
Washington, DC 20037

Facsimile: (202) 663-8007

If to Tenant to:

Steve J. Davis, Esq.

Executive Vice President,
Administrative Services and General Counsel
3414 Peachtree Road, N.E.
Suite 1400
Atlanta, Georgia 30326
Facsimile: (404) 814-5793

with a copy to:

Robert W. Miller, Esq.

King & Spalding
191 Peachtree Street
Atlanta, Georgia 30303-1763
Facsimile: (404) 572-5100

(d) By notice given as herein provided, the parties hereto and their respective successor and assigns shall have the right from time to time and at any time during the term of this Agreement to change their respective addresses effective upon receipt by the other parties of such notice and each shall have the right to specify as its address any other address within the United States of America.

22.12 Construction.

Anything contained in this Agreement to the contrary notwithstanding, all claims against, and liabilities of, Tenant or Landlord arising prior to any date of termination or expiration of this Agreement with respect to any of the Collective Leased Properties shall survive such termination or expiration. In no event shall Landlord be liable for any consequential damages suffered by Tenant as the result of a breach of this Agreement by Landlord. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated except by an instrument in writing signed by the party to be charged. All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Each term or provision of this Agreement to be performed by Tenant shall be construed as an independent covenant and condition. Time is of the essence with respect to the exercise of any rights of Tenant under this Agreement. Except as otherwise set forth in this Agreement, any obligations of Tenant and Landlord (including without limitation, any monetary, repair and indemnification obligations)

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shall survive the expiration or sooner termination of this Agreement.

22.13 Counterparts; Headings.

This Agreement may be executed in two or more counterparts, each of which shall constitute an original, but which, when taken together, shall constitute but one instrument and shall become effective as of the date hereof when copies hereof, which, when taken together, bear the signatures of each of the parties hereto shall have been signed. Headings in this Agreement are for purposes of reference only and shall not limit or affect the meaning of the provisions hereof.

22.14 Law, Etc.

This Agreement shall be interpreted, construed, applied and enforced in

accordance with the laws of the State of Delaware applicable to contracts between residents of Delaware which are to be performed entirely within Delaware, regardless of (i) where this Agreement is executed or delivered; or (ii) where any payment or other performance required by this Agreement is made or required to be made; or (iii) where any breach of any provision of this Agreement occurs, or any cause of action otherwise accrues; or (iv) where any action or other proceeding is instituted or pending; or (v) the nationality, citizenship, domicile, principal place of business, or jurisdiction of organization or domestication of any party; or (vi) whether the laws of the forum jurisdiction otherwise would apply the laws of a jurisdiction other than the State of Delaware; or (vii) any combination of the foregoing. Notwithstanding the foregoing, the laws of the State shall apply to the perfection and priority of liens upon and the disposition of and disposition with respect to any of the Collective Leased Properties.

To the maximum extent permitted by applicable law, any action to enforce, arising out of, or relating in any way to, any of the provisions of this Agreement may be brought and prosecuted in such court or courts located in the State of Delaware as is provided by law; and the parties consent to the jurisdiction of said court or courts located in the State of Delaware and to service of process by registered mail, return receipt requested, or by any other manner provided by law.

22.15 of Leased Properties.

Provided no Default or Event of Default has occurred and is continuing at the time of exercise of the right provided for in this Section 22.15, Tenant shall have the right, from time to time, to substitute for a Designated Leased Property another parcel of improved real property meeting criteria hereinafter set forth and otherwise acceptable to Landlord (the "Substitute Leased Property"). If Tenant makes such election, Tenant shall give Notice to Landlord of Tenant's intention proposing a substitution closing date (the "Substitution Date") not less than sixty (60) days or more than one-hundred twenty (120) days from the date of such Notice and offering to Landlord a proposed Substitute Leased Property meeting the following criteria: the Substitute Leased Property shall be improved with a Comparable Facility; shall have a total value equal to or greater than the total value of the Designated Leased Property to Landlord (each as reasonably determined by Landlord); shall be freely transferable to Landlord unencumbered by any existing lease, mortgage, or other encumbrance; and shall be subject to no other exceptions to title except

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those approved by Landlord, which approval shall not be unreasonably withheld. Tenant shall convey the Substitute Leased Property to Landlord in exchange for the Designated Leased Property, Landlord shall simultaneously exchange the Designated Leased Property, for the Substitute Leased Property, and the parties shall simultaneously execute and deliver an amendment to this Lease. The Landlord shall have thirty (30) days following receipt of such Notice within which to accept or reject such offer; provided, however, that Landlord shall have at least ten (10) days following receipt of any appraisal of the Substitute Leased Property or the Designated Leased Property (or both) requested by Landlord within which to accept or reject such offer. If Landlord accepts the proposed Substitute Leased Property, the substitution shall proceed in a manner (a) intended to qualify such substitution as a "like-kind" exchange within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code") with respect to Landlord, and (b) which will satisfy Landlord's requirements related to taxation as a real estate investment trust. Landlord may demand, at Tenant's expense, a reasonably acceptable opinion of counsel or private letter ruling from the Internal Revenue Service indicating that the substitution will have no material adverse tax consequences to Landlord. After closing, the Substitute Leased Property shall be deemed a Leased Property for all purposes. Substitution hereunder and the closing shall be made on the following terms and shall be subject to the following conditions:

- (a) the Substitution Date, Tenant shall execute, acknowledge and deliver to Landlord a warranty deed in the customary form for the relevant jurisdiction conveying to Landlord, free and clear of any title exceptions

except those approved by Landlord as set forth above, title to the Substitute Leased Property, and Landlord shall simultaneously execute, acknowledge and deliver to Tenant a warranty deed conveying to Tenant, free and clear of title exceptions, except Permitted Encumbrances and those approved by Tenant (based on the same criteria for approval as for Landlord), title to the Designated Leased Property; provided, however, that in no event shall Landlord have any obligation to cure or remove title exceptions affecting the Designated Leased Property, Tenant's only recourse being to designate an alternative Designated Leased Property for substitution or to rescind its Notice of election to substitute a Substitute Leased Property.

(b) or prior to the Substitution Date, Landlord and Tenant shall have executed, acknowledged and delivered an amendment to this Lease (the "Amendment to Lease") (the Lease, as amended, herein referred to as the "Amended Lease") which shall provide for the deletion of the legal description of the Designated Leased Property and the substitution of the legal description of the Substitute Leased Property therefor.

(c) shall have provided Landlord, at Tenant's sole cost, with a title insurance policy satisfactory in form and substance to Landlord, effective on the date of exchange, covering the Substitute Leased Property and containing no exceptions to title to the Substitute Leased Property other than encumbrances approved by Landlord as provided herein, and having such affirmative insurance and endorsements as may be required by Landlord.

(d) shall have provided Landlord with representations and warranties with

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respect to the Substitute Leased Property reasonably satisfactory to Landlord (unless otherwise reasonably required, generally similar to the representations and warranties contained in Section 6.1 of that certain Real Estate Purchase and Sale Agreement dated as of January 29, 1997, as amended through the date hereof by and between Magellan Health Services, Inc., as seller, and Crescent Real Estate Equities Limited Partnership, predecessor in interest of Landlord, as purchaser (the "Purchase Agreement")), such representations and warranties shall survive the closing and Landlord shall have the same remedies for breach thereof as are provided for in the Purchase Agreement.

(e) shall provide Landlord with documentation satisfactory to Landlord confirming that Tenant has the right to operate the Substitute Leased Property in accordance with the Primary Intended Use and under and pursuant to the Franchise Agreement.

(f) shall reimburse Landlord, as Additional Charges, for any and all costs and expenses incurred by Landlord, including Landlord's reasonable attorneys' fees, in effecting the substitution proposed (whether or not closing occurs).

Landlord and Tenant hereby covenant that once the Notice of intent to substitute a Substitute Leased Property for the Designated Leased Property described therein has been delivered and Landlord accepts the Substitute Leased Property identified therein, each party will promptly perform all acts and deliver all documents required on its part to be delivered or to satisfy the conditions of closing set forth herein. In the event that the Substitute Leased Property has not been exchanged for the Designated Leased Property within thirty (30) days after the Substitution Date specified in Tenant's Notice of its intention to substitute by reason of the acts or omissions of one party, then the other party shall have the right to elect not to proceed with the substitution.

Tenant covenants that, following the closing of the exchange of the Substitute Leased Property, neither it nor any of its Affiliated Persons will

use the Designated Leased Property as a facility having as its primary use the Primary Intended Use for at least one year after the Substitution Date.

22.16 Broker.

Each party hereby represents and warrants to the other that it has not engaged, dealt with or otherwise discussed this transaction with any broker, agent or finder. Each party agrees to indemnify and hold the other harmless from and against any claim arising out of a breach of the foregoing agreement and representation and warranty.

22.17 Confidentiality.

Landlord shall maintain the confidentiality of information provided by Tenant pursuant to Sections 17.2 and 17.3 hereof or otherwise under this Agreement. Landlord may, however, disclose such information to its attorneys, consultants, partners, directors, officers and employees, and lenders and purchasers (actual and potential). As a condition of such disclosure to any lender or purchaser

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(actual or potential), such lender or purchaser shall be obligated to execute a Confidentiality Agreement reasonably satisfactory to Tenant. The provisions of this Section 22.18 shall not be applicable to disclosure of information required by applicable law, rule or regulation or the order of any court.

IN WITNESS WHEREOF, the parties have executed this Agreement as a sealed instrument as of the date above first written.

LANDLORD:

Crescent Real Estate FUNDING VII, L.P.

Attest:

By: CRE Management VII Corp.

\s\ Sylvia M. Mahaffey

By: \s\ David M. Dean

Name: Sylvia M. Mahaffey
Title: Assistant Secretary

David M. Dean
Senior Vice President, Law

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TENANT:

Attest:

CHARTER BEHAVIORAL HEALTH SYSTEMS, LLC

\s\ Jay P. Moran

By:\s\ Mark Ford

Name: Jay P. Moran
Title:

Name: Mark Ford
Title: Vice President, General Counsel
and Secretary

Attest:

FACILITY SUBSIDIARIES

\s\ Jay P. Moran

By: \s\ John R. Hamilton III

Name: John R. Hamilton III Title:
Executive Vice President of each of the Limited
Liability Companies and of each Sole General
Partner of each of the Limited Partnerships
listed on Exhibit B attached hereto, on behalf
of each of the said Limited Liability Companies
and Limited Partnerships

MASTER FRANCHISE AGREEMENT

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MASTER FRANCHISE AGREEMENT

THIS MASTER FRANCHISE AGREEMENT is made and entered into this 17th day of June, 1997 by and between Magellan Health Services, Inc., a Delaware corporation ("Magellan"), and its wholly-owned subsidiary, Charter Franchise Services, LLC, a Delaware limited liability company (together, hereinafter referred to as the "Franchisor"), and Charter Behavioral Health Systems, LLC, a Delaware limited liability company (hereinafter referred to as "OpCo").

W I T N E S S E T H :

In consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. DEFINITIONS

In addition to other words and terms defined elsewhere in this Agreement, the following words and terms shall have the meanings set forth below:

1.1. "Affiliate" shall mean any person, firm or corporation, which, directly or indirectly, controls, is controlled by, or is under common control with, OpCo.

1.2. "Business Day" shall mean any day other than Saturday, Sunday or any other day on which banking institutions in the States of Texas or Georgia are authorized by law or executive action to close.

1.3. "Capitalized Lease" shall mean any lease which is capitalized on the books of the lessee, or should be so capitalized under generally accepted accounting principles.

1.4. "Charter System" shall have the meaning ascribed to it in the recitals to the Franchise Agreement.

1.5. "EBITDA" shall mean earnings before interest, taxes, depreciation, and amortization of OpCo on a consolidated basis as shown on OpCo's monthly financial statements regularly prepared by OpCo.

1.6. "Fair Market Value of the Franchise" shall mean, for the purposes of determining the Annual Continuing Fee (as hereinafter defined) for each Extended Term (as hereinafter defined), the amount which is the fair market value of the rights granted to OpCo under and pursuant to this Agreement and the rights granted to OpCo and OpCo Franchisees under and pursuant to the OpCo Franchise Agreements, for a one-year period.

1.7. "Franchise Agreement" shall mean the Charter Franchise Services, LLC Franchise Agreement attached as Exhibit 1 hereto.

1.8. "Franchised Business" shall have the meaning ascribed to it in the recitals to the Franchise Agreement.

1.9. "Hospital/RTC Based Behavioral Healthcare Business" shall have the meaning ascribed to it in the recitals to the Franchise Agreement.

1.10. "Interest" shall have the meaning ascribed to it in the Operating Agreement (as defined in Section 1.21).

1.11. "Joint Ventures" shall mean the "Existing Joint Ventures" (as listed on Exhibit 3 hereto) and all other similar arrangements of OpCo for so long as OpCo is an equity owner in any Joint Venture or so long as OpCo has a services agreement with an Existing Joint Venture on the terms contemplated in Section 7.9 of the Contribution Agreement.

1.12. "Licensed Marks" shall have the meaning ascribed to it in the recitals to the Franchise Agreement.

1.13. "New Products" shall have the meaning ascribed to it in Section 1.3 of the Franchise Agreement.

1.14. "OpCo Franchise Agreements" shall mean each and all of the Franchise Agreements entered into pursuant to Article 2 of this Agreement.

1.15. "OpCo Franchisees" shall mean as of any particular date all of the entities designated as Franchise Owners under and pursuant to the OpCo Franchise Agreements except that OpCo Franchisees as of any particular date shall not include any entity that is not OpCo or in which OpCo does not have voting control through stock ownership.

1.16. "OpCo's Business" shall mean and include the business of OpCo and all OpCo Franchisees on a consolidated basis.

1.17. "Prime Rate" shall mean the prime rate of interest published from time to time by the Wall Street Journal.

1.18. "Qualified Appraiser" shall mean an appraiser who is not in control of, controlled by or under common control with either OpCo or Franchisor and has not been an employee of OpCo or Franchisor or any affiliate with respect to either of OpCo or Franchisor at any time, who is qualified to appraise the Fair Market Value of the Franchise, and has been actively engaged in the appraisal of assets, rights, businesses and, to the extent reasonably practicable to locate such an appraiser, an appraiser who has been actively engaged in the appraisal of franchises, for a period of not less than five (5) years, immediately preceding his or her appointment hereunder.

1.19. "Supermajority Vote of the Board" shall mean a vote of not less than 80% of the members of the entire Board of Directors of OpCo.

1.20. "Territory" shall have the meaning ascribed to it in Section 1.1 of the Franchise Agreement.

1.21. "Transaction Documents" shall mean this Agreement, the OpCo Franchise Agreements, the Master Lease Agreement dated as of the date hereof by and between Crescent Real Estate Funding VII, L.P., a Delaware limited partnership ("Crescent"), as Landlord, and OpCo and each of the Facility Subsidiaries listed on Exhibit C thereto, as Tenant (the "Facilities Lease"); the Operating Agreement of OpCo dated as of the date hereof (the "Operating Agreement") by and between Charter Behavioral Health Systems, Inc. and Crescent Operating, Inc., a Delaware corporation ("Crescent Operating"); the Warrant Purchase Agreements dated as of the date hereof between Magellan and Crescent Operating; the Warrant Purchase Agreement dated as of January 29, 1997, as amended, by and between Crescent Real Estate Equities Limited Partnership, a Delaware limited partnership, and Magellan, the Real Estate Purchase and Sale Agreement dated January 29, 1997, as amended, by and between Magellan and Crescent; the Contribution Agreement dated as of the date hereof by and between Magellan, Crescent Operating and OpCo, and the Subordination Agreement dated as of the date hereof between Franchisor, Crescent and OpCo.

2. GRANT AND ACCEPTANCE OF FRANCHISE

2.1. Existing Facilities. Subject to the terms and conditions hereof, immediately following the execution of this Agreement, Franchisor shall enter into a franchise agreement for each facility listed on Exhibit 2 hereto with the subsidiary of OpCo which leases such facility, and OpCo agrees to cause each subsidiary which operates a facility listed on Exhibit 2 to enter into a franchise agreement with Franchisor. Each franchise agreement shall be in the form of the Franchise Agreement, completed with the name of the Franchisee, the name of the business, the Territory and the fees to be inserted in Section 4.2 thereof; all in accordance with Exhibit 4 hereto.

2.2. Certain Additional Covenants. The covenants and agreements set forth in Exhibit 5, including Attachment A thereto, are incorporated herein and deemed a part hereof. Each OpCo Franchisee shall be a third party beneficiary of the provisions of Exhibit 5 relating to Territories, Secondary Territories, and if applicable, RTC/CD Facilities, all as applicable to such OpCo Franchisee's respective Franchised Business.

2.3. New Facilities. In the event that OpCo or a subsidiary of OpCo shall during the term hereof develop, acquire or lease any additional Hospital/RTC Based Behavioral Healthcare Business(es), Franchisor agrees to enter into a franchise agreement with OpCo or with the subsidiary of OpCo developing, acquiring or leasing each such Hospital/RTC Based Behavioral

Healthcare Business, subject to such Hospital/RTC Based Behavioral Healthcare Business's meeting, and each facility at which such Hospital/RTC Based Behavioral Healthcare Business is conducted meeting, Franchisor's reasonable standards and requirements (which shall be consistent with, and not more onerous than, the existing standards for OpCo Franchisees) and subject to such Hospital/RTC Based Behavioral Healthcare Business's not having any of its facilities in the Hospital/RTC Based Behavioral Healthcare Business (i) in the Territory of any other franchisee of Franchisor (subject to the franchisee affected thereby either, at such franchisee's option, waiving the prohibition or agreeing to amend such franchisee's franchise agreement to eliminate the conflict) or (ii) in a geographic area wherein Franchisor is prohibited from granting a franchise to operate a Hospital/RTC Based Behavioral Healthcare Business pursuant to any judgment, order or decree or pursuant to any contractual provision existing prior to the date of such development, acquisition or leasing. Each franchise agreement entered into pursuant to this Section 2.3 shall be in the form of the Franchise Agreement, completed with the name of the OpCo Franchisee, the name of the business, the Territory, as reasonably specified by Franchisor utilizing the guidelines set forth in Exhibit 6 hereto and the fees inserted in Section 4.2 (such fees to be as reasonably specified by Franchisor); it being understood that for so long as such franchisee is an OpCo Franchisee, no additional fees (other than such as result from increases in OpCo Gross Revenues) will be due to Franchisor from OpCo.

2.4. Condition. Franchisor's obligation to enter into any Franchise Agreement pursuant to Sections 2.1 and 2.3 hereof shall be subject to Franchisor's having complied with all federal and state laws, rules and regulations applicable to the execution and delivery of such Franchise

Agreement. OpCo agrees to cooperate with Franchisor, and Franchisor and OpCo agree to use commercially reasonable best efforts to comply with all such laws, rules and regulations.

3. GUARANTY OF FRANCHISEE OBLIGATIONS

3.1. Definition of "Obligations". The term "Obligations", as used in this Article 3, shall refer to any and all debts, obligations, and liabilities of each and every of the present and future OpCo Franchisees to Franchisor arising out of or relating to the OpCo Franchisees' respective Franchise Agreements with Franchisor, whether such Franchise Agreements and/or such debts, obligations and liabilities are heretofore, now, or hereafter made, incurred, or created, whether such debts, obligations and liabilities are voluntary or involuntary, liquidated or unliquidated, secured or unsecured, and including but not limited to contingent debts, obligations and liabilities, and including both principal and interest on such debts, obligations or liabilities, and whether or not any or all such debts, obligations and liabilities are or become unenforceable against OpCo Franchisees as a result of the operation of bankruptcy or insolvency laws.

3.2. Guaranty. OpCo hereby (a) unconditionally guarantees the full and prompt payment and performance of the Obligations when due, whether by acceleration or otherwise, (b) agrees to pay all costs, expenses and reasonable attorneys' fees incurred by Franchisor in enforcing this guaranty and the Obligations and realizing on any collateral therefor, and (c) agrees to pay to Franchisor the amount of any payments which were made to Franchisor or another in full or partial satisfaction of the Obligations and which are recovered from Franchisor by a trustee, receiver, creditor or other party pursuant to applicable law. This is a guarantee of

payment, and not of collection. Franchisor shall not be obligated to: (i) take any steps whatsoever to collect from, or to file any claim of any kind against any OpCo Franchisee, any guarantor, or any other person or entity liable for payment or performance of any of the Obligations, or (ii) take any steps whatsoever to protect, accept, obtain, enforce, take possession of, perfect its interest in, foreclose or realize on collateral or security, if any, for the payment or performance of any of the Obligations or any guarantee of any of the Obligations, or (iii) in any other respect exercise any diligence whatever in collecting or attempting to collect any of the Obligations by any means.

3.3. OpCo's Liability Absolute. OpCo shall have the right to assert any defenses to enforcement of the Obligations that would be available to OpCo Franchisees, other than defenses based on bankruptcy or insolvency laws. However, except for the preceding sentence, OpCo's liability for payment and performance of the Obligations shall be absolute and unconditional. OpCo unconditionally and irrevocably waives each and every defense which, under principles of guarantee or suretyship law, would otherwise operate to impair or diminish such liability; and nothing whatever except actual full payment and performance to Franchisor of the Obligations shall operate to discharge OpCo's liability under this Article 3. Without limiting the generality of the foregoing, Franchisor shall have the exclusive right, which may be exercised from time to time without diminishing or impairing the liability of OpCo in any respect, and without notice of any kind to OpCo, to: (a) in connection with the relationship between Franchisor and any OpCo Franchisee under a Franchise Agreement, extend any credit to any OpCo Franchisee, (b) accept any collateral, security or guarantee for any Obligations or any other credit, (c) determine how, when and what application of payments, credits and collections, if any, shall be made on the Obligations and any other credit and accept partial payments, (d) determine what, if anything, shall at any time be done with respect to any collateral or security, (e) subordinate, sell, transfer, surrender, release or otherwise dispose of all or any of such collateral or security, and purchase or otherwise acquire any such collateral or security at foreclosure or otherwise, and (f) with or without consideration grant, permit or enter into any waiver, amendment, extension, modification, refinancing, indulgence, compromise, settlement, subordination, discharge or release of: (i) any of the Obligations and any agreement relating to any of the Obligations, (ii) any obligations of any guarantor or other person or entity liable for

payment or performance of any of the Obligations, and any agreement relating to such obligations and (iii) any collateral or security or agreement relating to collateral or security for any of the foregoing, provided that, with respect to (c) and (d) relating to collateral or security, Franchisor must deal with any such collateral or security in a commercially reasonable manner.

3.4. Additional Waivers. OpCo hereby unconditionally waives (a) presentment, notice of dishonor, protest, demand for payment and all notices of any kind, including without limitation: notice of acceptance hereof, notice of the creation of any of the Obligations (except as otherwise expressly required in this Agreement), notice of nonpayment, nonperformance or other default on any of the Obligations, and notice of any action taken to collect upon or enforce any of the Obligations against any Franchise Owner (as defined in the preamble to the Franchise Agreement), (b) any claim for contribution against any co-guarantor, until the Obligations have been paid or performed in full and such payments are not subject to any right of recovery, and (c) any setoffs against Franchisor which would otherwise impair Franchisor's rights against OpCo hereunder.

3.5. Parties Benefitted. Subject to Section 16.1 below, the rights of Franchisor under this Article 3 shall inure to the benefit of Franchisor and its successors and assigns, including every holder or owner of any of the Obligations, and shall be binding upon OpCo and OpCo's successors and assigns.

3.6. Continuing Effect. This is a continuing guarantee and shall continue in effect as to those of the Obligations arising out of or relating to each OpCo Franchise Agreement until Franchisor shall have received written notice of termination of that OpCo Franchise Agreement (hereinafter, a "Terminated Agreement") in accordance with its terms; provided that this guarantee shall continue in effect thereafter with respect to all Obligations which arise out of or are related to all OpCo Franchise Agreements of which such notice shall not have been received, and with respect to all Obligations which were incurred under a Terminated Agreement prior to Franchisor's receipt of such notice of termination.

3.7. Scope of Guaranty. Nothing contained in this Article 3 shall cause the cumulative liability of OpCo and any OpCo Franchisee for any particular Obligation to exceed the amount of such Obligation; and the payment by OpCo, an OpCo Franchisee or another person (other than Franchisor) in full or partial satisfaction of any particular Obligation shall correspondingly reduce the liability of OpCo and the particular OpCo Franchisee for such Obligation, subject to subsection 3.2(c) above.

4. TERM

4.1. Initial Term. Unless sooner terminated pursuant to Article 16 hereof, this Agreement shall extend for an initial term (the "Initial Term") ending on the day prior to the anniversary date that is twelve (12) years from the date hereof, provided that if the date hereof is not the first day of a calendar month, then the Initial Term shall end on the last day of the calendar month in which occurs the date which would otherwise be the last day of the Initial Term.

4.2. Extended Term. Provided that OpCo shall be in compliance with the terms and conditions hereof, and this Agreement shall be in full force and effect, OpCo shall, subject to Section 4.4 below, have the right to extend the term of this Agreement, for each of four (4) consecutive five (5)-five year renewal terms (collectively, the "Extended Terms").

Each Extended Term shall commence on the day succeeding the expiration of the Initial Term or the preceding Extended Term, as the case may be. All of the terms, covenants and provisions of this Agreement shall apply to each such Extended Term, except that (x) the Annual Continuing Fee for each Extended Term shall be the Fair Market Value of the Franchise as determined for such Extended Term and shall be determined pursuant to Section 4.4 below and (y) OpCo shall have no right to extend the Term beyond the expiration of the Extended Terms. If OpCo shall elect to exercise any of the aforesaid options, it shall do so by giving Franchisor notice thereof not later than one (1) year prior to the scheduled expiration of the then current term of this Agreement (Initial Term or Extended Term, as the case may be), it being understood and agreed that time

shall be of the essence with respect to the giving of such notice. OpCo may not

exercise its option for more than one such Extended Term at a time. If OpCo shall fail to give any such notice, this Agreement shall automatically terminate at the end of the term then in effect and OpCo shall have no further option to extend the term of this Agreement. If OpCo shall give such notice, the extension of this Agreement shall be automatically effected without the execution of any additional documents; it being understood and agreed, however, that OpCo and Franchisor shall execute such documents and agreements as either party shall reasonably require to evidence the same. Notwithstanding the provisions of the previous sentence, if, subsequent to the giving of notice of its election to exercise its right to extend the term of this agreement OpCo shall cease to be in compliance with the terms and conditions hereof and such non-compliance shall be continuing, unless Franchisor shall otherwise consent in writing, the extension of this agreement shall automatically terminate at the end of the Initial Term or Extended Term then in effect, and OpCo shall have no further option to extend the term of this Agreement.

4.3. Determination of Annual Continuing Fee for Extended Terms. The Annual Continuing Fee for each Extended Term shall be determined by the mutual agreement of OpCo and Franchisor within thirty (30) days after Franchisor receives OpCo's notice exercising its option to extend with respect to such Extended Term, but in no event earlier than twelve (12) months prior to the commencement of the applicable Extended Term. In the event OpCo and Franchisor are unable to agree on the Annual Continuing Fee for such Extended Term within such period, such Annual Continuing Fee shall be determined pursuant to appraisal in accordance with Section 4.4 below.

4.4. Appraisal. In the event that it becomes necessary to determine the Fair Market Value of the Franchise and the parties cannot agree thereon, such Fair Market Value of the Franchise shall be determined upon the written demand of either party in accordance with the following procedure.

The party requesting an appraisal, by notice given to the other, shall propose and unilaterally approve a Qualified Appraiser. The other party, by notice given within fifteen (15) days after receipt of such notice appointing the first Qualified Appraiser, may appoint a second Qualified Appraiser. If the other party fails to appoint the second Qualified Appraiser within such fifteen (15)-day period, such party shall have waived its right to appoint a Qualified Appraiser, the first Qualified Appraiser shall appoint a second Qualified Appraiser within fifteen (15) days thereafter, and the Fair Market Value of the Franchise shall be determined by the Qualified Appraisers as set forth below.

The two Qualified Appraisers shall thereupon endeavor to agree upon the Fair Market Value of the Franchise. If the two Qualified Appraisers so named cannot agree upon such value within thirty (30) days after the designation of the second such appraiser, each such appraiser shall, within five (5) days after the expiration of such thirty (30)-day period, submit his appraisal of the Fair Market Value of the Franchise to the other appraiser in writing, and if the fair market values set forth in such appraisals vary by five percent (5%) or less of the greater value, the Fair Market Value of the Franchise shall be determined by calculating the average of the two fair market values determined by the two appraisers.

If the fair market values set forth in the two appraisals vary by more than five percent (5%) of the greater value, the two Qualified Appraisers shall select a third Qualified Appraiser within an additional fifteen (15) days following the expiration of the aforesaid five (5)-day period. If the two appraisers are unable to agree upon the appointment of a third appraiser within such fifteen (15)-day period, either party may, upon written notice to the other, request that such appointment be made by any state court of competent jurisdiction for the State of Delaware.

In the event that all three of the appraisers cannot agree upon the Fair Market Value of the Franchise within twenty (20) days following the selection of the third appraiser, each appraiser shall, within ten (10) days thereafter, submit his appraisal of the Fair Market Value of the Franchise to the other two appraisers in writing, and the Fair Market Value of the Franchise shall be determined by calculating the average of the two numerically closest values (or, if the values are equidistant, the average of all three values) determined by the three appraisers.

In the event that any appraiser appointed hereunder does not or is unable to perform his or her obligation hereunder, then the party or the appraisers appointing such appraiser shall have the right to propose and approve unilaterally a substitute Qualified Appraiser, but if the party or the appraisers who have the right to appoint a substitute Qualified Appraiser fail to do so within ten (10) days after written notice from the other party (or either party in the event such appraiser was appointed by the other appraisers), either party may, upon written notice to the party having the right to appoint a substitute Qualified Appraiser, request that such appointment be made by such court of competent jurisdiction as described above; provided, however, that a party who has the right to appoint an appraiser or a substitute appraiser shall have the right to make such appointment only up until the time such appointment is made by such court.

The parties agree that the Annual Continuing Fee for the Initial Term provided for in Section 5.1 shall not be evidence of the Fair Market Value of the Franchise for any Extended Term.

In connection with the appraisal process, OpCo shall and shall cause OpCo Franchisees to provide the appraisers full access during normal business hours to examine the books, records, files and facilities of OpCo and all OpCo Franchisees.

The costs of each such appraisal shall be borne equally by the parties.

Upon determining such value, the appraisers shall promptly notify OpCo and Franchisor in writing of such determination. The determination of the Qualified Appraisers made in accordance with the foregoing provisions shall be final and binding upon the parties, such determination may be entered as an award in arbitration in a court of competent jurisdiction, and judgment thereon may be entered.

Notwithstanding anything in this Agreement to the contrary, if the Annual Continuing Fee for any Extended Term as determined by appraisal pursuant to this Section 4.4 is not satisfactory to Franchisor in Franchisor's sole discretion, or if Crescent elects to void OpCo's extension of

the Facilities Lease with respect to such Extended Term pursuant to Article 19 of the Facilities Lease, then Franchisor shall have the right to render void OpCo's election to extend the term with respect to such Extended Term upon notice given to OpCo no later than thirty (30) days following the later of the determination of the Annual Continuing Fee pursuant to this Section 4.4, or Crescent's election to render void the extension of the Facilities Lease pursuant to the Facilities Lease, in which event this Agreement shall expire on the last day of the Initial Term or the then current Extended Term, as applicable.

4.5. New Annual Continuing Fee. The Fair Market Value of the Franchise, as agreed by the parties or as determined by the Qualified Appraisers shall be the Annual Continuing Fee provided for in Section 5.1 below, for the succeeding Extended Term.

5. ANNUAL CONTINUING FEES

5.1. Annual Continuing Fee. For each "Contract Year" (as hereinafter defined) during the Initial Term, OpCo shall pay to Franchisor, subject to the terms of Section 5.4 below, an annual continuing fee (the "Annual Continuing Fee") in the amount of the greater of:

(a) Seventy-Eight Million Three Hundred Thousand Dollars (\$78,300,000) plus (i) an amount calculated by multiplying Seventy-Eight Million Three Hundred Thousand Dollars (\$78,300,000) by the percentage increase in the Consumer Price Index, United States City Average for All Urban Consumers for All items (as published by the U.S. Department of Labor, Bureau of Labor Statistics) (the "CPI") between the end of the latest period for which said index has been published prior to the date of this Agreement and the end of the latest period for which said index has been published prior to the first day of said Contract Year (the "Minimum Annual Continuing Fee"), except that no adjustment to the Minimum Annual Continuing Fee shall be made for the second Contract Year (Contract Year beginning October 1, 1997); it being understood that the adjustment made for the third Contract Year (Contract Year beginning October 1, 1998) shall take into consideration the change in the CPI between the end of the latest period for which said index has been published prior to the date of this Agreement and the end of the latest period for which said index has been published prior to the first day of the third Contract Year plus (ii) New Management Arrangement Fees; or

(b) Seventy-Eight Million Three Hundred Thousand Dollars (\$78,300,000) plus (i) 3% of OpCo Gross Revenues above One Billion Dollars (\$1,000,000,000) and up to and including One Billion, Two Hundred Million Dollars (\$1,200,000,000) during said Contract Year, plus (ii) 5% of OpCo Gross Revenues above One Billion, Two Hundred Million Dollars (\$1,200,000,000) during said Contract Year, plus (iii) New Management Arrangement Fees.

5.2. Definition of "Contract Year". As used in this Article 5, the term "Contract Year" shall refer to any period which begins on the date of this Agreement or any succeeding October 1 and ends on the earlier of the following September 30 or the effective date of expiration or termination of this Agreement.

5.3. Monthly Installments. During each Contract Year, OpCo shall make monthly installments against the Annual Continuing Fee for said Contract Year. During the first and second Contract Years, each such monthly installment shall be equal to 1/12th of the Minimum Annual Continuing Fee for said Contract Year. During each subsequent Contract Year, each such monthly installment shall be equal to 1/12th of the greater of (a) the Minimum Annual Continuing Fee for said Contract Year or (b) the Annual Continuing Fee for the preceding Contract Year. The first monthly installment shall be paid on the date of this Agreement; and subsequent installments shall be paid on or before the first day of each subsequent calendar month during the Initial Term and each Extended Term of this Agreement.

5.4. Annual Continuing Fee for Short Contract Year. If the term of this Agreement includes any Contract Year of less than 365 days (i.e., because the date of this Agreement or the effective date of expiration or termination of this Agreement is in the middle of a Contract Year), the Annual Continuing Fee for such Contract Year shall be the greater of:

(a) the product of the Minimum Annual Continuing Fee for said Contract Year times a fraction the numerator of which is the number of days that this Agreement was in effect during said Contract Year (the "Effective Days") and the denominator of which is 365, or

(b) the product of the amount calculated pursuant to subsection 5.1(b) above (provided, however, that for purposes of said calculation the "OpCo Gross Revenues" for said Contract Year shall be "OpCo Gross Revenues" as defined in Section 5.8 below for said Contract Year times a fraction the numerator of which is 365 and the denominator of which is the Effective Days), times a fraction the numerator of which is the Effective Days and the denominator of which is 365.

5.5. Credit for Payments by OpCo Franchisees. Amounts paid by OpCo Franchisees to Franchisor, if any, pursuant to Article 4 of the respective Franchise Agreements shall reduce dollar for dollar OpCo's obligation pursuant to Sections 5.1, 5.3 and 5.4 above.

5.6. Payment Following Contract Year End. If the aggregate dollar amount of payments delivered by OpCo to Franchisor in payment of the Annual Continuing Fee in respect of any Contract Year pursuant to Section 5.3 above is different than the Annual Continuing Fee for said Contract Year, a payment in the amount of such overpayment or underpayment shall be made by the appropriate party within seventy-five (75) days after the end of said Contract Year.

5.7. Taxes. OpCo shall pay to Franchisor the amount of all sales taxes, use taxes, and similar taxes imposed upon or required to be collected on account of the Annual Continuing Fee and of goods or services furnished to OpCo and OpCo Franchisees by Franchisor, whether such goods or services are furnished by sale, lease or otherwise.

5.8. OpCo Gross Revenues. "OpCo Gross Revenues" shall mean the sum of:

(a) the Gross Revenues (as defined in the Franchise Agreement) of all OpCo Franchisees.

Plus,

(b) subject to Article 10 unless otherwise agreed by Franchisor and OpCo pursuant to Article 10 for any Joint Venture or Managed Business (as defined below), the gross revenues ("Business Gross Revenues") of all the businesses which are the subject of Joint Ventures (the "Joint Venture Businesses") and the businesses which are the subject of management agreements and other agreements and arrangements of OpCo pursuant to which OpCo provides management, consulting or other services for so long as any such agreements or arrangements are in effect (the "Managed Businesses"). "Business Gross Revenues" shall mean the aggregate gross patient charges from each of the Joint Venture Businesses and each of the Managed Businesses at established billing rates less provision for contractual adjustments and provision for denied claims (where collection is not pursued directly from the patient), determined in accordance with generally accepted accounting principles, and the gross amount of all other revenues from whatever source derived (whether in form of cash, credit, agreements to pay, or other consideration, and whether or not payment is received at the time of the sale or provisions of services) which arise from or are derived by each of the Joint Venture Businesses and each of the Managed Businesses, or any other person affiliated with such business, directly or indirectly from products or services sold or provided directly or indirectly by each of the Joint Venture Businesses and each of the Managed Businesses or from the sale of products or services associated with the use of the Licensed Marks. Business Gross Revenues shall not include amounts not actually collected (bad debts) to the extent that such have been included in Business Gross Revenues reported to Franchisor for prior periods.

Plus,

(c) except for amounts paid to OpCo by Franchisor pursuant to Paragraph 5 of Exhibit 5, the gross amounts of all OpCo's revenues from whatever source derived (whether in the form of cash, credit, agreements to pay, or other consideration, and whether or not payment is received at the time of the sale or provision of services), which arise from or are derived by OpCo, or any person affiliated with OpCo, directly or indirectly from products or services sold or provided directly or indirectly by OpCo or from the sale of services or products associated with the use of the Licensed Marks, excluding any amounts received by OpCo from any OpCo Franchisee the Gross Revenues of which are included in OpCo Gross Revenues pursuant to (a) above, and excluding any amounts received by OpCo from Joint Venture Businesses and Managed Businesses, the Business Gross Revenues of which are included in OpCo Gross Revenues pursuant to (b) above.

5.9. Additional Remedies for Past Due Annual Continuing Fees. In addition to all other rights and remedies provided for herein and at law or in equity, subject to the Subordination Agreement in the event that there are Annual Continuing Fees past due from OpCo to Franchisor, Franchisor shall have the rights, exercisable upon written notice to OpCo, set forth in the table below opposite the amount past due:

| AMOUNT IN ARREARS | RIGHTS OF FRANCHISOR/ PROHIBITED ACTIONS BY OPCO |
|---|--|
| 6,000,000 or more | 1. Right to prohibit any incentive compensation to OpCo management. 2. Right to prohibit any vesting of OpCo management equity. |
| \$18,000,000 or more | 1. Right to prohibit any salary increases for key personnel of OpCo. 2. Right to prohibit any additional hiring by OpCo. 3. Right to prohibit any new hospital acquisitions/joint ventures directly or indirectly. |
| Above \$24,000,000 | 1. Right to require five percent (5%) cutback on budgeted expenses under the then current approved OpCo annual budget. 2. Right to require monthly approval of expenditures of the OpCo Business by Franchisor, including capital and operating expenditures. 3. Right to require transfer of control and management of OpCo and of Franchised Businesses of OpCo Franchisees to Franchisor. |
| Rights are cumulative. OpCo agrees that, upon the exercise of any such right by Franchisor, OpCo will cease taking any prohibited action and will take the action required by Franchisor and will otherwise cooperate with Franchisor in carrying out the purpose and intent of this Section. | |

5.10. Subordination. Franchisor's right to receive the payments required to be made by OpCo pursuant to this Article 5 is subject to the Subordination Agreement.

5.11. Interest. OpCo shall pay to Franchisor interest on any amounts which are past due at the lower of the maximum rate permitted by law or the Prime Rate, plus six percent (6%) per annum; provided however that interest shall not accrue on past due amounts (i) to the extent Franchisor does not receive such payments as a result of the operation of the Subordination Agreement and (ii) to the extent OpCo fails to achieve EBITDA sufficient to pay such amounts, subject to OpCo's having during such period operated in accordance with OpCo's then-current annual budget approved by OpCo's Board of Directors.

5.12. Negotiation of Fees. Each party hereby acknowledges that: (a) the Annual Continuing Fee payable pursuant to this Article 5 was established during the course of extensive, good faith, arms-length negotiations between the parties, in which each party was represented by counsel and advised by accountants, which professionals are familiar with the healthcare industry and franchising, and (b) it is fully satisfied that the Annual Continuing Fee payable pursuant to this Article 5 represents the present, and (as applicable) reasonably anticipated during the Initial Term, Fair Market Value of the Franchise.

6. THE CHARTER SYSTEM

Franchisor hereby grants to OpCo the right and license to utilize the Charter System in connection with the management and administration of the businesses franchised by Franchisor pursuant to Article 2 hereof, the management

and administration of the businesses of the Existing Joint Ventures, the existing Managed Businesses and all New Arrangements pursuant to Article 10. In connection with the use of the Charter System in connection with the management and administration of such businesses, OpCo shall conform and comply with all covenants, rules, regulations, terms, conditions and procedures which are and may hereafter be reasonably required by Franchisor as applicable to the use by OpCo Franchisees of the Charter System under and pursuant to the OpCo Franchise Agreements, as applicable to OpCo's management and administration of such businesses. Upon expiration or termination of this Agreement OpCo shall conform and comply with all covenants, rules, regulations, terms, conditions and procedures which are or may hereafter be applicable to the discontinuance by OpCo Franchisees of the use of the Charter System under and pursuant to the OpCo Franchise Agreement (including under Article 13 of the OpCo Franchise Agreements), as applicable to OpCo's business under and pursuant to the Charter System and the discontinuance thereof.

7. MANAGED CARE AGREEMENTS/PREFERRED PROVIDER STATUS

The parties agree that during the continuance of this Agreement, all existing and future Managed Care Agreements, as defined below, shall be held in the name of Franchisor or a subsidiary of Franchisor. OpCo agrees during the continuance of this Agreement that neither it nor any subsidiary or affiliate will enter into any Managed Care Agreements. For the purposes of this Master Franchise Agreement, "Managed Care Agreements" means any and all contracts, agreements, letters of agreement, memoranda of understanding, or any like written or oral agreement (hereinafter referred to as "Managed Care Agreement"), with any insurer, managed care company or any other third-party payor (hereinafter collectively referred to as "Payor") which is obligated to pay for behavioral health care benefits for any person pursuant to a Payor benefit contract with such person, and under which such Managed Care Agreements such behavioral health services are provided for a negotiated reimbursement rate. The parties agree that for the purposes of this Master Franchise Agreement, Managed Care Agreements shall not include any agreement for the provision of behavioral health care services solely with a county or a local employee assistance program with services provided by a single OpCo subsidiary.

The parties acknowledge that Franchisor or a subsidiary of Franchisor shall subcontract with OpCo to provide staffing to service and negotiate such Managed Care Agreements; provided, however, that Franchisor shall retain the right to determine which, if any, Managed Care Agreement shall be entered into in Franchisor's name. Franchisor shall use commercially reasonable best efforts, subject to applicable law, to cause OpCo Franchisees to have "preferred provider" status in connection with Franchisor's managed behavioral healthcare business on a basis substantially consistent with existing covenants, terms and conditions, unless the customer directs otherwise.

8. OPERATION OF CALL CENTER

Franchisor agrees to continue to operate or will provide a toll free "800" telephone number and related call center (the "800 Call Center"), to provide substantially the same services to OpCo Franchisees as those provided by the 800 Call Center operating immediately prior to the execution of this Agreement, subject to such modifications as Franchisor deems advisable from time to time to comply with applicable law or subject to such restructuring as OpCo and Franchisor shall agree. Each party agrees to use commercially reasonable best efforts to negotiate any such restructuring to comply with applicable law. OpCo shall have the right to and agrees to cause OpCo Franchisees to advertise the "800" telephone number and otherwise cooperate with Franchisor to use the 800 Call Center as a means of assisting customers to locate the places of business of franchisees of Franchisor.

9. ENHANCEMENT OF THE CHARTER SYSTEM

Franchisor and OpCo agree to cooperate in the creation, enhancement and updating of written manuals and materials setting forth the treatment, financial, legal and other protocols, programs and procedures, quality standards, quality assessment methods, performance improvement and monitoring programs and other matters comprising the Charter System. Such manuals and other

materials (together "Charter System Materials") shall be prepared in a manner suitable for use by Franchisor in franchising others to use the Charter System. No changes shall be made by OpCo or OpCo Franchisees to the Charter System or the Charter System Materials without the express written consent of Franchisor, which consent shall not be unreasonably withheld. All protocols, programs, procedures, standards and methods, and all Charter System Materials shall be owned by Franchisor and used by OpCo and OpCo Franchisees only under and pursuant to this Agreement and the OpCo Franchise Agreements.

10. MANAGEMENT CONTRACTS/JOINT VENTURES/CONSULTING AGREEMENTS

OpCo agrees during the continuance of this Agreement that it will not enter into any new management agreements, joint ventures or consulting or other agreements relating to a Hospital/RTC Based Behavioral Healthcare Business ("New Arrangements") except (i) in the event a Franchise Agreement is entered into by Franchisor with respect to such business, or (ii) with the written consent of Franchisor in each instance. In each instance of a joint venture in which Franchisor shall have provided such written consent, Franchisor and OpCo, prior thereto, shall have agreed with

respect to the joint venture (i) to the payment to Franchisor, in addition to all other amounts payable pursuant to this Agreement, of a percentage of OpCo's gross receipts from such New Arrangement agreeable to OpCo and Franchisor or (ii) to the inclusion in Gross Revenues of the Business Gross Revenues of any such Joint Venture. In each instance of a management agreement, consulting agreement or other agreement or arrangement of Franchise Owner pursuant to which Franchise Owner provides management, consulting or other services, Franchise Owner shall pay to Franchisor (i) with respect to any such services provided to businesses within the Territory, 15% of (a) the gross amounts received by Franchise Owner, less (b) Franchise Owner's direct costs (not including overhead) of providing such services, or (ii) with respect to any such services provided to businesses outside the Territory, 30% of (a) the gross amounts received by Franchise Owner, less (b) Franchise Owner's direct costs (not including overhead) of providing such services (the amounts received by Franchisor pursuant to (i) or (ii) above are herein referred to as "New Arrangement Management Fees").

11. ADVERTISING AND MARKETING

11.1. Annual Expenditures. OpCo agrees that, in each year during the continuance of this Agreement, OpCo and OpCo Franchisees will expend such amount on advertising and marketing the Charter System and the OpCo Franchisees' businesses as is at least equal to the amount budgeted by OpCo in good faith pursuant to its then-current annual budget for such expenditures. If Franchisor determines that the amount so budgeted by OpCo in its approved annual budget for any year is significantly higher or lower than advisable, OpCo will establish a budget for such expenditures by Supermajority Vote of the Board. OpCo shall from time to time at the request of Franchisor upon reasonable prior notice provide to Franchisor reports of OpCo of such expenditures.

11.2. Approval of Advertising. All advertising by OpCo and OpCo Franchisees shall be in such media, and of such type and format as Franchisor may reasonably approve; shall be conducted in a dignified manner and shall conform to such standards and requirements as Franchisor may reasonably specify. Advertising approved by Franchisor as meeting the requirements of the preceding sentence shall continue to be deemed approved unless and until Franchisor shall notify OpCo otherwise. OpCo and OpCo Franchisees shall not use any advertising or promotional plans or materials not prepared by Franchisor unless and until OpCo and OpCo Franchisees have received written approval from Franchisor following the submission of samples thereof to Franchisor. If written approval is not received by OpCo and OpCo Franchisees from Franchisor or its designee within fifteen (15) days of the date of receipt by Franchisor of such samples, Franchisor shall be deemed to have disapproved such samples.

12. STATEMENTS, RECORDS AND FEE PAYMENTS

12.1. Maintenance of Records; Audit Rights. OpCo shall, in a manner

reasonably satisfactory to Franchisor, maintain original, full and complete records, accounts, books, data, licenses, contracts and invoices which shall accurately reflect all particulars relating to OpCo's Business and such statistical and other information or records as Franchisor may require and shall keep all such information for not less than three (3) years, even if this Agreement is no longer in

effect. OpCo shall compile and provide to Franchisor any statistical or financial information regarding the operation of OpCo's Business, the services and products sold by it, or data of a similar nature as Franchisor may reasonably request. Franchisor and its designated agents shall have the right to examine and audit such records, accounts, books and data at all reasonable times to insure that OpCo is complying with the terms of this Agreement. In connection with any such examination or audit, Franchisor shall not be entitled to any adjustment to the extent that OpCo Gross Revenues have been computed in accordance with Section 5.8 and in accordance with generally accepted accounting principles consistently applied. If such inspection discloses, and it is ultimately determined, that the OpCo Gross Revenues during any scheduled reporting period actually exceeded the amount reported by OpCo as OpCo Gross Revenues by an amount equal to two percent (2%) or more of the OpCo Gross Revenues originally reported to Franchisor, OpCo shall bear the cost of such inspection and audit (not including any premium or contingent fee arrangement) and shall pay any such deficiency with interest from the date due, until paid, at the lesser of the highest rate permitted by applicable law or the Prime Rate, plus six percent (6%) per annum, immediately upon the request of Franchisor.

12.2. Tax Reports. Upon Franchisor's request, OpCo shall furnish Franchisor with a copy of each of OpCo's and OpCo Franchisee's reports and returns of sales, use and gross receipt taxes and complete copies of any state or federal income tax returns covering the operation of the OpCo Business.

12.3. Reports. Upon Franchisor's request, OpCo shall furnish Franchisor with a copy of each of OpCo's and all OpCo Franchisees' reports required under applicable federal and state laws, rules and regulations, including but not limited to such reports required under "Medicare" and "Medicaid" laws, rules and regulations.

12.4. Unaudited Periodic Statements. OpCo shall prepare and deliver to Franchisor on a quarterly basis, no later than twenty-five (25) days following the close of each fiscal quarter of OpCo, an unaudited profit and loss statement in a form reasonably satisfactory to Franchisor covering OpCo's Business for the prior fiscal quarter and fiscal year to date and showing OpCo Gross Revenues for the prior fiscal quarter and fiscal year to date, all of which shall be certified by OpCo to present fairly in all material respects such matters. OpCo shall also submit to Franchisor no later than twenty-five (25) days following the close of each fiscal quarter of OpCo during the term of this Agreement, an unaudited balance sheet reflecting the financial position of the OpCo's Business as of the preceding fiscal quarter end.

12.5. Audited Annual Statement. In addition to the foregoing unaudited statements, within 75 days after the close of each fiscal year of OpCo, OpCo shall furnish to Franchisor, at OpCo's expense, an audited statement of income and retained earnings of OpCo's Business for such fiscal year and an audited balance sheet of OpCo's Business as of the end of such fiscal year, all prepared in accordance with generally accepted accounting principles and certified to by a certified public accountant. Such financial statements shall be accompanied by a certificate of such certified public accountant certifying OpCo Gross Revenues for the prior year.

13. ADDITIONAL COVENANTS OF OPCO

13.1. Covenant During Term. During the Term of this Agreement, OpCo

covenants not to engage directly or indirectly as an owner, operator, in any managerial capacity, or otherwise in any business (i) other than as a franchisee of the Charter System pursuant to a Franchise Agreement; (ii) other than pursuant to an agreement with Franchisor with regard to one or more New Products; (iii) other than pursuant to New Arrangements; (iv) other than OpCo's business of the management and administration of the businesses franchised by Franchisor pursuant to Article 2 hereof or pursuant to the Joint Ventures, or businesses conducted by OpCo Franchisees with regard to one or more New Products.

13.2. Covenant Not to Compete Post-Term. Following the termination or expiration of this Agreement and for a period expiring on the earlier of three (3) years following the expiration or termination of this Agreement or the thirty-second anniversary of the date of this Agreement, OpCo covenants not directly or indirectly to engage as an owner, operator, or in any managerial capacity (i) in any Hospital/RTC Based Behavioral Healthcare Business, or (ii) in any business with respect to a New Product, other than pursuant to a written agreement with Franchisor; provided, however, that OpCo shall not be prohibited hereby from owning equity securities of any such businesses whose shares are traded on a stock exchange or on the over-the-counter market so long as the ownership interest represents five percent (5%) or less of the total number of outstanding shares of such business. The geographic area of the restrictions provided for in this Section 13.2 shall be limited to (i) the Territories of the OpCo Franchisees at the date of the termination or expiration of this Agreement and during the two years prior thereto, which Territories shall, from time to time, be included in Exhibit 3 hereto; (ii) the geographic areas within a ten (10) mile radius of any Joint Venture Business and Managed Business in existence at the date of the expiration or termination of this Agreement, which shall from time to time be included as a part of Exhibit 3 hereto, and (iii) and the geographic areas within a ten (10) mile radius of any place of business of OpCo at the date of the expiration or termination of this Agreement.

13.3. Acknowledgment of Reasonableness. The parties hereto acknowledge that the provisions of Sections 13.1 and 13.2 have been negotiated fully and fairly by the parties, each being represented and advised by counsel. OpCo acknowledges that it is willingly and freely agreeing to the provisions of Section 13.1 and 13.2 as reasonable and necessary under the circumstances. One of the acknowledged reasonable business purposes of Franchisor is to protect Franchisor's goodwill and proprietary rights. OpCo further acknowledges that Franchisor would not enter into this Agreement without the covenants of Sections 13.1 and 13.2 and that it is fair and reasonable to OpCo that OpCo be subject to such covenants.

13.4. Confidential Information. During the Term of this Agreement and following the expiration or termination of the Agreement, OpCo covenants not to communicate directly or indirectly, nor to divulge to or use for its benefit or the benefit of any other person or legal entity, any trade secrets which are proprietary to Franchisor or any information, knowledge or know-how deemed confidential by Franchisor pursuant to Section 10.4 of the Franchise Agreement, except as permitted by Franchisor. Notwithstanding the foregoing, this obligation shall not apply to

information: (a) which at the time of disclosure is readily available to the trade or public; (b) which after disclosure becomes readily available to the trade or public, other than through breach of this Agreement; (c) which is subsequently lawfully and in good faith obtained by such party from an independent third party without breach of this Agreement; (d) which was in possession of such party prior to the date of disclosure; or (e) which is disclosed to others in accordance with the terms of a prior written authorization between the parties to this Agreement. In the event of any termination, expiration or non-renewal of this Agreement, OpCo agrees that it will never use Franchisor's confidential information, trade secrets, methods of operation or any proprietary components of the Charter System in the design, development or operation of any behavioral healthcare business, including, without limitation, any Hospital/RTC Based Behavioral Healthcare Business. The protection granted hereunder shall be in addition to and not in lieu of all other protections for such trade secrets and confidential information as may otherwise be afforded in law or in equity.

13.5. Confidential Agreements with Certain Employees. Consistent with

Franchisor's existing policies with respect to employee non-disclosure agreements, OpCo agrees to maintain and cause new employees of OpCo to execute employee non-disclosure agreements, in the form employed by Franchisor as of the date hereof (or such other form as reasonably requested by Franchisor), which shall prohibit disclosure by such parties to any other person or legal entity of any trade secrets or any other information, knowledge or know-how deemed confidential by Franchisor concerning the operation of the Charter System. Franchisor shall be a third party beneficiary of such agreements and OpCo shall not amend, modify or terminate any such agreement without Franchisor's prior written consent.

13.6. Severability. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. Should any part of one or more of these restrictions be found to be unenforceable by virtue of its scope in terms of area, business activity prohibited or length of time, and should such part be capable of being made enforceable by reduction of any or all thereof, OpCo and Franchisor agree that the same shall be enforced to the fullest extent permissible under the law. In addition, Franchisor may, unilaterally, at any time, in its sole discretion, revise any of the covenants in this Section 13 so as to reduce the obligations of OpCo hereunder. The running of any period of time specified in this Section 13 shall be tolled and suspended for any period of time in which OpCo is found by a court of competent jurisdiction to have been in violation of any restrictive covenant. OpCo further expressly agrees that the existence of any claim it may have against Franchisor whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Article 13.

14. ADDITIONAL FRANCHISOR COVENANT NOT TO COMPETE

14.1. Covenant Not to Compete. Franchisor agrees that OpCo shall be a third-party beneficiary of the covenants set forth in Section 1 of each of the OpCo Franchise Agreements as and to the extent such restrict Franchisor from engaging in certain businesses and as such shall have full rights to enforce such covenants.

14.2. Wholly-owner Subsidiary. Franchisor agrees that throughout the term of this Agreement, Charter Franchise Services, LLC shall remain a wholly-owned subsidiary of Magellan.

14.3. Waiver of Surety Defenses by Franchisor and Nature of Obligations. The obligations of Franchisor under this Agreement are joint and several and include any and all debts, obligations, whether of payment or performance, and liabilities arising out of or relating to this Agreement, whether such debts, obligations and liabilities are heretofore, now, or hereafter made, incurred, or created, whether such debts, obligations and liabilities are voluntary or involuntary, liquidated or unliquidated, secured or unsecured, and including but not limited to contingent debts, obligations and liabilities, and whether or not any or all such debts, obligations and liabilities are or become unenforceable against either Franchisor as a result of the operation of bankruptcy or insolvency laws.

With respect to any debt, liability or obligation with respect to which one Franchisor is deemed to be a surety or guarantor of the other Franchisor, such Franchisor deemed to be a surety or guarantor hereby unconditionally and irrevocably waives (a) (i) any right to require that any action be brought against the other Franchisor without regard to whether the other Franchisor, or both, were directly responsible for any breach of this Agreement; (ii) presentment, notice of dishonor, protest, diligence, demand for payment, performance or enforcement, and all notices of any kind, including without limitation: notice of acceptance hereof, notice of the creation of any obligations of Franchisor hereunder (except as otherwise expressly required in this Agreement) notice of nonpayment, nonperformance or other default, and notice of any action taken to collect upon any of the obligations of Franchisor hereunder or enforce any of the provisions hereof against Franchisor; and (iii) any claim for contribution from any other person, including the other

Franchisor; and (b) except to the extent that OpCo would not have had the benefit of such protections had the Franchisor not been deemed to be a surety or guarantor (i) any failure of OpCo to take any steps to preserve its rights hereunder; (ii) any setoffs against OpCo which would otherwise impair OpCo's rights against either Franchisor hereunder; and (iii) any requirement to mitigate damages. Each Franchisor also expressly waives the provisions of Sections 49-25 and 49-26 of the Code of Virginia.

15. NEGATIVE COVENANTS OF OPCO

In the event that pursuant to Section 15 of the Operating Agreement Franchisor sells its entire Interest in OpCo, from and after the close of the sale of Franchisor's entire Interest (a "Buy/Sell Event"), OpCo shall not do any of the following, without the prior written consent of Franchisor:

15.1. Restriction of Indebtedness. Create, incur or assume any indebtedness for borrowed money or the deferred purchase price of any asset (including obligations under Capitalized Leases), except indebtedness subordinated to all debts, obligations and liabilities of OpCo to Franchisor pursuant to a subordination agreement on terms and conditions acceptable to Franchisor;

15.2. Restrictions on Liens. Create or permit to be created any mortgage, pledge, encumbrance or other lien or security interest in any property or assets, except for any such that individually or in the aggregate are immaterial to OpCo.

15.3. Dividends and Redemptions. Make any distribution on account of any Interest, or redeem, purchase or otherwise acquire directly or indirectly, any Interest, except that OpCo shall have the right to make cash distributions so long as no default has occurred and is continuing in the payment of any amount due from OpCo to Franchisor pursuant to this Agreement and so long as, after giving effect to the payment of the distribution sufficient working capital is available for the payment of Annual Continuing Fees as provided in Article 5 hereof and budgeted operating expenses for the three full calendar months following the date of payment of such distribution.

15.4. Acquisitions and Investments. Acquire any material assets or any other business or make any material loan, advance or extension of credit to, or investment in, any other person, corporation or other entity, including investments acquired in exchange for stock or other securities or obligations of any nature (other than to subsidiaries or in connection with cash management functions in the ordinary course of business), or create or participate in the creation of any subsidiary or joint venture.

15.5. Liquidation; Merger; Disposition of Assets. Liquidate or dissolve; or merger with or into or consolidate with or into any corporation or other entity; or sell, lease, transfer or otherwise dispose of all or any substantial part of its property, assets or business (other than sales made in the ordinary course of business).

15.6. Salaries and Other Compensation. Modify salaries, bonuses, profit-sharing payments or any other compensation from that set forth in the Annual Budget in effect at the time of the Buy/Sell Event to any officers, directors, and other employees receiving in excess of \$150,000 in annual compensation and benefits (including without limitation, severance payments).

15.7. Affiliates. Amend the Facilities Lease to increase the amount or accelerate the payment of the Rent (as defined in the Facilities Lease) or any installment thereof or engage in any material transaction with (i) any Affiliate, (ii) Crescent or (iii) an Affiliate of Crescent, other than pursuant to contracts or ongoing arrangements existing at the time of the Buy/Sell Event, including amending in any material respect any such contracts or other ongoing arrangements existing at the time of such Buy/Sell Event.

15.8. Business Activities. Fail to carry on its business activities in substantially the manner such activities are conducted on the date of the close of the sale of Franchisor's Interest or make any material change in the nature of its business or enter into any material contract that is not in the ordinary

course of OpCo's business.

15.9. No Bankruptcy. (i) Dissolve or liquidate, in whole or in part, or institute proceedings to be adjudicated bankrupt or insolvent, (ii) consent to the institution of bankruptcy or insolvency proceedings against it, (iii) file a petition seeking or consent to reorganization or relief under any applicable federal or state law relating to bankruptcy, (iv) consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of OpCo or a substantial part of its property, (v) make a general assignment for the benefit of creditors, (vi) admit in writing its

inability to pay its debts generally as they become due, or (vii) take any corporate or other action to authorize any of the actions set forth in clauses (i) through (vi) of this paragraph.

16. TRANSFER AND ASSIGNMENT

16.1. Assignment by Franchisor. This Agreement and all rights and duties hereunder may not be assigned or transferred by Franchisor except (i) with the prior written consent of OpCo and Crescent, in its capacity as lessor under the Facilities Lease, which consent shall not be unreasonably withheld, conditioned or delayed, or (ii) to an entity which simultaneously therewith acquires all or substantially all of Franchisor's business and assets. Franchisor may grant a security interest in Franchisor's rights and interest in (but not its obligations under) this Agreement to any of Franchisor's lenders by means of an assignment for collateral purposes.

16.2. Assignment by OpCo. This Agreement and all rights and duties hereunder may not be assigned or transferred by OpCo except (i) with the written consent of Franchisor, which consent shall not be unreasonably withheld, conditioned or delayed, (ii) to an entity which simultaneously therewith acquires all or substantially all of OpCo's business and assets, provided in each case that such transferee/assignee also acquires or assumes OpCo's rights and obligations under the Facilities Lease, or (iii) if the Facilities Lease is terminated prior to the end of the Initial Term or any Extended Term as a result of an Event of Default under the Facilities Lease, and if Crescent exercises its election under the Facilities Lease to assume all (and not less than all) of the obligations of OpCo under this Agreement and all other agreements specified in the Facilities Lease from the date of such assumption, to Crescent or its designee.

16.3. Consent Not a Waiver. Franchisor's consent to an assignment by OpCo granted herein shall not constitute a waiver of any claims it may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement by the transferee.

16.4. Consequences of Permitted Assignment to Crescent. Following assignment of this Agreement to Crescent pursuant to subsection 16.2(iii) above, anything to the contrary in Section 17.1 and Section 17.3 below notwithstanding, Franchisor may (i) terminate this Agreement and all of said assignee's rights hereunder for "good cause", which shall mean the occurrence of any default described in (a) through (f) below, effective immediately upon the date Franchisor gives written notice of termination, upon such other date as may be set forth in such notice of termination, or in those instances enumerated below in paragraph (a), automatically upon the occurrence of an event of default. The occurrence of any one or more of the following events shall constitute an event of default and grounds for termination of this Agreement by Franchisor:

(a) Automatically, without notice or action required by Franchisor, if said assignee becomes insolvent or makes a general assignment for the benefit of creditors, or, unless otherwise prohibited by law, if a petition in bankruptcy is filed by said assignee, or such a petition is filed against and consented to by said assignee or not dismissed within thirty (30) days, or if a bill in equity or other proceeding for the appointment of a receiver

of said assignee or other custodian for said assignee's business or assets is filed and consented to by said assignee, or if a receiver or other custodian (permanent or temporary) of said assignee's assets or property, or any part thereof, is appointed;

(b) If there is any violation of any transfer and assignment provision contained in this Article 16 of this Agreement;

(c) If said assignee fails, for a period of fifteen (15) days after notification of non-compliance by appropriate authority to comply with any law, rule or regulation applicable to the operation of its business; provided, however, that if such non-compliance is susceptible to cure but such cure cannot be accomplished with due diligence within such period of time, and if, in addition, said assignee commences to cure such non-compliance within fifteen (15) days after notification of non-compliance and thereafter prosecutes the curing of such non-compliance with due diligence, such period of time shall be extended to such period of time (not to exceed an additional ninety (90) days in the aggregate) as may be necessary to cure such non-compliance with due diligence and further provided, that Franchisor may not terminate this Agreement pursuant to this Section 16.4(c) if such non-compliance is the non-compliance of one or more Franchised Businesses (and not of OpCo) and Franchisor may as a result terminate the corresponding Franchise Agreement or Franchise Agreements;

(d) If said assignee, other than in an immaterial respect, violates any covenant of confidentiality or non-disclosure contained in Section 13.4 or Section 13.5 of this Agreement;

(e) If said assignee fails to perform or breaches any covenant, obligation, term, condition, warranty or certification herein (other than those related to the payment of amounts due Franchisor, which are the subject of [F] below) and fails to cure such non-compliance or deficiency within thirty (30) days after Franchisor's written notice thereof; provided, however, that if such non-compliance or deficiency is susceptible to cure but such cure cannot be accomplished with due diligence within such period of time, and if, in addition, said assignee commences to cure such non-compliance or deficiency within thirty (30) days after notification of non-compliance or deficiency and thereafter prosecutes the curing of such non-compliance or deficiency with due diligence, such period of time shall be extended to such period of time (not to exceed an additional one hundred eighty (180) days in the aggregate) as may be necessary to cure such non-compliance or deficiency with due diligence;

(f) If said assignee fails to pay the Annual Continuing Fee owed to Franchisor under this Agreement when due or within ten (10) days thereafter, or fails to pay any other amounts owed to Franchisor under this Agreement within ten (10) days after notice from Franchisor of such obligation,

or (ii) participate in the filing of an involuntary petition for the entry of an "order for relief" with respect to said assignee pursuant to Section 303 of the U.S. Bankruptcy Code, anything to the contrary in Section 17.3 below notwithstanding.

16.5. Parties Bound and Benefitted. This Agreement shall be binding on the parties and their respective successors and assigns. This Agreement shall inure to the benefit of the parties and their respective permitted successors and assigns.

17. RIGHTS OF AGGRIEVED PARTY UPON DEFAULT

17.1. Franchisor's Right to Terminate. Except as otherwise provided in Section 16.4 above, Franchisor may not terminate this Agreement prior to the

expiration of its term (whether because of OpCo's breach, material or otherwise) except with the prior written consent of (i) OpCo, which consent shall be evidenced by a Supermajority Vote of the Board of OpCo, and (ii) the prior written consent of Crescent, in its capacity as lessor under the Facilities Lease. The provisions of this Section 17.1 shall not in any way be deemed to limit or restrict Franchisor's right to terminate any franchise agreement or other agreement in accordance with its terms.

17.2. OpCo's Right to Terminate. OpCo may not terminate this Agreement prior to the expiration of its term (whether because of Franchisor's breach, material or otherwise) except with the prior written consent of Franchisor and Crescent, in its capacity as lessor under the Facilities Lease. Any decision by OpCo to terminate this Agreement shall be evidenced by a Supermajority Vote of the Board.

17.3. Franchisor's Right to Participate in Involuntary Bankruptcy Petition. Except as otherwise provided in Section 16.4 above, Franchisor shall not participate in the filing of an involuntary petition for the entry of an "order for relief" with respect to OpCo pursuant to Section 303 of the U.S. Bankruptcy Code.

17.4. Other Remedies. Except as otherwise provided in this Article 17 or in the Subordination Agreement, nothing in this Agreement shall abridge the remedies available to Franchisor as a result of the breach by OpCo of the terms of this Agreement, including, but not limited to, seeking any remedy at law or in equity, including seeking and obtaining judgments and enforcing such judgments.

18. INSURANCE

18.1. Maintenance of Insurance. Throughout the term of this Agreement, OpCo shall maintain in effect at all times a policy or policies of insurance, designating Franchisor as an additional insured at OpCo's sole cost and expense, as set forth on Exhibit 6.

18.2. Notices of Claims under Insurance Policies. OpCo shall promptly notify Franchisor of any and all claims against OpCo, any OpCo Franchisee and/or Franchisor under said policies of insurance and shall deliver to Franchisor certificates evidencing that the insurance required by Section 17.1 is in full force and effect within thirty (30) days after signing this Agreement and each year thereafter. Such insurance certificates shall contain a statement that the insurance shall not be cancelled without thirty (30) days' prior written notice to OpCo and to Franchisor.

18.3. Notices of Other Claims/Events. OpCo shall promptly notify Franchisor of any and all demands, claims, suits, actions, causes of action, proceedings and assessments (together "Claims") brought, made or threatened in writing against OpCo and/or any OpCo Franchisee, and of the occurrence of any events which might result in such a Claim, in each case within five (5) business days after OpCo becomes aware thereof, and will provide to Franchisor information concerning such Claims or events as Franchisor may from time to time reasonably request.

19. INDEMNIFICATION AND INDEPENDENT CONTRACTOR

19.1. Indemnification and Hold Harmless. OpCo agrees to protect, defend, indemnify, and hold Franchisor, and its respective directors, officers, agents, attorneys and shareholders, jointly and severally, harmless from and against all claims, actions, proceedings, damages, costs, expenses and other losses and liabilities, directly or indirectly incurred (including without limitation reasonable attorneys' and accountants' fees) as a result of, arising out of, or connected with the operation of OpCo's Business, except those directly resulting from Franchisor's willful misconduct or fraud. Franchisor agrees to protect, defend, indemnify and hold OpCo, and its respective directors, officers, agents, attorneys and shareholders, jointly and severally, harmless from and against all claims, actions, proceedings, damages, costs, expenses and other losses and liabilities, directly or indirectly arising out of or connected with the operation of the OpCo's Business arising directly from Franchisor's willful misconduct or fraud.

19.2. Independent Contractor. In all dealings with third parties including, without limitation, employees, suppliers and patients, OpCo shall disclose in an appropriate manner reasonably acceptable to Franchisor that it is an independent entity. Nothing in this Agreement is intended by the parties hereto to create a fiduciary relationship between them nor to constitute OpCo an agent, legal representative, subsidiary, joint venturer, partner, employee or servant of Franchisor for any purpose whatsoever. It is understood and agreed that OpCo is an independent contractor and is in no way authorized to make any contract, warranty or representation or to create any obligation on behalf of Franchisor.

20. WRITTEN APPROVALS, WAIVERS AND AMENDMENT

20.1. Prior Approvals. Whenever this Agreement requires Franchisor's prior approval, OpCo shall make a timely written request. Unless a different time period is specified in this Agreement, Franchisor shall respond with its approval or disapproval within fifteen (15) days of receipt of such request. If Franchisor has not specifically approved a request within such fifteen (15) day period, such failure to respond shall be deemed disapproval of any such request.

20.2. No Waiver. No failure of Franchisor to exercise any power reserved to it by this Agreement and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Franchisor's right to demand exact compliance with any of the terms herein. No waiver or approval by Franchisor of any particular breach or default by OpCo, nor any delay, forbearance or omission by Franchisor to act or give notice of default or to exercise any power or right arising by reason of such default hereunder, nor acceptance by Franchisor of any payments due hereunder

shall be considered a waiver or approval by Franchisor of any preceding or subsequent breach or default by OpCo of any term, covenant or condition of this Agreement.

20.3. Written Amendments. Except as otherwise specifically provided in this Agreement, no amendment, change or variance from this Agreement shall be binding upon either Franchisor or OpCo except by mutual written agreement or in accordance with Section 3.10 of the Subordination Agreement.

21. ENFORCEMENT

21.1. Inspections. In order to ensure compliance with this Agreement and to enable Franchisor to carry out its obligation under this Agreement, OpCo agrees that Franchisor and its designated agents shall be permitted, with or without notice, full and complete access during business hours to inspect all premises at which OpCo's Business is conducted and all records thereof, including, but not limited to, records relating to OpCo's and OpCo's Franchisees' patients, suppliers, employees and agents. OpCo shall cooperate fully with Franchisor and its designated agents requesting such access.

21.2. No Right to Offset. OpCo will not, for any reason, withhold payment of any monthly payment, fee or any other fees or payments due to the Franchisor under this Agreement or pursuant to any other contract, agreement or obligation to the Franchisor. OpCo shall not have the right to "offset" any liquidated or unliquidated amounts, damages or other funds allegedly due to OpCo from the Franchisor against any monthly payment, fee or any other fees or payments due to the Franchisor under this Agreement or otherwise.

22. REPRESENTATION OF FRANCHISOR

Franchisor has delivered to OpCo a copy of its final proxy statement for Magellan's 1987 Annual Meeting of Shareholders ("Proxy Statement") to shareholders for its Annual Meeting of Shareholders at which, among other matters, shareholders of Franchisor will consider and vote on the transactions which are the subject of the Transaction Documents. Except as described in the Proxy Statement, or in documents filed with the Securities Exchange Commission pursuant to applicable law, Franchisor is not aware of any material risk that Franchisor is, in the conduct of the Business (as defined in the Contribution Agreement) prior to the closing of the transaction contemplated by the Transaction Documents, or that OpCo will be, in the conduct of the Business

after the closing of the transaction contemplated by the Transaction Documents, in violation of applicable federal law specifically designed to regulate the healthcare industry, which violation will have a material adverse effect on Franchisor or OpCo. Franchisor will, without the requirement that it waive any privilege, provide Crescent and OpCo with access to its counsel Sanford Teplitzky to discuss issues relating to Franchisor's business and the performance by the parties of the Transaction Documents under applicable federal law specifically designed to regulate the healthcare industry.

23. ENTIRE AGREEMENT

This Agreement including the exhibits referred to herein and the Transaction Documents contain the entire agreement of the parties. No other agreements, written or oral, shall be deemed to exist, and all prior agreements and understandings are superseded hereby. There are no conditions to this agreement which are not expressed herein or in the Transaction Documents.

24. NOTICES

Any and all notices, demands, consents, approvals, offers, elections and other communications required or permitted under this Agreement shall be deemed adequately given if in writing and the same shall be delivered either in hand, by telecopier with written acknowledgement of receipt, or by mail or Federal Express or similar expedited commercial carrier, addressed to the recipient of the notice, postpaid and registered or certified with return receipt requested (if by mail), or with all freight charges prepaid (if by Federal Express or similar carrier).

All notices required or permitted to be sent hereunder shall be deemed to have been given for all purposes of this Agreement upon the date of acknowledged receipt, in the case of a notice by telecopier, and, in all other cases, upon the date of receipt or refusal, except that whenever under this agreement a notice is either received on a day which is not a Business Day or is required to be delivered on or before a specific day which is not a Business Day, the day of receipt or required delivery shall automatically be extended to the next Business Day.

All such notices shall be addressed:

If to OpCo, to:

Charter Behavioral Health Systems, LLC
3414 Peachtree Road, N.E.
Suite 900
Atlanta, Georgia 30326
Facsimile: (404) 814-5795

with copies to:

David M. Dean
Senior Vice President, Law
Crescent Real Estate Equities, Ltd.
777 Main Street
Suite 2100
Fort Worth, Texas 76102
Facsimile: (817) 878-0429

and

Wendelin A. White
Shaw, Pittman, Potts & Trowbridge

2300 N Street, N.W.
Washington, DC 20037
Facsimile: (202) 663-8007

If to Franchisor, to:

Steve J. Davis
Executive Vice President,
Administrative Services and General Counsel
3414 Peachtree Road, N.E.
Suite 1400
Atlanta, Georgia 30326
Facsimile: (404) 814-5793

with copies to:

Robert W. Miller
King & Spalding
191 Peachtree Street
Atlanta, Georgia 30303-1763
Facsimile: (404) 572-5100

and

Benn S. DiPasquale
Foley & Lardner
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202-5367
Facsimile: (414) 297-4998

By notice given as herein provided, the parties hereto and their respective successor and assigns shall have the right from time to time and at any time during the term of this Agreement to change their respective addresses effective upon receipt by the other parties of such notice and each shall have the right to specify as its address any other address within the United States of America.

25. GOVERNING LAW AND DISPUTE RESOLUTION

25.1. Governing Law. This Agreement shall be interpreted, construed, applied and enforced in accordance with the laws of the State of Delaware applicable to contacts among residents of Delaware which are to be performed entirely within Delaware, regardless of (i)

where this Agreement is executed or delivered; or (ii) where any payment or other performance required to be made; or (iii) where any breach of any provision of this Agreement occurs, or any cause of action otherwise accrues; or (iv) where any action or other proceeding is instituted or pending; or (v) the nationality, citizenship, domicile, principal place of business or jurisdiction of organization or domestication of any party; or (vi) whether the laws of the forum jurisdiction otherwise would apply the laws of a jurisdiction other than the State of Delaware; or (vii) any combination of the foregoing.

Subject to Section 25.2 below, to the maximum extent permitted by applicable law, any action to enforce, arising out of, or relating in any way to, any of the provisions of this Agreement may be brought and prosecuted in such court or courts located in the State of Delaware as is provided by law; and the parties consent to the jurisdiction of said court or courts located in the State of Delaware and to service of process by registered mail, return receipt requested, or by any other manner provided by law.

25.2. Arbitration/Litigation.

(a) Any dispute, controversy or claim arising out of or relating to this Agreement or any contract or agreement entered into pursuant hereto or the performance by the parties of its or their terms shall be settled by binding arbitration held in Wilmington, Delaware, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having in personam and subject matter jurisdiction.

The parties hereby submit to the in personam jurisdiction of the federal and state courts in Delaware, for the purpose of confirming any such award and entering judgment thereon.

(b) Notwithstanding the foregoing, Franchisor may, in its discretion, apply to a court of competent jurisdiction for equitable relief from any violation or threatened violation of the covenants of OpCo in this Agreement. OpCo acknowledges that its violation or threatened violation of the provisions of Article 13 would cause Franchisor irreparable injury and, in addition to any other remedies to which Franchisor may be entitled, that Franchisor shall be entitled to injunctive relief.

26. SEVERABILITY, CONSTRUCTION AND OTHER MATTERS

26.1. Severability. Should any provision of this Agreement be for any reason held invalid, illegal or unenforceable by a court of competent jurisdiction, such provision shall be deemed restricted in application to the extent required to render it valid; and the remainder of this Agreement shall in no way be affected and shall remain valid and enforceable for all purposes. In the event that any provision of this Agreement should be for any reason held invalid, illegal or unenforceable by a court of competent jurisdiction, or in the event the performance or compliance by any party with any provision of this Agreement shall result in such party being in violation of any law, rule or regulation of any governmental authority, then in any of such events the parties agree to use commercially reasonable best efforts to amend in a manner reasonably consistent with each parties'

economic interests the obligations of the parties under and pursuant to the Agreement so as to cause the parties obligations hereunder to be enforceable and not in violation of any law, rule or regulation of any governmental authority. In the event such total or partial invalidity or unenforceability of any provision of this Agreement exists only with respect to the laws of a particular jurisdiction, this paragraph shall operate upon such provision only to the extent that the laws of such jurisdiction are applicable to such provision. Each party agrees to execute and deliver to the other any further documents which may be reasonably required to effectuate fully the provisions hereof. OpCo understands and acknowledges that Franchisor shall have the right, in its sole discretion, on a temporary or permanent basis, to reduce the scope of any covenant or provision of this Agreement binding upon OpCo, or any portion hereof, without OpCo's consent, effective immediately upon receipt by OpCo of written notice thereof, and OpCo agrees that it will comply forthwith with any covenant as so modified, which shall be fully enforceable.

26.2. Regulatory Reports. Each party agrees to reasonably cooperate with the other in providing on a timely basis all documents and information in its possession or reasonably available to it, reasonably required by the other for reports or filings required by any governmental or other regulatory authority.

26.3. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but such counterparts together shall constitute one and the same instrument.

26.4. Table of Contents, Headings and Captions. The table of contents, headings and captions contained herein are for the purposes of convenience and reference only and are not to be construed as a part of this Agreement. All terms and words used herein shall be construed to include the number and gender as the context of this Agreement may require. The parties agree that each section of this Agreement shall be construed independently of any other section or provision of this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement under seal on the date first written above.

MAGELLAN HEALTH SERVICES, INC.

By: \s\ Howard A. McLure

Title: Senior Vice President

CHARTER FRANCHISE SERVICES, LLC

By: \s\ Howard A. McLure

Title: Senior Vice President

CHARTER BEHAVIORAL HEALTH
SYSTEMS, LLC

By: \s\ W. Stephen Love

Title: Senior Vice President and CFO

CHARTER FRANCHISE SERVICES, LLC

FRANCHISE AGREEMENT

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FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (the "Agreement or the "Franchise Agreement") is entered into effective June 17, 1997 (the "Effective Date") by and between MAGELLAN HEALTH SERVICES, INC., a Delaware corporation ("Magellan"), and its wholly-owned subsidiary, CHARTER FRANCHISE SERVICES, LLC, a Delaware limited liability company (together, "Franchisor"), and CHARTER BEHAVIORAL HEALTH SYSTEM OF CENTRAL GEORGIA, LLC ("Franchise Owner").

W I T N E S S E T H :

A. Franchisor owns or has the right to license certain trade names, trademarks, service marks and/or indicia of origin identified on Exhibit "1" hereto (the "Licensed Marks"), the uniqueness and value of which are acknowledged by Franchise Owner. In connection therewith, Franchisor has developed a plan for a system for the operation of Hospital/RTC Based Behavioral Healthcare Businesses (as hereinafter defined) under the Licensed Marks, which system includes the right and license to utilize existing computer software owned by Franchisor or, subject to the terms of the respective license agreement, licensed to Franchisor, and, immediately prior to the date hereof, utilized by the business which is the subject of this Agreement, existing treatment protocols, existing treatment, financial, legal and other programs and procedures, existing quality standards, existing quality assessment methods, existing performance improvement and monitoring programs, advertising and marketing assistance, promotional materials, consultation and other matters relating to the operation of Hospital/RTC Based Behavioral Healthcare Businesses (the "Charter System"), all of which are designed to enhance the reputation and goodwill with the public of establishments operated pursuant to the Charter System. "Hospital/RTC Based Behavioral Healthcare Business" as used herein shall mean the business of the operation of an acute care psychiatric hospital, part of an acute care general hospital operating an acute care psychiatric unit, department, division or other organizational subdivision, a behavioral healthcare residential treatment center, a part of a facility operating a behavioral healthcare residential treatment center, or other similar facility providing 24-hour behavioral healthcare (together an "In Patient Facility"), and the delivery of behavioral healthcare from such facility and other facilities in the Territory, including outpatient facilities; such behavioral healthcare to include inpatient hospitalization, partial hospitalization programs, outpatient therapy, intensive outpatient therapy, ambulatory detoxification, behavioral modification programs and related services. As used herein, the term "Behavioral Modification Programs and Related Services" shall mean any type of programs or services for providing behavioral modification without regard to whether such behavioral modification may be provided in an In Patient Facility or other affiliated facility and shall include, for example, weight loss, stress management, smoking cessation and similar products and programs.

B. Franchise Owner desires, upon the terms and conditions set forth herein, to obtain a license to use the Charter System in the operation of its Hospital/RTC Based Healthcare

Business (the "Franchised Business"). Franchisor is willing, upon the terms and conditions set forth herein, to license Franchise Owner to operate the Franchised Business.

C. Franchise Owner is a subsidiary corporation of Charter Behavioral Health Systems, LLC ("OpCo") or is otherwise affiliated with OpCo. OpCo and Franchisor have entered into a Master Franchise Agreement dated as of the date hereof (the "Master Franchise Agreement") pursuant to which, among other matters, Franchisor has agreed to grant franchises to certain subsidiaries and affiliates of OpCo; a copy of the Master Franchise Agreement is attached hereto as Exhibit 2. This Franchise Agreement is one of the franchise agreements granted under and pursuant to the Master Franchise Agreement.

D. Immediately prior hereto Franchisor operated, through a wholly-owned subsidiary, the business which is the subject of this agreement. Substantially simultaneously herewith, Franchisor is transferring to Franchise Owner's parent, OpCo, certain of the business and assets (including personnel) heretofore utilized by Franchisor to provide services and support to the business which is the subject of this Agreement (the business and assets (including personnel) retained by Franchisor heretofore utilized by Franchisor to provide service and support to the business which is the subject of this Agreement are herein referred to as the "Retained Servicing Business" and the business and assets (including personnel) transferred by Franchisor to OpCo heretofore utilized by Franchisor to provide service and support to the business which is the subject of this Agreement are herein referred to as the "Transferred Servicing Business").

1. GRANT OF FRANCHISE

1.1. Grant. Subject to all of the terms and conditions herein, Franchisor grants to Franchise Owner the right and franchise to use the Charter System in the operation of the Franchised Business at any present or future facilities located in the geographic area described in Exhibit 3 to this Agreement (the "Territory"). Franchise Owner agrees at all times during the continuance of this Agreement to use its commercially reasonable best efforts to promote and operate the Franchised Business. The Franchised Business shall be operated only under the following name: Charter Behavioral Health System of Central Georgia, LLC. Subject to all of the terms and conditions herein, Franchisor hereby also grants to Franchise Owner the right and license to utilize the Charter System in connection with the management and administration of the businesses of the any presently existing Joint Ventures, Managed Businesses and all New Arrangements in the Hospital/RTC Based Behavioral Healthcare Business pursuant to Article 23.

1.2. Modifications; Amendments to Charter System. Franchisor reserves the right from time to time to amend, modify, delete (subject to Article 3) or enhance any portion of the Charter System (including any of the Licensed Marks) as may be advisable in Franchisor's sole judgment to change, maintain or enhance the Charter System trade names or the reputation, efficiency, competitiveness and/or quality of the Charter System, or to adapt it to new conditions, laws, regulations or technology, or to better serve the public. Franchise Owner shall have the right without additional consideration (other than such as results from increases in Gross Revenues) to

utilize the amendments, modifications and enhancements; and Franchise Owner, at its expense, will fully comply with all such amendments, modifications, deletions and enhancements reasonably designated as applicable to then existing franchise owners similarly situated. Franchisor shall not be obligated to make improvements or develop new software for use of Franchise Owner, but to the extent that Franchisor does so Franchise Owner shall have the right and license to use such new or improved software without additional consideration (other than such as results from increases in Gross Revenues).

1.3. New Products. Until such time as Franchise Owner ceases to be an OpCo Franchisee (as defined in the Master Franchise Agreement), and subject to

Franchise Owner complying with such reasonable terms and conditions as Franchisor shall provide, Franchise Owner shall have the right and option to utilize in the Territory in connection with its Franchised Business new products and new concepts developed by Franchisor for the delivery of behavioral healthcare and Behavioral Modification Programs and Related Services ("New Products"), provided the Franchise Owner will not have such right or option with respect to any such New Products (i) which deal with the delivery of behavioral healthcare incidental to the treatment of a non-behavioral illness or condition, (ii) where the behavioral illness (e.g., alcohol or substance abuse) is not the primary diagnosis (e.g., behavioral healthcare treatment for depression following a diagnosis for cancer (cancer being the primary diagnosis); weight loss behavioral healthcare treatment following a heart attack (heart disease being the primary diagnosis)), or (iii) that are used by Franchisor or its subsidiaries (and not offered to third parties pursuant to any franchise or similar arrangement) in connection with its business operations. To the extent that Franchise Owner does not have the right to a New Product pursuant to the terms of this Section, does not elect to utilize a New Product or elects to utilize a New Product but fails or refuses to comply with such reasonable terms and conditions as Franchisor shall provide in connection therewith (in which event Franchise Owner shall be deemed to have elected not to utilize a New Product), then Franchisor may itself operate or franchise others to operate businesses utilizing such New Product from facilities in the Territory. Franchise Owner shall have the right to utilize a New Product without paying to Franchisor any additional fees (other than such as results from increases in Gross Revenues).

1.4. Territory Exclusive. Franchisor agrees that during the term of this Agreement, it will not, except as otherwise provided in this Article 1, establish or maintain, or franchise any other person or firm to establish or maintain, a facility located within the Territory that (i) uses the Charter System, (ii) engages, directly or indirectly, in the Hospital/RTC Based Healthcare Business, or (iii) subject to Section 1.3 above, provides Behavioral Modification Programs and Related Services.

1.5. Outpatient Providers. Franchisor may not, without the written consent of Franchise Owner in each instance, establish or maintain a business, or grant franchises or other licenses to individual physicians, psychologists or other mental healthcare professionals or to groups thereof or to entities employing such, to operate businesses, for the delivery of behavioral healthcare at a facility within the Territory that (i) uses the Charter System, (ii) engages, directly or indirectly,

in the Hospital/RTC Based Behavioral Healthcare Business, or (iii) subject to Section 1.3 above, provides Behavioral Modification Programs and Related Services.

1.6 Reservation of Rights. Franchise Owner acknowledges and agrees that, in addition to the rights contained in other subsections of this Article 1, Franchisor may grant to another or others the right and franchise to operate, at facilities outside the Territory, Hospital/RTC Based Behavioral Healthcare Businesses utilizing the Charter System, even if such businesses compete with Franchise Owner's Franchised Business, and that Franchisor may otherwise use and grant to others the right to use the Licensed Marks, or any other names and marks, for other businesses. It is understood that nothing contained in this Agreement shall prevent Franchisor (i) from providing behavioral healthcare incidental to the managed behavioral healthcare business or incidental to any other business the principal purpose of which is not the operation of a Hospital/RTC Based Behavioral Healthcare Business, and (ii) from, pursuant to contracts with federal, state and local governments and governmental agencies, providing health and human services, including behavioral healthcare services, to the mentally retarded, the developmentally disabled, the elderly, persons under the control or supervision of criminal/juvenile justice systems and other designated populations.

2. TERM

This Agreement, unless sooner terminated pursuant to Article 12 hereof, shall extend from the Effective Date until the date of expiration or termination

of the Master Franchise Agreement.

3. OPERATING ASSISTANCE

Franchisor reserves the right to require Franchise Owner to maintain standards of quality, appearance and service at all Franchised Business facilities, thereby maintaining the public image and reputation of the Charter System and the demand for the services and products provided thereunder, and to that end Franchisor shall provide Franchise Owner with the following ongoing assistance:

- (a) Advertising and marketing assistance including consultation, access to media buying programs and access to broadcast and other advertising pieces and materials produced by Franchisor from time to time for franchise owners.

- (b) Risk management services, including risk financing planning, loss control and claims management.

- (c) Outcomes monitoring.

- (d) Access to Managed Care Agreements (as hereinafter defined).

- (e) Consultation by telephone or at Franchisor's offices with respect to matters relating to the Franchised Business in which Franchisor has expertise, including matters relating to reimbursement, government relations, clinical strategies, regulatory matters, strategic planning and business development.

Franchisor shall maintain reasonable expertise and provide a minimum level and quality of assistance within the scope of the Retained Servicing Business, in accordance with commercially reasonable standards substantially similar to the level and quality of such assistance provided to the business which is the subject of this Agreement immediately prior to the date hereof by the Retained Servicing Business. Nothing contained herein shall require Franchisor to maintain expertise or provide assistance within the scope of the Transferred Servicing Business.

4. FEES

4.1. Franchise Fee. There is no initial franchise fee for the initial term or any renewal term.

4.2. Annual Continuing Fee. For each "Contract Year" (as hereinafter defined), Franchise Owner shall pay to Franchisor, subject to the terms of Section 4.5 below, an annual continuing fee (the "Annual Continuing Fee") in the amount of the greater of:

- (a) Eight Hundred Sixty-Nine Thousand Dollars (\$869,000) plus (i) an amount calculated by multiplying Eight Hundred Sixty-Nine Thousand Dollars (\$869,000) by the percentage increase in the Consumer Price Index, United States City Average for All Urban Consumers for All items (as published by the U.S. Department of Labor, Bureau of Labor Statistics) (the "CPI") between the end of the latest period for which said index has been published prior to the date of this Agreement and the end of the latest period for which said index has been published prior to the first day of said Contract Year (the "Minimum Annual Continuing Fee"), except that no adjustment to the Minimum Annual Continuing Fee shall be made for the second Contract Year (Contract Year commencing October 1, 1997) it being understood that the adjustment made for the third Contract Year (Contract Year commencing October 1, 1998) shall take into consideration the change in the CPI between the end of the latest period for which said index has been published prior to the date of this Agreement and the end of the latest period for which said index has been published prior to the first day of the third Contract Year, and (ii) New Arrangement Management Fees (as defined in Article 23); or

(b) Eight Hundred Sixty-Nine Thousand Dollars (\$869,000) plus (i) 3% of Gross Revenues above Ten Million Seven Hundred Twenty-Nine Thousand Dollars (\$10,729,000) and less than Twelve Million Eight Hundred Seventy-Five Thousand Dollars (\$12,875,000) during said Contract Year, (ii) 5% of Gross Revenues above Twelve Million Eight Hundred Seventy-Five Thousand Dollars (\$12,875,000) during said Contract Year, and (iii) New Arrangement Management Fees.

4.3. Definition of "Contract Year". As used in this Article 4, the term "Contract Year" shall refer to any period which begins on the date of this Agreement or any succeeding October 1 and ends on the earlier of the following September 30 or the effective date of expiration or termination of this Agreement.

4.4. Monthly Installments. During each Contract Year, Franchise Owner shall make monthly installments against the Annual Continuing Fee for said Contract Year. During each of the first and second Contract Years, each such monthly installment shall be equal to 1/12th of the Minimum Annual Continuing Fee for said Contract Year. During each subsequent Contract Year, each such monthly installment shall be equal to 1/12th of the greater of (a) the Minimum Annual Continuing Fee for said Contract Year or (b) the Annual Continuing Fee for the preceding Contract Year. The first monthly installment shall be paid on the date of this Agreement; and subsequent installments shall be paid on or before the first day of each subsequent calendar month during the term of this Agreement.

4.5. Annual Continuing Fee for Short Contract Year. If the term of this Agreement includes any Contract Year of less than 365 days (i.e., because the date of this Agreement or the effective date of expiration or termination of this Agreement is in the middle of a Contract Year), the Annual Continuing Fee for such Contract Year shall be the greater of:

(a) the product of the Minimum Annual Continuing Fee for said Contract Year times a fraction the numerator of which is the number of days that this Agreement was in effect during said Contract Year (the "Effective Days"), and the denominator of which is 365, or

(b) the product of the amount calculated pursuant to subsection 4.2(b) above (provided, however, that for purposes of said calculation the "Gross Revenues" for said Contract Year shall be "Gross Revenues" as defined in Section 4.10 below for said Contract Year times a fraction the numerator of which is 365 and the denominator of which is the Effective Days), times a fraction the numerator of which is the Effective Days and the denominator of which is 365.

4.6. Payment Following Contract Year End. If the aggregate dollar amount of payments made by Franchise Owner to Franchisor in respect of any Contract Year pursuant to Section 4.4 above is different than the Annual Continuing Fee for said Contract Year, a payment in the amount of such overpayment or underpayment shall be made by the appropriate party within seventy-five (75) days after the end of said Contract Year.

4.7. Taxes. Franchise Owner shall pay to Franchisor the amount of all sales taxes, use taxes, and similar taxes imposed upon or required to be collected on account of the Annual Continuing Fees and of goods or services furnished to Franchise Owner by Franchisor, whether such goods or services are furnished by sale, lease or otherwise.

4.8. Advances by Franchisor. Franchise Owner shall pay to Franchisor all amounts, if any, advanced by Franchisor or which Franchisor has paid, or for which Franchisor has become obligated, on behalf of Franchise Owner.

4.9. Interest. Franchise Owner shall pay to Franchisor interest on any amounts which are past due at the lower of the maximum rate permitted by law or the Prime Rate, plus six percent (6%) per annum. The term "Prime Rate" as used in this Agreement shall mean the prime rate of interest from time to time as published in The Wall Street Journal.

4.10. Gross Revenues. "Gross Revenues" shall mean the sum of the following:

(a) the aggregate gross patient charges from operation of the Franchised Business at established billing rates, less provision for contractual adjustments and provision for denied claims (where collection is not pursued directly from the patient), determined in accordance with generally accepted accounting principles, and the gross amount of all other revenues from whatever source derived (whether in the form of cash, credit, agreements to pay, or other consideration, and whether or not payment is received at the time of the sale or provision of services) which arise from or are derived by Franchise Owner or any other person affiliated with Franchise Owner, directly or indirectly from products or services sold or provided directly or indirectly by Franchise Owner, or from the sale of services or products associated with the use of the Licensed Marks. Gross Revenues shall not include amounts not actually collected (bad debts) to the extent such have been included in Gross Revenues reported to Franchisor for prior periods.

Plus,

(b) for any joint venture ("Joint Venture"), subject to Article 23, or Managed Business (as defined below), the gross revenues ("Business Gross Revenues") of all the businesses which are the subject of Joint Ventures (the "Joint Venture Businesses") and the businesses which are the subject of management agreements and other agreements and arrangements of Franchise Owner pursuant to which Franchise Owner provides management, consulting or other services for so long as any such agreements or arrangements are in effect (the "Managed Businesses"). "Business Gross Revenues" shall mean the aggregate gross patient charges from each of the Joint Venture Businesses and each of the Managed Businesses unless New Arrangement Management Fees are paid pursuant to Article 23 with respect to a Managed Business, at established billing rates, less provision for contractual adjustments and provision for denied claims (where collection is not pursued directly from the patient), determined in accordance with generally accepted accounting principles, and the gross amount of all other revenues from whatever source derived (whether in form of cash, credit, agreements to pay, or other consideration, and whether or not payment is received at the time of the sale or provisions of services) which arise from or are derived by each of the Joint Venture Businesses and each of the Managed

Businesses, or any other person affiliated with such business, directly or indirectly from products or services sold or provided directly or indirectly by each of the Joint Venture Businesses and each of the Managed Businesses or from the sale of products or services associated with the use of the Licensed Marks. Business Gross Revenues shall not include amounts not actually collected (bad debts) to the extent that such have been included in Business Gross Revenues reported to Franchisor for prior periods.

Plus,

(c) the gross amounts of all Franchise Owner's other revenues from whatever source derived (whether in the form of cash, credit, agreements to pay, or other consideration, and whether or not payment is received at the time of the sale or provision of services), which arise from or are derived by Franchise Owner, or any person affiliated with Franchise Owner, directly or indirectly from products or services sold or provided directly or indirectly by Franchise Owner or from the sale of services or products associated with the use of the

Licensed Marks, excluding any amounts received by Franchise Owner from Joint Venture Businesses and Managed Businesses.

4.11. Subordination and Alternative Performance of Obligations. Franchisor's right to receive the payments required to be made by Franchise Owner pursuant to this Article 4 is subject to that certain Subordination Agreement dated as of the date hereof by and among Franchisor, Crescent Real Estate Equities Limited Partnership ("Crescent") and OpCo (the "Subordination Agreement"). Franchise Owner shall pay all amounts required to be paid by Franchise Owner pursuant to this Article 4 to OpCo, rather than to Franchisor, until the earliest of (i) the date on which OpCo ceases to have voting control of Franchise Owner through stock ownership, or (ii) the date of the termination or expiration of the Master Franchise Agreement, or (iii) the date OpCo shall: (i) become insolvent; or (ii) be unable, or admit in writing its inability to pay its debts as they mature; or (iii) make a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) become the subject of an "order for relief" within the meaning of the United States Bankruptcy Code; or (v) become the subject of a creditor's petition for liquidation, reorganization or to effect a plan or other arrangement with creditors; or (vi) apply to a court for the appointment of a custodian or receiver for any of its assets; or (vii) have a custodian or receiver appointed for any of its assets (with or without its consent); or (viii) otherwise become the subject of any insolvency proceedings or propose or enter into any formal or informal composition or arrangement with its creditors.

5. LICENSED MARKS

5.1. Ownership. Franchise Owner expressly acknowledges Franchisor's rights in and to the Licensed Marks and agrees not to represent in any manner that Franchise Owner has acquired any ownership rights in the Licensed Marks. Franchise Owner further acknowledges and agrees that any and all goodwill associated with the Charter System and identified by the Licensed Marks shall inure directly and exclusively to the benefit of Franchisor.

5.2. Authorized Use. Franchise Owner understands and agrees that any use of the Licensed Marks other than as expressly authorized by this Agreement, without Franchisor's prior written consent, may constitute an infringement of Franchisor's rights therein and that the right to use the Licensed Marks granted herein does not extend beyond the termination or expiration of this Agreement. Franchise Owner expressly covenants that, during the term of this Agreement and thereafter, Franchise Owner shall not, directly or indirectly, commit any act of infringement or contest or aid others in contesting the validity or registration of Franchisor's right to use the Licensed Marks or take any other action in derogation thereof.

5.3. Infringement. Franchise Owner shall promptly notify Franchisor of any claim, demand or cause of action that Franchisor may have based upon or arising from any unauthorized attempt by any person or legal entity to use the Licensed Marks, any colorable variation thereof, or any other mark, name or indicia in which Franchisor has or claims a proprietary interest (an "Unauthorized Third Party Use"). Franchise Owner shall assist Franchisor, upon request and at Franchisor's expense, in taking such action, if any, as Franchisor may deem appropriate to halt such Unauthorized Third Party Use, but shall take no action nor incur any expenses on Franchisor's behalf without Franchisor's prior written approval. If Franchisor undertakes the defense or prosecution of any litigation relating to the Licensed Marks, Franchise Owner agrees to execute any and all documents and to do such acts and things as may, in the opinion of Franchisor's legal counsel, be reasonably necessary to carry out such defense or prosecution. If Franchisor does not take action to halt any Unauthorized Third Party Use, Franchise Owner at its expense may take action as it deems appropriate to halt such Unauthorized Third Party Use.

5.4. Operation Under Licensed Marks. Franchise Owner further agrees and covenants to operate and advertise only under the names or marks from time to time designated by Franchisor for use by similar Charter System franchise owners; to adopt and use the Licensed Marks solely in the manner prescribed by

Franchisor; to refrain from using the Licensed Marks to perform any activity or to incur any obligation or indebtedness in such a manner as may, in any way, subject Franchisor to liability therefor; to observe all laws with respect to the registration of trade names and assumed or fictitious names, to include in any application therefor a statement that Franchise Owner's use of the Licensed Marks is limited by the terms of this Agreement, and to provide Franchisor with a copy of any such application and other registration document(s); to observe such requirements with respect to trademark and service mark registrations and copyright notices as Franchisor may, from time to time, require, including, without limitation, affixing "SM", "TM", or (R) adjacent to all such Licensed Marks in any and all uses thereof; and to utilize such other appropriate notice of ownership, registration and copyright as Franchisor may require.

5.5. Modification/Replacement of Licensed Marks. Franchisor reserves the right, in its sole discretion, to designate one or more new, modified or replacement Licensed Marks for use by franchise owners and to require the use by Franchise Owner of any such new, modified or replacement Licensed Marks in addition to or in lieu of any previously designated Licensed

Marks. Any expenses or costs associated with the use by Franchise Owner of any such new, modified or replacement Licensed Marks shall be the sole responsibility of Franchise Owner.

6. STANDARDS OF OPERATION

Franchisor shall establish and Franchise Owner shall maintain standards of quality, appearance and operation for the Franchised Business. For the purpose of enhancing the public image and reputation of businesses operating under the Charter System, protecting the goodwill associated with the Licensed Marks, and for the purpose of increasing the demand for services and products provided by Franchisor and its franchisees, the parties agree as follows:

6.1. Compliance with System. Franchise Owner agrees in connection with the Franchised Business to utilize and comply with all treatment protocols, treatment, financial, legal and other programs and procedures, quality standards, quality assessment methods, performance improvement and monitoring programs and other matters which now or hereafter comprise the Charter System, and to comply with all Charter System rules, regulations, policies and standards, including all such contained in the "Confidential Operating Manual" (as hereinafter defined).

6.2. Compliance With Law. Franchise Owner agrees at all times to operate the Franchised Business, and to keep all premises at which the Franchised Business operates, in compliance with all applicable federal, state and local laws, rules and regulations.

6.3. Joint Commission on Accreditation of Health Care Organizations (JCAHO). Franchise Owner agrees to maintain throughout the term of this Agreement accreditation by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"). Franchise Owner also agrees to obtain, within such reasonable times as may be specified by Franchisor, and maintain throughout the term of this Agreement accreditation by other organizations as required by law or reasonably specified by Franchisor. All costs of obtaining and maintaining accreditation(s) shall be borne and paid by Franchise Owner.

6.4. Maintenance of Standards. Franchise Owner agrees to maintain all premises from or at which the Franchised Business is conducted, and all furnishings and equipment thereon, in conformity with Franchisor's then-current standards, at all times during the term of this Agreement, and to make such repairs and replacements thereto as Franchisor may require. Without limiting the generality of the foregoing, Franchise Owner specifically agrees:

(a) To keep all such premises at all times in a high degree of sanitation, repair, order and condition, including, without limitation, such periodic repainting of the exterior and interior of the premises, such maintenance and repairs to all fixtures, furnishings, signs and equipment as Franchisor may from time to time reasonably direct; and

(b) To meet and maintain at all times all governmental standards, certifications and ratings applicable to the operation of the premises and the Franchised Business or such higher minimum standards, certifications and ratings as set forth by Franchisor from time to time in its Confidential Operating Manual or otherwise in writing.

6.5. Operation in Conformity with Prescribed Methods, Standards and Specifications. Franchise Owner agrees to operate the Franchised Business in conformity with such methods, standards and specifications as Franchisor may from time to time prescribe in its Confidential Operating Manual to insure that Franchisor's required degree of quality, service and image is maintained; and to refrain from deviating therefrom and from otherwise operating in any manner which adversely reflects on Franchisor's name and goodwill, or on the Licensed Marks.

6.6. Printed Materials; Marketing. Franchise Owner shall use only business stationery, business cards, marketing materials, advertising materials, printed materials or forms which have been approved in advance by Franchisor. Franchise Owner shall not employ any person to act as a representative of Franchise Owner in connection with local promotion of the Franchised Business in any public media without the prior written approval of Franchisor. Any and all supplies or materials purchased, leased or licensed by Franchise Owner shall always meet those standards specified by Franchisor in the Confidential Operating Manual or otherwise in writing.

6.7. Ownership Identification. In all advertising displays and materials and at all premises from or at which the Franchised Business is conducted, Franchise Owner shall, in such form and manner as may be specified by Franchisor in the Confidential Operating Manual, notify the public that Franchise Owner is operating the business licensed hereunder as a franchisee of Franchisor and shall identify its business location in the manner specified by Franchisor in the Confidential Operating Manual.

6.8. Patient Relations. Franchise Owner shall respond promptly to patient complaints and shall take such other steps as may be required to insure positive patient relations.

6.9. Right to Inspect. Franchise Owner hereby grants to Franchisor and its agents the right to enter upon any premises from which Franchise Owner conducts the Franchised Business, without notice, at any reasonable time for the purpose of conducting inspections of the premises and Franchise Owner's books and records; and Franchise Owner agrees to render such assistance as may reasonably be requested and to take such steps as may be necessary to correct any deficiencies upon the request of Franchisor or its agents.

6.10. Variation of Standards. Because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor specifically reserves the right and privilege, in its sole discretion and as it may deem in the best interests of all concerned in any specific instance, to vary standards for any of its franchisees based upon the peculiarities of a particular circumstance, or any other conditions which Franchisor deems to be of importance to the successful operation of the Franchised Business. Franchise Owner shall have no recourse

against Franchisor on account of any variation from standard specifications and practices granted to any franchise owner and shall not be entitled to require Franchisor to grant Franchise Owner a like or similar variation hereunder.

6.11. Accounting Equipment and Software. Franchise Owner agrees to maintain, develop, update and replace any equipment and software as reasonably necessary for the purpose of recording, collecting or otherwise supporting revenues.

6.12. Discoveries and Ideas. Franchise Owner agrees to disclose promptly to Franchisor all discoveries made or ideas conceived by Franchise Owner or a person affiliated with Franchise Owner that pertain to the Charter System. Franchise Owner hereby grants to Franchisor all right, title and interest to such discoveries and ideas, and agrees to cooperate with Franchisor in securing Franchisor's rights to such discoveries and ideas. "Discoveries" and "ideas" shall be interpreted broadly and shall not be limited to those discoveries or ideas which are potentially patentable or copyrightable. Franchisor shall not be obligated to compensate Franchise Owner for any such discoveries or ideas and Franchise Owner has no expectation of any such compensation.

7. CONFIDENTIAL OPERATING MANUAL

7.1. Compliance with Confidential Operating Manual. In order to protect the reputation and goodwill of the businesses operating under the Charter System and to maintain standards of operation under the Licensed Marks, Franchise Owner shall conduct the Franchised Business operated under the Charter System in accordance with various written instructions and confidential manuals (hereinafter and previously referred to as the "Confidential Operating Manual"), including such amendments thereto as Franchisor may publish from time to time, all of which Franchise Owner acknowledges belong solely to Franchisor and shall be on loan from Franchisor during the term of this Agreement. When any provision in this Agreement requires that Franchise Owner comply with any standard, specification or requirement of Franchisor, unless otherwise indicated such standard, specification or requirement shall be such as is set forth in this Agreement or as may, from time to time, be set forth by Franchisor in the Confidential Operating Manual.

7.2. Revisions. Franchise Owner understands and acknowledges that Franchisor may, from time to time, revise the contents of the Confidential Operating Manual to implement new or different requirements for the operation of the Franchised Business, and Franchise Owner expressly agrees to comply at its expense with all such reasonably changed requirements which are by their terms mandatory; provided that such requirements shall also be applied in a reasonably nondiscriminatory manner to comparable businesses operated under the Charter System by other of Franchisor's franchisees.

8. ADVERTISING AND MARKETING

Recognizing the value of standardized advertising and marketing programs to the furtherance of the goodwill and public image of the Charter System, the parties agree as follows:

8.1. Local Advertising. At its expense, Franchise Owner agrees to conduct on an annual basis continuing local advertising in form, content and media approved by Franchisor, in an amount equal to three percent (3%) of Gross Revenues. Franchise Owner shall submit evidence of any such expenditures to Franchisor on an annual basis not later than sixty (60) days after the close of each fiscal year for the preceding fiscal year. In the event that Franchise Owner shall fail to expend such sums on local advertising during any fiscal year, the difference between the amount expended and the amount required to be expended shall be paid to Franchisor, in addition to other amounts payable pursuant to this Agreement.

8.2. Approval of Advertising. All advertising by Franchise Owner shall be in such media, and of such type and format as Franchisor may approve; shall be conducted in a dignified manner and shall conform to such standards and requirements as Franchisor may specify. Advertising approved by Franchisor as meeting the requirements of the preceding sentence shall continue to be deemed approved unless and until Franchisor shall notify OpCo otherwise. Franchise Owner shall not use any advertising or promotional plans or materials not prepared by Franchisor unless and until Franchise Owner has received written approval from Franchisor following the submission of samples thereof to Franchisor. If written approval is not received by Franchise Owner from

Franchisor or its designee within fifteen (15) days of the date of receipt by Franchisor of such samples, Franchisor shall be deemed to have disapproved such advertising or promotional plans or materials.

8.3. Participation in Cooperative Advertising and/or Marketing Programs. Franchise Owner shall participate in all cooperative advertising and/or marketing programs as are from time to time prescribed by Franchisor, provided however, that no such cooperative advertising and/or marketing programs shall require Franchise Owner to adhere to any specific price(s). The terms and conditions required for participation in any such cooperative advertising program or programs shall be as specified in the Confidential Operations Manual.

8.4. Operation of Call Center. Franchisor agrees to operate or will provide a toll free "800 telephone number" and related call center (the "800 Call Center") to provide substantially the same services to Franchise Owner as those provided by the 800 Call Center operating immediately prior to the execution of this Agreement, subject to such modification as Franchisor deems advisable from time to time to comply with applicable law or subject to such restructuring as Franchisor shall reasonably require to comply with applicable law. Franchise Owner agrees to advertise the "800 telephone number" and otherwise cooperate with Franchisor to use the 800 Call Center as a means of assisting customers to locate the places of business of franchisees of Franchisor.

8.5. Subordination and Alternative Performance of Obligations. Franchise Owner shall make all payments required to be made by Franchise Owner pursuant to this Article 8 to OpCo, rather than to Franchisor, until the earlier of (i) the date on which OpCo ceases to have voting control of Franchise Owner through stock ownership, or (ii) the date of the termination or expiration of the Master Franchise Agreement, or (iii) in the event OpCo shall: (i) become insolvent; or (ii) be unable, or admit in writing its inability to pay its debts as they mature; or (iii) make a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) become the subject of an "order for relief" within the meaning of the United States Bankruptcy Code; or (v) become the subject of a creditor's petition for liquidation, reorganization or to effect a plan or other arrangement with creditors; or (vi) apply to a court for the appointment of a custodian or receiver for any of its assets; or (vii) have a custodian or receiver appointed for any of its assets (with or without its consent); or (viii) otherwise become the subject of any insolvency proceedings or propose or enter into any formal or informal composition or arrangement with its creditors.

9. STATEMENTS, RECORDS AND FEE PAYMENTS

9.1. Maintenance of Records; Audit Rights. Franchise Owner shall, in a manner reasonably satisfactory to Franchisor, maintain original, full and complete records, accounts, books, data, licenses, contracts and invoices which shall accurately reflect all particulars relating to Franchised Business and such statistical and other information or records as Franchisor may require, and shall keep all such information for not less than three (3) years, even if this Agreement is no longer in effect. Franchise Owner shall compile and provide to Franchisor any statistical or financial information regarding the operation of the Franchised Business, the services and products sold by it, or data of a similar nature as Franchisor may reasonably request. Franchisor and its designated agents shall have the right to examine and audit such records, accounts, books and data at all reasonable times to insure that Franchise Owner is complying with the terms of this Agreement. In connection with any such examination or audit, Franchisor shall not be entitled to any adjustment to the extent that Gross Revenues have been computed in accordance with Section 4.10 and in accordance with generally accepted accounting principles consistently applied. If such inspection discloses and it is ultimately determined that the Gross Revenues during any scheduled reporting period actually exceeded the amount reported by Franchise Owner as its Gross Revenues by an amount equal to two percent (2%) or more of the Gross Revenues originally reported to Franchisor, Franchise Owner shall bear the cost of such inspection and audit (not including any premium or contingent fee arrangement) and shall pay any such deficiency with interest from the date due until paid at the lesser of the Prime Rate, plus six percent (6%) per annum or the highest rate permitted by

applicable law, immediately upon the request of Franchisor.

9.2. Reports. Upon Franchisor's request, Franchise Owner shall furnish Franchisor with a copy of each of Franchise Owner's reports required under applicable federal and state laws, rules and regulations, including but not limited to all such reports required under "Medicare" and "Medicaid" laws, rules and regulations.

9.3. Tax Reports. Upon Franchisor's request, Franchise Owner shall furnish Franchisor with a copy of each of its reports and returns of sales, use and gross receipt taxes and complete copies of any state or federal income tax returns covering the operation of the Franchised Business.

9.4. Unaudited Periodic Statements. Franchise Owner shall prepare and deliver to Franchisor on a quarterly basis, no later than twenty-five (25) days following the close of each fiscal quarter, an unaudited profit and loss statement in a form reasonably satisfactory to Franchisor covering Franchise Owner's business for the prior fiscal quarter and showing Gross Revenues for the prior fiscal quarter and fiscal year to date, all of which shall be certified by Franchise Owner to present fairly in all material respects such matters. Franchise Owner shall also submit to Franchisor no later than twenty-five (25) days following the close of each fiscal quarter, an unaudited balance sheet reflecting the financial position of the Franchised Business as of the preceding fiscal quarter end.

9.5. Annual Statement. In addition to the foregoing unaudited statements, within 75 days after the close of each fiscal year of Franchise Owner, Franchise Owner shall furnish to Franchisor, at Franchise Owner's expense, an unaudited statement of income and retained earnings of Franchise Owner for such fiscal year and an unaudited balance sheet of Franchise Owner as of the end of such fiscal year, all prepared in accordance with generally accepted accounting principles and certified to by a Franchise Owner as true and correct. If audited statements are prepared by or for Franchise Owner for any fiscal year, such shall be provided to Franchisor in lieu of the unaudited statements required pursuant to this Section 9.5. Such financial statements shall be accompanied by a certificate certifying Franchise Owner's Gross Revenues for the prior year.

10. ADDITIONAL COVENANTS

10.1. Covenant During Term. During the term of this Agreement, Franchise Owner covenants not to engage in the United States as an owner, operator, or in any managerial capacity in any Hospital/RTC Based Behavioral Healthcare Business, other than as a franchisee of the Charter System pursuant to this Agreement; provided, however, that Franchise Owner shall not be prohibited hereby from owning equity securities of any Hospital/RTC Based Behavioral Healthcare Business whose shares are traded on a stock exchange or on the over-the-counter market so long as said ownership interest represents five percent (5%) or less of the total number of outstanding shares of such business.

10.2. Covenant Not to Compete Post-Term. Following the termination or expiration of this Agreement and for a period expiring on the earlier of three (3) years following the expiration or termination of this Agreement or the thirty-second anniversary of the date of this Agreement, Franchise Owner covenants not to engage in the Territory as an owner, operator, or in any managerial capacity in any Hospital/RTC Based Behavioral Healthcare Business, other than as a franchisee of the Charter System pursuant to this Agreement; provided, however, that Franchise

Owner shall not be prohibited hereby from owning equity securities of any Hospital/RTC Based Behavioral Healthcare Business whose shares are traded on a stock exchange or on the over-the-counter market so long as said ownership interest represents five percent (5%) or less of the total number of outstanding

shares of such business.

10.3. Acknowledgment of Reasonableness. The parties hereto acknowledge that the provisions of Sections 10.1 and 10.2 have been negotiated fully and fairly by the parties, each being represented and advised by counsel. Franchise Owner acknowledges that it is willingly and freely agreeing to the provisions of Sections 10.1 and 10.2 as reasonable and necessary under the circumstances. One of the acknowledged reasonable business purposes of Franchisor is to protect Franchisor's goodwill and proprietary rights. Franchise Owner further acknowledges that Franchisor would not enter into this Agreement without the covenants of Sections 10.1 and 10.2 and that it is fair and reasonable to Franchise Owner that Franchise Owner be subject to such covenants.

10.4. Confidential Information. During the term of this Agreement and following the expiration or termination of this Agreement, Franchise Owner covenants not to communicate directly or indirectly, nor to divulge to or use for its benefit or the benefit of any other person or legal entity, any trade secrets which are proprietary to Franchisor or any information, knowledge or know-how identified to Franchise Owner by Franchisor in writing as confidential (including but not limited to the Confidential Operating Manual), except as permitted by Franchisor. Notwithstanding the foregoing, this obligation shall not apply to information: (a) which at the time of disclosure is readily available to the trade or public; (b) which after disclosure becomes readily available to the trade or public, other than through breach of this Agreement; (c) which is subsequently lawfully and in good faith obtained by such party from an independent third party without breach of this Agreement; (d) which was in possession of such party prior to the date of disclosure; or (e) which is disclosed to others in accordance with the terms of a prior written authorization between the parties to this Agreement. In the event of any termination, expiration or non-renewal of this Agreement, Franchise Owner agrees that it will never use Franchisor's confidential information, trade secrets, methods of operation or any proprietary components of the Charter System in the design, development or operation of any behavioral healthcare business, including, without limitation, any Hospital/RTC Based Behavioral Healthcare Business. The protection granted hereunder shall be in addition to and not in lieu of all other protections for such trade secrets and confidential information as may otherwise be afforded in law or in equity.

10.5. Confidential Agreements with Certain Employees. Consistent with Franchisor's existing practices with respect to employee non-disclosure agreements, Franchise Owner agrees to maintain and cause new employees of Franchise Owner to execute employee non-disclosure agreements in the form employed by Franchisor as of the date hereof (or such other form as reasonably requested by Franchisor), with its managers, which shall prohibit disclosure by such parties to any other person or legal entity of any trade secrets or any other information, knowledge or know-how identified as confidential by Franchisor in writing to Franchise Owner concerning the operation of the Franchised Business. Franchisor shall be a third party beneficiary of such

agreements and Franchise Owner shall not amend, modify or terminate any such agreement without Franchisor's prior written consent.

10.6. Severability. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. Should any part of one or more of these restrictions be found to be unenforceable by virtue of its scope in terms of area, business activity prohibited or length of time, and should such part be capable of being made enforceable by reduction of any or all thereof, Franchise Owner and Franchisor agree that the same shall be enforced to the fullest extent permissible under the law. In addition, Franchisor may, unilaterally, at any time, in its sole discretion, revise any of the covenants in this Article 10 so as to reduce the obligations of Franchise Owner hereunder. The running of any period of time specified in this Article 10 shall be tolled and suspended for any period of time in which the Franchise Owner is found by a court of competent jurisdiction to have been in violation of any restrictive covenant. Franchise Owner further expressly agrees that the existence of any claim it may have against Franchisor whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Article 10.

10.7. Waiver of Surety Defenses by Franchisor and Nature of Obligations. The obligations of Franchisor under this Agreement are joint and several and include any and all debts, obligations, whether of payment or performance, and liabilities arising out of or relating to this Agreement, whether such debts, obligations and liabilities are heretofore, now, or hereafter made, incurred, or created, whether such debts, obligations and liabilities are voluntary or involuntary, liquidated or unliquidated, secured or unsecured, and including but not limited to contingent debts, obligations and liabilities, and whether or not any or all such debts, obligations and liabilities are or become unenforceable against either Franchisor as a result of the operation of bankruptcy or insolvency laws.

With respect to any debt, liability or obligation with respect to which one Franchisor is deemed to be a surety or guarantor of the other Franchisor, such Franchisor deemed to be a surety or guarantor hereby unconditionally and irrevocably waives (a) (i) any right to require that any action be brought against the other Franchisor without regard to whether the other Franchisor, or both, were directly responsible for any breach of this Agreement; (ii) presentment, notice of dishonor, protest, diligence, demand for payment, performance or enforcement, and all notices of any kind, including without limitation: notice of acceptance hereof, notice of the creation of any obligations of Franchisor hereunder (except as otherwise expressly required in this Agreement), notice of nonpayment, nonperformance or other default, and notice of any action taken to collect upon any of the obligations of Franchisor hereunder or enforce any of the provisions hereof against Franchisor; and (iii) any claim for contribution from any other person, including the other Franchisor; and (b) except to the extent that Franchise Owner would not have had the benefit of such protections had the Franchisor not been deemed to be a surety or guarantor (i) any failure of Franchise Owner to take any steps to preserve its rights hereunder; (ii) any setoffs against Franchise Owner which would otherwise impair Franchise Owner's rights against

either Franchisor hereunder; and (iii) any requirement to mitigate damages. Each Franchisor also expressly waives the provisions of Sections 49-25 and 49-26 of the Code of Virginia.

11. TRANSFER AND ASSIGNMENT

11.1. Assignment by Franchisor. This Agreement and all rights and duties hereunder may not be assigned or transferred by Franchisor except (i) with the prior written consent of Franchise Owner and Crescent, in its capacity as lessor under the Facilities Lease (as defined in Section 1.21 of the Master Franchise Agreement), which consent shall not be unreasonably withheld, conditioned or delayed, or (ii) to an entity which simultaneously therewith acquires all or substantially all of Franchisor's business and assets. Franchisor may grant a security interest in Franchisor's rights and interest in (but not its obligations under) this Agreement to any of Franchisor's lenders by means of an assignment for collateral purposes.

11.2. Assignment by Franchise Owner.. This Agreement and any rights and duties hereunder may not be assigned or transferred by Franchise Owner except (i) with the prior written consent of Franchisor, which consent shall not be unreasonably withheld, conditioned or delayed, to any entity which simultaneously therewith acquires all or substantially all of Franchise Owner's business and assets (including the assignment of Franchise Owners's rights and obligations as lessee under the lease with Crescent), or (ii) if the Facilities Lease is terminated prior to the end of the Initial Term or any Extended term as a result of an Event of Default under the Facilities Lease, and if Crescent exercises its election under the Facilities Lease to assume all (but not less than all) of the Obligations of Franchise Owner under this Agreement and all other agreements specified in the Facilities Lease from the date of such assumption, to Crescent or its designee. A transaction or transactions pursuant to which OpCo no longer has voting control of Franchise Owner through stock ownership shall be deemed an assignment or transfer of this Agreement.

11.3. Conditions of Any Approval. Franchise Owner understands and acknowledges the vital importance of the performance of Franchise Owner to the market position and overall image of Franchisor. The consent of Franchisor to an

assignment or transfer by Franchise Owner shall be subject, but not be limited to, the following conditions:

(a) The proposed transferee is a person or entity which meets the Franchisor's standards of qualification then applicable with respect to all new applicants for similar Charter System franchisees;

(b) The proposed transfer is upon reasonable terms and conditions;

(c) As of the effective date of the proposed transfer, all obligations of Franchise Owner hereunder and under any other agreements between Franchise Owner and Franchisor are satisfied in all material respects;

(d) As of the effective date of the proposed transfer, all obligations of the proposed transferee to the Franchisor under all other agreements of any kind between the proposed transferee and Franchisor are satisfied in all material respects;

(e) Franchise Owner must request that Franchisor provide the prospective transferee with the Franchisor's current form of disclosure document required by the Federal Trade Commission's Trade Regulation Rule on Franchising and/or other applicable state franchise registration/disclosure laws, and a receipt for such document shall be delivered to Franchisor, acknowledging that Franchisor shall not be liable for any representations other than those contained in such disclosure document;

(f) The proposed transferee must execute a new franchise agreement, namely, Franchisor's then-current form of facility franchise agreement, which may contain terms and conditions substantially different from those in this Agreement, for an initial term equal to the time remaining in the term of this Agreement, unless the proposed transferee would be or is an OpCo Franchisee;

(g) The transferor and the transferee shall have executed a general release under seal where required, in a form reasonably satisfactory to Franchisor, of any and all claims (including, without limitation, claims arising under federal, state, and local laws, rules, and ordinances) against Franchisor, its parent, subsidiaries, affiliates and their officers, directors, attorneys, shareholders, and employees, in their corporate and individual capacities, arising out of, or connected with, the performance of this Agreement or any other agreement; and

(h) The transferee shall demonstrate to Franchisor's reasonable satisfaction that (i) it meets all of Franchisor's requirements for becoming one of its franchisees, including, without limitation, that it meets Franchisor's managerial and business standards then in effect for similarly situated franchise owners; (ii) possesses a good moral character, business reputation, and satisfactory credit rating; and (iii) is not a competitor of Franchisor, will comply with all instruction and training requirements of Franchisor and has the aptitude and ability to operate the Franchised Business (as may be evidenced by prior related business experience or otherwise).

11.4. Consent Not a Waiver. Franchisor's consent to an assignment by the Franchise Owner granted herein shall not constitute a waiver of any claims it may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement by the transferee.

11.5. Parties Bound and Benefitted. This Agreement shall be binding on the parties and their respective successors and assigns. This Agreement shall inure to the benefit of the parties and their respective permitted successors and assigns.

12. DEFAULT AND TERMINATION

12.1. Franchisor's Right to Terminate. Franchisor may not terminate this Agreement prior to the expiration of its term except for "good cause," which shall mean the occurrence of any event of default described in (a) and (f) below, but shall specifically not include the failure to pay Franchisor any amount due to Franchisor under and pursuant to Articles 4 or 8 hereof, which Franchisor agrees will not be an event of default giving rise to a right to terminate this Agreement. Upon the occurrence of any such event of default, Franchisor may, at its option, and without waiving its rights hereunder or any other rights available at law or in equity, including its rights to damages, terminate this Agreement and all of Franchise Owner's rights hereunder effective immediately upon the date Franchisor gives written notice of termination, upon such other date as may be set forth in such notice of termination, or in those instances enumerated below in paragraph (a), automatically upon the occurrence of an event of default. The occurrence of any one or more of the following events shall constitute an event of default and grounds for termination of this Agreement by Franchisor:

(a) Automatically, without notice or action required by Franchisor, if Franchise Owner becomes insolvent or makes a general assignment for the benefit of creditors, or, unless otherwise prohibited by law, if a petition in bankruptcy is filed by Franchise Owner, or such a petition is filed against and consented to by Franchise Owner or not dismissed within thirty (30) days, or if a bill in equity or other proceeding for the appointment of a receiver of Franchise Owner or other custodian for Franchise Owner's business or assets is filed and consented to by Franchise Owner, or if a receiver or other custodian (permanent or temporary) of Franchise Owner's assets or property, or any part thereof, is appointed;

(b) If there is any violation of any transfer and assignment provision contained in Article 11 of this Agreement;

(c) If Franchise Owner fails, for a period of fifteen (15) days after notification of non-compliance by appropriate authority to comply with any law, rule or regulation applicable to the operation of the Franchised Business; provided, however, that if such non-compliance is susceptible to cure but such cure cannot be accomplished with due diligence within such period of time, and if, in addition, Franchise Owner commences to cure such non-compliance within 15 days after notification of non-compliance and thereafter prosecutes the curing of such non-compliance with due diligence, such period of time shall be extended to such period of time (not to exceed an additional ninety (90) days in the aggregate) as may be necessary to cure such non-compliance with due diligence;

(d) If Franchise Owner, other than in an immaterial respect, violates, any covenant of confidentiality or non-disclosure contained in Article 10 of this Agreement;

(e) If Franchise Owner fails to perform or breaches any covenant, obligation, term, condition, warranty or certification herein or fails to operate the Franchised Business as specified by Franchisor herein or in the Confidential Operating Manual and fails to cure such noncompliance or deficiency within thirty (30) days after Franchisor's written notice thereof; provided, however, that if such non-compliance or deficiency is susceptible to cure but such cure cannot be accomplished with due diligence within such period of time, and if, in addition, Franchise Owner commences to cure such

non-compliance or deficiency within 30 days after notification of non-compliance or deficiency and thereafter prosecutes the curing of such non-compliance or deficiency with due diligence, such period of time shall be extended to such period of time (not to exceed an additional one hundred eighty (180) days in the aggregate) as may be necessary to cure such non-compliance or deficiency with due diligence;

(f) If Franchise Owner abandons the operation of all or any substantial part of the Franchised Business conducted under this Agreement for twenty-four (24) hours or longer (except as otherwise provided herein or agreed to by Franchisor) or defaults under any mortgage, deed of trust or lease with Franchisor or any third party covering the Franchised Business or of any premises from or at which the Franchised Business is operated and Franchisor or such third party treats such act or omission as a default, and Franchise Owner fails to cure such default to the satisfaction of Franchisor or such third party within any applicable cure period granted Franchise Owner by Franchisor or such third party;

12.2. Franchise Owner's Right to Terminate. Franchise Owner may not terminate this Agreement prior to the expiration of its term (whether because of Franchisor's breach, material or otherwise) except with the prior written consent of Franchisor.

13. POST TERM OBLIGATIONS

Upon the expiration or termination of this Agreement, Franchise Owner shall immediately:

13.1. Cease Operations. Cease to be a franchisee of Franchisor under this Agreement and cease to operate the former Franchised Business under the Charter System. Franchise Owner shall not thereafter, directly or indirectly, represent to the public that the former Franchised Business is or was operated or in any way connected with the Charter System or hold itself out as a present (or, publicly, as a former) franchisee of Franchisor at or with respect to any premises from or at which the Franchised Business operated;

13.2. Pay All Sums Outstanding. Pay all sums owing to Franchisor subject to the Subordination Agreement.

13.3. Return Confidential Operating Manual. Return to Franchisor the Confidential Operating Manual and all trade secret and other confidential materials, equipment and other property owned by Franchisor, and all copies thereof, including all such provided to any third party by Franchise Owner. (Franchisor shall not provide any such to any third parties without the written consent of Franchisor in each instance.) Franchise Owner shall retain no copy or record of any of the foregoing; provided Franchise Owner may retain its copy of this Agreement, any correspondence between the parties, and any other document which Franchise Owner reasonably needs for compliance with any applicable provision of law.

13.4. Cease Use of System. Cease to use in advertising, or in any manner whatsoever, any methods, procedures, protocols, programs, procedures or techniques associated with the Charter System in which Franchisor has a proprietary right, title or interest; cease to use the Licensed Marks and any other marks and indicia of operation associated with the Charter System and remove all trade dress, physical characteristics, color combinations and other indications of operation under the Charter System from any premises from or at which the Franchised Business operated. Without limiting the generality of the foregoing, Franchise Owner agrees that in the event of any termination or expiration of this Agreement, it will remove all signage bearing the Licensed Marks, and, upon Franchisor's request, deliver the facia for such signs to Franchisor, and will remove any items which are characteristic of the Charter System "trade dress" from any premises from or at which the Franchised Business operated. Franchise Owner agrees that Franchisor or a designated agent may enter upon any premises from or at which the Franchised Business operated at any time in a reasonable manner to make such changes at Franchise Owner's sole risk and expense and without liability for trespass.

14. INSURANCE

14.1. Maintenance of Insurance. Throughout the term of this Agreement, Franchise Owner shall maintain in effect at all times a policy or policies of insurance, designating Franchisor as an additional insured at Franchise Owner's sole cost and expense as described on Exhibit 4 hereto.

14.2. Notices of Claims. Franchise Owner shall promptly notify Franchisor of any and all claims against Franchise Owner and/or Franchisor under said policies of insurance and shall deliver to Franchisor certificates evidencing that the insurance required by Section 14.1 is in full force and effect within thirty (30) days after signing this Agreement and each year thereafter. Such insurance certificates shall contain a statement that the insurance shall not be canceled without thirty (30) days' prior written notice to Franchise Owner and to Franchisor.

14.3. Notices of Other Claims/Events. Franchise Owner shall provide to Franchisor notice of any and all demands, claims, suits, actions, causes of action, proceedings and assessments (together "Claims") brought, made or threatened in writing against Franchise Owner, and of the occurrence of any events which might result in such a Claim, in each case within five (5) business days after Franchise Owner becomes aware thereof, and will provide to Franchisor

information concerning such Claims or events as Franchisor may from time to time reasonably request.

15. TAXES, PERMITS AND INDEBTEDNESS

15.1. Payment. Franchise Owner shall promptly pay when due any and all federal, state and local taxes, including without limitation unemployment and sales taxes, levied or assessed with respect to any services or products furnished, used or licensed pursuant to this Agreement and all accounts or other indebtedness of every kind incurred by Franchise Owner in the operation of the Franchised Business.

15.2. Compliance with all Laws and Regulations. Franchise Owner shall comply with all federal, state and local laws, rules and regulations and timely obtain any and all permits, certificates and licenses for the full and proper conduct of the Franchised Business.

15.3. Full Responsibility. Franchise Owner hereby expressly covenants and agrees to accept full and sole responsibility for any and all debts and obligations incurred in the operation of the Franchised Business.

16. INDEMNIFICATION AND INDEPENDENT CONTRACTOR

16.1. Indemnification and Hold Harmless. Franchise Owner agrees to protect, defend, indemnify, and hold Franchisor, and its respective directors, officers, agents, attorneys and shareholders, jointly and severally, harmless from and against all claims, actions, proceedings, damages, costs, expenses and other losses and liabilities, directly or indirectly incurred (including without limitation reasonable attorneys' and accountants' fees) as a result of, arising out of, or connected with the operation of the Franchised Business, except those directly arising from Franchisor's willful misconduct or fraud. Franchisor agrees to protect, defend, indemnify and hold Franchise Owner, and its respective directors, officers, agents, attorneys and shareholders, jointly and severally, harmless from and against all claims, actions, proceedings, damages, costs, expenses and other losses and liabilities, directly or indirectly arising out of or connected with the operation of the Franchised Business arising directly from Franchisor's willful misconduct or fraud.

16.2. Independent Contractor. In all dealings with third parties including, without limitation, employees, suppliers and patients, Franchise Owner shall disclose in an appropriate manner reasonably acceptable to Franchisor that it is an independent entity licensed by Franchisor. Nothing in this Agreement is intended by the parties hereto to create a fiduciary relationship between them nor to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee or servant of the

other for any purpose whatsoever. It is understood and agreed that Franchise Owner is an independent contractor and is in no way authorized to make any contract, warranty or representation or to create any obligation on behalf of Franchisor.

17. WRITTEN APPROVALS, WAIVERS, FORMS OF AGREEMENT AND AMENDMENT

17.1. Prior Approvals. Whenever this Agreement requires Franchisor's prior approval, Franchise Owner shall make a timely written request. Unless a different time period is specified in this Agreement, Franchisor shall respond with its approval or disapproval within fifteen (15) days of receipt of such request. If Franchisor has not specifically approved a request within such fifteen (15) day period, such failure to respond shall be deemed disapproval of any such request.

17.2. No Waiver. No failure of Franchisor to exercise any power reserved to it by this Agreement and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Franchisor's right to demand exact compliance with any of the terms herein. No waiver or approval by Franchisor of any particular breach or default by Franchise Owner, nor any delay, forbearance or omission by Franchisor to act or give notice of default or to exercise any power or right arising by reason of such default hereunder, nor acceptance by Franchisor of any payments due hereunder shall be considered a waiver or approval by Franchisor of any preceding or subsequent breach or default by Franchise Owner of any term, covenant or condition of this Agreement.

17.3. Form of Agreements. No warranty or representation is made by Franchisor that all Charter System franchise agreements heretofore or hereafter issued by Franchisor do or will contain terms substantially similar to those contained in this Agreement. Further, Franchise Owner recognizes and agrees that Franchisor may, in its reasonable business judgment, due to local business conditions or otherwise, waive or modify comparable provisions of other franchise agreements heretofore or hereafter granted to other Charter System franchise owners in a non-uniform manner, subject, however, to those provisions of this Agreement which require Franchisor to act toward its Franchise Owners on a reasonably nondiscriminatory basis.

17.4. Written Amendments. Except as otherwise specifically provided in this Agreement, no amendment, change or variance from this Agreement shall be binding upon either Franchisor or Franchise Owner except by mutual written agreement or in accordance with Section 3.10 of the Subordination Agreement. If an amendment of this Agreement is executed at Franchise Owner's request, any legal fees or costs of preparation in connection therewith shall, at the option of Franchisor, be paid by Franchise Owner.

18. ENFORCEMENT

18.1. Inspections. In order to ensure compliance with this Agreement and to enable Franchisor to carry out its obligation under this Agreement, Franchise Owner agrees that Franchisor and its designated agents shall be permitted, with or without notice, full and complete access during business hours to inspect all premises from or at which the Franchised Business is conducted and all records thereof, including, but not limited to, records relating to Franchise

Owner's patients, suppliers, employees and agents. Franchise Owner shall cooperate fully with Franchisor and its designated agents requesting such access.

18.2. Injunctive Relief. Franchisor or its designee shall be entitled to obtain, without bond, declaratory judgments, temporary and permanent injunctions, and orders of specific performance, in order to enforce the provisions of this Agreement relating to Franchise Owner's use of the Licensed Marks, the obligations of Franchise Owner upon termination or expiration of this Agreement, and assignment of this Agreement and/or ownership interests in Franchise Owner or to prohibit any act or omission by Franchise Owner or its employees which constitutes a violation of any applicable law or regulation,

which is dishonest or misleading to prospective or current customers of businesses operated under the Charter System, which constitutes a danger to other franchise owners, employees, patients or the public, or which may impair the goodwill associated with the Licensed Marks.

18.3. Costs and Expenses. If Franchisor secures any declaratory judgment, injunction or order of specific performance pursuant to this Article 18, or otherwise, if any provision of this Agreement is enforced at any time by Franchisor or if any amounts due from Franchise Owner to Franchisor are, at any time, collected by or through an attorney at law or collection agency, Franchise Owner shall be liable to Franchisor for all costs and expenses of enforcement and collection including, but not limited to, court costs and reasonable attorneys' fees.

18.4. No Right to Offset. Franchise Owner will not, for any reason, withhold payment of any monthly payment, fee or any other fees or payments due to the Franchisor under this Agreement or pursuant to any other contract, agreement or obligation to the Franchisor. Franchise Owner shall not have the right to "offset" any liquidated or unliquidated amounts, damages or other funds allegedly due to the Franchise Owner from the Franchisor against any monthly payment, fee or any other fees or payments due to the Franchisor under this Agreement or otherwise.

19. ENTIRE AGREEMENT

THIS AGREEMENT INCLUDING THE EXHIBITS REFERRED TO HEREIN AND THE TRANSACTION DOCUMENTS (AS DEFINED IN THE MASTER FRANCHISE AGREEMENT) CONTAIN THE ENTIRE AGREEMENT OF THE PARTIES. NO OTHER AGREEMENTS, WRITTEN OR ORAL, SHALL BE DEEMED TO EXIST, AND ALL PRIOR AGREEMENTS AND UNDERSTANDINGS ARE SUPERSEDED HEREBY. THERE ARE NO CONDITIONS TO THIS AGREEMENT WHICH ARE NOT EXPRESSED HEREIN OR IN THE TRANSACTION DOCUMENTS. NO OFFICER, EMPLOYEE OR AGENT OF FRANCHISOR HAS ANY AUTHORITY TO MAKE ANY REPRESENTATION OR PROMISE NOT CONTAINED IN THIS AGREEMENT OR IN THE TRANSACTION DOCUMENTS, AND FRANCHISE OWNER AGREES THAT IT HAS EXECUTED THIS AGREEMENT WITHOUT RELIANCE UPON ANY SUCH REPRESENTATION OR PROMISE. THIS

AGREEMENT SHALL NOT BE BINDING UPON FRANCHISOR UNTIL EXECUTED BY AN AUTHORIZED OFFICER THEREOF.

20. NOTICES

Any notice required to be given hereunder shall be in writing and shall be either mailed by certified mail, return receipt requested or delivered by a recognized courier service, receipt acknowledged. Notices to Franchise Owner shall be addressed to it at the address listed in Article 1 of this Agreement. Notices to Franchisor shall be addressed to it at the address listed in Article 1 of this Agreement. Attention: President. Any notice complying with the provisions hereof shall be deemed to be given three (3) days after mailing, or on the date of receipt, whichever is earlier. Each party shall have the right to designate any other address for such notices by giving notice thereof in the foregoing manner, and in such event all notices to be mailed after receipt of such notice shall be sent to such other address.

21. GOVERNING LAW AND DISPUTE RESOLUTION

21.1. Governing Law. This Agreement shall be interpreted, construed, applied and enforced in accordance with the laws of the State of Delaware applicable to contacts among residents of Delaware which are to be performed entirely within Delaware, regardless of (i) where this Agreement is executed or delivered; or (ii) where any payment or other performance required to be made; or (iii) where any breach of any provision of this Agreement occurs, or any cause of action otherwise accrues; or (iv) where any action or other proceeding is instituted or pending; or (v) the nationality, citizenship, domicile, principal place of business or jurisdiction of organization or domestication of any party; or (vi) whether the laws of the forum jurisdiction otherwise would apply the laws of a jurisdiction other than the State of Delaware; or (vii) any combination of the foregoing.

Subject to Section 21.2 below, to the maximum extent permitted by

applicable law, any action to enforce, arising out of, or relating in any way to, any of the provisions of this Agreement may be brought and prosecuted in such court or courts located in the State of Delaware as is provided by law; and the parties consent to the jurisdiction of said court or courts located in the State of Delaware and to service of process by registered mail, return receipt requested, or by any other manner provided by law.

21.2. Arbitration Litigation. (a) Any dispute, controversy or claim arising out of or relating to this Agreement or any contract or agreement entered into pursuant hereto or the performance by the parties of its or their terms shall be settled by binding arbitration held in Wilmington, Delaware, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having in personam and subject matter jurisdiction. The parties hereby submit to the in personam jurisdiction of the federal and state courts in Delaware, for the purpose of confirming any such award and entering judgment thereon; and

(b) Notwithstanding the foregoing, Franchisor may, in its discretion, apply to a court of competent jurisdiction for equitable relief from any violation or threatened violation of the covenants of Franchise Owner in this Agreement, including but not limited to, as provided in Section 18.2. Franchise Owner acknowledges that its violation or threatened violation of the provisions of Article 10 would cause irreparable injury and, in addition to any other remedies to which Franchisor may be entitled, that Franchisor shall be entitled to injunctive relief.

22. SEVERABILITY, CONSTRUCTION AND OTHER MATTERS

22.1. Severability. Should any provision of this Agreement be for any reason held invalid, illegal or unenforceable by a court of competent jurisdiction, such provision shall be deemed restricted in application to the extent required to render it valid; and the remainder of this Agreement shall in no way be affected and shall remain valid and enforceable for all purposes. In the event that any provision of this Agreement should be for any reason held invalid, illegal or unenforceable by a court of competent jurisdiction, or in the event the performance or compliance by any party with any provision of this Agreement shall result in such party being in violation of any law, rule or regulation of any governmental authority, then in any of such events the parties agree to use commercially reasonable best efforts to amend in a manner reasonably consistent with each party's economic interests the obligations of the parties under and pursuant to this Agreement so as to cause the parties' obligations hereunder to be enforceable and not in violation of any law, rule or regulation of any governmental authority. In the event such total or partial invalidity or unenforceability of any provision of this Agreement exists only with respect to the laws of a particular jurisdiction, this paragraph shall operate upon such provision only to the extent that the laws of such jurisdiction are applicable to such provision. Each party agrees to execute and deliver to the other any further documents which may be reasonably required to effectuate fully the provisions hereof. Franchise Owner understands and acknowledges that Franchisor shall have the right, in its sole discretion, on a temporary or permanent basis, to reduce the scope of any covenant or provision of this Agreement binding upon Franchise Owner, or any portion hereof, without Franchise Owner's consent, effective immediately upon receipt by Franchise Owner of written notice thereof, and Franchise Owner agrees that it will comply forthwith with any covenant as so modified, which shall be fully enforceable.

22.2. Regulatory Reports. Each party agrees to reasonably cooperate with the other in providing on a timely basis all documents and information in its possession or reasonably available to it, reasonably required by the other for reports or filings required by any governmental or other regulatory authority.

22.3. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but such counterparts together shall constitute one and the same instrument.

22.4. Table of Contents, Headings and Captions. The table of contents,

headings and captions contained herein are for the purposes of convenience and reference only and are not to

be construed as a part of this Agreement. All terms and words used herein shall be construed to include the number and gender as the context of this Agreement may require. The parties agree that each section of this Agreement shall be construed independently of any other section or provision of this Agreement.

23. MANAGEMENT CONTRACTS/JOINT VENTURES/CONSULTING AGREEMENTS

Franchise Owner agrees during the continuance of this Agreement that it will not enter into any new management agreements, Joint Ventures or consulting or other agreements relating to a Hospital/RTC Based Behavioral Healthcare Business ("New Arrangements") except (i) in the event a Franchise Agreement is entered into by Franchisor with respect to such business, or (ii) with the written consent of Franchisor in each instance. In each instance of a Joint Venture in which Franchisor shall have provided such written consent, Franchisor and Franchise Owner, prior thereto, shall have agreed with respect to the Joint Venture (i) to the payment to Franchisor, in addition to all other amounts payable pursuant to this Agreement, of a percentage of Franchise Owner's gross receipts from such New Arrangement agreeable to Franchise Owner and Franchisor or (ii) to the inclusion in Gross Revenues of the Business Gross Revenues of any such Joint Venture. For each Managed Business that is the subject of a New Arrangement, Franchise Owner shall pay to Franchisor (i) with respect to any such services provided to Managed Businesses within the Territory, 15% of (a) the total fees received by Franchise Owner, less (b) Franchise Owner's direct costs (not including overhead) of providing such services, or (ii) unless otherwise agreed by Franchisee or Franchise Owner, with respect to any such services provided to Managed Businesses outside the Territory, 30% of (a) the total fees received by Franchise Owner, less (b) Franchise Owner's direct costs (not including overhead) of providing such services (the amounts received by Franchisor pursuant to (i) or (ii) above are herein referred to as "New Arrangement Management Fees").

24. MANAGED CARE AGREEMENTS/PREFERRED PROVIDER STATUS

The parties agree that during the continuance of this Agreement, all existing and future Managed Care Agreements, as defined below, shall be held in the name of Franchisor or a subsidiary of Franchisor. Franchise Owner agrees during the continuance of this Agreement that neither it nor any subsidiary or affiliate will enter into any Managed Care Agreements. For the purposes of this Agreement, "Managed Care Agreements" means any and all contracts, agreements, letters of agreement, memoranda of understanding, or any like written or oral agreement (hereinafter referred to as "Managed Care Agreement"), with any insurer, managed care company or any other third-party payor (hereinafter collectively referred to as "Payor") which is obligated to pay for behavioral health care benefits for any person pursuant to a Payor benefit contract with such person, and under which such Managed Care Agreements such behavioral health services are provided for a negotiated reimbursement rate. The parties agree that for the purposes of this Agreement, Managed Care Agreements shall not include any

agreement for the provision of behavioral health care services solely with a county or a local employee assistance program with services provided solely by Franchise Owner.

The parties acknowledge that Franchisor or a subsidiary of Franchisor shall subcontract with OpCo to provide staffing to service and negotiate such Managed Care Agreements; provided, however, that Franchisor shall retain the right to determine which, if any, Managed Care Agreement shall be entered into in Franchisor's name. Franchisor shall use commercially reasonable best efforts, subject to applicable law, to cause Franchise Owner to have "preferred provider"

status in connection with Franchisor's managed behavioral healthcare business on a basis substantially consistent with existing covenants, terms and conditions, unless the customer directs otherwise.

25. ACKNOWLEDGMENTS

25.1. FRANCHISE OWNER ACKNOWLEDGES THAT FRANCHISOR OR ITS AGENT HAS PROVIDED FRANCHISE OWNER WITH A FRANCHISE OFFERING CIRCULAR NOT LATER THAN THE EARLIER OF THE FIRST PERSONAL MEETING HELD TO DISCUSS THE SALE OF A FRANCHISE, TEN (10) BUSINESS DAYS BEFORE THE EXECUTION OF THIS AGREEMENT, OR TEN (10) BUSINESS DAYS BEFORE ANY PAYMENT OF ANY CONSIDERATION. FRANCHISE OWNER FURTHER ACKNOWLEDGES THAT FRANCHISE OWNER HAS READ SUCH FRANCHISE OFFERING CIRCULAR AND UNDERSTANDS ITS CONTENTS.

25.2. FRANCHISE OWNER ACKNOWLEDGES THAT FRANCHISOR HAS PROVIDED FRANCHISE OWNER WITH A COPY OF THIS AGREEMENT AND ALL RELATED DOCUMENTS, FULLY COMPLETED, AT LEAST FIVE (5) BUSINESS DAYS PRIOR TO FRANCHISE OWNER'S EXECUTION HEREOF.

25.3. FRANCHISE OWNER IS AWARE OF THE FACT THAT OTHER PRESENT OR FUTURE FRANCHISE OWNERS OF FRANCHISOR MAY OPERATE UNDER DIFFERENT FORMS OF AGREEMENT(S), AND CONSEQUENTLY THAT FRANCHISOR'S OBLIGATIONS AND RIGHTS WITH RESPECT TO ITS VARIOUS DEVELOPERS AND FRANCHISE OWNERS MAY DIFFER MATERIALLY IN CERTAIN CIRCUMSTANCES.

25.4. FRANCHISE OWNER ACKNOWLEDGES THAT THIS INSTRUMENT AND THE TRANSACTION DOCUMENTS CONSTITUTE THE ENTIRE AGREEMENT OF THE PARTIES. EXCEPT AS SET FORTH IN THE TRANSACTION DOCUMENTS, THIS AGREEMENT TERMINATES AND SUPERSEDES ANY PRIOR AGREEMENT BETWEEN THE PARTIES CONCERNING THE SAME SUBJECT MATTER.

25.5. FRANCHISE OWNER ACKNOWLEDGES THAT COMPUTER SOFTWARE LICENSED HEREUNDER IS FURNISHED "AS IS". FRANCHISOR MAKES NO WARRANTIES, WHETHER EXPRESS OR IMPLIED WITH RESPECT TO SUCH

SOFTWARE AND DOCUMENTATION DESCRIBING SUCH SOFTWARE, ITS QUALITY, ITS PERFORMANCE, MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE. THE ENTIRE RISK AS TO THE QUALITY AND PERFORMANCE OF SOFTWARE AND DOCUMENTATION DESCRIBING SUCH SOFTWARE IS WITH FRANCHISE OWNER.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement under seal on the date first written above.

MAGELLAN HEALTH SERVICES, INC.

By: _____
Title: _____

CHARTER FRANCHISE SERVICES, LLC

By: _____
Title: _____

CHARTER BEHAVIORAL HEALTH
SYSTEM OF CENTRAL GEORGIA,
LLC

By: _____
Title: _____

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT (this "Agreement") is made as of the 16th day of June, 1997, among CHARTER BEHAVIORAL HEALTH SYSTEMS, LLC, a Delaware limited liability company ("OpCo"), CRESCENT REAL ESTATE FUNDING VII, L.P., a Delaware limited partnership ("Crescent"), MAGELLAN HEALTH SERVICES, INC., a Delaware corporation ("MHS"), and CHARTER FRANCHISE SERVICES, LLC, a Delaware limited liability company ("Charter Franchise"). MHS and Charter Franchise are hereinafter referred to collectively as "Magellan."

RECITALS:

A. Crescent, as landlord, and OpCo and each of certain wholly-owned subsidiaries of OpCo (collectively, the "Initial OpCo Subs"), collectively as tenant, are parties to that certain Master Lease Agreement of even date herewith (as the same may be amended or modified, the "Lease").

B. Magellan, as franchisor, and OpCo, as franchisee, are parties to that certain Master Franchise Agreement dated effective as of June 17, 1997, and each of the Initial OpCo Subs, as a franchisee, and Magellan, as franchisor, is a party to an individual franchise agreement as described in the Master Franchise Agreement (the Master Franchise Agreement and such individual franchise agreements, together with any new franchise agreements now or hereafter entered into between Magellan, as franchisor, and OpCo, any Initial OpCo Sub, or any other subsidiary of OpCo now or hereafter in existence, as such Master Franchise Agreement, individual franchise agreements or other franchise agreements may be amended or modified, are referred to herein collectively as the "Franchise Agreement").

C. OpCo and Magellan desire to subordinate, to the extent set forth herein, the payment and performance of the Franchise Agreement to the payment and performance of certain obligations under the Lease upon the terms and conditions set forth below, and Magellan and Crescent desire to establish certain duties, rights and responsibilities among themselves with respect to the obligations of the OpCo, the Initial OpCo Subs, and any other subsidiary of OpCo now or hereafter in existence that enters into a franchise agreement with MHS and/or Charter Franchise (the Initial OpCo Subs and such other subsidiaries of OpCo being hereinafter referred to collectively as the "OpCo Subs").

NOW, THEREFORE, in consideration of the foregoing and other valuable consideration hereby acknowledged, and in order to induce Crescent to enter into the Lease with OpCo, OpCo, Crescent and Magellan agree as follows:

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DEFINITIONS

1.1 "Additional Charges" shall have the meaning given such term in the Lease payable with respect to the Term.

1.2 "Additional Rent" shall have the meaning given such term in the Lease payable with respect to the Term.

1.3 than Saturday, Sunday, or any other day on which banking institutions in the states of Texas, Georgia, and the State are

authorized by law or executive action to close.

1.4 Collective Leased Properties" shall have the meaning given such term in the Lease.

1.5 Debtor Relief Laws" shall mean any applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, insolvency, reorganization or similar laws relating to the relief of debtors, readjustment of indebtedness or composition, and affecting the rights of creditors generally, which may from time to time be in effect.

1.6 Franchise Agreement" shall have the meaning given such term in the Recitals to this Agreement.

1.7 Franchise Fees" shall mean, collectively, the franchise fees payable to Magellan under the Franchise Agreement, including interest and late charges, as well as any fees payable to Magellan by OpCo or any OpCo Sub with respect to Joint Ventures and/or Managed Businesses (as such terms are defined in the Master Franchise Agreement) pursuant to Section 10 of the Master Franchise Agreement to the extent not already included in the calculation of "Franchise Fees" as defined in the Master Franchise Agreement.

1.8 Lease" shall have the meaning given such term in the Recitals to this Agreement.

1.9 Lease Year" shall have the meaning given such term in the Lease.

1.10 Leased Property" shall have the meaning given such term in the Lease.

1.11 Minimum Rent" shall have the meaning given such term in the Lease payable with respect to the Term.

1.12 Additional Rent" shall mean the amount of additional rent with respect to any Lease Year in excess of the Priority Additional Rent Base Amount.

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1.13 Additional Rent Monthly Amount" shall mean, for each month in a Lease Year, the monthly installment of Additional Rent payable for such month equal to one-twelfth (1/12th) of the difference between (a) the total Additional Rent payable for such Lease Year minus (b) the Priority Additional Rent Base Amount for such Lease Year calculated for such month as provided below in the definition of "Priority Additional Rent Base Amount."

1.14 Payments" shall have the meaning given such term in Section 2.2.

1.15 Plan" shall have the meaning given such term in Section 2.4(c).

1.16 Additional Rent Base Amount" for any Lease Year shall mean an amount of Additional Rent equal to Ten Million Dollars (\$10,000,000); provided, however, that if Crescent, as landlord, funds, or makes an irrevocable commitment to fund, Capital Expenditures (as defined in the Lease) for any Lease Year in an amount in excess of Ten Million Dollars (\$10,000,000) at OpCo's request, then the Priority Additional Rent Base Amount for such Lease Year shall be increased to the amount of Capital Expenditures funded or committed to be funded by Crescent for such Lease Year. Notwithstanding the foregoing, in the event that, and for so long as, the accrued and unpaid Franchise Fees equal or exceed Fifteen Million Dollars (\$15,000,000), then the Priority Additional Rent

Base Amount for any such Lease Year shall be reduced to \$0.00; provided, however, that if Crescent funds, or makes an irrevocable commitment to fund, Capital Expenditures for any Lease Year in any amount at OpCo's request, then the Priority Additional Rent Base Amount for such Lease Year shall be increased from \$0.00 to the amount of Capital Expenditures funded or committed to be funded by Crescent for such Lease Year. The Priority Additional Rent Base Amount shall be computed monthly in advance of the payment of Rent required to be made under the Lease for the next succeeding month. Such calculation shall be made on the 25th day of the month, unless the 25th day of the month is not a Business Day, in which event such calculation for such month shall be made on the first Business Day following such 25th day. Notwithstanding anything set forth above to the contrary, if any request by OpCo to Crescent to fund Capital Expenditures under the Lease is for an amount in excess of the amount budgeted therefor in OpCo's approved Annual Budget (as defined in OpCo's Operating Agreement), then the Priority Additional Rent Base Amount shall not be increased as provided above to the extent that the amount of such request is above the budgeted amount unless such request is accompanied by OpCo's certification that Magellan has approved such requested amount. Magellan acknowledges and agrees that Crescent shall be entitled to rely upon OpCo's certification that any amount requested either (i) is within the approved Annual Budget of OpCo or (ii) has been approved by Magellan, and in the latter event such certification by OpCo shall be accompanied by Magellan's written consent to such requested amount.

1.17Rent" shall mean, collectively, all Minimum Rent, including late charges and default rate interest, and Additional Rent, but shall exclude Additional Charges except to the extent that Additional Charges include late charges and default rate interest.

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1.18Rescission Event" shall have the meaning given such term in Section 3.4.

1.19Returned Payment" shall have the meaning given such term in Section 3.4.

1.20State" shall mean, as to each Leased Property, the state in which such Leased Property is located.

1.21Term" shall have the meaning given such term in the Lease.

2

SUBORDINATION

2.1 Agreement to Subordinate. Notwithstanding any provision in the Franchise Agreement or any other agreement between (i) MHS and/or Charter Franchise and (ii) OpCo or between (i) MHS and/or Charter Franchise and (ii) any OpCo Sub to the contrary, the Franchise Fees (including any increases thereto effected from time to time by amendments to the Franchise Agreement adding new Leased Properties to the facilities covered thereby) are and shall be, to the extent and in the manner hereinafter set forth, subject, subordinate and junior in right of payment and liquidation to the prior irrevocable payment in full of the Rent (other than Non-Priority Additional Rent), as the Rent (other than Non-Priority Additional Rent) may be increased from time to time by amendments to the Lease adding new Leased Properties that are also covered by the Franchise Agreement to the Collective Leased Properties. Magellan acknowledges receipt of a true and complete copy of the Lease. Unless and until all Rent (other than Non-Priority Additional Rent) shall have been fully paid and the Term shall have expired, neither MHS nor Charter Franchise will, except as otherwise expressly provided herein, take or receive, or retain, from OpCo, any OpCo Sub, or any other person or entity, by setoff or in any other manner, payment of all or any part of the Franchise Fees, or accept any security therefor, and neither OpCo nor any OpCo Sub shall make, give or permit, directly or indirectly, any such payment, and neither MHS nor Charter Franchise shall demand or sue for any such

payment to the extent prohibited in Section 2.3. Notwithstanding the foregoing payment subordination, but subject to the provisions of Sections 2.3 and 2.4, OpCo may pay, and Magellan may receive, the Permitted Payments, as defined in Section 2.2.

2.2 Permitted Payments. Notwithstanding any provision contained in this Agreement to the contrary, so long no "Default" or "Event of Default" (as defined therein) under or within the meaning of the Lease has occurred and is continuing with respect to the payment of Rent (other than Non-Priority Additional Rent), or would be created by making the payments to Magellan hereinafter described, and so long as none of OpCo or any OpCo Sub is the subject of any proceeding under any Debtor Relief Laws, OpCo may pay to Magellan, and Magellan may accept from OpCo, the regularly scheduled monthly installment of the Franchise Fees in any month, when due, as well as any accrued and unpaid monthly installments of the Franchise Fees

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(collectively, the "Permitted Payments"), after payment by OpCo of all Rent due for such month, excluding the Non-Priority Additional Rent Monthly Amount for such month. Further, notwithstanding any provision contained in this Agreement to the contrary, except in the case of a Rescission Event, Crescent shall not be entitled to recover from Magellan any Permitted Payment or any portion thereof that has been properly made to Magellan in accordance with the terms of this Section 2.2.

2.3 Agreement Not to Enforce Payment or Commence Action.

(a) Notwithstanding any provision contained in this Agreement, the Franchise Agreement or any other agreement to the contrary, prior to the payment in full of all Rent (other than Non-Priority Additional Rent) payable under the Lease and the expiration of the Term, (i) neither MHS nor Charter Franchise shall object to, challenge, hinder or delay the exercise by Crescent of any right or remedy it may have under or with respect to the Lease or any other agreement, or otherwise at law or in equity, against OpCo, any OpCo Sub or any of its or their assets or properties, and (ii) neither MHS nor Charter Franchise shall have any right to file an involuntary proceeding against OpCo or any OpCo Sub under any Debtor Relief Laws or otherwise to enforce payment of any of the Permitted Payments or any other portion of the Franchise Fees against OpCo or any OpCo Sub, or to otherwise take any action against OpCo or any OpCo Sub (including, without limitation, any proceeding under Debtor Relief Laws), or against any property or assets of OpCo or any OpCo Sub, in order to collect the Permitted Payments or any other portion of the Franchise Fees, without the prior written consent of Crescent, if such action could reasonably be expected to lead to OpCo's or any OpCo Sub's filing of a voluntary proceeding, or other creditors of OpCo or any OpCo Sub filing an involuntary proceeding against OpCo or any OpCo Sub, under any Debtor Relief Laws. However, so long as no "Default" or "Event of Default" under the Lease has occurred and is continuing with respect to the payment of Rent (other than Non-Priority Additional Rent), and so long as none of OpCo or any OpCo Sub is the subject of any proceeding under any Debtor Relief Laws, Magellan may pursue any default remedy available under the Franchise Agreement or at law or in equity or otherwise, except as provided above in this Section 2.3.

(b) Each of Crescent and Magellan covenants to the other that it shall use commercially reasonable best efforts to provide in a timely fashion written notice of the commencement and progress of any remedial action undertaken against OpCo or any OpCo Sub, including providing to such party copies of any and all correspondence to OpCo or any OpCo Sub from such party with respect to any of such party's rights or remedies and any pleadings or similar material; provided, however, that failure to provide any such written notice or any such copies shall not affect the validity of any action undertaken or render either Crescent or Magellan liable to the other or to any other person or entity.

2.4 In Furtherance of Subordination.

(a) In the event (i) of any distribution, division or application, voluntary or involuntary, by operation of law or otherwise, of all or any substantial part of the assets or business of OpCo or any OpCo Sub to creditors of OpCo or any OpCo Sub, or (ii) upon any indebtedness of OpCo or any OpCo Sub becoming due and payable by reason of any dissolution, liquidation or other winding up of OpCo or any OpCo Sub or its business, or by reason of any sale, receivership, insolvency, reorganization or bankruptcy proceedings, assignment for the benefit of creditors, or any arrangement or proceeding by or against OpCo or any OpCo Sub for any relief under any Debtor Relief Laws (whether voluntary or involuntary), or any other marshaling of the assets and liabilities of OpCo or any OpCo Sub, until the Rent (other than Non-Priority Additional Rent) has been paid in full (subject, however, to the terms of Section 3.4 below) (A) all payments and distributions of any kind or character (whether in cash, property or securities) in respect of the Franchise Fees to which Magellan would be entitled if the Franchise Fees were not subordinated as provided herein shall be made directly to Crescent for application in accordance with the terms of the Lease, and (B) neither MHS nor Charter Franchise shall seek the lifting, for its own benefit, of any automatic stay or similar restriction imposed by reason of any such arrangement or proceeding.

(b) All payments or distributions on or with respect to the Franchise Fees which are received by MHS and/or Charter Franchise contrary to the provisions of this Agreement, whether in cash, properties or securities (including without limitation any distributions received on a count of any security interests, liens, or other encumbrances), shall be received in trust for the benefit of Crescent, shall be segregated from other funds and property held by Magellan and shall be forthwith paid over to Crescent in the same form as so received (with any necessary endorsement) to be applied (in the case of cash) to, or held as collateral (in the case of non-cash property or securities) for, the payment or prepayment of the Rent (other than Non-Priority Additional Rent) in accordance with the terms of the Lease. In the event of any failure by MHS and/or Charter Franchise to make any such endorsement or assignment, Crescent is hereby irrevocably authorized to make the same.

(c) Magellan shall file in a timely manner a claim or claims, in the form required in any proceeding described in subsection (a) above, for the full outstanding amount of the Franchise Fees and shall use commercially reasonable best efforts to cause said claim or claims to be approved and all payments and other distributions in respect thereof to be made directly to Crescent until all Rent (other than Non-Priority Additional Rent) payable under the Lease has been paid in full. MHS and Charter Franchise each irrevocably authorizes and empowers Crescent, in connection with any proceeding or distribution described in subsection (a) above, in the name of MHS and Charter Franchise, respectively, or otherwise, to demand, sue for, collect and receive and receipt for any and all such payments or distributions, and file, prove, and vote or consent in any such proceedings with respect to any and all claims of MHS and/or Charter Franchise relating to the Franchise Fees if MHS and/or Charter Franchise shall not have duly filed such claim or proof of claim at least ten (10) days prior to the last day on which such

claim or proof of claim may be filed. Magellan agrees that (i) without the prior written consent of Crescent, which consent shall not be unreasonably withheld, it will not vote such claim in favor of any plan of reorganization or similar structure (a "Plan") under which the terms of the Lease are changed in any way, and (ii) it will not vote against any Plan if Crescent votes in favor of the same unless, under such Plan, the Franchise Fees, or any portion thereof, would

not be subordinate in right of payment to distributions to Crescent on account of the Rent (other than Non-Priority Additional Rent). Magellan further agrees that, in view of the difficulty of estimating damages from any violation by MHS and/or Charter Franchise of the terms of this subsection (c), Crescent shall be entitled to injunctive relief to prevent or rescind any action taken by MHS and/or Charter Franchise in violation of this subsection (c), as well as damages and other forms of relief available for breach of contract.

(d) Crescent shall be entitled to enforce specific performance of this Agreement at any time when MHS and/or Charter Franchise shall have failed to comply with any of the provisions of this Agreement applicable to it. Magellan hereby irrevocably waives any defense based on the adequacy of a remedy at law which might be asserted as a bar to such remedy of specific performance. (e) Nothing provided in this Agreement is intended to relieve OpCo of its obligation to pay Franchise Fees due under the Franchise Agreement.

2.5 Application of Payments Received. All payments and distributions received by Crescent in respect of the Franchise Fees, to the extent received in or converted into cash, may be applied by Crescent first to the payment of any and all expenses (including reasonable attorneys' fees and legal expenses) paid or incurred by Crescent in enforcing this Agreement or in endeavoring to collect or realize upon any of the Franchise Fees or any security therefore, and any balance shall, solely as between Magellan and Crescent, be applied by Crescent, in such order of application as Crescent may from time to time select, toward the payment of Rent (other than Non-Priority Additional Rent) remaining unpaid, but as between OpCo or any OpCo Sub and its creditors, no such payments or distributions of any kind or character shall be deemed to be payments or distributions in respect of Rent.

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MISCELLANEOUS

3.1 Notices. Whenever any notice is required or permitted hereunder, such notice shall be in writing and (a) sent by certified mail, postage prepaid, return receipt requested, (b) given by established overnight commercial courier for delivery on the next Business Day with delivery charges prepaid or duly charged, (c) personally hand-delivered or (d) sent by facsimile transmission with confirmation of receipt received, to the applicable addresses or facsimile number set forth below:

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As to Crescent:

Gerald W. Haddock
President and Chief Executive Officer
CRE Management VII Corp.
777 Main Street
Suite 2100
Fort Worth, Texas 76102
Facsimile: (817) 878-0429

with copies to:

David M. Dean, Esq.
Senior Vice President, Law
Crescent Real Estate Equities Company
777 Main Street
Suite 2100
Fort Worth, Texas 76102
Facsimile: (817) 878-0429

Wendelin A. White, Esq.
Shaw, Pittman, Potts & Trowbridge
2300 N Street, N.W.
Washington, DC 20037
Facsimile: (202) 663-8007

As to OpCo or any
OpCo Sub:

Charter Behavioral Health Systems, LLC
3414 Peachtree Road, N.E.
Suite 900
Atlanta, Georgia 30326
Attn: Chief Legal Counsel
Facsimile: (404)

As to MHS and/or
Charter Franchise

Steve J. Davis, Esq.
Executive Vice President, Administrative
Services and General Counsel
3414 Peachtree Road, N.E.
Suite 1400
Atlanta, Georgia 30326
Facsimile: (404) 814-5793

with a copy to:

Robert W. Miller
King & Spalding
191 Peachtree Street
Atlanta, Georgia 30303-1763
Facsimile: (404) 572-5100

Notices which are mailed shall be deemed effective upon receipt. Notices which are hand-delivered shall be deemed effective upon tender to a natural person at the address shown. Notices which are delivered by overnight courier shall be deemed given on the next Business Day after delivery to such courier. Notices which are delivered by facsimile transmission shall be deemed received upon electronic confirmation of delivery.

1.No Waivers. No failure or delay on the part of any party to exercise, and no course of dealing with respect to, any right, power or privilege under this Agreement or any document or instrument relating to the Lease or the Franchise Agreement shall operate as a

waiver thereof. No single or partial exercise of any such right, power or privilege shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

2. Amendments, Supplements and Waivers. The provisions of this Agreement may not be amended, modified or waived except by the written agreement of Magellan and Crescent (without any necessity for notice to or consent by OpCo or any OpCo Sub, which notice and consent are expressly WAIVED by OpCo). The provisions of this Agreement shall be solely for the benefit of Crescent and Magellan and may not be relied upon or enforced by OpCo, any OpCo Sub or any other person or entity other than Crescent and Magellan.

3. Continuing Agreement; Successors and Assigns. This Agreement is a continuing agreement and shall be binding upon and, except as provided in Section 3.3, inure to the benefit of each of the parties hereto, and their respective successors and assigns. Further, this Agreement shall remain in full force and effect until the Rent shall have been irrevocably paid in full and shall continue to be effective, or be reinstated, as the case may be, if at any time any payment of all or any part of the Rent (a "Returned Payment") is rescinded or must otherwise be returned upon the insolvency, bankruptcy or reorganization of OpCo or any OpCo Sub, or by reason of the operation of any other applicable

law or order of court (a "Rescission Event"), all as though such payment had not been made. No party hereto shall sell, assign, pledge, encumber or otherwise dispose of the Franchise Agreement or the Lease, as the case may be, or any amounts payable thereunder, unless such sale, assignment, pledge, encumbrance or disposition is made expressly subject to the terms and provisions of this Agreement. Nothing herein is intended or shall be construed to give any other person any right, remedy or claim with respect to this Agreement, the Lease, or the Franchise Agreement. Notwithstanding the foregoing, Magellan shall be entitled to collaterally assign its rights but not its obligations under the Franchise Agreement, subject to the terms and provisions of this Agreement, as well as its rights but not its obligations under this Agreement, to any of its lenders.

4. Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws during the term hereof, such provision shall be fully severable, this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to the illegal, invalid or unenforceable provision as may be possible.

5. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument. In making proof of this Agreement it shall not be necessary to produce or account for more than one such counterpart.

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6. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND GOVERNED BY THE LAWS OF THE STATE OF DELAWARE AND THE UNITED STATES OF AMERICA.

7. WAIVER OF JURY TRIAL. EACH OF OPCO, MAGELLAN AND CRESCENT hereby irrevocably waives, to the full extent permitted by applicable law, any right to have a jury participate in resolving any dispute arising out of, in connection with, related to, or incidental to this Agreement.

8. ENTIRE AGREEMENT. THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT AMONG THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

9. Amendment of Franchise Agreement. Magellan agrees that, unless and until all Rent (other than Non-Priority Additional Rent) shall have been irrevocably paid in full (subject, however, to the terms of Section 3.4 above) and the Term shall have expired, without Crescent's prior written consent the Franchise Agreement shall not be amended, modified, or supplemented by any of the parties thereto in any manner that would increase or accelerate payment of the Franchise Fees or any installment thereof, except for an increase in the Franchise Fees in connection with the addition of a new Leased Property to the facilities covered by the Franchise Agreement or in connection with the implementation of New Products (as defined in the Franchise Agreement). If the Franchise Agreement is amended without Crescent's prior written consent in a manner that violates the provisions of this Section 3.10, then the increased or accelerated portion of the Franchise Fees shall be subordinate and junior in right of payment and liquidation to the prior irrevocable payment in full of all Rent, Additional Rent (including all Non-Priority Additional Rent), and all Additional Charges.

10. No Subrogation Until Payment in Full. Without Crescent's prior written consent, Magellan shall not be entitled to be subrogated to any of the rights of Crescent against OpCo, any OpCo Sub, or any other person or entity, or any

liens, security interests or assignments now or hereafter securing the Lease, until all of the Rent (other than Non-Priority Additional Rent) shall have been irrevocably paid in full (subject, however, to the terms of Section 3.4 above) and the Term shall have expired.

11. Amendment of Lease. Crescent may, at any time and from time to time, without the consent of or notice to Magellan, and without impairing or releasing the obligations of Magellan hereunder, (a) enter into any amendment or modification of the Lease, including, without limitation, any amendment which extends the maturity of the Fixed Term or any Extended Term, except the fourth Extended Term (as such terms are defined in the Lease), of the Lease (whether or not in accordance with the renewal options set forth therein) or extends or

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reduces any installment of Rent or waives any Default or Event of Default thereunder; (b) exercise or refrain from exercising any rights against OpCo, any OpCo Sub or any other person or entity; (c) subject to the terms and provisions of Section 2.5 hereof, apply any sums by whomsoever paid or however realized to the Lease; (d) sell, exchange, release, surrender, realize upon or otherwise deal with, in any manner and in any order, any property whatsoever and by whomsoever at any time pledged or mortgaged to secure the Lease; (e) release anyone liable in any manner for the payment or collection of any Rent, and (f) settle or compromise all or any part of the Rent and subordinate the payment of any part of the Rent to the payment of any other indebtedness. Notwithstanding the foregoing, Crescent shall not, without prior notice to and written consent of Magellan, amend or modify the Lease in any manner that would increase the amount or accelerate the payment of Rent or any installment thereof (other than Non-Priority Additional Rent and other than an increase in Rent in connection with the addition of new Leased Properties to the Collective Leased Properties) or that would extend the Term beyond the fourth Extended Term. In the event that Crescent, OpCo and the OpCo Subs amend the Lease to increase the amount or accelerate the payment of the Rent or any installment thereof (other than Non-Priority Additional Rent and other than an increase in Rent in connection with the addition of new Leased Properties to the Collective Leased Properties) payable thereunder, or to extend the Term beyond the fourth Extended Term, this Agreement shall remain in full force and effect and the Franchise Fees shall continue to be subject, subordinate and junior in right of payment and liquidation to the prior irrevocable payment of the Rent (other than Non-Priority Additional Rent) to the extent and in the manner set forth herein as though the Rent payable under the Lease had not been so increased or the Term so extended beyond the fourth Extended Term; provided, however, that in the event that Crescent, OpCo and the OpCo Subs, without the prior written consent of Magellan, so amend the Lease to increase the amount or accelerate the payment of Minimum Rent or Additional Rent (other than Non-Priority Additional Rent), then the portion of the Rent constituting such increase or the portion of the Rent or any installment thereof so accelerated, as applicable, shall be subordinate and junior in right of payment and liquidation to the prior irrevocable payment of the Franchise Fees to the extent and in the manner that the Franchise Fees are subordinated pursuant to this Agreement.

12. Further Assurances. Each of Magellan and OpCo will, at its expense and at any time and from time to time, promptly execute and deliver all further instruments and documents (including without limitation assignments and proofs of claim), and promptly take all further action (including, without limitation, filing proofs of claim and taking other actions to collect the Franchise Fees), or cause such instruments and documents to be executed and delivered and such actions to be taken, that may be necessary or desirable, or that Crescent may reasonably request, in order to protect any right or interest granted or purported to be granted hereby or to enable Crescent to exercise and enforce its rights and remedies hereunder. For purposes of this Section 3.13, "promptly" shall be deemed to mean within five (5) Business Days after written request therefor unless in the judgment of Crescent, exercised in good faith, faster action is required to achieve the intended purpose.

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13. Representations and Warranties. Each of Magellan, Crescent and OpCo hereby represents and warrants as to itself that (i) the execution, delivery and performance by such party of this Agreement have been duly and validly authorized by all necessary action and (ii) this Agreement has been duly and validly executed and delivered by such party and constitutes the legal, valid and binding obligation of such party, enforceable against such party in accordance with its terms, except as such enforcement may be limited by bankruptcy, conservatorship, receivership, insolvency, moratorium or similar laws affecting creditors' rights generally or by general principles of equity.

14. Expenses, Etc. OpCo agrees to pay, upon demand, to Crescent the amount of any and all losses, costs and expenses, including the fees and expenses of Crescent's counsel, which Crescent may incur as a result of any breach by OpCo of its obligations hereunder or in connection with the exercise or enforcement of any of Crescent's rights or interests hereunder, which exercise or enforcement results directly or indirectly from, or arises by reason of, any action or any failure to take an action required of OpCo hereunder. Magellan agrees to pay, upon demand, to Crescent the amount of any and all losses, costs and expenses, including the fees and expenses of Crescent's counsel, which Crescent may incur as a result of any breach by MHS and/or Charter Franchise of its obligations hereunder or in connection with the exercise or enforcement of any of Crescent's rights or interests hereunder, which exercise or enforcement results directly or indirectly from, or arises by reason of, any action or any failure to take any action required of MHS and/or Charter Franchise hereunder. Crescent shall not have any obligation to make demand of, or take any action against, OpCo under this Section 3.15 prior to making demand of, or taking action against, MHS and/or Charter Franchise pursuant to this Section 3.15.

15. Arbitration in Some Events. Disputes between Magellan and Crescent relating to amounts owing to Magellan or Crescent under the Franchise Agreement or the Lease, as such agreements are affected by this Agreement, will be subject to resolution by binding arbitration in Delaware before the American Arbitration Association and governed by the Commercial Arbitration Rules then in effect. Nothing set forth in this Section 3.16, however, shall impair or restrict in any way either party's right to seek equitable relief in connection with the enforcement of this Agreement.

16. Consent to Assumption of Franchise Agreement. Magellan hereby consents to the assumption by Crescent or Crescent's designee of the Franchise Agreement and all rights and obligations of the franchisee thereunder from the date of such assumption in the event of an Event of Default by OpCo under the Lease and exercise by Crescent of its election, in its sole and absolute discretion, under the remedies provisions of the Lease to assume or have its designee assume all of the revenue producing contracts relating to the Collective Leased Properties.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

CRESCENT REAL ESTATE FUNDING VII, L.P.

WITNESS: CRE Management VII Corp., a Delaware corporation

By: \s\ Sylvia M. Mahaffey

Name: Sylvia M. Mahaffey

Title: Assistant Secretary

By: \s\ David M. Dean

Name: David M. Dean

Title: Senior Vice President, Law

CHARTER BEHAVIORAL HEAL SYSTEMS, LLC

By: \s\ W. Stephen Love

Name: W. Stephen Love

Title: Senior Vice President and CFO

MAGELLAN HEALTH SERVICES, INC.

By: \s\ James R. Bedenbaugh

Name: James R. Bedenbaugh

Title: Vice President and Treasurer

CHARTER FRANCHISE SERVICES, LLC

By: \s\ Linton C. Newlin

Name: Linton C. Newlin

Title: Vice President and Secretary

AMENDED AND RESTATED
OPERATING AGREEMENT
OF
CHARTER BEHAVIORAL HEALTH SYSTEMS, LLC

This AMENDED AND RESTATED OPERATING AGREEMENT (this "Agreement"), dated as of June 16, 1997 is entered into by and between Charter Behavioral Health Systems, Inc., a Delaware corporation ("Charter Inc.") and a wholly owned subsidiary of Magellan Health Services, Inc. ("Magellan"), a Delaware corporation, and Crescent Operating, Inc. ("Crescent Operating"), a Delaware corporation and a designee of Crescent Real Estate Equities Limited Partnership ("Crescent"), a Delaware limited partnership (Charter Inc. and Crescent Operating being referred to individually as a "Member" and collectively as the "Members"), and Magellan (who is a party solely with respect to the agreements in Section 3.2(e) of this Agreement), and shall be effective as of the 17 day of June, 1997 (the "Effective Date").

W I T N E S S E T H:

WHEREAS, Charter Inc. is currently engaged in the business of operating acute care psychiatric hospitals and certain related activities;

WHEREAS, Magellan and Crescent are parties to that certain Real Estate Purchase and Sale Agreement, dated January 29, 1997, as amended (the "Real Estate Purchase and Sale Agreement"), pursuant to which Magellan has agreed to cause Charter Inc. and certain subsidiaries of Charter Inc. to sell to Crescent or its designated affiliate ("Crescent Affiliate") substantially all of the real property and related improvements, furniture, fixtures and equipment (including medical office buildings located on such real property) owned by Charter Inc. and used in the operation of Charter Inc.'s acute care psychiatric hospitals (the "Purchased Facilities");

WHEREAS, Magellan and Crescent have agreed that, upon closing of the Real Estate Purchase and Sale Agreement, Crescent Affiliate and Charter Behavioral Health Systems, LLC (the "Company") shall enter into a master lease (the "Facilities Lease"), pursuant to which Crescent Affiliate shall lease the Purchased Facilities and certain other applicable property (collectively, the "Facilities") to the Company;

WHEREAS, Magellan, Crescent Operating and the Company are parties to that certain Contribution Agreement, dated of even date herewith (the "Contribution Agreement"), pursuant to which, among other things, Magellan agreed that certain of its subsidiaries ("Contributing Subsidiaries") would contribute certain assets (the "Contribution Assets") to the Company in

exchange for the grant of a membership interest in the Company, and Crescent Operating agreed to contribute cash to the Company in exchange for a membership interest in the Company;

WHEREAS, in order to facilitate the transactions contemplated by the Real Estate Purchase and Sale Agreement, Magellan and Charter Inc. formed the Company pursuant to a Certificate of Formation filed with the Secretary of State of the State of Delaware on March 14, 1997 and entered into an Operating Agreement with respect to the Company pursuant to which Magellan owned a 99% membership interest in the Company and Charter Inc. owned a 1% membership interest in the Company;

WHEREAS, prior to the date hereof, Magellan made a capital contribution of a 1% interest in the Company to Magellan Executive Corporation ("MEC");

WHEREAS, prior to the date hereof, Magellan made a capital contribution of a 98% interest in the Company to Charter, Inc.;

WHEREAS, immediately prior to the execution of this Agreement, the Contributing Subsidiaries contributed the Contributed Assets in exchange for a membership interest in the Company, which in the aggregate and together with the membership interest of Charter Inc. and MEC, constituted a 50% membership interest in the Company;

WHEREAS, immediately prior to the execution of this Agreement, each of the Contributing Subsidiaries and MEC assigned their membership interest in the Company to Charter Inc. by execution of the Assignment of Limited Liability Company Interest and Amendment to Limited Liability Company Agreement of Charter Behavioral Health Systems, LLC, dated the date hereof;

WHEREAS, contemporaneously with the execution of this Agreement, Crescent Operating is contributing \$5 million cash to the Company in exchange for a 50% membership interest in the Company;

WHEREAS, as a result of the foregoing Crescent Operating has a 50% membership interest in the Company and Charter Inc. has a 50% membership interest in the Company; and

WHEREAS, the Members desire to operate and maintain the limited liability company known as Charter Behavioral Health Systems, LLC, as formed under the laws of the State of Delaware as March 14, 1997, which shall operate the Facilities (as hereafter defined), and certain leased facilities, and engage in the business of hospital-based behavioral healthcare.

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A G R E E M E N T

NOW, THEREFORE, in consideration of the mutual covenants and agreements of the parties hereto and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to amend and restate the Company's Operating Agreement, dated March 14, 1997, as follows:

SECTION 1.

DEFINITIONS

1.1 Definitions.

Capitalized words and phrases used in this Agreement have the following meanings:

"Act" means the Delaware Limited Liability Company Act, 6 Del. C. ss.18-101, et seq., as amended from time to time (or any corresponding provisions of succeeding law).

"Action" means any claim, action, suit, arbitration, inquiry, proceeding or investigation by or before any governmental authority or other authority with jurisdiction and power to adjudicate such Action.

"Additional Capital Contribution" has the meaning specified in Section 3.2(e) hereof.

"Adjusted Capital Account Deficit" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Allocation Year, after giving effect to the following adjustments:

(a) Credit to such Capital Account of any amounts which such Member is deemed to be obligated to restore pursuant to the penultimate sentences in Sections 1.704-2(g)(1) and 1.704-2(i)(5) of the Regulations; and

(b) Debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-2(b)(2)(ii)(d)(5) and 1.704-1(b)(2)(ii)(d)(6) of the Regulations.

"Affiliate" means, with respect to any Person (i) any individual, corporation, limited liability company, partnership, trust or other legal entity directly or indirectly controlling, controlled by or under common control with such Person, (ii) any officer, director, general partner, member or trustee of such Person or (iii) any individual who is an officer, director, general partner, member or trustee of any Person described in clauses (i) or (ii) of this sentence. For purposes of this definition, the terms "controlling," "controlled by" or "under common control with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a

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Person, whether through the ownership of voting securities, by contract or otherwise, or the power to elect at least 50% of the directors, general partners, members or persons exercising similar authority with respect to such Person.

"Agreement" or "Operating Agreement" means this Amended and Restated Operating Agreement of Charter Behavioral Health Systems, LLC, as amended from time to time, which shall constitute the limited liability company agreement of the Company for all purposes of the Act. Words such as "herein," "hereinafter," "hereof," "hereto" and "hereunder" refer to this Agreement as a whole, unless the context otherwise requires.

"Allocation Year" means (i) the period commencing on the Effective Date and ending on September 30, 1997, (ii) any subsequent twelve (12) month period commencing on October 1 and ending on September 30 (except as may be required by Regulations promulgated under Section 706 of the Code), or (iii) any portion of the period described in clauses (i) or (ii) for which the Company is required to allocate Profits, Losses and other items of Company income, gain, loss or deduction pursuant to Section 6 hereof.

"Annual Budget" has the meaning specified in Section 8.3(a).

"Bankruptcy" means, with respect to any Person, a "Voluntary Bankruptcy" or an "Involuntary Bankruptcy." A "Voluntary Bankruptcy" means, with respect to any Person (i) the inability of such Person generally to pay its debts as such debts become due, or an admission in writing by such Person of its inability to pay its debts generally or a general assignment by such Person for the benefit of creditors, (ii) the filing of any petition or answer by such Person seeking to adjudicate itself as bankrupt or insolvent, or seeking for itself any liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of such Person or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking, consenting to, or acquiescing in the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for such Person or for any substantial part of its property or (iii) corporate or other action taken by such Person to authorize any of the actions set forth above. An "Involuntary Bankruptcy" means, with respect to any Person, without the consent or acquiescence of such Person, (i) the entering of an order for relief or approving a petition for relief or reorganization or any other petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or other similar relief under any present or future bankruptcy, insolvency or similar statute, law or regulation, (ii) the filing of any such petition against such Person which petition shall not be dismissed within ninety (90) days, or (iii) without the consent or acquiescence of such Person, the entering of an order appointing a trustee, custodian, receiver or liquidator of such Person or of all or any substantial part of the property of such Person which order shall not be dismissed within ninety (90) days. The foregoing is intended to supersede and replace the events listed in Sections 18-304(a) and (b) of the Act.

"Business" means (i) the operation of an acute care psychiatric hospital, part of an acute care general hospital operating an acute care psychiatric unit, a behavioral healthcare residential

treatment center, a part of a facility operating a behavioral healthcare residential treatment center, or other similar facility providing 24-hour behavioral healthcare, and the delivery of behavioral healthcare from such facility and other affiliated facilities; such behavioral healthcare to include inpatient hospitalization, partial hospitalization programs, outpatient therapy, intensive outpatient therapy, ambulatory detoxification, behavioral modification programs and related services; and (ii) additional services, concepts or products undertaken pursuant to the Franchise Agreement.

"Business Day" means a day of the year on which banks are not required or authorized to close in Atlanta, Georgia or Dallas, Texas.

"Capital Account" means, with respect to any Member, the Capital Account maintained for such Member in accordance with the following provisions:

(a) To each Member's Capital Account there shall be credited (i) such Member's Capital Contributions, (ii) such Member's distributive share of Profits and any items in the nature of income or gain which are specially allocated pursuant to Section 6.3 or Section 6.4 hereof and (iii) the amount of any Company liabilities assumed by such Member or which are secured by any Property distributed to such Member;

(b) To each Member's Capital Account there shall be debited (i) the amount of money and the Gross Asset Value of any Property distributed to such Member pursuant to any provision of this Agreement, (ii) such Member's distributive share of Losses and any items in the nature of expenses or losses which are specially allocated pursuant to Section 6.3 or Section 6.4 hereof and (iii) the amount of any liabilities of such Member assumed by the Company or which are secured by any Property contributed by such Member to the Company;

(c) In the event a Member's Interest is Transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the Transferred Interest; and

(d) In determining the amount of any liability for purposes of subparagraphs (a) and (b) above there shall be taken into account Code Section 752(c) and any other applicable provisions of the Code and Regulations.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations. In the event the Governing Board determines that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributed or distributed Property or which are assumed by the Company or any Members), are computed in order to comply with such Regulations, the Governing Board may make such modification, provided that such modification is not likely to have a material effect on

the amounts distributed to any Person pursuant to Section 13 hereof upon the dissolution of the Company. The Governing Board also shall (i) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Members and the amount of capital reflected on the Company's balance sheet, as computed for book purposes, in accordance with Regulations Section 1.704-1(b)(2)(iv)(q), and (ii) make any appropriate modifications in the event unanticipated events might otherwise cause this Agreement not to comply with Regulations Section 1.704-1(b).

"Capital Contributions" means, with respect to any Member, the amount

of money and the initial Gross Asset Value of any Property (other than money) contributed to the Company with respect to such Member's Interest.

"Certificate" means the certificate of formation filed with the Secretary of State of the State of Delaware pursuant to the Act to form the Company, as originally executed and as amended, modified, supplemented or restated from time to time, as the context requires.

"Charter Director" means a Director designated by Charter Inc. in accordance with Section 8.1 hereof.

"Charter Inc." has the meaning specified in the introductory statement.

"Chief Executive Officers" has the meaning specified in Section 15.2 hereof.

"Code" means the United States Internal Revenue Code of 1986, as amended from time to time.

"COI Warrant Agreement" means the Warrant Agreement dated the date hereof between Crescent Operating and Magellan pursuant to which Crescent Operating is issuing warrants to Magellan.

"Company" means the limited liability company, known as Charter Behavioral Health Systems, LLC, formed pursuant to this Agreement and the Certificate.

"Company Minimum Gain" has the meaning given the term "partnership minimum gain" in Sections 1.704-2(b)(2) and 1.704-2(d) of the Regulations.

"Contributing Subsidiaries" has the meaning specified in the introductory statement.

"Contribution Agreement" has the meaning specified in the recitals.

"Crescent" has the meaning specified in the introductory statement.

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"Crescent Director" means a Director designated by Crescent Operating in accordance with Section 8.1 hereof.

"Crescent Operating" has the meaning specified in the introductory statement.

"Deadlock" has the meaning specified in Section 15.1 hereof.

"Debt" of a Person means (iii) any indebtedness for borrowed money or the deferred purchase price of Property as evidenced by a note, bonds, or other instruments, (ii) obligations as lessee under capital leases, (iii) to the extent of the fair market value of any asset owned or held by such Person, obligations secured by any mortgage, pledge, security interest, encumbrance, lien or charge of any kind existing on any such asset whether or not the Company has assumed or become liable for the obligations secured thereby, (iv) any obligation under any interest rate swap agreement (the amount of such obligation shall be deemed to be the amount that would be required to be paid by such Person to sell, unwind or terminate the swap transaction), (v) trade credit incurred other than in the ordinary course of business and (vi) obligations under direct or indirect guarantees of (including obligations (contingent or otherwise) to assure a creditor against loss in respect of) indebtedness or obligations of the kinds referred to in clauses (i), (ii), (iii), (iv) and (v) above.

"Depreciation" means, for each Allocation Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable for United States federal income tax purposes with respect to an asset for such Allocation Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for United States federal income tax purposes at the beginning of such Allocation Year, Depreciation shall be an amount which bears

the same ratio to such beginning Gross Asset Value as the United States federal income tax depreciation, amortization, or other cost recovery deduction for such Allocation Year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for United States federal income tax purposes of an asset at the beginning of such Allocation Year is zero (0), Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Governing Board.

"Director" means any of the individuals provided in Section 8.1 hereof or otherwise designated by the Members to serve on the Governing Board pursuant to this Agreement and "Directors" means all of such individuals.

"Dissolution Event" has the meaning specified in Section 14.1 hereof.

"Effective Date" has the meaning specified in the introductory statement.

"Election Notice" has the meaning specified in Section 12.8 hereof.

"Encumbrances" has the meaning specified in Section 4.2 hereof.

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

"Excluded Liabilities" has the meaning specified in Section 9.7(a) hereof.

"Executive Officer" means each of the Chairman of the Governing Board, the Vice Chairman of the Governing Board, the President, any Vice President designated as an "Executive Vice President" of the Company by the Governing Board, the Chief Financial Officer and the Treasurer.

"Facilities Lease" means (i) that certain Master Lease Agreement, dated as of June __, 1997, between Crescent Affiliate, as landlord, and the Company and its subsidiaries, as lessees, and any amendment or renewal thereof, and (ii) any other real estate lease agreements between Crescent Affiliate, as landlord, and the Company or a subsidiary of the Company, as lessee.

"Fair Market Value" has the meaning specified in Section 12.9 hereof.

"First Offer Period" shall mean a period commencing upon delivery of an Offer Notice and expiring at 5:00 p.m., New York time, on the 15th Business Day following delivery of such Offer Notice; provided, however, if the Proposed Transfer involves Non-Cash Consideration, the First Offer Period shall not expire until the 10th Business Day after a binding determination of the Fair Market Value of such Non-Cash Consideration has been made in accordance with Section 12.9 hereof.

"Fiscal Quarter" means (i) the period commencing on the Effective Date and ending on June 30, 1997, (ii) any subsequent three-month period commencing on each of January 1, April 1, July 1 and October 1 and ending on the last date before the next such date and (iii) the period commencing on the immediately preceding January 1, April 1, July 1 or October 1, as the case may be, and ending on the date on which all Property is distributed to the Members pursuant to Section 12 hereof.

"Fiscal Year" means (i) the period commencing on the Effective Date and ending on September 30, 1997, (ii) any subsequent twelve (12) month period commencing on October 1 and ending on September 30 (except as may be required by Regulations promulgated under Section 706 of the Code), or (iii) the period commencing on the immediately preceding October 1 and ending on the date on which all Property is distributed to the Members pursuant to Section 14 hereof.

"Franchise Agreement" means (i) the Master Franchise Agreement, dated June __, 1997 among Magellan, through its wholly-owned subsidiary, Charter Franchise Services, LLC ("CFS") (Magellan and CFS, collectively "Franchisor") and the Company and any amendment or renewal thereof and (ii) any Franchise Agreement entered into between Franchisor and the Company or its Affiliates.

"Franchisor" means, collectively, Magellan and CFS.

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"GAAP" means generally accepted accounting principles in effect in the United States of America from time to time.

"Governing Board" has the meaning specified in Section 8.1 hereof.

"Gross Asset Value" means, with respect to any asset, the asset's adjusted basis for United States federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset, as determined by the Governing Board; provided that the initial Gross Asset Values of the assets contributed to the Company pursuant to Section 3.1 hereof shall be the Net Asset Values of such assets as set forth in such Section, increased by any liabilities either treated as assumed by the Company upon the contribution of such assets or to which such assets are treated as subject when contributed pursuant to the provisions of Code Section 752;

(b) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values (taking Code Section 7701(g) into account), as determined by the Governing Board as of the following times: (i) the acquisition of an additional interest in the Company by any new or existing Member in exchange for more than a de minimis Capital Contribution; (ii) the distribution by the Company to a Member of more than a de minimis amount of Company property as consideration for an interest in the Company; and (iii) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g), provided that an adjustment described in clauses (i) and (ii) of this paragraph shall be made only if the Governing Board reasonably determines that such adjustment is necessary to reflect the relative economic interests of the Members in the Company;

(c) The Gross Asset Value of any item of Company assets distributed to any Member shall be adjusted to equal the gross fair market value (taking Code Section 7701(g) into account) of such asset on the date of distribution as determined by the Governing Board; and

(d) The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m), and subparagraph (vi) of the definition of "Profits" and "Losses" provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (d) to the extent that an adjustment pursuant to subparagraph (b) is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d).

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If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (b) or (d), such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset, for purposes of computing Profits and Losses.

"Interest" means a Member's ownership interest in the Company, including all rights attributable to a member of a limited liability company under the Act.

"Involuntary Bankruptcy" has the meaning set forth in the definition of Bankruptcy.

"Issuance Items" has the meaning specified in Section 6.3(h) hereof.

"Lender" has the meaning set forth in Section 8.2(11) hereof.

"Liquidator" has the meaning specified in Section 14.5(a) hereof.

"Magellan" has the meaning specified in the introductory statement.

"Major Decision" has the meaning specified in Section 8.2 hereof.

"MEC" has the meaning specified in introductory statement.

"Member" means Crescent Operating, Charter Inc. or any Person who is admitted as a Member pursuant to the terms of this Agreement. "Members" means all such Persons.

"Member Advance" has the meaning specified in Section 3.2(e) hereof.

"Member Commitment" has the meaning specified in Section 3.2(e) hereof.

"Member Nonrecourse Debt" has the same meaning as the term "Member nonrecourse debt" in Section 1.704-2(b)(4) of the Regulations.

"Member Note" has the meaning specified in Section 3.2(e) hereof.

"Member Nonrecourse Debt Minimum Gain" means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Section 1.704-2(i)(3) of the Regulations.

"Member Nonrecourse Deductions" has the same meaning as the term "Member nonrecourse deductions" in Sections 1.704-2(i)(1) and 1.704-2(i)(2) of the Regulations.

"Net Asset Value" means, with respect to any asset contributed by a Member to the Company, the Gross Asset Value of such asset at the time of its contribution, reduced by any

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liabilities either treated as assumed by the Company upon the contribution of such asset or to which such asset is treated as subject when contributed pursuant to the provisions of Code Section 752; provided that the initial Net Asset Value of the assets contributed to the Company pursuant to Section 3.1 hereof shall be as set forth in such Section.

"Non Cash Consideration" has the meaning specified in Section 12.8(e) hereof.

"Nonrecourse Deductions" has the meaning set forth in Section 1.704-2(b)(1) of the Regulations.

"Nonrecourse Liability" has the meaning set forth in Section 1.704-2(b)(3) of the Regulations.

"Non-Selling Member" has the meaning specified in Section 12.8 hereof.

"Offer Notice" has the meaning specified in Section 12.8 hereof.

"Offer Percentage" has the meaning specified in Section 12.8 hereof.

"Offering Party" has the meaning specified in Section 15.3(a) hereof.

"Original Capital Contribution" means, with respect to any Member, any Capital Contribution provided by such Member as of the Effective Date.

"Percentage Interest" means the Interest of each Member expressed as a percentage as initially set forth in Section 3.1 hereof, or as subsequently established by the Members in accordance with the provisions of this Agreement.

"Percentage Interests" means the entire percentage interest of ownership in the Company.

"Permitted Transfer" has the meaning set forth in Section 12.2 hereof.

"Person" means any individual, partnership (whether general or limited), limited liability company, corporation, trust, estate, association, nominee or other entity.

"Profits" and "Losses" mean, for each Allocation Year, an amount equal to the Company's taxable income or loss for such Allocation Year, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments (without duplication):

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(a) Any income of the Company that is exempt from United States Federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition of "Profits" and "Losses" shall be added to such taxable income or loss;

(b) Any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses pursuant to this definition of "Profits" and "Losses" shall be subtracted from such taxable income or loss;

(c) In the event that the Gross Asset Value of any Company asset is adjusted pursuant to subparagraphs (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the Gross Asset Value of the asset) or an item of loss (if the adjustment decreases the Gross Asset Value of the asset) from the disposition of such asset and shall be taken into account for purposes of computing gain or loss;

(d) Gain or loss resulting from any disposition of Property with respect to which gain or loss is recognized for United States federal income tax purposes shall be computed by reference to the Gross Asset Value of the Property disposed of, notwithstanding that the adjusted tax basis of such Property differs from its Gross Asset Value;

(e) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Allocation Year, computed in accordance with the definition of Depreciation;

(f) To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) is required, pursuant to Regulations Section 1.704-(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's Interest in the Company, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) from the disposition of such asset and shall be taken into account for purposes of computing Profits or Losses;

(g) Notwithstanding any other provision of this definition, any items which are specially allocated pursuant to Section 6.3 or Section 6.4 hereof shall not be taken into account in computing Profits or Losses; and

(h) The amounts of the items of Company income, gain, loss or deduction available to be specially allocated pursuant to Sections 6.3 and 6.4 hereof shall be determined by applying rules analogous to those set forth in subparagraphs (a) through (f) above.

"Property" means all real and personal property acquired by the Company, including cash, and any improvements thereto, and shall include both tangible and intangible property.

"Proposed Transfer" has the meaning specified in Section 12.8 hereof.

"Protected Information" means trade secrets, confidential or proprietary information, intellectual property, knowledge or know-how pertaining primarily to the operation of the Company or the Business or any confidential or proprietary information concerning any Member, including, without limitation, research and development information, inventions, formulas, methods, techniques, processes, protocols, plans, procedures, contracts, financial information, computer models and know-how. Protected Information shall not include Protected Information which at the time of its disclosure was in the public domain other than as result of a breach hereof by any of the parties hereto.

"Purchasing Party" has the meaning specified in Section 15.3(b) hereof.

"Real Estate Purchase and Sale Agreement" has the meaning specified in the recitals.

"Reconstitution Period" has the meaning specified in Section 14.1(b).

"Regulations" means the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as such regulations are amended from time to time.

"Regulatory Allocations" has the meaning specified in Section 6.4 hereof.

"Responding Party" has the meaning specified in Section 15.3(a) hereof.

"Right of First Refusal" has the meaning specified in Section 12.8 hereof.

"Second Offer Period" shall mean a period commencing on the first Business Day following the First Offer Period and expiring at 5:00 p.m., New York time on the 10th Business Day thereafter.

"Securities Act" means the Securities Act of 1933, as amended.

"Selling Member" has the meaning specified in Section 12.8 hereof.

"Selling Party" has the meaning set forth in Section 15.3(b) hereof.

"Senior Facility" has the meaning set forth in Section 8.2(13) hereof.

"Stated Value" has the meaning specified in Section 15.3(a) hereof.

"Third Party Purchaser" has the meaning specified in Section 12.8 hereof.

"Transaction Agreements" means the Real Estate Purchase and Sale Agreement, the Contribution Agreement, the Facilities Lease, the Franchise Agreement, the Warrant Agreement, the COI Warrant Agreement, that certain Subordination Agreement, dated of even date herewith, among Magellan, CFS, the Company and Crescent Real Estate Funding VII, L.P., and this Agreement, collectively.

"Transfer" means, as a noun, any voluntary or involuntary transfer, sale, pledge or hypothecation or other disposition and, as a verb, voluntarily or involuntarily to transfer, sell, pledge or hypothecate or otherwise dispose

of.

"Voluntary Bankruptcy" has the meaning set forth in the definition of "Bankruptcy."

"Warrant Agreement" means, collectively, that certain Warrant Agreement, dated January 29, 1997 between Magellan and Crescent, as amended, and that certain Warrant Agreement, dated of even date herewith, between Magellan and Crescent Operating.

SECTION 2.

THE COMPANY

2.1 Formation.

The Company was formed pursuant to the Certificate attached hereto as Exhibit A. The fact that the Certificate is on file in the office of the Secretary of State of the State of Delaware shall constitute notice that the Company is a limited liability company. Simultaneously with the execution of this Agreement, each of the Directors designated in Section 8.1 shall be admitted as Directors of the Company. The rights and liabilities of the Members and Directors shall be as provided under the Act, the Certificate and this Operating Agreement.

2.2 Name.

The name of the Company is Charter Behavioral Health Systems, LLC and all business of the Company shall be conducted in such name or in such other name as the Governing Board may designate. The Governing Board may change the name of the Company upon ten (10) Business Days notice to the Members and shall change it to eliminate the name "Charter" upon expiration of the Franchise Agreement in accordance with the terms thereof.

2.3 Purpose; Powers.

(a) The purposes of the Company are to (i) operate the Business, (ii) make such additional investments and engage in such additional activities as the Governing Board may approve pursuant to Section 8.2 and (iii) engage in any and all activities and exercise any power permitted

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to limited liability companies under the laws of the State of Delaware, as applicable, related or incidental to the purposes set forth in clauses (i) and (ii).

(b) The Company shall have the power to do any and all acts necessary, appropriate, proper, advisable, incidental or convenient to or in furtherance of the purposes of the Company set forth in this Section 2.3 and has, without limitation, any and all powers that may be exercised on behalf of the Company by the Governing Board pursuant to Section 8 hereof.

2.4 Principal Place of Business; Agent for Service of Process.

(a) The principal place of business of the Company shall be located at such place as is determined by the Governing Board.

(b) The registered agent for service of process on the Company in the State of Delaware shall be Corporation Service Company or any successor as appointed by the Governing Board in accordance with the Act. The address for the registered agent shall be:

Corporation Service Company
1013 Centre Road
Wilmington, Delaware 19805-1297

(c) The initial registered office of the Company in the State of Delaware is:

Charter Behavioral Health Systems, LLC
c/o Corporation Service Company
1013 Centre Road
Wilmington, Delaware 19805-1297

The Company may maintain other offices, as determined by the Governing Board.

(d) The principal place of business of Charter Inc. is:

Charter Behavioral Health Systems, Inc.
3414 Peachtree Road, N.E., Suite 1400
Atlanta, Georgia 30326
Attention: General Counsel

(e) The principal place of business of Crescent Operating is:

Crescent Operating, Inc.
777 Main Street
Suite 2100
Fort Worth, Texas 76102

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Attention: Gerald W. Haddock

2.5 Term.

The term of the Company commenced on the date the Certificate was filed in the office of the Secretary of State of the State of Delaware in accordance with the Act. The Members intend that the existence of the Company shall continue until the earlier to occur of (i) the winding up and liquidation of the Company and the completion of its business following a Dissolution Event, as provided in Section 14 hereof or (ii) ninety-nine (99) years from the date on which the term of the Company commences.

2.6 Title to Property.

All Property owned by the Company shall be owned by the Company as an entity, and no Member shall have any ownership interest in such Property in its individual name, and each Member's interest in the Company shall be personal property for all purposes. At all times after the Effective Date, the Company shall hold title to all of its Property in the name of the Company or a wholly owned subsidiary and not in the name of any Member.

2.7 Payments of Individual Obligations.

The Company's credit and assets shall be used solely for the benefit of the Company, and no asset of the Company shall be transferred or encumbered for, or in payment of, any individual obligation of any Member.

SECTION 3.

MEMBER SHARES, CAPITAL CONTRIBUTIONS AND FUNDING

3.1 Original Capital Contributions.

On the Effective Date, Charter Inc. (and its affiliates) and Crescent Operating have each made an Original Capital Contribution to the Company, with the initial Net Asset Value of each such Original Capital Contribution (which shall also constitute the initial Capital Account balance of the Member making the Original Capital Contribution) immediately after the date of the Original Capital Contributions being as follows:

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| Name | Property Contributed | Initial Net Asset Value of Original Capital Contribution | Percentage Interest |
|--------------------|--|--|------------------------|
| ----- | ----- | ----- | ----- |
| Charter Inc. | Property and Assumed Obligations described in Section 2.1 and 2.3 of the Contribution Agreement | \$5.0 million | 50.0% |
| Crescent Operating | Cash | \$5.0 million | 50.0% |

3.2 Other Matters.

(a) Except as otherwise provided in this Agreement, no Member shall demand or receive a return on or of its Capital Contributions or withdraw from the Company without the consent of all Members. Under circumstances requiring a return of any Capital Contributions, no Member has the right to receive Property other than cash except as may be specifically provided herein.

(b) No Member shall receive any interest, salary or drawing with respect to its Capital Contributions or its Capital Account or for services rendered on behalf of the Company, or otherwise, in its capacity as a Member, except as otherwise provided in this Agreement or approved by the Governing Board, or except as provided in the Transaction Agreements.

(c) No Member shall be liable for the Debts or any other obligations of the Company.

(d) A Member shall not be required to restore a deficit balance in its Capital Account or to lend any funds to the Company, except as otherwise provided herein or in the Transaction Agreements.

(e) Each of Charter Inc. and Crescent Operating will contribute an additional \$2.5 million to the capital of the Company within five (5) days after Closing ("Additional Capital Contribution"). Additionally, on the Effective Date, (i) each of Charter Inc. and Crescent Operating shall agree to loan (either directly or through an Affiliate) the Company up to an aggregate of \$17.5 million each (a "Member Commitment"), which Member Commitments shall terminate on the fifth anniversary of the Effective Date, and (ii) the Company shall execute notes (the "Member Notes"), one to Charter Inc. and one to Crescent Operating, as security for each such Member Commitment at the time of any loan pursuant to a Member Commitment (the form of the note is attached as Exhibit D). Magellan, in its sole discretion, shall have the right to require the Company, from time

to time, to draw down a portion of the Member Commitments by providing written notice specifying the total amount to be drawn, and the date (which shall not be less than thirty Business Days after the date of such notice) of such draw. Each such draw (a "Member Advance") shall be funded 50% by Charter Inc. from its Member Commitment and 50% by Crescent Operating from its Member Commitment. Magellan agrees to provide funding to Charter Inc. if required for Charter Inc. to fund its Member Commitment. Each Member Advance shall bear interest at a rate of 10% per annum and have a term of five years (notwithstanding any termination of the Member Commitment after the Member Advance is made). Notwithstanding anything to the contrary, neither Magellan nor the Company shall have the right to require a Member Advance from Crescent Operating unless Charter Inc. is required to make a Member Advance in the same amount as that required for Crescent Operating. Until the Company secures a Senior Facility in an amount of at least \$55 million supported by the Company without a guarantee from Crescent Operating, payments under any Member Advances which are required to be made to Charter Inc. shall be subordinated to payments under any Member Advances which are required to be made to Crescent Operating. If either Charter Inc. or

Crescent Operating shall fail to make a Member Advance pursuant to this paragraph within fifteen Business Days of the date specified above, with respect to the Additional Capital Contribution, or in such notice from Charter Inc. requiring a Member Advance and such failure continues for an additional ten Business Days after notice from the other Member, then such defaulting Member shall be deemed to have sold its membership interest in the Company to the other Member upon delivery of payment by such other Member to the defaulting Member of the sum of \$100. Except for the foregoing, the Members shall not be required to make any additional capital contributions or loans to the Company. Such obligation to make Additional Capital Contributions or loans is solely for the benefit of the Members, and no Person shall be considered a third-party beneficiary of such obligation. The Company shall use all Additional Capital Contributions and Member Advances for the benefit of the Company in such manner as Charter Inc., in its sole discretion, directs.

(f) The Directors shall not have any personal liability for the repayment of any Capital Contributions of any Member.

(g) Notwithstanding any other provision of this Agreement, each Member agrees to approve such amendments to this Agreement as are necessary to allocate up to 10% of the Percentage Interests in the Company, equally from each Member, for future incentive payments to management.

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SECTION 4.

REPRESENTATIONS AND WARRANTIES OF CHARTER INC.

Charter Inc. represents and warrants to Crescent Operating as of the date hereof as follows:

4.1 Organization and Authority of Charter Inc.

Charter Inc. is a corporation duly formed, validly existing and in good standing under the laws of the State of Delaware and has all necessary power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Charter Inc., and (assuming due execution and delivery by Crescent Operating) constitutes the legal, valid and binding obligation of Charter Inc. enforceable against Charter Inc. in accordance with its terms, except as enforceability may be limited by bankruptcy, conservatorship, receivership, insolvency, moratorium or similar laws affecting creditors' rights generally or by general principles of equity.

4.2 No Conflict.

The execution, delivery and performance by Charter Inc. of this Agreement does not and will not (i) violate or conflict with the certificate of incorporation or bylaws of Charter Inc., (ii) conflict with or violate any law, rule, regulations, order, writ, judgment, injunction, decree, determination or award applicable to Charter Inc. or (iii) 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 pledge, lien, security interest, mortgage, charge, adverse claim or ownership or use, or other encumbrance of any kind (collectively "Encumbrances") on any of the assets or properties of Charter Inc. pursuant to, any note, bond, indenture, contract, agreement, lease, license, permit, franchise or other instrument relating to such assets or properties to which Charter Inc. is a party or by which any of such assets or properties is bound or affected, except, in the case of (ii) or (iii), any conflict, violation, breach or default which would not individually or in the aggregate have a material adverse effect on Charter Inc. or the Company.

4.3 Consents and Approvals.

Except as set forth on Schedule 4.3, the execution and delivery by Charter Inc. of this Agreement does not and will not, and the performance by

Charter Inc. of this Agreement does not and will not, require any consent, approval, authorization or other action by, or filing with or notification to, any governmental or regulatory authority. Charter Inc. is in compliance in all material respects with all laws and regulations of all governmental or quasi-governmental authorities having jurisdiction over the business of Charter Inc.

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SECTION 5.

REPRESENTATIONS AND WARRANTIES OF Crescent Operating

Crescent Operating represents and warrants to Charter Inc. as of the date hereof as follows:

5.1 Organization and Authority of Crescent Operating.

Crescent Operating is a corporation, duly formed, validly existing and in good standing under the laws of the State of Delaware and has all necessary power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Crescent Operating and (assuming due execution and delivery by Charter Inc.) constitutes its legal, valid and binding obligation enforceable against Crescent Operating in accordance with its terms, except as enforceability may be limited by bankruptcy, conservatorship, receivership, insolvency, moratorium or similar laws affecting creditors' rights generally or by general principles of equity.

5.2 No Conflict.

The execution, delivery and performance by Crescent Operating of this Agreement does not and will not (i) violate or conflict with the organizational documents of Crescent Operating, (ii) conflict with or violate any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award applicable to Crescent Operating or (iii) 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 Crescent Operating pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument relating to such assets or properties to which Crescent Operating is a party or by which any of such assets or properties is bound or affected, except, in the case of (ii) or (iii), any conflict, violation, breach or default which would not individually or in the aggregate have a material adverse effect on Crescent Operating or the Company.

5.3 Consents and Approvals.

Except as set forth in Schedule 5.3, the execution and delivery of this Agreement by Crescent Operating does not and will not, and the performance of this Agreement by Crescent Operating does not and will not, require any consent, approval, authorization or other action by, or filing with or notification to, any governmental or regulatory authority. Crescent Operating is in compliance in all material respects with all laws and regulations of all governmental or quasi-governmental authorities having jurisdiction over the business of Crescent Operating. Crescent Operating has no knowledge of material violations of laws or regulations relating to the business of Crescent Operating and no written notice of any material violation of any such law, regulation or ordinance has been received by Crescent Operating except for violations or alleged violations that are being

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corrected in the ordinary course of business pursuant to an approved plan of

correction and are listed on Schedule 5.3.

SECTION 6.

ALLOCATIONS

6.1 Profits.

After giving effect to the special allocations set forth in Sections 6.3 and 6.4, Profits for any Allocation Year shall be allocated to the Members in proportion to their Percentage Interests.

6.2 Losses.

After giving effect to the special allocations set forth in Sections 6.3 and 6.4 and subject to Section 6.5, Losses for any Allocation Year shall be allocated to the Members in proportion to their Percentage Interests.

6.3 Special Allocations.

The following special allocations shall be made in the following order:

(a) Minimum Gain Charge Back. Except as otherwise provided in Section 1.704-2(f) of the Regulations, notwithstanding any other provision of this Section 6, if there is a net decrease in Company Minimum Gain during any Allocation Year, each Member shall be specially allocated items of Company income and gain for such Allocation Year (and, if necessary, subsequent Allocation Years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, as determined in accordance with Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Sections 1.704-2(f)(6) and 1.704-2(j)(2) of the Regulations. This Section 6.3(a) is intended to comply with the minimum gain charge back requirement in Section 1.704-2(f) of the Regulations and shall be interpreted consistently therewith.

(b) Member Minimum Gain Charge Back. Except as otherwise provided in Section 1.704-2(i)(4) of the Regulations, notwithstanding any other provision of this Section 6, if there is a net decrease in Member Nonrecourse Debt Minimum Gain attributable to a Member Nonrecourse Debt during any Allocation Year, each Member who has a share of the Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Section 1.704-2(i)(5) of the Regulations, shall be specially allocated items of Company income and gain for such Allocation Year (and, if necessary, subsequent Allocation Years) in an amount equal to such Member's share of the net decrease in Member Nonrecourse Debt, determined in accordance

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with Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Sections 1.704-2(i)(4) and 1.704-2(j)(2) of the Regulations. This Section 6.3(b) is intended to comply with the minimum gain charge back requirement in Section 1.704-2(i)(4) of the Regulations and shall be interpreted consistently therewith.

(c) Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6) of the Regulations, items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of the Member as quickly as possible; provided that an allocation pursuant to this Section 6.3(c) shall be made only if and to the extent that the Member would have an Adjusted Capital Account Deficit after all other allocations provided for in Section 6 have been tentatively made as if this Section 6.3(c) were not in the Agreement.

(d) Gross Income Allocation. In the event any Member has a deficit Capital Account at the end of any Allocation Year which is in excess of the sum of the amount such Member is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5), each such Member shall be specially allocated items of Company income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 6.3(d) shall be made only if and to the extent that such Member would have a deficit Capital Account in excess of such amount after all other allocations provided for in this Section 6 have been made as if Section 6.3(c) and this Section 6.3(d) were not in the Agreement.

(e) Nonrecourse Deductions. Nonrecourse Deductions for any Allocation Year shall be specially allocated to the Members in proportion to their respective Percentage Interests.

(f) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions for any Allocation Year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(1).

(g) Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Company asset, pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of such Member's interest in the Company, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members in accordance with their interests in the Company in the event Regulations

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Section 1.704-1(b)(2)(iv)(m)(2) applies, or to the Member to whom such distribution was made in the event Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

(h) Allocations Relating to Taxable Issuance of Company Interest. Any income, gain, loss or deduction realized as a direct or indirect result of the issuance of Interests by the Company to a Member (the "Issuance Items") shall be allocated among the Members so that, to the extent possible, the net amount of such Issuance Items, together with all other allocations under this Agreement to each Member, shall be equal to the net amount that would have been allocated to each such Member if the Issuance Items had not been realized.

6.4 Curative Allocations.

The allocations set forth in Sections 6.3(a) to (g) and 6.5 (the "Regulatory Allocations") are intended to comply with certain requirements of the Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this Section 6.4. Therefore, notwithstanding any other provision of this Section 6 (other than the Regulatory Allocations), the Governing Board shall make such offsetting special allocations of Company income, gain, loss or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of the Agreement and all Company items were allocated pursuant to Sections 6.1 and 6.2; provided, however, that the Governing Board shall not make offsetting special allocations if and to the extent that such Regulatory Allocations were or likely will be offset with Regulatory Allocations in prior or future years.

6.5 Loss Limitation.

Losses allocated pursuant to Section 6.2 hereof shall not exceed the maximum amount of Losses that can be allocated without causing any Member to have an Adjusted Capital Account Deficit at the end of any Allocation Year. In

the event some but not all of the Members would have Adjusted Capital Account Deficits as a consequence of an allocation of Losses pursuant to Section 6.2 hereof, the limitation set forth in this Section 6.5 shall be applied on a Member by Member basis and Losses not allocable to any Member as a result of such limitation shall be allocated to the other Members in accordance with the positive balances in such Members' Capital Accounts so as to allocate the maximum permissible Losses to each Member under Section 1.704- 1(b)(2)(ii)(d) of the Regulations.

6.6 Other Allocation Rules.

(a) For purposes of determining the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly, or other

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basis, as determined by the Governing Board, using any permissible method under Code Section 706 and the Regulations thereunder.

(b) The Members are aware of the income tax consequences of the allocations made by this Section 6 and hereby agree to be bound by the provisions of this Section 6 in reporting their shares of Company income and loss for income tax purposes.

(c) For purposes of making all allocations pursuant to this Section 6 for any Allocation Year, cash distributed within thirty (30) days after the last day of such Allocation Year shall be treated as having been distributed on such last day pursuant to Section 7.1 hereof.

(d) Solely for purposes of determining a Member's proportionate share of the "excess nonrecourse liabilities" of the Company within the meaning of Regulations Section 1.752-3(a)(3), the Members' interests in Company profits shall be in proportion to their Percentage Interests.

(e) To the extent permitted by Section 1.704-2(h)(3) of the Regulations, the Governing Board shall endeavor to treat distributions of cash as having been made from the proceeds of a Nonrecourse Liability or a Member Nonrecourse Debt only to the extent that such distributions would cause or increase an Adjusted Capital Account Deficit for any Member.

6.7 Tax Allocations: Code Section 704(c).

In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss, and deduction with respect to any Property contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such Property to the Company for federal income tax purposes and its initial Gross Asset Value (computed in accordance with the definition of Gross Asset Value). Any such variation with respect to the Contributed Assets (as defined in the Contribution Agreement) shall be calculated using the remedial allocation method described in Regulation Section 1.704-3(d).

In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraph (b) of the definition of Gross Asset Value, subsequent allocations of income, gain, loss, and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations thereunder.

Any elections or other decisions relating to such allocations shall be made by a supermajority (of at least 80%) of the Governing Board in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section 6.7 are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement.

SECTION 7.

DISTRIBUTIONS

7.1 Distribution of Available Cash. Subject to the provisions of this Section 7, the Company's available cash shall be distributed to the Members, in such amounts and only at such times as determined by the Governing Board, in proportion to their respective Percentage Interests. In no event shall any cash distribution be made to the Members unless and until rent due under the Facilities Lease and fees due under the Franchise Agreement are fully paid in the year of any distribution.

7.2 Amounts Withheld. Each Member hereby authorizes the Company to withhold from or pay on behalf of or with respect to such Member any amount of federal, state, local, or foreign taxes that the Governing Board determines that the Company is required to withhold or pay with respect to any amount distributable or allocable to such Member pursuant to this Agreement, including, without limitation, any taxes required to be withheld or paid by the Company pursuant to Sections 1441, 1442, 1445, or 1446 of the Code. Any amount paid on behalf of or with respect to a Member shall constitute a loan by the Company to such Member, which loan shall be repaid by such Member within fifteen (15) days after notice from the Governing Board that such payment must be made unless (i) the Company withholds such payment from a distribution which would otherwise be made to the Member, or (ii) the Governing Board determines, in its sole and absolute discretion, that such payment may be satisfied out of the available funds of the Company which would, but for such payment, be distributed to the Member. Any amounts withheld pursuant to the foregoing clauses (i) or (ii) shall be treated as having been distributed to such Member. Each Member hereby unconditionally and irrevocably grants to the Company a security interest (which shall be subordinate to any pledge granted to a financial institution as contemplated by Section 12.2) in such Member's Percentage Interest to secure such Member's obligation to pay to the Company any amounts required to be paid pursuant to this Section 7.2. In the event that a Member fails to pay any amounts owed to the Company pursuant to this Section 7.2 when due, the Governing Board may, in its sole and absolute discretion, elect to make the payment to the Company on behalf of such defaulting Member and, until repayment of such loan, shall succeed to all rights and remedies of the Company against such defaulting Member (including, without limitation, the right to receive distributions). Any amounts payable by a Member hereunder shall bear interest at the base rate on corporate loans at large United States money center commercial banks, as published from time to time in the Wall Street Journal, plus four percentage points (but not higher than the maximum lawful rate) from the date such amount is due (i.e., fifteen (15) days after demand) until such amount is paid in full. Each Member shall take such actions as the Company or the Governing Board shall request in order to perfect or enforce the security interest created hereunder.

SECTION 8.

MANAGEMENT

8.1 Directors; Governing Board.

(a) The management of the Company shall be vested in the four-member Governing Board (the "Governing Board") designated by the Members as provided in Sections 8.1(c) and (d) hereof.

(b) The number of Persons, each of whom shall be an individual (hereinafter referred to as "Directors") on the Governing Board shall be four (4) unless otherwise provided herein. Each Director shall be a "Manager," as defined in the Act, who shall have authority to act on behalf of the Company as set forth herein. The Directors shall serve without compensation but shall be entitled to reimbursement for their out-of-pocket costs for their services hereunder.

(c) Simultaneously with the execution hereof, Charter Inc. hereby designates the individuals set forth in Items (1) through (2) as Charter Directors and Crescent Operating hereby designates the individuals set forth in Items (3) through (4) as Crescent Directors, such that the name and address of the Directors who shall serve until their respective successors shall have been designated and qualified are as follows:

| Name ----- | Business Address and Telephone Number ----- |
|----------------------|--|
| 1. Steve Davis | 3414 Peachtree Road, N.E., Suite 1400 Atlanta, GA 30326 Tel.: (404) 869-9200 |
| 2. Craig L. McKnight | 3414 Peachtree Road, N.E., Suite 1400 Atlanta, GA 30326 Tel.: (404) 869-9200 |
| 3. John C. Goff | 777 Main Street, Suite 2100 Fort Worth, TX 76102 Tel.: (817) 877-0477 |
| 4. Gerald W. Haddock | 777 Main Street, Suite 2100 Fort Worth, TX 76102 Tel.: (817) 877-0477 |

(d) No vote of the Members shall be required to designate Directors. Rather, Charter Inc. shall have the right to designate two (2) Charter Directors, and Crescent Operating shall have the right to designate two (2) Crescent Directors. A Director shall remain in office until removed by the Member designating such Director. With respect to any Director other than the initial Directors set

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forth in Section 8.1(c) hereof, Charter Inc. or Crescent Operating, as the case may be, shall designate such Director by delivering to the Company the Member's written statement designating such Director and setting forth such Director's business address and telephone number.

(e) A Director may be removed at any time, with or without cause, solely by the Member originally designating such Director. Removal shall be accomplished by delivery of written notice to the Company demanding such removal and designating the Person who shall fill the position of the removed Director.

(f) In the event any Director dies or is unwilling or unable to serve as such or is removed from office by the Member that designated such Director, the appropriate Member shall promptly designate a successor to such Director. A Director chosen to fill a vacancy shall be designated by the Member whose previously designated Director shall have been removed or shall have resigned.

(g) Each Director shall have one (1) vote. Except as otherwise provided in Sections 8.2 and 8.3 hereof, the Governing Board shall act by the affirmative vote of a majority of the total number of Directors on the Governing Board. A Director may authorize any other Director to act for him by proxy on all matters in which a Director is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting. Every proxy must be signed by the Director or its attorney-in-fact. No proxy shall be valid after the expiration of eleven (11) months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Director executing it.

(h) The Governing Board shall have the power to delegate authority to such committees of Directors, officers, employees, agents and representatives of the Company as it may from time to time deem appropriate. Any delegation of authority to take any action must be approved in the same manner as would be required for the Governing Board to approve such action directly.

(i) A Director shall not be liable under a judgment, decree or order of court, or in any other manner, for a debt, obligation or liability of the Company.

8.2 Major Decisions.

Notwithstanding the other provisions of this Section 8, no officer or employee of the Company shall have any authority to cause or permit the Company or any of its subsidiaries or Affiliates to take any of the following actions or make any of the following decisions (each, a "Major Decision") without the prior express action and approval of at least eighty percent (80%) of the Governing Board:

(1) any sale, lease, transfer or other disposition of any asset of the Company or any subsidiary of the Company in an amount in excess of \$50,000, to the extent such sale, lease, transfer, other disposition or granting of security interest was not previously approved in the Annual Budget for the then current Fiscal Year;

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(2) the acquisition from any Person of any stock or interest in any corporation, company, partnership, association, business or business division, whether by stock purchase, asset purchase, contribution, merger or other business combination or joint venture, or otherwise causing or permitting the Company to be a party to a merger, transfer of assets, consolidation or reorganization with any other Person, provided, however, that the Company shall have the right to invest in short-term, highly liquid investments (which mature in no more than 60 days) with appropriate safety of principal including, without limitation, U.S. Government securities;

(3) the filing of a voluntary petition for bankruptcy, insolvency or the making of any assignment for the benefit of creditors by or of the Company or any other action which would constitute a Bankruptcy of the Company, or the substantial equivalent thereof;

(4) the election to dissolve and terminate the Company;

(5) causing or permitting the Company to engage in any business or activities other than the Business;

(6) except as provided in the Transaction Agreements, the Company's entry into any agreement or contract that is proposed to be entered into between the Company and any Member or Affiliate of a Member or any amendment thereof;

(7) any entering into, modification, amendment, extension or termination by the Company of any contract which delegates the management of any significant part of the business of the Company to any Person not employed by the Company;

(8) the selection of any Person to act as Liquidator in connection with the liquidation and termination of the Company in accordance with Section 14;

(9) approval of a commitment for any capital expenditure (to the extent not previously approved in the Annual Budget for the then current Fiscal Year);

(10) entering into any (i) contract of any sort not in the ordinary course of business or (ii) contract or series of related contracts calling for payments by the Company of more than the contract limit authorized by the Governing Board, or, in the absence of such express authorization, \$10,000 in any one Fiscal Year (to the extent not previously approved in the Annual Budget for the then current Fiscal Year);

(11) incurring any indebtedness by the Company or granting any security interest in any asset of the Company to the extent not previously approved in the Annual Budget; provided, however, that if requested by a bank or group of banks (the "Lender") which has committed to provide the Company with a credit facility of at least \$55 million (the "Senior Facility"), the Company shall (i) cause any

subsidiaries of the Company designated by the

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Lender to guarantee the debt incurred by the Company under the Senior Facility, (ii) pledge its ownership interest in any subsidiaries of the Company designated by the Lender to the Lender as security for the debt incurred by the Company under the Senior Facility, and (iii) grant a security interest in its accounts receivables to the Lender as security for the debt incurred by the Company under the Senior Facility;

(12) except as may be expressly provided hereunder, the admission of any Person to the Company as an additional Member or substitute Member or the issuance of any additional Interests or rights to acquire Interests in the Company;

(13) making a loan of Company funds to any Person, or guaranteeing any obligation or indebtedness of any Person, to the extent not previously approved in the Annual Budget;

(14) making a loan of Company funds to or guaranteeing any obligation or indebtedness of any Member or any Affiliate of any Member;

(15) approval of the Annual Budget for the Company for any Fiscal Year and approval of any changes (as described in Section 8.3) to such Annual Budget;

(16) the employment or retention of any Person (including, without limitation, counsel, auditors and consultants) whose gross annual compensation (including benefits) or fees are reasonably likely to exceed \$150,000 in any fiscal year (unless previously approved in the Annual Budget);

(17) the establishment, amendment or termination of any employee pension, profit sharing or other benefit plan;

(18) any change of the Company's fiscal year;

(19) any distributions to the Members;

(20) entering into any employment agreement with any employee of the Company;

(21) selecting any Executive Officer or removing either the Chairman of the Governing Board or the President of the Company;

(22) any change in accounting principles used by the Company, except to the extent required by GAAP;

(23) closing any hospital or Facility which the Governing Board has determined is in the financial best interests of the Company;

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(24) the decision to renew any Facilities Lease;

(25) the decision to renew any Franchise Agreement;

(26) the decision to make an initial public offering of any interest (debt or equity) in the Company;

(27) the Company's decision to exercise its right of purchase of an interest during the Second Offer Period in accordance with Section 12;

- (28) any amendment of this Agreement or the Certificate;
- (29) any capital contribution by any Member other than the Additional Capital Contribution;
- (30) certain tax matters as provided in Sections 6.7 and 9.5; and
- (31) amending the limited liability operating agreement or other organizational documents of any subsidiary of the Company.

Notwithstanding the foregoing or any other provision hereof (i) Charter Inc. shall have the approval and other rights relating to the Company's business and operations specified in Section 15 of the Franchise Agreement in the event that Charter Inc. is the Selling Party pursuant to an exercise of the buy-sell option pursuant to Section 15.3 and (ii) nothing in this Section 8.2 shall require the approval of the Governing Board for the performance, by the Company, of any of its obligations under the Transaction Agreements.

8.3 Annual Budget.

(a) The President and the Treasurer of the Company have proposed an annual operating and capital budget for the Company for the Fiscal Year ending September 30, 1997 (for such Fiscal Year and each subsequent Fiscal Year, the "Annual Budget"). The proposed annual operating and capital budget shall be deemed approved by the Governing Board upon the execution of this Agreement as the 1997 Annual Budget.

(b) After the adoption of the initial Annual Budget for the Company, the President and the Treasurer of the Company shall prepare or cause to be prepared a proposed Annual Budget for the Company for the succeeding Fiscal Year containing the information set forth on Schedule 8.3 which shall be submitted to the Governing Board for consideration and approval within 30 days after the September 30 immediately preceding such Fiscal Year. Upon approval by the Governing Board, the proposed Annual Budget shall become the Annual Budget for the next succeeding Fiscal Year.

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(c) If the Governing Board is unable to agree on the Annual Budget, then until such time as the Governing Board is able to adopt and approve an Annual Budget, the Annual Budget shall consist of the items in the proposed Annual Budget which are not in dispute and, with respect to those items in dispute, the items and amounts in the prior year's Annual Budget shall be deemed to constitute the approved amounts in the Annual Budget, as the case may be; provided, however, that the amount budgeted for acquisitions or financing for the then-current Fiscal Year shall be the amount that the parties are able to agree upon or, if they are unable to agree, then these amounts shall be zero for the then-current Fiscal Year unless necessary for ongoing operations. Notwithstanding anything contained herein to the contrary, to the extent that an expenditure is required to be made pursuant to a legally binding obligation of the Company which has been previously approved by the Governing Board or the Members (or not required to be approved pursuant to this Agreement) or to the extent that any such expenditure is beyond the Company's control, such as utility costs, taxes and insurance premiums, then the approved Annual Budget for the current fiscal year shall be deemed to include such expenditure.

(d) Upon approval of an Annual Budget by the Governing Board, the Company shall, and the officers of the Company shall cause the Company to, conduct its operations in accordance therewith, and no modifications shall be made except in accordance with Section 8.2.

8.4 Meetings of the Governing Board.

(a) The Governing Board shall hold regular meetings no less frequently than once every Fiscal Quarter and shall establish meeting times, dates and places and requisite notice requirements (not shorter than those provided in Section 8.5(b)) and adopt rules or procedures consistent with the terms of this Agreement. At such meetings the Governing Board shall transact such business as may properly be brought before the meeting, whether or not the notice of such

meeting referenced the action taken at such meeting.

(b) Special meetings of the Governing Board may be called by any Director. Notice of each such meeting shall be given to each Director on the Governing Board by telephone, telecopy, telegram or similar method (in each case, notice shall be given at least five (5) Business Days before the time of the meeting) or sent by first-class mail (in which case notice shall be given at least ten (10) days before the meeting), unless a longer notice period is established by the Governing Board. Each such notice shall state (i) the time, date, place (which shall be at the principal office of the Company unless otherwise agreed to by all Directors) or other means of conducting such meeting and (ii) the purpose of the meeting to be so held. No actions other than those specified in the notice may be considered at any special meeting unless unanimously approved by the Directors. Any Director may waive notice of any meeting in writing before, at or after such meeting. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except when a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not properly called.

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(c) A majority of the Governing Board as constituted at a particular time shall constitute a quorum for the transaction of business at such time.

(d) Any action required to be taken at a meeting of the Governing Board, or any action that may be taken at a meeting of the Governing Board, may be taken at a meeting held by means of telephone conference or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting shall constitute presence in person at such meeting.

(e) Notwithstanding anything to the contrary in this Section 8.4, the Governing Board may take without a meeting any action that may be taken by the Governing Board under this Agreement if such action is approved by the unanimous written consent of the Directors.

8.5 Governing Board Powers.

(a) Except as otherwise provided in this Agreement, the Governing Board shall have the right and authority to take all actions which the Governing Board deems necessary, useful or appropriate for the management and conduct of the Business.

(b) Except as otherwise provided in this Agreement, all powers to control and manage the Business and affairs of the Company shall be exclusively vested in the Governing Board, and the Governing Board may exercise all powers of the Company and do all such lawful acts as are not by statute, the Certificate or this Agreement directed or required to be exercised or done by the Members, and no Member shall have any right or power to control or manage the Business.

(c) The Governing Board will establish policies and guidelines for the hiring of employees to permit the Company to act as an operating company with respect to its Business. The Governing Board may adopt appropriate management incentive plans and employee benefit plans in accordance with Section 8.2.

8.6 Independent Activities; Transactions with Affiliates.

(a) Each Director shall be required to devote such time to the affairs of the Company as may be necessary to manage and operate the Company and its subsidiaries and shall be free to serve any other Person or enterprise in any capacity that such Director may deem appropriate in his, her or its discretion.

(b) To the extent permitted by applicable law and subject to the provisions of this Agreement, in furtherance of the purposes of the Company set forth in Section 2.3, the Governing Board is hereby authorized to cause the Company to purchase or lease property (whether real, personal or mixed) from, sell or lease such property to or otherwise deal with any Member or Director, acting on its own behalf, or any Affiliate of any Member or Director; provided that any such purchase, sale, lease, dealing or other transaction shall be made

(c) Each Member and Director and any Affiliate thereof may also lend money to, borrow money from, act as a surety, guarantor or endorser for, guarantee or assume one or more specific obligations of, provide collateral for, and transact other business with the Company and, subject to other applicable law, have the same rights and obligations with respect thereto as a Person who is not a Member, subject to Section 8.2.

8.7 Officers.

(a) The officers of the Company initially shall be those listed on Exhibit C. Thereafter, the Executive Officers shall be chosen by the Governing Board as provided in Section 8.2. The Company may also have, at the discretion of the Governing Board, such other officers as are desired, including one or more Vice Presidents, one or more Assistant Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers, and such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Governing Board. In the event there are two or more Vice Presidents, then one or more may be designated as Executive Vice President, Senior Vice President, or other similar or dissimilar title. At the time of the election of officers, the Governing Board may determine the order of their rank. Any number of offices may be held by the same person.

(b) The officers of the Company shall hold office until their successors are chosen by the Governing Board and commence to perform their respective duties, provided that the initial Chairman of the Governing Board and the initial President of the Company shall serve until resignation or termination by the Governing Board in accordance with Section 8.2. Any other officer elected or appointed by the Governing Board may be removed at any time with or without cause by the Governing Board in accordance with Section 8.2. If the office of any officer or officers becomes vacant for any reason, such vacancy shall be filled by the Governing Board in accordance with Section 8.2 and this Section 8.7.

(c) The officers of the Company shall include:

(1) The Chairman of the Governing Board. The Chairman of the Governing Board shall, if present, preside at all meetings of the Governing Board and all meetings of the Members and exercise and perform such other powers and duties as may be from time to time assigned to him by the Governing Board. All Executive Officers engaged in strategic planning and development and in capital functions, including without limitation, the Treasurer, Chief Financial Officer and the senior officers responsible for acquisitions, shall report to the Chairman of the Governing Board with respect to those functions, but shall continue to report to the President with respect to other functions. If there is no President, the Chairman of the Governing Board shall in addition be the Chief Executive Officer of the Company and shall have the powers and duties prescribed in clause (3) below. The initial Chairman of the Governing Board shall be John C. Goff.

(2) Vice Chairman of the Governing Board. The Vice Chairman of the Governing Board shall exercise and perform such other powers and duties as may be from time to time assigned to him by the Governing Board. In the absence of the Chairman of the Governing Board, he or she shall preside at all meetings of the Governing Board.

(3) President. Subject to such supervisory powers, if any, as may be given by the Governing Board to the Chairman of the Governing Board, the President shall be the Chief Executive Officer of the

Company and shall, subject to the control of the Governing Board, have general supervision, direction and control of the Business and officers of the Company. He shall be an ex-officio member of all committees and shall have the general powers and duties of management usually vested in the office of President and chief executive officer of corporations organized under the laws of the State of Delaware, and shall have such other powers and duties as may be prescribed by the Governing Board. The initial President shall be John M. DeStefanis.

(4) Vice President. In the absence or disability of the President and the Chairman of the Governing Board, the Vice Presidents in order of their rank as fixed by the Governing Board, or if not ranked, the Vice President designated by the Governing Board, shall perform all the duties of the President, and when so acting shall have all the powers and be subject to all the restrictions upon the President. The Vice Presidents shall have such other duties as from time to time may be prescribed for them, respectively, by the Governing Board.

(5) Assistant Vice President. The Assistant Vice President, or if there be more than one, the Assistant Vice Presidents, shall have such duties as from time to time may be prescribed for them, respectively, by the Governing Board.

(6) Secretary. The Secretary shall attend all sessions of the Governing Board and all meetings of the Members and record all votes and the minutes of all proceedings in a book to be kept for that purpose and shall perform like duties for the standing committees when required by the Governing Board. The Secretary shall give, or cause to be given, notice of all meetings of the Members and of the Governing Board and shall perform such other duties as may be prescribed by the Governing Board.

(7) Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Governing Board, or if there be no such determination, the Assistant Secretary designated by the Governing Board, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Governing Board may from time to time prescribe.

(8) Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books

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belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company, in such depositories as may be designated by the Governing Board. The Treasurer shall disburse the funds of the Company as may be ordered by the Governing Board, taking proper vouchers for such disbursements, and shall render to the Governing Board, at its regular meetings, or when the Governing Board so requires, an account of all of his transactions as Treasurer and of the financial condition of the Company.

(9) Assistant Treasurer. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Governing Board, or if there be no such determination, the Assistant Treasurer designated by the Governing Board, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Governing Board may from time to time prescribe.

8.8 Indemnification of the Directors.

(a) Unless otherwise provided in Section 8.8(d) hereof, the Company, its receiver, or its trustee (in the case of its receiver or trustee, to the

extent of Property contributed to the Company) shall indemnify, save harmless, and pay all judgments and claims against any Director relating to any liability or damage incurred by reason of any act performed or omitted to be performed by any Director in connection with the Business, including reasonable attorneys' fees incurred by the Director in connection with the defense of any action based on any such act or omission, which attorneys' fees may be paid as incurred.

(b) Unless otherwise provided in Section 8.8(d) hereof, in the event of any action by a Member against any Director, including a Company derivative suit, the Company shall indemnify, save harmless, and pay all expenses of such Director, including reasonable attorneys' fees, incurred in the defense of such action.

(c) Unless otherwise provided in Section 8.8(d) hereof, the Company shall indemnify, save harmless, and pay all expenses, costs, or liabilities of any Director, if for the benefit of the Company and in accordance with this Agreement said Director makes any deposit or makes any other similar payment or assumes any obligation in connection with any Property proposed to be acquired by the Company and suffers any financial loss as the result of such action.

(d) Notwithstanding the provisions of Sections 8.8(a), 8.8(b) and 8.8(c) above, such Sections shall be enforced only to the maximum extent permitted by law and no Director shall be indemnified from any liability for the fraud, intentional misconduct, gross negligence or a knowing violation of the law which was material to the cause of action.

(e) The obligations of the Company set forth in this Section 8.8 are expressly intended to create third party beneficiary rights of each of the Directors and any Member is authorized, on

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behalf of the Company, to give written confirmation to any Director of the existence and extent of the Company's obligations to such Director hereunder.

8.9 Filings.

(a) Each Director is hereby authorized to and shall execute and cause the Certificate to be filed in the office of the Secretary of State of the State of Delaware as an authorized person within the meaning of the Act. The Governing Board shall take any and all other actions reasonably necessary to perfect and maintain the status of the Company as a limited liability company under the laws of the State of Delaware, including the preparation and filing of such amendments to the Certificate and such other assumed name certificates, documents, instruments and publications as may be required by law, including, without limitation, action to reflect:

(1) a change in the Company name; or

(2) a correction of false or erroneous statements in the Certificate or the desire of the Members to make a change in any statement therein in order that it shall accurately represent the agreement among the Members.

(b) The Members and the Governing Board shall execute and cause to be filed original or amended certificates and shall take any and all other actions as may be reasonably necessary to perfect and maintain the status of the Company as a limited liability company or similar type of entity under the laws of any other jurisdictions in which the Company engages in business.

(c) Upon the dissolution and completion of the winding up and liquidation of the Company in accordance with Section 14, the Liquidator, as an authorized person within the meaning of the Act, shall promptly execute and cause to be filed statements of intent to dissolve and certificate of cancellation in accordance with the Act and the laws of any other jurisdictions in which the Liquidator deems such filing necessary or advisable.

8.10 Other Agreements.

(a) [Intentionally left blank].

(b) Franchise Fees. Notwithstanding any other provision herein, each of Crescent Operating and Charter Inc. agrees that if franchise fees due Franchisor pursuant to the Franchise Agreement are past due for any reason in the amounts set forth below, the Charter Inc. Directors shall have the right to prohibit the Company from taking one or more of the following actions, and to exercise one or more of the following rights:

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| Amount in Arrears | Rights of Charter Inc./Prohibited Actions By the Company |
|------------------------------------|---|
| \$6 million to \$18 million | 1. No incentive compensation to management 2. No vesting of management equity |
| Above \$18 million to \$24 million | 1. No salary increases for key personnel 2. No additional hiring 3. No new hospital acquisitions/joint ventures |
| Above \$24 million | 1. 5% cutback on expenses provided for in the Annual Budget 2. Monthly approval of expenditures by Charter Inc. (capital and operating) 3. Rights to require transfer of management and control of the Company and its subsidiaries to Charter Inc. |

SECTION 9.

ROLE OF MEMBERS

9.1 Rights or Powers.

The Members shall not have any right or power to take part in the management or control of the Company or its Business and affairs or to act for or bind the Company in any way, except the Members have all the rights and powers specifically set forth in this Agreement and, to the extent not inconsistent with this Agreement, in the Act. A Member, any Affiliate thereof or an employee, stockholder, agent, director or officer of a Member or any Affiliate thereof, may also be an employee or be retained as an agent of the Company. The existence of these relationships and acting in such capacities will not result in the Member's being deemed to be participating in the control of the Business of the Company or otherwise affect the limited liability of the Member. A Member shall not, in its capacity as a Member, take part in the operation, management or control of the Company's business, transact any business in the Company's name or have the power to sign documents for or otherwise bind the Company.

9.2 Voting Rights.

No Member has any voting right except with respect to those matters specifically reserved for a Member vote as set forth in this Agreement or as required in the Act. A Member shall have one vote for each Percentage Interest such Member has in the Company (for example, initially, Charter Inc. and Crescent Operating will each hold a 50% Interest in the Company and each have

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fifty votes). The approval of Members owning eighty percent (80%) or more of the Percentage Interests in the Company is required to act on any matter submitted to a vote of the Members.

9.3 Meetings of the Members.

(a) Meetings of the Members may be called upon the written request of any Member. Such notice of meeting shall state the location of the meeting and the nature of the business to be transacted. Notice of any such meeting shall be

given to all Members not less than seven (7) Business Days nor more than thirty (30) days prior to the date of such meeting. Members may vote in person, by proxy or by telephone at such meeting and may waive advance notice of such meeting. Members which own in the aggregate eighty percent (80%) or more of the Percentage Interests in the Company constitute a quorum for the transaction of business at a meeting of the Members. Whenever the vote or consent of Members is permitted or required under the Agreement, such vote or consent may be given at a meeting of the Members or may be given in accordance with the procedure prescribed in this Section 9.3.

(b) Each Member may authorize any Person or Persons to act for it by proxy on all matters in which a Member is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting. Every proxy must be signed by the Member or its attorney-in-fact. No proxy shall be valid after the expiration of eleven (11) months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Member executing it.

(c) Notwithstanding this Section 9.3, the Company may take any action contemplated under this Agreement as approved by the consent of the Members, such consent to be provided in writing, or by telephone or facsimile, if such telephone conversation or facsimile is followed by a written summary of the telephone conversation or facsimile communication sent by registered or certified mail, postage and charges prepaid, addressed as described in Section 16.2 hereof, or to such other address as such Person may from time to time specify by notice to the Members and Directors.

9.4 Required Member Consents.

Notwithstanding any other provision of this Operating Agreement, no action may be taken by the Company (whether by the Governing Board or otherwise) in connection with the following matters without the approval of Members owning at least 80% of the outstanding Percentage Interest:

(a) Cause or permit the Company to engage in any activity that is not consistent with the purposes of the Company as set forth in Section 2.3 hereof;

(b) Knowingly do any act in contravention of this Agreement;

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(c) Cause the Company to reorganize, recapitalize, merge or consolidate with another Person;

(d) Elect to dissolve or liquidate the Corporation;

(e) Cause the Company to take any action that would cause a Bankruptcy of the Company;

(f) Possess Company assets, or assign rights in any Company assets, for other than a Company purpose;

(g) Confess a judgment against the Company;

(h) Change the Percentage Interest of any Member without the consent of the affected Member; or

(i) Amend this Agreement.

9.5 Tax Elections.

The Governing Board by supermajority (at least 80%) vote (except as provided below) shall, without any further consent of the Members being required (except as specifically required herein), make any and all elections for United States federal, state, local, and foreign tax purposes including, without limitation, any election, if permitted by applicable law: (i) to adjust the basis of Property pursuant to Code Sections 754, 734(b) and 743(b), or comparable provisions of state, local or foreign law, in connection with Transfers of Interests and Company distributions (provided that no such election

shall be made with respect to any transfers or distributions during the Company's fiscal year ending September 30, 1997) and (ii) with the consent of all of the Members, to extend the statute of limitations for assessment of tax deficiencies against the Members with respect to adjustments to the Company's United States federal, state, local or foreign tax returns. Charter Inc. is specifically authorized to act as the "Tax Matters Member" under Section 6231 of the Code and in any similar capacity under state or local law; provided, however, that the Tax Matters Member shall not, without the consent of the Members holding at least 80% of the Percentage Interests, file a request for administrative review of any Partnership item (as defined in Section 6231 of the Code) which may be expected to result in the material assessment of tax against a Member, initiate judicial review of any adjustment with respect to any Partnership item, or enter into any agreement with the Internal Revenue Service (or any state and local taxing authority) that would result in any material change in any item of income, gain, loss, deduction, or credit or Profits or Losses as previously reported or in the allocation of such items of Profits or Losses. The Tax Matters Member shall be responsible for preparing and filing, or causing to be prepared and filed, all federal, state, and local tax returns and shall submit all federal, state, and local income tax returns and any other material federal, state, and local tax returns to the Governing Board for review and supermajority (at least 80%) approval at least fifteen days prior to the filing of such returns. The Company shall reimburse the Tax Matters

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Member for all direct expenses incurred by the Tax Matters Member in fulfilling its duties hereunder.

9.6 Members' Liability.

No Member shall be liable under a judgment, decree or order of a court, or in any other manner for the Debts or any other obligations or liabilities of the Company solely by reason of being a Member of the Company. A Member shall be liable only to make the Capital Contributions described in Section 3, on the terms therein described, and shall not be required to lend any funds to the Company, or to make any other contributions, assessments or payments to the Company; provided that a Member may be required to repay distributions made to it as provided in Section 18- 607 of the Act.

9.7 Company's Liabilities.

(a) Notwithstanding any other provision of this Agreement and except for those liabilities assumed by the Company pursuant to the Contribution Agreement, the Company shall not assume, or otherwise be responsible for, any liabilities or obligations of any Member whether actual or contingent, or liquidated or unliquidated, arising or occurring prior to the date hereof ("Excluded Liabilities"), which Excluded Liabilities shall include, without limitation:

(1) Any liability or obligation of any Member (other than as provided in the Facilities Lease) in respect of any federal, state, local, foreign or other tax, levy, impost, fee, assessment or other governmental charge, including, without limitation, income, estimated income, business, occupation, franchise, property, payroll, personal property, sales, transfer, use, employment, commercial rent, occupancy, franchise or withholding taxes, and any premium, including, without limitation, interest, penalties and additions in connection therewith;

(2) Any liability (to the extent not covered by insurance) arising from any injury to or death of any person or damage to or destruction of any property, whether based on negligence, breach of warranty, strict liability, enterprise liability or any other legal or equitable theory arising from services performed by or on behalf of any Member prior to the date hereof;

(3) Any liability or obligation of any Member resulting from entering into, performing its obligations pursuant to or consummating the transactions contemplated by, this Agreement.

9.8 Partition.

While the Company remains in effect or is continued, each Member agrees not to have any Company Property partitioned or file a complaint or institute any suit, action or proceeding at law or in equity to have any Company Property partitioned, and each Member, on behalf of itself, its successors and its assigns hereby waives any such right.

9.9 Other Instruments.

Each Member hereby agrees to execute and deliver to the Company within five (5) Business Days after receipt of a written request therefor, such other and further documents and instruments, statements of interest and holdings, designations, powers of attorney and other instruments and to take such other action as the Governing Board deems necessary to comply with any laws, rules or regulations as may be necessary to enable the Company to carry out fully the provisions of this Agreement in accordance with its terms.

SECTION 10.

ACCOUNTING, BOOKS AND RECORDS; CONFIDENTIALITY

10.1 Accounting, Books and Records.

(a) The Company shall keep on site at its principal place of business each of the following:

(1) Separate books of account for the Company which shall show a true and accurate record of all costs and expenses incurred, all charges made, all credits made and received, and all income derived in connection with the conduct of the Company and the operation of its business in accordance with this Operating Agreement;

(2) A current list of the full name and last known business, residence, or mailing address of each Member and Director, both past and present;

(3) A copy of the Certificate and all amendments thereto, together with executed copies of any powers of attorney pursuant to which any amendment has been executed;

(4) Copies of the Company's federal, state, and local income tax returns and reports, if any, for the three most recent years;

(5) Copies of this Operating Agreement; and

(6) Unless contained in this Operating Agreement, a statement prepared and certified as accurate by the Governing Board of the Company which describes:

(a) The amount of cash and a description and statement of the agreed value of the other property contributed by each Member and which each Member has agreed to contribute in the future;

(b) Any right of a Member to receive distributions and the relative preferences and designations of the Member's Interest.

(b) The Company shall use the accrual method of accounting in preparation of its financial reports and for tax purposes and shall keep its books and records accordingly. Any Member or its designated representative has

the right at its own cost and expense, at any reasonable time, to have access to and inspect and copy the contents of such books or records. The Governing Board shall be reimbursed by such Member for reasonable costs incurred as a result of such inspection. Notwithstanding anything in the Act (including Section 18-305(c) of the Act) or this Agreement to the contrary, the Governing Board shall not have the right to keep confidential from any Member any information concerning the Company.

10.2 Reports.

The Governing Board shall be responsible for causing the preparation of (i) monthly financial reports of the Company, and (ii) annual audited financial statements in conformity with SEC standards, if required, within 75 days of the Company's year end, and (iii) the coordination of financial matters of the Company with the Company's accountants.

10.3 Confidentiality.

Except as required by law, each Member shall cause each of its affiliates to treat and safeguard as confidential and secret any Protected Information. None of the Members hereto or any of their respective affiliates shall use or disclose, furnish or make accessible to any Person any Protected Information.

SECTION 11.

AMENDMENTS

Amendments to this Agreement may be proposed by any Director or any Member. Following such proposal, the Governing Board shall submit to the Members a verbatim statement of any proposed amendment, providing that counsel for the Company shall have approved of the same in writing as to form, and the Governing Board shall include in any such submission a recommendation as to the proposed amendment. The Governing Board shall seek the written vote

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of the Members on the proposed amendment or shall call a meeting to vote thereon and to transact any other business that it may deem appropriate.

SECTION 12.

TRANSFERS

12.1 Restrictions on Transfers.

Except as otherwise permitted by this Agreement, no Member shall Transfer all or any portion of its Interest.

12.2 Permitted Transfers.

Subject to the conditions and restrictions set forth in Section 12.3 hereof, a Member may at any time Transfer all (but not less than all) of its Interest to (i) a wholly owned subsidiary of that Member, provided that the transferee subsidiary agrees to retransfer all of such Interest to such transferring Member if such transferee subsidiary ceases to be a wholly owned subsidiary of the transferring Member, (ii) the transferor's administrator or trustee to whom such Interest is transferred involuntarily by operation of law, (iii) any transferee if the transfer is approved by all Members which own twenty percent (20%) or more of the outstanding Percentage Interests, in their sole discretion, (iv) in the case of Crescent Operating, to a single transferee if such transfer is necessary for Crescent Real Estate Equities Company ("CEI"), as currently operated or as operated or proposed to be operated in the future to avoid jeopardizing its status as a real estate investment trust (a "REIT") under the Code, provided that prior to any transfer made by Crescent Operating pursuant to this clause (iv), Crescent Operating shall provide Charter Inc. with a written opinion of counsel that such transfer is necessary to avoid jeopardizing the qualification of CEI as a REIT, subject to Charter Inc.'s right of first refusal under Section 12.8; provided that Charter Inc. will notify

Crescent Operating within 15 days after receiving notice from Crescent Operating of its intent to transfer pursuant to this clause (iv) and a written opinion of counsel referred to above, whether it will exercise such rights, and, if it elects to exercise such right, shall complete the purchase of such Interest within 25 days after the original notice from Crescent Operating (subject to the right of Charter Inc. to extend the date for completion of the purchase for up to an additional 20 days if necessary to obtain any regulatory approvals required in connection therewith) and (v) to any Person upon compliance with the provisions of Section 12.8 hereof (any such Transfer being referred to in this Agreement shall be a "Permitted Transfer"). A permitted transferee or other transferee shall be admitted as a substituted Member of the Company in accordance with Section 12.6.

In addition, a Member may also transfer its Interest, except for any voting rights associated with such Interest (other than voting rights in respect of the matters listed in Section 9.4) and the right to designate Directors on the Governing Board (each of which rights will remain with such Member), (i) in the form of a pledge to a bona fide financial institution, which, immediately prior

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to the creation of such pledge, is not an Affiliate of such Member, to secure bona fide arms' length recourse indebtedness of such Member and/or its subsidiaries, or (ii) in the form of a pledge to Crescent Real Estate Equities Limited Partnership pursuant to that certain Line of Credit and Security Agreement, dated as of May 21, 1997, and that certain Amended and Restated Credit and Security Agreement, as amended, dated as of May 30, 1997, if the pledgee thereof agrees (i) to provide the Company with all notices of foreclosure by such pledgee and (ii) in the event such pledgee becomes a Member, to be bound by the provisions of this Agreement applicable to its transferor, it being understood that both (x) the making of such pledge and (y) such financial institution's becoming a Member as the result of foreclosure on such pledge in full or partial satisfaction of all or any part of the indebtedness secured thereby or otherwise as a result of the exercise by it of its rights and remedies with respect thereto shall each constitute a Permitted Transfer and such financial institution shall be a "Member" for the purposes of this Agreement, subject to the limitations described above. If such financial institution transfers any portion of a Member's Interest pursuant to the terms of this Agreement, including pursuant to Section 15.3 in the event of an Unresolved Deadlock, then, upon the consummation of such transfer, the transferee shall have all of the rights associated with such transferred Interest prior to its transfer to such financial institution (including all voting rights and the right to designate Directors related to such transferred Interest or a portion thereof), and the Member which initially transferred its Interest to such financial institution shall have no more rights in such Interest (to the extent transferred by the financial institution).

12.3 Conditions to Permitted Transfers.

A Transfer shall not be treated as a Permitted Transfer under Section 12.2 hereof unless and until the following conditions are satisfied:

(a) Except in the case of a Transfer involuntarily by operation of law, the transferor and transferee shall execute and deliver to the Company such documents and instruments of conveyance as may be necessary or appropriate in the opinion of counsel to the Company to effect such Transfer and to confirm the agreement of the transferee to be bound by the provisions of this Section 12, and to comply with the requirements of Code Section 6050K. In the case of a Transfer of Interests involuntarily by operation of law, the Transfer shall be confirmed by presentation to the Company of legal evidence of such Transfer, in form and substance satisfactory to counsel to the Company. In all cases, unless the requirements of this sentence have been waived by the Governing Board, the Company shall be reimbursed by the transferor and/or transferee for all costs and expenses that it reasonably incurs in connection with such Transfer.

(b) The transferor and transferee shall furnish the Company with the transferee's taxpayer identification number, sufficient information to determine the transferee's initial tax basis in the Interest transferred, and any other information reasonably necessary to permit the Company to file all required federal and state tax returns and other legally required information statements

or returns. Without limiting the generality of the foregoing, the Company shall not be required to make any

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distribution otherwise provided for in this Agreement with respect to any transferred Interest until it has received such information.

(c) Either (i) the Transfer occurs pursuant to an effective registration statement under the Securities Act and any applicable state securities law or (ii) the Transfer is exempt from registration or is otherwise in compliance with the Securities Act and applicable state securities law, and the transferor has furnished to the Company evidence (which may but need not in the discretion of the Governing Board include an opinion of counsel) reasonably satisfactory to the Governing Board.

(d) The Transfer will not cause the Company to be deemed to be an "investment company" under the Investment Company Act of 1940, as amended, and the transferor shall provide an opinion of counsel to such effect, unless the Governing Board waives the requirement that such opinion be provided. Such opinion and counsel shall be reasonably satisfactory to the Governing Board.

(e) The Transfer will not cause the Company to be deemed to be a publicly traded partnership under Code Section 7704.

12.4 Prohibited Transfers.

Any purported Transfer of an Interest that is not a Permitted Transfer shall be null and void and of no force or effect whatever; provided that, if the Company is required to recognize a Transfer that is not a Permitted Transfer (or if the Company, in its sole discretion, elects to recognize a Transfer that is not a Permitted Transfer), the Interest transferred shall be strictly limited to the transferor's rights to allocations and distributions as provided by this Agreement with respect to the transferred Interest, which allocations and distributions may be applied (without limiting any other legal or equitable rights of the Company) to satisfy any debts, obligations, or liabilities for damages that the transferor or transferee of such Interest may have to the Company.

In the case of a Transfer or attempted Transfer of an Interest that is not a Permitted Transfer, the parties engaging or attempting to engage in such Transfer shall be liable to indemnify and hold harmless the Company and the other Members from all cost, liability, and damage that the Company or any of such indemnified Members may incur (including, without limitation, incremental tax liabilities, lawyers' fees and expenses) as a result of such Transfer or attempted Transfer and efforts to enforce the indemnity granted hereby. Any indemnification payments made to the Company under this Section 12.4, to the extent paid with respect to costs, liabilities or other damages incurred by a Member, shall immediately be paid by the Company to such Member.

12.5 Rights of Unadmitted Assignees.

A Person who acquires an Interest but who is not admitted as a substituted Member pursuant to Section 12.6 hereof shall be entitled only to allocations and distributions with respect to such

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Interest in accordance with this Agreement, and shall not have any of the rights of a Member under the Act or this Agreement.

12.6 Admission of Substituted Members.

Subject to the other provisions of this Section 12, a transferee of an Interest may be admitted to the Company as a substituted Member only upon satisfaction of each of the conditions set forth in this Section 12.6:

(a) (i) The non-transferring Members consent to such admission, which consent may be given or withheld in the sole and absolute discretion of each such Member, or (ii) the Interest with respect to which the transferee is being admitted was acquired by means of a Permitted Transfer;

(b) The transferee of an Interest shall, by written instrument in form and substance reasonably satisfactory to the Director (and, in the case of clause (ii) below, the transferor Member), (i) accept and adopt the terms and provisions of this Agreement, including this Section 12 and (ii) assume the obligations of the transferor Member under this Agreement with respect to the transferred Interest. The transferor Member shall be released from all such assumed obligations except (i) those obligations or liabilities of the transferor Member arising out of a breach of this Agreement and (ii) in the case of a Transfer to any Person other than a Member, those obligations or liabilities of the transferor Member based on events occurring, arising or maturing prior to the date of Transfer;

(c) Unless the requirements of this Section 12.6(c) have been waived by the Governing Board, the transferee pays or reimburses the Company for all reasonable legal, filing, and publication costs that the Company incurs in connection with the admission of the transferee as a Member with respect to the Transferred Interest; and

(d) If required by the Governing Board, the transferee (other than a transferee that was a Member prior to the Transfer) shall deliver to the Company evidence of the authority of such Person to become a Member and to be bound by all of the terms and conditions of this Agreement, and the transferee and transferor shall each execute and deliver such other instruments as the Governing Board reasonably deems necessary or appropriate to effect, and as a condition to, such Transfer, including amendments to the Certificate or any other instrument filed with the State of Delaware or any other state or governmental authority.

12.7 Distributions and Allocations in Respect of Transferred Interests.

If all or any portion of an Interest is Transferred during any Allocation Year in compliance with the provisions of this Section 12, Profits, Losses, each item thereof, and all other items attributable to the Transferred Interest for such Allocation Year shall be divided and allocated between the transferor and the transferee by taking into account their varying Percentage Interests during the Fiscal Year in accordance with Code Section 706(d), using any conventions permitted by

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law and agreed to by the transferor and transferee. All distributions on or before the date of such Transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee. Solely for purposes of making such allocations and distributions, the Company shall recognize such Transfer not later than the end of the calendar month during which it is given notice of such Transfer; provided that, if the Company is given notice of a Transfer at least ten (10) Business Days prior to the Transfer, the Company shall recognize such Transfer as of the date of such Transfer; and provided further that if the Company does not receive a notice stating the date such Interest was transferred and such other information as the Director may reasonably require within thirty (30) days after the end of the Allocation Year during which the Transfer occurs, then all such items shall be allocated, and all distributions shall be made, to the Person who, according to the books and records of the Company, was the owner of the Interest on the last day of such Allocation Year. Neither the Company nor the Director shall incur any liability for making allocations and distributions in accordance with the provisions of this Section 12.7, whether or not the Director or the Company has knowledge of any Transfer of ownership of any Interest.

12.8 Right of First Refusal

(a) In the event that any Member has a binding, written offer from an unrelated Person for the Transfer of its Interest other than pursuant to a Permitted Transfer and desires to accept such offer to purchase (a "Proposed Transfer"), such Member (the "Selling Member") shall deliver to the Company and the remaining Members (the "Non-Selling Members") written notice of the material

terms of such offer, including the proposed purchaser thereof, the amount, nature and payment schedule of the consideration to be received, the conditions, if any, associated therewith and any other material terms of such offer (an "Offer Notice"). The Offer Notice shall constitute an irrevocable offer by the Selling Member to sell all (but not less than all) of its Interest subject to the Proposed Transfer (i) first, to the Non-Selling Members and (ii) second, if and only if at that time there are more than two (2) Members, to the Company on terms and conditions of the Proposed Transfer, except that a purchaser under this Section 12.8 shall have the right to pay cash in an amount equal to the Fair Market Value of any Non-Cash Consideration (the "Right of First Refusal").

(b) During the First Offer Period, each Non-Selling Member may elect to purchase all or any portion of such Non-Selling Member's Offer Percentage (as hereinafter defined) of the Interest subject to the Proposed Transfer by delivering written notice of such election stating the percentage of the Interest to be purchased (an "Election Notice") to the Company and the Selling Member prior to the expiration of the First Offer Period. As used herein, a Member's Offer Percentage shall be a fraction, the numerator of which is equal to the Percentage Interest of the Company held by such Member on the date of the Offer Notice and the denominator of which is the Percentage Interests held on such date by all Non-Selling Members (the "Offer Percentage"); provided that a Member shall have the right in an Election Notice to agree to purchase all or any portion of the Interest that could be purchased by other Members; and, if one or more Members do not deliver an Election Notice or elect to purchase less than their respective Offer Percentages, then the portion of the Interest that could have been purchased by such Members shall be purchased by Members that, in

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an Election Notice, agreed to purchase such portion of the Interest, and each such Member shall purchase the portion of the Interest indicated in an Election Notice, unless the sum of the portions of the Interest exceeds the Interest so available for purchase, in which case the portions of the Interest shall be purchased pro rata on the basis of the proportionate amount of the Offer Percentage of such Members that deliver an Election Notice. The failure by any Non-Selling Member to deliver an Election Notice during the First Offer Period shall be deemed to be an election by such Member not to purchase any of the Interest subject to the Proposed Transfer.

(c) If the Non-Selling Members do not elect during the First Offer Period to purchase all of the Interest subject to the Proposed Transfer, during any Second Offer Period, the Company may elect to purchase all (but not less than all) of the Interest that the Non-Selling Members did not elect to purchase during the First Offer Period by delivering an Election Notice to the Selling Member prior to the expiration of the Second Offer Period. The failure by the Company to deliver an Election Notice during any Second Offer Period shall be deemed to be an election by the Company not to purchase any of the Interest subject to the Proposed Transfer.

(d) If the Non-Selling Members and, if applicable, the Company (either individually or collectively) do not elect to purchase all of the Interest subject to the Proposed Transfer, the Selling Member may, Transfer to the purchaser named in the Offer Notice (the "Third Party Purchaser") all (but not less than all) of the Interest subject to the Proposed Transfer in accordance with the terms and conditions set forth in the Offer Notice; provided, however, that if the Selling Member has not consummated the Transfer of such Interest within the 45 Business Day period following any Second Offer Period, all of the restrictions on Transfer contained in this Agreement shall again be in effect with respect to such Interest.

(e) If the consideration for the sale of Interest pursuant to this Right of First Refusal is cash consideration, the purchase price to be paid by each of the Non-Selling Members and the Company, as applicable, shall be equal to the total consideration set forth in the Offer Notice multiplied by the percentage of such Interest being purchased by such Non-Selling Member or the Company, as applicable. If the consideration for the Proposed Transfer consists of consideration that is other than cash consideration payable in immediately available funds at the closing thereunder ("Non-Cash Consideration") or consists of a combination of cash consideration and Non-Cash Consideration, the purchase price shall be cash in an amount equal to the total of the cash consideration, if any, and the Fair Market Value of the Non-Cash Consideration as determined in

accordance with Section 12.9 hereof.

(f) The purchase and sale of Interest pursuant to this Right of First Refusal shall be consummated at a closing that shall occur at the principal business office of the Company within 20 Business Days following the expiration of the relevant Offer Period, or at such other place or time as may be mutually acceptable to the parties. At such closing, the Selling Member shall deliver a certificate or other instrument representing the Interest being purchased, free and clear of all liens, claims, encumbrances (other than as a result of this Agreement) and defects in title and duly endorsed for Transfer to the appropriate purchaser and, in exchange therefor, the purchaser of such

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Interest shall pay the purchase price, as provided in Section 12.8(e) hereof, at such closing by bank wire transfer of immediately available funds to a bank account designated in writing by the Selling Member at least three Business Days prior to such closing.

12.9 Determination of Fair Market Value.

In the event that a determination of the fair market value of Non-Cash Consideration is required pursuant to the Right of First Refusal, the Selling Member shall specify in the applicable Offer Notice its good faith estimate of the fair market value of any Non-Cash Consideration to be paid in connection with the proposed transfer. If a majority of the disinterested members of the Governing Board agrees with the estimated fair market value of such Non-Cash Consideration, the estimate shall be deemed to be the Fair Market Value (the "Fair Market Value") thereof for purposes of this Agreement. If a majority of the disinterested members of the Governing Board does not agree with the estimated fair market value, the Governing Board shall, within 10 Business Days of receipt of the Offer Notice, deliver to the Selling Member written notice of its disagreement and shall, for a period of 10 Business Days after delivering such notice, negotiate with the Selling Member for the purpose of determining the fair market value of the Non-Cash Consideration that is acceptable to the Governing Board and the Selling Member. If the Governing Board and the Selling Member are unable to agree on a fair market value during the aforementioned negotiation period, the Company and the Selling Member shall appoint a mutually agreeable appraiser of recognized standing with respect to the nature of the property constituting the Non-Cash Consideration to complete an appraisal of the property constituting the Non-Cash Consideration. Such appraiser shall render a binding and non-appealable appraisal of the Fair Market Value of the property constituting the Non-Cash Consideration within 10 Business Days of such appraiser's appointment or, if it is not reasonably possible to complete such appraisal in such time period, such longer period as shall be reasonably necessary to complete such appraisal (not to exceed 30 Business Days). The Company and the Selling Member each shall bear one-half of the costs of such appraisal.

12.10 Tag-Along and Bring-Along Rights.

(a) Exercise of "Tag-Along Right."

(i) Transfers by the Majority Member. In the event that Charter Inc.'s or Crescent Operating's Percentage Interest in the Company decreases to less than 25%, the other party (the "Majority Member") shall not Transfer all or part of its Interest without complying with the provisions of this Section 12.10(a). If the Majority Member desires to Transfer all or part of its Interest (the "Offered Interest") to a proposed transferee, each of the other Members (a "Remaining Member") may elect (the "Tag-Along Right") to sell to such proposed transferee, on the same terms, consideration (on a Percentage Interest basis) and conditions as were offered to the Majority Member, all of the Interest then owned by each Remaining Member (if the Majority Member is proposing to sell all of its Interest) or a portion of its Interest (if the Majority Member is proposing to sell less than all of its Interest) in the same proportion as the Interest proposed to be sold by the Majority Member.

(ii) Notification of Proposed Transfers. In the event of a proposed Transfer subject to this Section 12.10(a), the Majority Member shall notify in writing all Remaining Members of the proposed Transfer. Such notice shall set forth: (i) the name of the proposed transferee and the portion of the Interest that is to be transferred by the Majority Member, (ii) the proposed amount and form of consideration and terms and conditions of payment offered by such proposed transferee, and (iii) that the proposed transferee has been informed of the Tag-Along Right provided for in this Section 12.10(a) and has agreed to purchase additional Interests in accordance with the terms hereof. The Tag-Along Right may be exercised by any Remaining Member by delivery of a written notice to the Company (the "Tag-Along Notice") within 30 days following receipt of the notice specified in the immediately preceding sentence stating that the Remaining Member wishes to participate in such transfer to the proposed transferee by including such Remaining Member's Interest (or a portion thereof). The Tag-Along Notice shall also specify, in the event that only a portion of the Majority Member's Interest is being purchased, whether or not the Remaining Member wishes to have any additional portion (up to all) of his Interest purchased if any other Remaining Member does not exercise such Member's Tag-Along Right. In the event that any proposed transferee does not purchase the Interest of the Majority Member or Remaining Member who has exercised such Member's Tag-Along Right on the same terms, consideration (if applicable, on a Percentage Interest basis) and conditions as those set forth in the notice delivered by the Majority Member then the sale by the Majority Member to the proposed transferee shall be void ab initio and of no force and effect, and the Company shall not recognize or give effect to such transfer. Notwithstanding the foregoing, if any Remaining Member shall not exercise its Tag-Along Right provided for herein, the other Remaining Members shall have the right, upon receipt of written confirmation from the Remaining Members not participating in the Tag-Along Right, to include in their respective Tag-Along Notices, and to have purchased by the proposed transferee, an additional Interest equal to each such Member's pro rata portion of the Interest not included in the Tag-Along Right by the non-electing Remaining Member.

(b) Exercise of "Bring-Along Right"

(i) Transfers by the Majority Member. In the event that Charter Inc.'s or Crescent Operating's Percentage Interest in the Company decreases to less than 25% and the Majority Member proposes to Transfer its Interest to a proposed third party transferee in an arms-length transaction, then the Majority Member may, at its option, require (the "Bring-Along Right") each other Member to sell all of its Interest (the "Designated Interest") to the proposed transferee, at the same time and on the same terms, consideration (on a Percentage Interest basis) and conditions at which the Majority Member is selling its Interest.

(ii) Notification of Proposed Transfer. The Majority Member shall exercise its Bring-Along Right by sending written notice of the exercise of the Bring-Along Right to each of the other Members. Such notice shall set forth: (i) the name and address of the proposed transferee and the proposed amount and form of consideration to be paid by the proposed transferee and (ii) the terms and conditions of such transaction. Such notice shall be accompanied by copies of all documents required to be executed by the Members in connection with such transaction. Within 10

days following receipt of the notice, each of the other Members shall deliver to a representative of the Majority Member, designated in the notice, instruments (or other appropriate documents necessary to transfer the Designated Interest) representing the Designated Interest held by such Member, duly endorsed, together with fully executed copies of all other documents required to be executed in connection with such transactions, including (if requested) customary legal opinions from the counsel to such Member. In the event that a Member should fail to deliver such instruments to the Majority Member, the Company shall cause its books and records to show that such Designated Interest is bound by the provisions of this Section 12.10(b) and that such Designated Interest shall be transferred only to the third party purchaser upon surrender for transfer by the holder thereof. If requested by the Majority Member, each Member shall also cause a representative that is duly authorized to execute

documents and to act on behalf of such Member to attend the closing of the transaction and to take such actions as are reasonably requested by the Majority Member.

(iii) Return of Designated Interest. If, within 120 days after the Majority Member gives such notice, the sale of the Designated Interest by the Majority Member in accordance herewith has not been completed, the Majority Member shall return to each Member all instruments or other documentation representing the Designated Interest that such Member delivered for sale pursuant hereto.

(iv) Payment for Designated Interest. Simultaneously with the consummation of the sale of the Designated Interest by the Majority Member and the other Members pursuant to this Section 12.10(b), the Majority Member shall remit, or cause the transferee to remit, to each of the Members the total sales price of the Designated Interest sold pursuant thereto (net of the other Members' pro rata share of any transaction expenses), and shall furnish such other evidence of the completion and time of completion of such sale or other disposition and the terms thereof as may be reasonably requested by such Members.

SECTION 13.

POWER OF ATTORNEY

13.1 Directors as Attorneys-In-Fact.

Each Member hereby makes, constitutes, and appoints each of the Directors, severally, with full power of substitution and resubstitution, its true and lawful attorney-in-fact for it and in its name, place, and stead and for its use and benefit, to sign, execute, certify, acknowledge, swear to, file, publish and record (i) all certificates of formation, amended name or similar certificates, and other certificates and instruments (including counterparts of this Operating Agreement) which the Governing Board may deem necessary to be filed by the Company under the laws of the State of Delaware or any other jurisdiction in which the Company is doing or intends to do business in order to preserve its status as a limited liability company or conduct business in such state; (ii) any and all

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duly authorized amendments, restatements or changes to this Operating Agreement and the instruments described in clause (i), as now or hereafter amended, which the Governing Board may deem necessary to effect a change or modification of the Company in accordance with the terms of this Operating Agreement, including, without limitation, amendments, restatements or changes to reflect the admission of any substituted Member and the disposition by any Member of its interest in the Company; (iii) all certificates of cancellation and other instruments which the Liquidator deems necessary or appropriate to effect the dissolution and termination of the Company pursuant to the terms of this Operating Agreement; and (iv) any other instrument which is now or may hereafter be required by law to be filed on behalf of the Company or is deemed necessary by the Governing Board to comply with any laws, rules or regulations or as may be necessary to enable the Company to carry out fully the provisions of this Operating Agreement in accordance with its terms. Each Member authorizes each such attorney-in-fact to take any further action which such attorney-in-fact shall consider necessary in connection with any of the foregoing, hereby giving each such attorney-in-fact full power and authority to do and perform each and every act or thing whatsoever requisite to be done in connection with the foregoing as fully as such Member might or could do personally, and hereby ratify and confirm all that any such attorney-in-fact shall lawfully do, or cause to be done, by virtue thereof or hereof.

13.2 Nature of Special Power.

The power of attorney granted to each Director pursuant to this Section 13:

(a) Is a special power of attorney coupled with an interest and is irrevocable;

(b) May be exercised by any such attorney-in-fact by listing the Members executing any agreement, certificate, instrument, or other document with the single signature of any such attorney-in-fact acting as attorney-in-fact for such Members; and

(c) Shall survive and not be affected by the subsequent Bankruptcy, insolvency, dissolution, or cessation of existence of a Member and shall survive the delivery of an assignment by a Member of the whole or a portion of its interest in the Company (except that where the assignment is of such Member's entire interest in the Company and the assignee, with the consent of the other Members, is admitted as a substituted Member, the power of attorney shall survive the delivery of such assignment for the sole purpose of enabling any such attorney-in-fact to effect such substitution) and shall extend to such Member's or assignee's successors and assigns.

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SECTION 14.

DISSOLUTION AND WINDING UP

14.1 Dissolution Events.

(a) Dissolution. The Company shall dissolve and shall commence winding up and liquidating upon the first to occur of any of the following (each a "Dissolution Event"):

(1) The unanimous vote of the Members to dissolve, wind up, and liquidate the Company;

(2) A judicial determination that an event has occurred that makes it unlawful, impossible or impractical to carry on the Business;

(3) The expiration of the Company's term;

(4) The entry of a decree of judicial dissolution; or

(5) The Bankruptcy, retirement, resignation or expulsion of any Member; provided that any such event will not be deemed a Dissolution Event if within ninety (90) days after such Dissolution Event if the Company has one (1) or more remaining Members and such Member or Members agree to continue the business and affairs of the Company.

(b) Reconstitution. If it is determined, by a court of competent jurisdiction, that the Company has dissolved prior to the occurrence of a Dissolution Event, then within an additional ninety (90) days after such determination (the "Reconstitution Period"), all of the Members may elect to reconstitute the Company and continue its Business on the same terms and conditions set forth in this Agreement by forming a new limited liability company on terms identical to those set forth in this Agreement. Unless such an election is made within the Reconstitution Period, the Company shall liquidate and wind up its affairs in accordance with Section 14.2 hereof. If such an election is made within the Reconstitution Period, then:

(1) The reconstituted limited liability company shall continue until the occurrence of a Dissolution Event as provided in this Section 14.1(a);

(2) All necessary steps shall be taken to cancel this Agreement and the Certificate and to enter into a new operating agreement and certificate of organization; provided that the right of the Members to select successor Directors and to reconstitute and continue the Business shall not exist and may not be exercised unless the Company has received an opinion of counsel that the exercise of the right would not result in the loss of limited liability of any Member and neither the Company nor the reconstituted limited liability

company would cease to be treated as a partnership for U.S. federal income tax purposes upon the exercise of such right to continue.

14.2 Winding Up.

Upon the occurrence of a Dissolution Event, the Company shall continue solely for the purposes of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and Members, and no Member shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the Company's business and affairs; provided that all covenants contained in this Operating Agreement and obligations provided for in this Operating Agreement shall continue to be fully binding upon the Members until such time as the Property has been distributed pursuant to this Section 14.2 and the Certificate has been canceled pursuant to the Act. The Liquidator shall be responsible for overseeing the winding up and dissolution of the Company, which winding up and dissolution shall be completed within ninety (90) days of the occurrence of the Dissolution Event. The Liquidator shall take full account of the Company's liabilities and Property and shall cause the Property or the proceeds from the sale thereof (as determined pursuant to Section 12.6), to the extent sufficient therefor, to be applied and distributed, to the maximum extent permitted by law, in the following order:

(a) First, to creditors (including Members and Directors who are creditors, to the extent otherwise permitted by law) in satisfaction of all of the Company's Debts and other liabilities (whether by payment or the making of reasonable provision for payment thereof), other than liabilities for which reasonable provision for payment has been made and liabilities for distribution to Members under Section 18-601 or 18-604 of the Act;

(b) Second, except as provided in this Agreement, to Members and former Members of the Company in satisfaction of liabilities for distribution under Sections 18-601 or 18-604 of the Act; and

(c) The balance, if any, to the Members in accordance with the positive balance in their Capital Accounts, after giving effect to all contributions, distributions and allocations for all periods.

14.3 Rights of Members.

Except as otherwise provided in this Agreement, each Member shall look solely to the Property of the Company for the return of its investment and has no right or power to demand or receive Property other than cash from the Company. If the assets of the Company remaining after payment or discharge of the Debts or liabilities of the Company are insufficient to return such investment, the Members shall have no recourse against the Company or any other Member or Director.

14.4 Notice of Dissolution/Termination.

(a) In the event a Dissolution Event occurs, the Liquidator shall, within thirty (30) days thereafter, provide written notice thereof to each of the Members and to all other parties with whom the Company regularly conducts business (as determined in the discretion of the Liquidator) and shall publish notice thereof in a newspaper of general circulation in each place in which the Company regularly conducts business (as determined in the discretion of the Liquidator).

(b) Upon completion of the distribution of the Company's Property as provided in this Section 14, the Company shall be terminated, and the Liquidator shall cause the filing of the Certificate of Cancellation pursuant to Section 18-203 of the Act and shall take all such other actions as may be necessary to terminate the Company.

14.5 The Liquidator.

(a) Definition. The "Liquidator" shall mean a Person appointed by the Governing Board to oversee the dissolution of the Company and shall have the power of attorney granted to the Directors pursuant to Section 13.

(b) Fees. The Company is authorized to pay a reasonable fee to the Liquidator for its services performed pursuant to this Section 14 and to reimburse the Liquidator for its reasonable costs and expenses incurred in performing those services, other than a Liquidator that is also a Member or Director.

(c) Indemnification. The Company shall indemnify, save harmless, and pay all judgments and claims against such Liquidator or any officers, directors, stockholders, agents or employees of the Liquidator relating to any liability or damage incurred by reason of any act performed or omitted to be performed by the Liquidator, or any officers, directors, stockholders, agents or employees of the Liquidator in connection with the winding up of the Company, including reasonable attorneys' fees incurred by the Liquidator, officer, director, stockholder, agent or employee in connection with the defense of any action based on any such act or omission, which attorneys' fees may be paid as incurred, except to the extent such liability or damage is caused by the fraud, intentional misconduct of, or a knowing violation of the laws by the Liquidator which was material to the cause of action.

14.6 Form of Liquidating Distributions.

For purposes of making distributions required by Section 14.2 hereof, the Liquidator may determine whether to distribute all or any portion of the Property in-kind or to sell all or any portion of the Property and distribute the proceeds therefrom.

SECTION 15.

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MANAGEMENT DEADLOCK

15.1 Existence of a Deadlock

A deadlock of the Governing Board (a "Deadlock") shall be deemed to exist if the Governing Board shall be unable to reach agreement by the required vote on (i) a Major Decision, (ii) a decision involving the expenditure of more than \$10 million or (iii) a decision relating to the election of Executive Officers, provided that any matter referred to in (i), (ii) or (iii) has been submitted for consideration at two successive meetings.

15.2 Discussions by Chief Executive Officers

If a Deadlock exists, the Members or Governing Board, as appropriate, shall negotiate in good faith and use their respective best efforts to resolve such Deadlock. If, however, after 20 Business Days such Deadlock remains, any Member, by giving notice to the other Members, may request that such Deadlock be referred for resolution to the Chief Executive Officer of Charter Inc. and the Chief Executive Officer of Crescent Operating (the "Chief Executive Officers") (or, if a Member's Chief Executive Officer is on the Company's Governing Board, another senior officer or director designated by the Member). The Chief Executive Officers shall meet within 20 Business Days thereafter and shall attempt in good faith to resolve such Deadlock. Any resolution agreed to in writing by the Chief Executive Officers shall be final and binding on the Company and the Members, so long as the resolution is not inconsistent with any provision of this Agreement.

15.3 Buy/Sell Option

In the event of a failure to resolve a Deadlock pursuant to Section 15.2 within forty (40) Business Days after a Member makes the request for resolution by the Chief Executive Officers (an "Unresolved Deadlock"), either Member, at any time thereafter, shall be authorized to offer to purchase all of

the Interest of the other Member pursuant to the procedures set forth in the following provisions:

(a) Either Crescent Operating or Charter Inc. (the initiating party being hereinafter referred to as the "Offering Party") may by written notice to the other party (the "Responding Party") state the aggregate fair value of all of the outstanding Interests in the Company (the "Stated Value"). The giving of such notice of Stated Value by the Offering Party shall constitute the irrevocable offer of such party to purchase all of the Responding Party's Interest in the Company or to sell to the Responding Party all of the Offering Party's Interest in the Company for the respective purchase price provided for hereinafter.

(b) Within thirty (30) days after receipt of said notice, the Responding Party shall determine whether it shall sell its Interest or purchase the Offering Party's Interest in the Company as provided herein and shall give written notice to the Offering Party of its decision and shall designate in that notice which party will be the "Selling Party" and which party shall be the

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"Purchasing Party." If the Responding Party shall fail to give notice of its election within the said 15-day period, then the Responding Party shall be deemed to have given notice of its election to sell all of its Interest in the Company pursuant to the provisions hereof.

(c) Within forty-five (45) days after the date on which the Responding Party receives the notice of Stated Value from the Offering Party, Crescent Operating and Charter Inc. shall close the purchase of all of the Interest in the Company then owned by the Selling Party. The purchase price for such Interest shall be the product obtained by multiplying the Stated Value times the Percentage Interest owned by the Selling Party. The Purchasing Party shall pay the purchase price for such Interest in cash or by certified check at the closing. The Selling Party shall deliver to the Purchasing Party at the closing such documents and instruments as may be necessary or desirable, in the opinion of counsel for the Purchasing Party, to effect the transfer of the Selling Party's Interest to the Purchasing Party, which Interest shall be free and clear of all Encumbrances.

(d) If the Selling Party is Charter Inc. and, after the close of the purchase of Charter Inc.'s Interest by Crescent Operating, the Company fails to pay to Franchisor all amounts due Franchisor under the Franchise Agreement, Crescent Operating acknowledges that Charter Inc. shall have the rights granted to Franchisor under Section 15 of the Franchise Agreement.

15.4 Continuation of Business

During the pendency of any Deadlock relating to the approval of any Annual Budget for an ensuing Fiscal Year, the Governing Board and the President shall conduct the Business of the Company in accordance with Section 8.3(c) of this Agreement.

SECTION 16.

MISCELLANEOUS

16.1 Time.

In computing any period of time pursuant to this Agreement, the day of the act, event or default from which the designated period of time begins to run shall not be included, but the time shall begin to run on the next succeeding day. The last day of the period so computed shall be included, unless it is a Saturday, Sunday or legal holiday, in which event the period shall run until the end of the next day which is not a Saturday, Sunday or legal holiday.

16.2 Notices.

Any notice, payment, demand, or communication required or permitted to be given by any provision of this Agreement shall be in writing and shall be deemed to have been delivered, given, and received for all purposes (i) if

delivered personally to the Person or to an officer of the Person

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to whom the same is directed or (ii) when the same is actually received, if sent either by registered or certified mail, postage and charges prepaid, or by facsimile, if such facsimile is followed by a hard copy of the facsimile communication sent promptly thereafter by registered or certified mail, postage and charges prepaid, addressed as follows, or to such other address as such Person may from time to time specify by notice to the Members and Governing Board:

(a) If to the Governing Board or Company, to the address determined pursuant to Section 2.4(a) hereof;

(b) If to the Directors, to the addresses set forth in Section 8.1 hereto and thereafter at such address notified by such Director to the Company in writing; and

(c) If to a Member, to the appropriate address set forth in Section 2.4(b) or 2.4(c) hereof and thereafter at such address notified by such Member to the Company in writing.

16.3 Binding Effect

Except as otherwise provided in this Agreement, every covenant, term, and provision of this Agreement shall be binding upon and inure to the benefit of the Members and their respective successors, transferees, and assigns.

16.4 Construction.

Every covenant, term, and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against any Member.

16.5 Headings.

Section and other headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define, or limit the scope, extent, or intent of this Agreement or any provision hereof.

16.6 Severability.

Except as otherwise provided in the succeeding sentence, every provision of this Agreement is intended to be severable, and, if any term or provision of this Agreement is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity or legality of the remainder of this Agreement. The preceding sentence of this Section 16.6 shall be of no force or effect if the consequence of enforcing the remainder of this Agreement without such illegal or invalid term or provision would be to cause any Member to lose the material benefit of its economic bargain.

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16.7 Incorporation by Reference.

No exhibit, schedule, or other appendix attached to this Agreement and referred to herein is incorporated in this Agreement by reference unless this Agreement expressly otherwise provides.

16.8 Variation of Terms.

All terms and any variations thereof shall be deemed to refer to masculine, feminine, or neuter, singular or plural, as the identity of the Person or Persons may require.

16.9 Governing Law.

The laws of the State of Delaware (other than the choice of law provisions thereof) shall govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties arising hereunder.

16.10 Waiver of Jury Trial.

Each of the Members irrevocably waives, to the extent permitted by law, all rights to trial by jury and all rights to immunity by sovereignty or otherwise in any action, proceeding or counterclaim arising out of or relating to this Agreement.

16.11 Counterpart Execution.

This Agreement may be executed in any number of counterparts with the same effect as if all of the Members had signed the same document. All counterparts shall be construed together and shall constitute one agreement.

16.12 No Material Impairment.

No Member shall take any action that could impair materially such Member's ability to perform its duties and obligations under this Agreement.

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IN WITNESS WHEREOF, the parties have executed and entered into this Operating Agreement of the Company as of the day first above set forth.

CHARTER BEHAVIORAL HEALTH SERVICES,
INC.

\s\ W. Stephen Love

Name: W. Stephen Love
Title: Senior Vice President

CRESCENT OPERATING, INC.

\s\ Jeffrey L. Stevens

Name: Jeffrey L. Stevens
Title: Chief Financial Officer, Treasurer and
Secretary

MAGELLAN HEALTH SERVICES, INC.

\s\ Linton C. Newlin

By: Linton C. Newlin
Title: Vice President and Secretary

WARRANT PURCHASE AGREEMENT

WARRANT PURCHASE AGREEMENT (this "Agreement"), dated as of June 17, 1997, between Magellan Health Services, Inc., a Delaware corporation (the "Company"), and Crescent Operating, Inc., a Delaware corporation (the "Buyer").

WHEREAS, the Company desires to sell to Buyer, and Buyer desires to purchase from the Company, warrants to purchase shares of common stock of the Company, par value \$.25 per share ("Common Stock"); and

WHEREAS, the Company and Crescent Real Estate Equities Limited Partnership ("Crescent") entered into that certain Real Estate Purchase and Sale Agreement dated January 29, 1997 ("REIT Purchase Agreement"), as amended, pursuant to which Crescent agreed to purchase certain real estate and related assets from the Company; and

WHEREAS, the Company and Crescent also agreed to certain other transactions pursuant to the Transaction Documents (as defined in the REIT Purchase Agreement).

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the Company and Buyer hereby agree as follows:

ARTICLE I

TERMS OF THE TRANSACTION

1.1 Agreement to Sell and to Purchase Warrants. At the Closing (as defined in the REIT Purchase Agreement), and on the terms and subject to the conditions set forth in this Agreement, the Company shall sell to Buyer, and Buyer shall purchase from the Company, warrants (collectively, the "Warrants") to purchase shares of Common Stock. The Warrants shall be exercisable during the periods set forth on Annex 1 and shall constitute the right to purchase that number of shares of Common Stock as set forth on Annex 1 (subject to adjustment from time to time as provided in the Warrants). The Warrants shall be in substantially the form set forth as Exhibit A hereto (except for the number of shares and the exercise periods which shall be in accordance with Annex I).

1.2 Purchase Price and Payment. The parties hereto acknowledge that the Purchase Price for the Warrants was made by them in arm's length negotiation. The aggregate purchase price for the Warrants is Twelve Million Five Hundred Thousand Dollars (\$12,500,000) (the "Purchase Price"). The Purchase Price payable by Buyer for the Warrants shall be paid by Buyer on or before the Closing Date (as hereinafter defined) in immediately available funds by confirmed wire transfer to a bank account to be designated by the Company (such designation to occur no later than the third Business Day prior to the Closing Date).

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1.3 Defined Terms. A list of terms used in this Agreement is set forth in Article XI.

ARTICLE II

CLOSING AND CLOSING DATE

The Closing of the transactions contemplated hereby shall occur at the time of the Closing of the REIT Purchase Agreement and upon satisfaction of the conditions to Closing set forth herein and therein. The date on which the Closing is required to take place is herein referred to as the "Closing Date." All Closing transactions shall be deemed to have occurred simultaneously.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Buyer, as of the date hereof, that:

3.1 Corporate Organization. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority in all material respects to own, lease, and operate its properties and to carry on its business as now being conducted. No actions or proceedings to dissolve the Company are pending or, to the best knowledge of the Company, are threatened.

3.2 Capitalization of the Company.

(a) As of January 29, 1997, the authorized capital stock of the Company consisted of (i) 80,000,000 shares of Common Stock, of which, as of that date, 28,686,091 shares were outstanding and 4,423,740 shares were held in the Company's treasury, and (ii) 10,000,000 shares of Preferred Stock, without par value, of which, as of that date, no shares are outstanding. All outstanding shares of capital stock of the Company have been validly issued and are fully paid and nonassessable, and no shares of capital stock of the Company are subject to, nor have any been issued in violation of, preemptive or similar rights. As of January 29, 1997, (i) an aggregate of 4,369,752 shares of Common Stock were reserved for issuance pursuant to stock options granted to certain directors, officers, and employees; (ii) an aggregate of 2,168,661 shares of Common Stock were reserved for issuance and issuable upon the exercise of outstanding warrants; (iii) certain shares of Common Stock were reserved for issuance upon the exercise of certain purchase rights which become exercisable pursuant to the terms of the Rights Agreement; and (iv) an aggregate of 2,831,739 shares of Common stock were reserved for issuance and issuable under the Exchange Agreement.

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(b) Except as set forth above in subparagraph (a) of this Section 3.2 and as contemplated by this Agreement, there are outstanding (i) no shares of capital stock or other voting securities of the Company; (ii) no securities of the Company convertible into or exchangeable for shares of capital stock or other voting securities of the Company; (iii) no options or other rights to acquire from the Company, and no obligation of the Company to issue or sell, any shares of capital stock or other voting securities of the Company or any securities of the Company convertible into or exchangeable for such capital stock or voting securities; and (iv) other than employee compensation plans based on the Company's earnings and executive officer employment agreements, no equity equivalents, interests in the ownership or earnings, or other similar rights of or with respect to the Company. There are no outstanding contractual obligations of the Company to repurchase, redeem or otherwise acquire any shares of Common Stock or any other securities of the type described in clauses (i)-(iv) of the preceding sentence.

3.3 Authority Relative to This Agreement. The Company has full corporate power and authority to execute, deliver, and perform this Agreement to which it is a party and to consummate the transactions contemplated hereby. The execution, delivery, and performance by the Company of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly authorized by all necessary corporate action of the Company. This Agreement has been duly executed and delivered by the Company and constitutes, and the Warrant, when executed by the Company will be, a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, except that such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws affecting creditors' rights generally or by general principles of equity.

3.4 Noncontravention. The execution, delivery, and performance by the Company of this Agreement and the Warrants and the consummation by it of the

transactions contemplated hereby do not and will not (i) conflict with or result in a violation of any provision of the Company's Restated Certificate of Incorporation or the Company's Bylaws, as amended, or the charter, bylaws or other governing instruments of any Subsidiary, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation, or acceleration under, any bond, debenture, note, mortgage, indenture, lease, agreement, or other instrument or obligation to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any of their respective properties may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties of the Company or any Subsidiary, or (iv) assuming compliance with the matters referred to in Section 3.5, violate any Applicable Law binding upon the Company or any Subsidiary, except, in the case of clauses (ii), (iii), and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations, or Encumbrances which would not, individually or in the aggregate, have a material adverse effect on the business, assets, results of operations, or financial condition of the Company and the Subsidiaries taken as a whole or the ability of the Company to consummate the transactions contemplated hereby.

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3.5 Governmental Approvals. No consent, approval, order, or authorization of, or declaration, filing, or registration with, any Governmental Entity is required to be obtained or made by the Company or any Subsidiary in connection with the execution, delivery, or performance by the Company of this Agreement or the consummation by it of the transactions contemplated hereby, other than (i) compliance with any applicable requirements of the HSR Act; (ii) compliance with any applicable requirements of the Securities Act; (iii) compliance with any applicable requirements of the Exchange Act; (iv) compliance with any applicable state securities laws; and (v) such consents, approvals, orders, or authorizations which, if not obtained, and such declarations, filings, or registrations which, if not made, would not, individually or in the aggregate, have a material adverse effect on the business, assets, results of operations, or financial condition of the Company or on the ability of the Company to consummate the transactions contemplated hereby. The representations and warranties of the Company contained in this Section 3.5, insofar as such representations and warranties pertain to compliance by the Company with the requirements of the Securities Act and applicable state securities laws, are based on the representations and warranties of Buyers contained in Section 4.5.

3.6 Authorization of Issuance: Reservation of Shares. When issued and delivered pursuant to this Agreement against payment therefor, the Warrants will have been duly authorized, issued and delivered and will constitute valid and legally binding obligations of the Company entitled to the benefits provided therein. During the period within which the Warrants may be exercised, the Company will at all times have authorized and reserved for the purpose of issue upon exercise of the Warrants, a sufficient number of shares of Common Stock to provide for the exercise of the Warrants. All shares of Common Stock which are issuable upon exercise of the Warrants (the "Warrant Shares") will, when issued, be validly issued, fully paid and nonassessable. Upon exercise of the Warrants the issuance of the Warrant Shares will not be subject to any preemptive or similar rights.

3.7 SEC Filings. The Company has filed with the Commission all forms, reports, schedules, statements, and other documents (excluding exhibits) required to be filed by it since September 30, 1995 under the Securities Act, the Exchange Act, and all other federal securities laws. All forms, reports, schedules, statements, and other documents (including all amendments thereto) filed by the Company with the Commission since such date are herein collectively referred to as the "SEC Filings." The SEC Filings, at the time filed, complied in all material respects with all applicable requirements of federal securities laws. None of the SEC Filings, including, without limitation, any financial statements or schedules included therein, at the time filed, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading except as the same was corrected or superseded in a subsequent

document duly filed with the Commission. The audited consolidated financial statements and unaudited consolidated interim financial statements of the Company included in the SEC Filings present fairly in all material respects, in conformity with generally accepted accounting principles applied on a consistent basis (except as may be indicated in the notes thereto and, in the case of the unaudited consolidated interim financial statements, except to the extent that preparation

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of such financial statements in accordance with generally accepted accounting principles is not required by applicable rules of the Commission), the consolidated financial position of the Company as of the dates thereof and its consolidated results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any interim financial statements).

3.8 Rights Plan. Based upon the representation of Buyer in Section 4.6 hereof and relying upon the information in the most recent Schedule 13D filed by Rainwater-Magellan Holdings, L.P. related to stock ownership in the Company, the execution of this Agreement and the issuance of the Warrant Shares (assuming the continued validity of the representation of Buyer in Section 4.6 hereof) shall not cause an issuance of certificates within the meaning of Section 3 of the Rights Agreement dated as of July 21, 1992, as amended by the First Amendment to Rights Agreement, dated as of May 30, 1997 between the Company and First Union National Bank of North Carolina (the "Rights Agreement") or a Triggering Event as defined in the Rights Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to the Company that:

4.1 Organization. Buyer is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its formation.

4.2 Authority Relative to This Agreement. Buyer has full power and authority to execute, deliver, and perform this Agreement and to consummate the transactions contemplated hereby. The execution, delivery, and performance by Buyer of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly authorized by all necessary action of Buyer. This Agreement has been duly executed and delivered by Buyer and constitutes a valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except that such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws affecting creditors' rights generally or by general principles of equity.

4.3 Noncontravention. The execution, delivery, and performance by Buyer of this Agreement and the consummation by it of the transactions contemplated hereby do not and will not (i) conflict with or result in a violation of any provision of the charter, bylaws, or similar organizational documents of Buyer, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation, or acceleration under, any bond, debenture, note, mortgage, indenture, lease, agreement, or other instrument or obligation to which Buyer is a party or by which Buyer or any of its properties may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties of Buyer, or (iv) violate any Applicable Law binding upon Buyer, except, in the

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case of clauses (ii), (iii), and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations, or Encumbrances which

would not, individually or in the aggregate, have a material adverse effect on the business, assets, results of operations, or financial condition of Buyer or on the ability of Buyer to consummate the transactions contemplated hereby.

4.4 Governmental Approvals. Other than any HSR Act filing, no consent, approval, order, or authorization of, or declaration, filing, or registration with, any Governmental Entity is required to be obtained or made by Buyer in connection with the execution, delivery, or performance by Buyer of this Agreement or the consummation by it of the transactions contemplated hereby.

4.5 Purchase for Investment. Buyer has been furnished with all information that it has requested for the purpose of evaluating the proposed acquisition of the Warrants pursuant hereto, and Buyer has had an opportunity to ask questions of and receive answers from the Company regarding the Company and its business, assets, results of operations, and financial condition and the terms and conditions of the issuance of the Warrants. Buyer is acquiring the Warrants to be purchased by it for its own account for investment and not for distribution in any manner that would violate applicable securities laws. Buyer can bear the risk of an investment in the Warrants, and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of a prospective investment in the Warrants. The acquisition of such Warrants by Buyer at Closing shall constitute Buyer's confirmation of the foregoing representations. Buyer understands that such Warrants are being sold to it in a transaction which is exempt from the registration requirements of the Securities Act, and that, in making the representations and warranties contained in Section 3.5 pertaining to compliance by the Company with the requirements of the Securities Act and applicable securities laws, the Company is relying, to the extent applicable, upon Buyer's representations set forth herein.

4.6 No Other Shares. Except for such rights as may be conferred on Buyer by this Agreement, as of the date hereof, Buyer does not beneficially own, directly or indirectly through any subsidiary, or any affiliate of the Buyer in which the Buyer directly or indirectly owns stock or equity interests, and Crescent Real Estate Equities Company does not own, any shares of capital stock of the Company.

ARTICLE V

ADDITIONAL AGREEMENTS

5.1 Press Releases. Except as may be required by Applicable Law, neither Buyer, on the one hand, nor the Company, on the other, shall issue any press release with respect to this Agreement or the transactions contemplated hereby without the prior written consent of the other party (which consent shall not be unreasonably withheld under the circumstances). Any such press release required by Applicable Law shall only be made after reasonable notice to the other party.

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5.2 Stock Exchange Listing. The Company shall use its commercially reasonable best efforts to cause the Warrant Shares to be approved for listing on the New York Stock Exchange, subject to official notice of issuance, prior to the date any such Warrant Shares become issuable upon the exercise of the Warrants.

5.3 Registration Rights.

(a) Registration of Warrant Shares. At least 90 days prior to the date on which the Warrant Shares are issuable upon exercise of the Warrant, the Company will prepare and file one or more registration statements under the Securities Act, and use its commercially reasonable best efforts to cause such registration statements to become effective as promptly as possible, with respect to the issuance of the Warrant Shares upon exercise of the Warrants and the resale of the Registrable Warrant Shares.

(b) Registration Procedures. With respect to each registration statement filed in accordance with this Section 5.3 (the "Registration

Statement"), the Company shall:

(i) cause the Registration Statement and the related prospectus and any amendment or supplement, (A) to comply in all material respects with the applicable requirements of the Securities Act and under the rules and regulations promulgated thereunder, and (B) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading;

(ii) prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection therewith, and upon the mandatory expiration of the Registration Statement, one or more additional registration statements, as may be necessary to keep the Registration Statement effective on a continual basis for so long as the Buyer or its permitted transferee owns any Underlying Warrant Shares; provided that the Company shall not be required to maintain the effectiveness of any Registration Statement filed hereunder for a period in excess of twelve years and sixty (60) days from the Closing Date;

(iii) furnish, upon written request, to Buyer a copy of any amendment or supplement to the Registration Statement or prospectus prior to filing it after effectiveness and not file any such amendment or supplement to which Buyer shall have reasonably objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or of the rules or regulations promulgated thereunder;

(iv) furnish to Buyer such number of copies of the Registration Statement, each amendment and supplement thereto, the prospectus used in connection therewith (including, without limitation, each preliminary prospectus and final prospectus) and such other

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document as Buyer may reasonably request in order to facilitate the disposition of the Registrable Warrant Shares owned by Buyer;

(v) use its commercially reasonable best efforts to register or qualify all Registrable Warrant Shares covered by the Registration Statement under such other securities or blue sky laws of the states of the United States as may be required for the issuance and sale of the Registrable Warrant Shares, to keep such registration or qualification in effect for so long as the Registration Statement remains in effect except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction in which it is not and would not, but for the requirements of this Section 5.3, be obligated to be so qualified, or to subject itself to taxation in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(vi) prior to any sale of the Registrable Warrant Shares effected on a national securities exchange, deliver to such national securities exchange copies of the prospectus to be used in connection with the offering to be conducted pursuant to the Registration Statement;

(vii) upon discovery that, or upon the happening of any event as a result of which, the prospectus included in the Registration Statement, as then in effect, includes or in the judgment of the Company may include an untrue statement of a material fact or omits or may omit to state any material fact required to be stated in such prospectus or necessary to make the statements in such prospectus not misleading in the light of the circumstances in which they were made, which circumstance requires amendment of the Registration Statement or supplementation of the prospectus, prepare and file as promptly as reasonably possible a supplement to or an amendment of such prospectus as may be necessary so that, as when delivered (if required by the Securities Act) to a purchaser of Registrable Warrant Shares, such prospectus shall not include an untrue statement of a material fact or

omit to state a material fact required to be stated in such prospectus or necessary to make the statements in such prospectus not misleading in the light of the circumstances in which they were made;

(viii) otherwise use its commercially reasonable best efforts to comply with all applicable rules and regulations under the Securities Act and, in its discretion, to make available to its securities holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month of the first fiscal quarter after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of section 11(a) of the Securities Act;

(ix) provide and cause to be maintained a transfer agent and registrar for all Registrable Warrant Shares covered by the Registration Statement from and after a date not later than the effective date of the Registration Statement;

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(x) use its commercially reasonable best efforts to list all Registrable Warrant Shares covered by the Registration Statement on any national securities exchange on which securities of the same class as the Registrable Warrant Shares are then listed;

(xi) after any sale of the Registrable Warrant Shares pursuant to this Section 5.3, to the extent not prohibited by law, cause any restrictive legends to be removed and any transfer restrictions to be rescinded with respect to the Registrable Warrant Shares;

(xii) enter into such customary agreements (including, without limitation, underwriting agreements in customary form, substance, and scope) and take all such other actions as the holders of a majority of the Registrable Warrant Shares being sold or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Warrant Shares;

(xiii) in the event of the issuance of any stop order suspending the effectiveness of the Registration Statement, or of any order suspending or preventing the use of any related prospectus or suspending the disqualification of any Common Stock included in the Registration Statement for sale in any jurisdiction, the Company will use its commercially reasonable best efforts promptly to obtain the withdrawal of such order; and

(xiv) use its commercially reasonable best efforts to cause such Registrable Warrant Shares covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the Buyer thereof to consummate the disposition of such Warrant Shares.

(c) Obligations of Buyer. The Buyer holding Registrable Warrant Shares shall furnish to the Company such information regarding the Buyer as the Company may from time to time reasonably request in writing (and will notify the Company of any changes in such information) and as shall be required by the Securities Act in connection with such registration.

(d) Delay of Sales. During any period in which the Company is maintaining the effectiveness of a Registration Statement for the Registrable Warrant Shares pursuant to this Section 5.3, the Company shall have the right, upon giving notice to the Buyer holding Registrable Warrant Shares of the exercise of such right, to require the Buyer not to sell any Registrable Warrant Shares pursuant to such Registration Statement for a period of time the Company deems reasonably necessary, which time shall be specified in such notice but in no event longer than a period of 90 days, if (i) the Company is engaged in an offering of shares by the Company for its own account or is engaged in or proposes to engage in discussions or negotiations with respect to, or has proposed or taken a substantial step to commence, or there otherwise is pending, any merger, acquisition, other form of business combination, divestiture, tender

offer, financing or other transaction, or there is an event or state of facts relating to the Company, in each case which is material to the Company (any such negotiation, step, event or state of facts being herein called a "Material Activity"), (ii) such Material Activity would, in the opinion of counsel for the Company reasonably acceptable to Buyer,

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require disclosure so as to permit the Registrable Warrant Shares to be sold in compliance with applicable law, and (iii) such disclosure would, in the reasonable judgment of the Company, be adverse to its interests in any material respect. The Company shall have no obligation to include in any notice contemplated by this subparagraph (f) any reference to or description of the facts based upon which the Company is delivering such notice.

(e) Indemnification.

(i) The Company shall indemnify and hold harmless the Buyer holding Registrable Warrant Shares and its directors, Affiliates and officers, and each other person, if any, who controls the Buyer within the meaning of the Securities Act against any losses, claims, damages, liabilities or expenses (including reasonable fees and expenses of counsel), joint or several, to which the Buyer or any such director, Affiliate or officer or participating or controlling person may become subject under the Securities Act or otherwise in connection with or as a result of a sale by the Buyer of the Registrable Warrant Shares, insofar as such losses, claims, damages, liabilities or expenses (or related actions or proceedings) arise out of or are based upon (i) any untrue statement of any material fact contained in the Registration Statement, any preliminary prospectus, final prospectus or summary prospectus contained in the Registration Statement, or any amendment or supplement to the Registration Statement, or any document incorporated by reference in the Registration Statement, or (ii) any omission to state in any such document a material fact required to be stated in any such document or necessary to make the statements in any such document not misleading, and the Company will reimburse the Buyer and each such director, Affiliate, officer, participating person and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or expense (or action or proceeding in respect of any such loss, claim, damage, liability or expense) which arises out of or is based upon an untrue statement or omission made in the Registration Statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement except for any untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by the Buyer or any such director, Affiliate, officer, participating person or controlling person for use in the preparation of the Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Buyer or any such director, Affiliate, officer, participating person or controlling person and shall survive the transfer of Registrable Warrant Shares by the Buyer.

(ii) The Buyer shall indemnify and hold harmless (in the same manner and to the same extent as set forth in clause (i) of this subparagraph (f)) the Company, each director of the Company, each officer of the Company who shall sign the Registration Statement and each other person, if any, who controls the Company within the meaning of the Securities Act, with respect to any untrue statement in or omission from the Registration Statement, any preliminary prospectus, final prospectus or summary prospectus included in the Registration Statement, or any amendment or supplement to the Registration Statement, but only to the

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extent that such statement or omission was made in direct reliance upon

and in conformity with written information furnished to the Company by the Buyer for use in the preparation of the Registration Statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of the Registrable Warrant Shares by the Buyer.

(iii) Indemnification under this Section 5.3 shall be made as set forth in Article IX hereof.

(f) Registration Expenses. All expenses incident to the Company's registration of the Registrable Warrant Shares pursuant to the provisions of this Section 5.3, including, without limitation, all registration and filing fees, fees and expenses of compliance with securities or blue sky laws, printing and engraving expenses, messenger and delivery expenses and fees and disbursements of counsel for the Company and all independent certified public accountants, underwriters (excluding underwriting discounts and any selling commissions) and any persons retained by the Company (all such expenses being herein called "Registration Expenses"), will be paid by the Company; provided, that, all expenses incurred by the Buyer holding Registrable Warrant Shares to retain any counsel, accountant or other advisor will not be deemed to be Registration Expenses and will be paid by the Buyer. The underwriting discounts or commissions and any selling commissions together with any stock transfer or similar taxes attributable to sales of the Registrable Warrant Shares will be paid by the Buyer.

5.4 Fees and Expenses. The parties shall each pay their own fees and expenses and those of their agents, advisors, attorneys and accountants with respect to the negotiation and execution of this Agreement.

5.5 Restrictions on Transfers: Restrictions on Exercise of Warrants.

(a) Restrictions on Transfer of Warrants and Warrant Shares. Subject to the provisions of subsections (b) and (c), without having obtained the prior written consent of the Company, the Buyer shall not:

(i) sell or transfer any of the Warrants held by it to any other person, except for Excluded Transfers (as defined below) or to a wholly owned Subsidiary; and

(ii) prior to the twelfth anniversary of the Closing Date, except for an Excluded Transfer, sell or transfer in a privately negotiated transaction to a single purchaser and its Affiliates, or any "Group" (as such term is defined in Rule 13d-5(b)(1) under the Exchange Act) any combination of Warrants and/or Warrant Shares, if the aggregate number of Warrant Shares and Underlying Warrant Shares to be so transferred equals 5% or more of

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the Common Stock then outstanding on a fully-diluted basis (i.e. including all shares of Common Stock issuable under the terms of any options, warrants and similar rights).

(b) Exceptions to Transfer Restrictions. Notwithstanding subsection (a), the Buyer may sell or transfer any of the Warrants and/or Warrant Shares to any person pursuant to, as a result of, or in connection with (i) a tender offer or an exchange offer approved by the Board of Directors of the Company; (ii) the consummation of a merger (provided the Company is not the surviving corporation in such merger), consolidation, or a sale of all or substantially all the assets of the Company; or (iii) any other "Fundamental Change Transaction" (as such term is defined in the Warrant) (any transfer pursuant to this Section 5.5(b), an "Excluded Transfer").

(c) Transferees. During the period in which the restrictions set forth in this Section 5.5 remain applicable, neither Buyer nor any transferee shall be entitled to, directly or indirectly, sell or transfer any of the Warrants and/or Warrant Shares in an Excluded Transfer to any person who is not a party to this Agreement, unless the purported transferee executes an instrument acknowledging

that it is bound by the terms of this Section 5.5 and such instrument is delivered to the Company.

5.6 Indemnification of Brokerage. Each of the parties hereto agrees to indemnify and hold harmless each other party from and against any claim or demand for a commission or other compensation by any financial advisor, broker, agent, finder, or similar intermediary claiming to have been employed by or on behalf of such indemnifying party and to bear the cost of legal fees and expenses incurred in defending against any such claim or demand.

5.7 Delivery of Information. The Company will deliver to the Buyer promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K (or their equivalents) which the Company shall have filed with the Commission or any similar reports filed with any state securities commission or office.

5.8 Rule 144 and Rule 144A Information. With a view to making available to the Buyer the benefits of Rule 144 and Rule 144A promulgated under the 1933 Act and any other rule or regulation of the Commission that may at any time permit the Buyer to sell Common Stock of the Company to the public without registration, the Company agrees to:

- (i) make and keep public information available, as those terms are understood and defined in Rule 144;

- (ii) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

- (iii) furnish to Buyer forthwith upon request (A) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (B) a copy of the most recent annual or quarterly report of the

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Company and such other reports and documents so filed by the Company under the Securities Act and the Exchange Act and (C) such other information as may be reasonably requested by each Buyer in availing itself of any rule or regulation of the Commission which permits the selling of any such securities without registration; and

- (iv) comply with all rules and regulations of the Commission applicable to the Company in connection with use of Rule 144A (or any successor thereto); and

- (v) within five business days of the Company's receipt of a request made by, or on behalf of, any prospective transferee of who is a Qualified Institutional Buyer (as defined in Rule 144A) and would be purchasing Common Stock of the Company in reliance upon Rule 144A), provide to such prospective transferee copies of annual audited and quarterly unaudited financial statements of the Company for it to comply with Rule 144A.

5.9 Standstill.

(a) General. Buyer agrees that during the four year period ending on the anniversary of the Closing Date, it will not, and it will cause its Affiliates and employees (other than Richard E. Rainwater, John C. Goff and Gerald W. Haddock) not to, purchase additional shares (excluding any acquisition of shares of Common Stock or Equity Securities pursuant to warrants outstanding pursuant to that certain Stock and Warrant Purchase Agreement dated December 22, 1995 between the Company and Richard E. Rainwater and certain other buyers) of the Company's Common Stock (or other Equity Securities) so that Buyer and its Affiliates and employees collectively own 20% or more of the Company's Common Stock then outstanding; provided, however, that Buyer and its Affiliates and employees shall not be deemed to own 20% or more of the Common Stock then outstanding solely by reason of the Company's purchase of any Common Stock unless thereafter Buyer and its Affiliates and employees purchase any additional shares of Common Stock (excluding any acquisition of Warrant Shares upon

exercise of the Warrants, which shall not be restricted hereunder).

(b) Additional Standstill Obligations. Buyer further agrees that during the twelve year period ending on the anniversary of the Closing Date, it will not, and it will cause its Affiliates and employees not to, without prior Company consent, (i) effect or cause to be effected any (A) "solicitation" of "proxies" (as such terms are used in the proxy rules of the Commission) with respect to the Company or any action resulting in such person becoming a "participant" in any "election contest" (as such terms are used in the proxy rules of the Commission) with respect to the Company, or (B) any tender or exchange offer or offer for a merger, consolidation, share exchange or business combination involving the Company or substantially all of its assets, (ii) propose any matter for submission to a vote of the stockholders of the Company, or (iii) sell any shares of the Company's Common Stock (or other Equity Securities) short.

(c) Amendments to Rights Agreement. If the Company undertakes the purchase of any Common Stock under circumstances in which any exercise of Warrants would be considered to

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cause Buyer and its Affiliates to become an "Acquiring Person" under the Rights Agreement, the Company agrees to amend the Rights Agreement to either (i) include the Buyer and its Affiliates in the definition of an "Initial Shareholder", or (ii) change the definition of "Exempt Person" so as to exclude any exercise of the Warrants from being considered as an additional purchase of shares of Common Stock for purposes of the Rights Agreement. The Company agrees to amend the Rights Agreement prior to Closing to the extent, if any, necessary to prevent any of the transactions contemplated hereby, including any issuance of Warrant Shares, to cause an issuance of certificates under Section 3 of the Rights Agreement or a Triggering Event under the Rights Agreement.

5.10 Notices. The Company agrees to give the Buyer notice of any of the events referred to in Section 4(g) of the Warrants at least five (5) Business Days prior to any record date established or related to any such event which the Buyer agrees to keep strictly confidential unless and until any such event has been publicly announced.

5.11 Survival of Covenants. Except for any covenant or agreement which by its terms expressly terminates as of a specific date, the covenants and agreements of the parties hereto contained in this Agreement shall survive the Closing without contractual limitation.

ARTICLE VI

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 on or prior to the Closing Date of each of the following conditions:

6.1 Representations and Warranties True. All the representations and warranties of Buyer contained in this Agreement shall be true and correct on and as of the Closing Date in all material respects, except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as of such specified date, except to the extent contemplated by this Agreement.

6.2 Covenants and Agreements Performed. Buyer shall have performed and complied with all covenants and agreements required by this Agreement, if any, to be performed or complied with by it on or prior to the Closing Date in all material respects.

6.3 HSR Act. To the extent that the HSR Act is applicable to the transaction contemplated herein, all waiting periods (and any extensions thereof) applicable to this Agreement and the transactions contemplated hereby under the HSR Act shall have expired or been terminated.

6.4 Legal Proceedings. No Proceeding shall, on the Closing Date, be pending or threatened seeking to restrain, prohibit, or obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby.

6.5 Certificate. The Company shall have received a certificate executed by a duly authorized person on behalf of Buyer dated the Closing Date, representing and certifying, in such detail as the Company may reasonably request, that the conditions set forth in Sections 6.1, 6.2 and 6.4 have been fulfilled.

6.6 Other Conditions. All conditions to closing set forth in the REIT Purchase Agreement have been satisfied or waived.

6.7 Other Transactions. All Transactions under the other Transaction Documents (as defined in the REIT Purchase Agreement) have been consummated contemporaneously herewith.

ARTICLE VII

CONDITIONS TO OBLIGATIONS OF BUYER

The obligations of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

7.1 Representations and Warranties True. All the representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the Closing Date in all material respects, except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as of such specified date, except to the extent contemplated by this Agreement.

7.2 Covenants and Agreements Performed. The Company shall have performed and complied with all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date in all material respects.

7.3 Legal Proceeding. No Proceeding shall, on the Closing Date, be pending or threatened seeking to restrain, prohibit, or obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby.

7.4 Certificates. Buyer shall have received a certificate or certificates representing the Warrants, in definitive form representing the Warrants purchased by it, (in substantially the form set forth in Exhibit A hereto) registered in the name of Buyer and duly executed by the Company.

7.5 Other Conditions. All conditions to closing the REIT Purchase Agreement have been satisfied or waived.

7.6 Other Transactions. All Transactions under the other Transaction Documents (as defined in the REIT Purchase Agreement) have been consummated contemporaneously herewith.

ARTICLE VIII

TERMINATION, AMENDMENT, AND WAIVER

8.1 Termination. This Agreement shall be terminated and the

transactions contemplated hereby abandoned if the REIT Purchase Agreement is terminated.

8.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 8.1, this Agreement shall become void and have no effect, except that the agreements contained in this Section and in Sections 5.1, 5.4 and 5.6 and Article IX shall survive the termination hereof. Nothing contained in this Section shall relieve any party from liability for any breach of this Agreement.

8.3 Amendment. This Agreement may not be amended except by an instrument in writing signed by or on behalf of all the parties hereto.

8.4 Waiver. No failure or delay by a party hereto in exercising any right, power, or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The provisions of this Agreement may not be waived except by an instrument in writing signed by or on behalf of the party against whom such waiver is sought to be enforced.

ARTICLE IX

SURVIVAL OF REPRESENTATIONS; INDEMNIFICATION

9.1 Survival. The representations and warranties of the parties hereto contained in this Agreement or in any certificate, instrument or document delivered pursuant hereto shall survive the Closing, regardless of any investigation made by or on behalf of any party, until the first anniversary of the Closing Date (the "Survival Date"). No action may be brought with respect to a breach of any representation after the Survival Date unless, prior to such time, the party seeking to bring such an action has notified the other party of such claim, specifying in reasonable detail the nature of the loss suffered. The provisions of this Section 9.1 shall have no effect upon any of the covenants of the parties set forth in Article V or any of the other obligations of the parties hereto under the Agreement, whether to be performed later, at or after the Closing.

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9.2 Indemnification by Company. The Company shall indemnify, defend, and hold harmless Buyer from and against any and all claims, actions, causes of action, demands, losses, damages, liabilities, costs, and expenses (including reasonable attorneys' fees and expenses) (collectively, "Damages"), asserted against, resulting to, imposed upon, or incurred by Buyer, directly or indirectly, by reason of or resulting from any breach by the Company of any of its representations, warranties, covenants, or agreements contained in this Agreement or in any certificate, instrument, or document delivered pursuant hereto. Notwithstanding anything to the contrary contained herein, the Company's indemnity obligations hereunder (i) will not extend to Damages arising out of negligence, willful misconduct or fraud of the Buyer and (ii) with respect to indemnification Damages under this Section 9.2 (other than, for each of (i) and (ii), Damages related to the ability of the Buyer to exercise the Warrants, receive the Warrant Shares, or sell the Warrant Shares related to the failure of Magellan to effect the registration of the Warrant Shares), the Company's indemnification obligations (x) for a period of two (2) years following the Closing, shall not arise until the aggregate Damages resulting from the breach exceed \$1,000,000, at which time such indemnity obligations shall cover all Damages, and (y) after two (2) years following the Closing, shall not arise until the aggregate Damages during such period resulting from the breach exceed \$10,000,000, at which time such indemnity obligations shall cover all Damages.

9.3 Indemnification by Buyer. Buyer shall indemnify, defend, and hold harmless the Company from and against any and all Damages asserted against, resulting to, imposed upon, or incurred by the Company, directly or indirectly, by reason of or resulting from any breach by Buyer of any of its representations, warranties, covenants, or agreements contained in this Agreement or in any certificate, instrument, or document delivered pursuant hereto. Notwithstanding anything to the contrary contained herein, Buyer's indemnity obligations hereunder (i) will not extend to Damages arising out of

negligence, willful misconduct or fraud of the Company and (ii) with respect to indemnification Damages under this Section 9.3, the Buyer's indemnification obligations (x) for a period of two (2) years following the Closing, shall not arise until the aggregate Damages resulting from the breach exceed \$1,000,000, at which time such indemnity obligations shall cover all Damages, and (y) after two (2) years following the Closing, shall not arise until the aggregate Damages during such period resulting from the breach exceed \$10,000,000, at which time such indemnity obligations shall cover all Damages.

9.4 Procedure for Indemnification. Promptly after receipt by an indemnified party under Section 9.2 or 9.3 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party under such Section, give written notice to the indemnifying party of the commencement thereof, but the failure so to notify the indemnifying party shall not relieve it of any liability that it may have to any indemnified party except to the extent the indemnifying party demonstrates that the defense of such action is prejudiced thereby. In case any such action shall be brought against an indemnified party and it shall give written notice to the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it may wish, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party. If the indemnifying party elects to assume the defense of such action, the indemnified party shall have the right to employ separate

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counsel at its own expense and to participate in the defense thereof. If the indemnifying party elects not to assume (or fails to assume) the defense of such action, the indemnified party shall be entitled to assume the defense of such action with counsel of its own choice, at the expense of the indemnifying party. If the action is asserted against both the indemnifying party and the indemnified party and there is a conflict of interests which renders it inappropriate for the same counsel to represent both the indemnifying party and the indemnified party, the indemnifying party shall be responsible for paying for separate counsel for the indemnified party; provided, however, that if there is more than one indemnified party, the indemnifying party shall not be responsible for paying for more than one separate firm of attorneys to represent the indemnified parties, regardless of the number of indemnified parties. The indemnifying party shall have no liability with respect to any compromise or settlement of any action effected without its written consent (which shall not be unreasonably withheld).

ARTICLE X

MISCELLANEOUS

10.1 Notices. All notices, requests, demands, and other communications required or permitted to be given or made hereunder by any party hereto shall be in writing and shall be deemed to have been duly given or made if delivered personally, or transmitted by first class registered or certified mail, postage prepaid, return receipt requested, or sent by prepaid overnight delivery service, or sent by cable, telegram, or telefax, to the parties at the addresses and telefax numbers set forth opposite their names on the signature page hereof (or at such other addresses and telefax numbers as shall be specified by the parties by like notice).

10.2 Entire Agreement. This Agreement, together with the Transaction Documents, constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

10.3 Binding Effect; Assignment; No Third Party Benefit. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors, and permitted assigns. Except as otherwise expressly provided in this Agreement, neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties. Except as provided in Article IX, nothing in this Agreement, express or implied, is intended to or shall confer upon any person other than the parties hereto,

and their respective legal representatives, successors, and permitted assigns, any rights, benefits, or remedies of any nature whatsoever under or by reason of this Agreement.

10.4 Severability. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent

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it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect; provided however, that if any such provision may be made enforceable by limitation thereof, then such provision shall be deemed to be so limited and shall be enforceable to the maximum extent permitted by applicable law.

10.5 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of laws thereof.

10.6 Counterparts. This Agreement may be executed by the parties hereto in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all, the parties hereto.

ARTICLE XI

DEFINITIONS

11.1 Certain Defined Terms. As used in this Agreement, each of the following terms has the meaning given it in this Article:

"Affiliate" has the meaning specified in Rule 12b-2 promulgated under the Exchange Act.

"Applicable Law" means any statute, law, rule, or regulation or any judgment, order, writ, injunction, or decree of any Governmental Entity to which a specified person or property is subject.

"Business Day" shall mean any day other than a Saturday, a Sunday, or a day on which banking institutions in Atlanta, Georgia or Dallas, Texas are authorized or obligated by law or executive order to close.

"Encumbrances" means liens, charges, pledges, options, mortgages, deeds of trust, security interests, claims, restrictions (whether on voting, sale, transfer, disposition, or otherwise), easements, and other encumbrances of every type and description, whether imposed by law, agreement, understanding, or otherwise.

"Equity Ownership Interests" shall mean, with respect to the Buyer, at any time, the fraction (a) having as its numerator the number of shares of Common Stock and Underlying Warrant Shares held beneficially by the Buyer at such time, and (b) having as its denominator the aggregate number of shares of Common Stock (calculated on a fully diluted basis) issued and outstanding at such time.

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"Equity Securities" means any capital stock of the Company, and any securities directly or indirectly convertible into, or exercisable or exchangeable for any capital stock of the Company, or any right, option, warrant or other security which, with the payment of additional consideration, the expiration of time or the occurrence of any event shall give the holder thereof the right to acquire any

capital stock of the company or any security convertible into or exercisable or exchangeable for, any capital stock of the Company.

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

"Exchange Agreement" means that certain Exchange Agreement among the Company and certain other parties dated as of December 13, 1995.

"Governmental Entity" means any court or tribunal in any jurisdiction (domestic or foreign) or any public, governmental, or regulatory body, agency, department, commission, board, bureau, or other authority or instrumentality (domestic or foreign).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, enterprise, unincorporated organization, or Governmental Entity.

"Proceedings" means all proceedings, actions, suits, investigations, and inquiries by or before any arbitrator or Governmental Entity.

"Registrable Warrant Shares" means the Warrant Shares and any Common Stock or other Equity Securities issued with respect thereto by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise.

"Rights Agreement" means that certain Rights Agreement, dated as of July 21, 1992, as amended by the First Amendment to Rights Agreement, dated as of May 30, 1997 between the Company and First Union National Bank of North Carolina, as rights agent.

"Securities Act" means the Securities Act of 1933, as amended.

"Subsidiary" means any corporation more than 50% of whose outstanding voting securities, or any general partnership, joint venture, or similar entity more than 50% of whose total equity interests, is owned, directly or indirectly, by the Company, or any limited partnership of which the Company or any Subsidiary is a general partner.

"Underlying Warrant Shares" shall mean, at any time, all shares of Common Stock which may be acquired upon exercise of the Warrants. For purposes hereof, any person who

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holds Warrants shall be deemed to be the holder of the Underlying Warrant Shares obtainable upon exercise of such Warrants.

11.2 Certain Additional Defined Terms. In addition to such terms as are defined in the opening paragraph of and the recitals to this Agreement and in Section 11.1, the following terms are used in this Agreement as defined in the Sections set forth opposite such terms:

| Defined Term | Section Reference |
|-----------------------------|-------------------|
| Closing..... | Article II |
| Closing Date..... | Article II |
| Damages..... | 9.2 |
| Excluded Transfer..... | 5.5 |
| Material Activity..... | 5.3 |
| Purchase Price..... | 1.2 |
| Registration Expenses..... | 5.3 |
| Registration Statement..... | 5.3 |
| SEC Filings..... | 3.7 |

| | |
|---------------------|-----|
| Survival Date..... | 9.1 |
| Warrant Shares..... | 3.6 |
| Warrants..... | 1.1 |

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IN WITNESS WHEREOF, the parties have executed this Agreement, or caused this Agreement to be executed by their duly authorized representatives, all as of the day and year first above written.

MAGELLAN HEALTH SERVICES, INC.

Address:

3414 Peachtree Road, N.E. Suite 1400
Atlanta, Georgia 30326
Fax: (404) 814-5717

By:\s\ Linton C. Newlin

Linton C. Newlin
Vice President and Secretary

CRESCENT OPERATING, INC.

By: \s\ Jeffrey L. Stevens

Jeffrey L. Stevens
Chief Financial Officer, Treasurer
and Secretary

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EXHIBIT A
(Form of Warrants)

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THIS WARRANT AND ANY SHARES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, OR OTHERWISE DISPOSED OF UNLESS REGISTERED PURSUANT TO THE PROVISIONS OF THAT ACT OR UNLESS AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL, REASONABLY SATISFACTORY TO THE COMPANY IS OBTAINED STATING THAT SUCH DISPOSITION IS IN COMPLIANCE WITH AN AVAILABLE EXEMPTION FROM SUCH REGISTRATION.

THE RIGHT TO SELL OR OTHERWISE TRANSFER THIS WARRANT IS SUBJECT TO CERTAIN RESTRICTIONS SET FORTH IN A WARRANT PURCHASE AGREEMENT DATED JUNE 17, 1997, BETWEEN THE COMPANY AND THE INITIAL BUYER OF THE WARRANTS, A COPY OF WHICH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICES OF THE COMPANY. THIS WARRANT MAY NOT BE SOLD OR TRANSFERRED EXCEPT UPON THE CONDITIONS SPECIFIED IN THE WARRANT PURCHASE AGREEMENT AND IN THIS WARRANT, AND NO SALE OR TRANSFER OF THIS WARRANT SHALL BE VALID OR EFFECTIVE UNLESS AND UNTIL SUCH CONDITIONS SHALL HAVE BEEN COMPLIED WITH.

CRESCENT OPERATING, INC.

(Incorporated under the laws of the State of Delaware)

Void after 5:00 p.m., Dallas, Texas, local time,
on [June ____], 2001

No. _____

Right to Purchase
[_____] Shares

STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, [Magellan Health Services, Inc., a Delaware corporation] (the "Holder"), or registered assigns, is entitled to purchase from Crescent Operating, Inc., a Delaware corporation (the "Company"), at any time or from time to time during the period specified in Paragraph 2 hereof, an amount as calculated below, of fully paid and nonassessable shares of the Company's Common Stock, par value \$.01 per share (the "Common Stock"), at an exercise price as calculated below (the "Exercise Price"). The term "Warrant Shares", as used herein, refers to the shares of Common Stock purchasable hereunder. The number of Warrant Shares issuable pursuant to this Warrant shall be limited to the number of Warrant Shares that bears the same relationship to [_____] Warrant Shares as the number of shares of Common Stock of the Holder issued to the Company and Crescent Real Estate Equities Limited Partnership, a Delaware limited partnership ("Crescent") pursuant to the Warrant Purchase Agreement dated June 17, 1997

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by and between the Company and the Holder, and the Warrant Purchase Agreement dated January 29, 1997, as subsequently amended, by and between Crescent and the Holder, respectively (collectively, the "Holder Purchase Agreements") in connection with the respective corresponding numbered warrants, bears to the number of shares of common stock of the Holder issuable under such numbered warrants.

The Exercise Price shall be the highest price obtained by multiplying a factor of 1.25 by the arithmetic mean, over the period of 30 consecutive days on which the national securities exchange, automated quotation system or over-the-counter market on which the Common Stock is then listed, admitted to trading or quoted (or if such Common Stock is traded on more than one national securities exchange, automated quotation system or over-the-counter market, the national securities exchange, automated quotation system or over-the-counter market as designated by the Company) is open for trading on a regular basis (any such day is a "Trading Day") beginning the Trading Day immediately following June 17, 1997, on each such Trading Day, of the high and low sale prices of shares of Common Stock or if no such sale takes place on such date, the average of the highest closing bid and lowest closing asked prices thereof on such date, in each case as officially reported on the national securities exchange, automated quotation system or over-the-counter market on which the Common Stock is then listed, admitted to trading or quoted. The Warrant Shares and the Exercise Price are subject to adjustment as provided in Paragraph 4 hereof.

This Warrant, together with all warrants issued upon transfer, exchange or in replacement hereof pursuant to Paragraph 7 hereof (collectively, the "Warrants"), is issued pursuant to, and is subject to all terms, provisions, and conditions contained in, that certain Warrant Purchase Agreement, dated June [17], 1997 (the "Purchase Agreement"), by and between the Company and the Holder. This Warrant is subject to the following additional terms, provisions, and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Shares. Subject to the provisions hereof and the provisions of the Purchase Agreement which restrict the exercise of the Warrants, this Warrant may be exercised by the holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed Exercise Agreement in the form attached hereto, to the Company during normal business hours on any business day at the Company's principal office in Fort Worth, Texas (or such other office or agency of the Company as it may designate by notice to the holder hereof), during the Exercise Period (as defined in Paragraph 2), and upon payment to the Company of the Exercise Price for the Warrant Shares specified in said Exercise Agreement, which such payment shall be made in cash or by certified or official bank check. The Company shall not be required to issue fractional Warrant Shares upon any exercise of the Warrant, but instead shall pay to the holder of this Warrant the cash value of any such fractional Warrant Shares. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or its designee as

the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement delivered, and payment made for such shares as aforesaid. Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in said Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding ten business days, after this Warrant shall have been so exercised.

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The certificates so delivered shall be in such denominations as may be reasonably requested by the holder hereof, shall, unless the Warrant Shares evidenced by such certificate have previously been registered under the Securities Act of 1933, as amended (the "Securities Act"), be imprinted with a restrictive legend substantially similar to the legend appearing on the face of this Warrant, and shall be registered in the name of said holder or such other name as shall be designated by said holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of said certificates, deliver to said holder a new Warrant representing the number of shares with respect to which this Warrant shall not then have been exercised, which Warrant shall be imprinted on its face with the same legend appearing on the face of this Warrant. The Company shall pay all taxes and other expenses and charges payable in connection with the preparation, execution, and delivery of stock certificates (and any new Warrants) pursuant to this Paragraph 1 except that, in case such stock certificates shall be registered in a name or names other than the holder of this Warrant, funds sufficient to pay all stock transfer taxes which shall be payable in connection with the execution and delivery of such stock certificates shall be paid by the holder hereof to the Company at the time of the delivery of such stock certificates by the Company as mentioned above.

2. Period of Exercise. Subject to the provisions of the Purchase Agreement which restrict the exercise of the Warrants, this Warrant is exercisable at any time or from time to time during the period commencing when either the Company or Crescent exercises its respective corresponding numbered warrant under the respective Holder Purchase Agreements and ending at 5:00 p.m. Dallas, Texas, local time, on [] (the "Exercise Period").

3. Certain Actions Prohibited. The Company will not, by amendment of certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant.

Without limiting the generality of the foregoing,

(i) the Company will not increase the par value of the shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect,

(ii) before taking any action which would cause an adjustment reducing the Exercise Price below the then par value of the shares of Common Stock so receivable, the Company will take all such corporate action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock at such adjusted Exercise Price upon the exercise of this Warrant, or

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(iii) the Company will not take any action which results in any adjustment of the Exercise Price if the total number of shares of Common

Stock issuable after the action upon the exercise of this Warrant would exceed the total number of shares of Common Stock then authorized by the Company's charter and available for other than the purpose of issue upon such exercise.

4. Anti-dilution Provisions. The Exercise Price shall be subject to adjustment from time to time as provided in this Paragraph 4. Upon each adjustment of the Exercise Price, the holder of this Warrant shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, the largest number of Warrant Shares obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of Warrant Shares purchasable hereunder immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment. For purposes of this Paragraph 4, the term "Capital Stock," as used herein, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation which may be authorized in the future by an amendment to the Company's charter, provided that the shares purchasable pursuant to this Warrant shall include only shares of Common Stock, or shares resulting from any subdivision or combination of the Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in this Paragraph 4, the stock or other securities or property provided for in this Paragraph 4.

(a) Subdivisions and Combinations. In case at any time the Company shall (i) subdivide the outstanding shares of Capital Stock into a greater number of shares, or (ii) combine the outstanding shares of Capital Stock into a smaller number of shares, the Exercise Price in effect immediately prior thereto shall be adjusted proportionately so that the adjusted Exercise Price shall bear the same relation to the Exercise Price in effect immediately prior to such event as the total number of shares of Capital Stock outstanding immediately prior to such event shall bear to the total number of shares of Capital Stock outstanding immediately after such event. Such adjustment shall become effective immediately after the effective date of a subdivision or combination.

(b) Stock Dividends. In case the Company at any time after the date hereof shall declare, order, pay or make any dividend or other distribution to all holders of the Capital Stock payable in Capital Stock, then in each such case, subject to Paragraph 4(d) hereof, the Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of any class of securities entitled to receive such dividend or distribution shall be reduced to a price (calculated to the nearest .001 of a cent) determined by multiplying such Exercise Price by a fraction

(i) the numerator of which shall be the number of shares of Capital Stock outstanding immediately prior to such dividend or distribution, and

(ii) the denominator of which shall be the number of shares of Capital Stock outstanding immediately after such dividend or distribution.

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Such adjustment shall be made on the date such dividend is paid or such distribution is made and shall become effective retroactive to the record date for the determination of shareholders entitled to receive such dividend or distribution.

(c) Dividends other than Stock Dividends. In case the Company at any time after the date hereof shall declare, order, pay or make any dividend or other distribution to all holders of the Capital Stock, other than a dividend payable in shares of Capital Stock (including, without limitation, dividends or distributions payable in cash, evidences of indebtedness, rights, options or warrants to subscribe for or purchase any Capital Stock or other securities, or any other securities or other property), then, and in each such case, subject to Paragraph 4(d) hereof, the Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of any class of securities entitled to receive such dividend or distribution shall be reduced to a price (calculated to the nearest .001 of a cent) determined by multiplying such Exercise Price by a fraction

(i) the numerator of which shall be the "Market Price" (as

defined below) in effect on such record date or, if any class of Capital Stock trades on an ex-dividend basis, the trading date immediately prior to the date of commencement of ex-dividend trading, less the value of such dividend or distribution (as determined in good faith by the Board of Directors of the Company) applicable to one share of Capital Stock, and

(ii) the denominator of which shall be such Market Price on such record date of, if any class of Capital Stock trades on an ex-dividend basis, the trading date immediately prior to the date of commencement of ex-dividend trading.

Such adjustment shall be made on the date such dividend is paid or such distribution is made and shall become effective retroactive to the record date for the determination of shareholders entitled to receive such dividend or distribution.

For the purpose hereof, "Market Price" shall mean, on any date specified herein, (A) if any class of Capital Stock is listed or admitted to trading on any national securities exchange, the highest price obtained by taking the arithmetic mean over a period of 20 consecutive days on which such national securities exchange (or if such stock is traded on more than one national securities exchange, the exchange the Company has designated under the Securities Exchange Act of 1934 to receive copies of reports filed by the Company under such act) is open for trading on a regular basis (any such day is a "Trading Day") ending the Trading Day immediately prior to such date of the average, on each such Trading Day, of the high and low sale prices of shares of each such class of Capital Stock or if no such sale takes place on such date, the average of the highest closing bid and lowest closing asked prices thereof on such date, in each case as officially reported on all national securities exchanges on which each such class of Capital Stock is then listed or admitted to trading, or (B) if no shares of any class of Capital Stock are then listed or admitted to trading on any national securities exchange, the highest closing price of any class of Capital Stock on such date [traded] in the over-the-counter market[or quoted by and automated quotation system] or, if no such shares of

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any class of Capital Stock are then quoted in any such system, as published by the National Quotation Bureau, Inc. or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Company. If no shares of any class of Capital Stock are then listed or admitted to trading on any national securities exchange and if no closing bid and asked prices thereof are then so quoted or published in the over-the-counter market, "Market Price" shall mean the higher of (x) the book value per share of Capital Stock (assuming for the purposes of this calculation the economic equivalence of all shares of all class of Capital Stock) as determined on a fully diluted basis in accordance with generally accepted accounting principles by the Board of Directors of the Company as of the last day of any month ending within 60 days preceding the date as of which the determination is to be made or (y) the fair value per share of classes of Capital Stock (assuming for the purposes of this calculation the economic equivalence of all shares of all classes of Capital Stock), as determined on a fully diluted basis in good faith by the Board of Directors of the Company, as of a date which is 15 days preceding the date as of which the determination is to be made.

(d) Minimum Adjustment of Exercise Price. If the amount of any adjustment of the Exercise Price required pursuant to this Paragraph 4 would be less than one percent (1%) of the Exercise Price in effect at the time such adjustment is otherwise so required to be made, such amount shall be carried forward and adjustment with respect thereto made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate at least one percent (1%) of such Exercise Price; provided that, upon the exercise of this Warrant, all adjustments carried forward and not theretofore made up to and including the date of such exercise shall, with respect to the portion of this Warrant then exercised, be made to the nearest .001 of a cent.

(e) Fundamental Change Transaction. In case at any time after the date hereof a purchase, tender, or exchange offer shall have been made to and

accepted by the holders of more than 50% of the outstanding shares of Capital Stock, or the Company is otherwise a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all the Company's assets, liquidation, or recapitalization of the Capital Stock) which is to be effected in such a way that as a result of such transaction or offer (x) the holders of Common Stock (or any other securities of the Company then issuable upon the exercise of this Warrant) shall be entitled to receive stock or other securities or property (including cash) with respect to or in exchange for Common Stock (or such other securities), or (y) the Capital Stock ceases to be a publicly traded security either listed on the American Stock Exchange or the New York Stock Exchange, traded in the over-the-counter market, or quoted on an automated quotation system, or any successor thereto or comparable system (each such transaction being herein called a "Fundamental Change Transaction"), then, as a condition of such Fundamental Change Transaction, lawful and adequate provision shall be made whereby the holder of this Warrant shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant, and in lieu of the shares of Common Stock (or such other securities) purchasable immediately before such transaction upon the exercise hereof, such stock or other securities or property (including cash) as may be issuable or payable with respect to or in exchange for a number of outstanding shares of

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Common Stock (or such other securities) equal to the number of shares of Common Stock (or such other securities) purchasable immediately before such transaction upon the exercise hereof, had such Fundamental Change Transaction not taken place. In any such case appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, the provisions for adjustments of the Exercise Price and of the number of Warrant Shares purchasable upon exercise hereof) shall thereafter be applicable, as nearly as reasonably may be, in relation to the stock or other securities or property thereafter deliverable upon the exercise hereof (including an immediate adjustment of the Exercise Price if by reason of or in connection with such Fundamental Change Transaction any securities are issued or event occurs which would, under the terms hereof, require an adjustment of the Exercise Price). In the event of a consolidation or merger of the Company with or into another corporation or entity as a result of which a greater or lesser number of shares of common stock of the surviving corporation or entity are issuable to holders of Capital Stock in respect of the number of shares of Capital Stock outstanding immediately prior to such consolidation or merger, then the Exercise Price in effect immediately prior to such consolidation or merger shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Capital Stock. The Company shall not effect any such Fundamental Change Transaction unless prior to or simultaneously with the consummation thereof the successor corporation or entity (if other than the Company) resulting from such consolidation or merger or the corporation or entity purchasing such assets and any other corporation or entity the shares of stock or other securities or property of which are receivable thereupon by the holder of this Warrant shall expressly assume, by written instrument executed and delivered (and satisfactory in form) to the holder of this Warrant, (i) the obligation to deliver to such holder such stock or other securities or property as, in accordance with the foregoing provisions, such holder may be entitled to purchase and (ii) all other obligations of the Company hereunder.

(f) Notice of Adjustment. Upon the occurrence of any event requiring an adjustment of the Exercise Price, then and in each such case the Company shall promptly deliver to the holder of this Warrant a notice stating the Exercise Price resulting from such adjustment and the increase or decrease, if any, in the number of shares of Common Stock issuable upon exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Within 90 days after each fiscal year in which any such adjustment shall have occurred, or within 30 days after any request therefor by the holder of this Warrant stating that such holder contemplates exercise of this Warrant, the Company will deliver to the holder of this Warrant a certificate of the Company's chief financial officer confirming the statements in the most recent notice delivered under this Paragraph 4(f).

(g) Other Notices. In case at any time:

(i) the Company shall declare or pay to all the holders of Capital Stock any dividend (whether payable in Capital Stock, cash, securities or other property);

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(ii) the Company shall offer for subscription pro rata to all the holders of Capital Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization, or reclassification of the Capital Stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all its assets to, another corporation or other entity;

(iv) there shall be a voluntary or involuntary dissolution, liquidation, or winding-up of the Company; or

(v) there shall be any other Fundamental Change Transaction;

then, in any one or more of such cases, the Company shall give to the holder of this Warrant (a) at least five (5) Business Days prior to the record date established or related to any event referred to in clause (I) - (v) above (which, for purposes of events referred to in clauses (I) - (v) above, shall be the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution, or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, or Transaction) written notice of such record date and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, or Transaction known to the Company, at least 30 days prior written notice of the date (or, if not then known, a reasonable approximation thereof by the Company) when the same shall take place. Such notice in accordance with the foregoing clause (a) shall also specify, in the case of any such dividend, distribution, or subscription rights, the date on which such holders of Capital Stock shall be entitled thereto, and such notice in accordance with the foregoing clause (b) shall also specify the date on which such holders of Capital Stock shall be entitled to exchange their Capital Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, or Transaction, as the case may be. Such notice shall also state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act, or to a favorable vote of security holders, if either is required.

(h) Certain Events. If any event occurs as to which, in the good faith judgment of the Board of Directors of the Company, the other provisions of this Paragraph 4 are not strictly applicable or if strictly applicable would not fairly protect the exercise rights of the holder of this Warrant in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall make such adjustment, if any, on a basis consistent with such essential intent and principles, necessary to preserve, without dilution, the rights of the holder of this Warrant; provided, that no such adjustment shall have the effect of increasing the Exercise Price as otherwise determined pursuant to this Paragraph 4.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax in respect thereof, provided that the Company shall not be required to pay any tax which may

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be payable in respect of any transfer involved in the issuance and delivery of any warrant or certificate in a name other than the holder of this Warrant.

6. No Rights or Liabilities as a Shareholder. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, and Replacement of Warrant; Registration Rights.

(a) Restrictions on Transfer of Warrants. This Warrant shall not be transferable to any person or entity other than a wholly-owned affiliate of the Holder or as permitted under the Purchase Agreement. The transfer of this Warrant to a wholly-owned affiliate or other transferee permitted under the Purchase Agreement and all rights hereunder, in whole or in part, is registrable at the office or agency of the Company referred to in Paragraph 7(e) hereof by the holder hereof in person or by his duly authorized attorney, upon surrender of this Warrant properly endorsed. Upon any transfer of this Warrant to any wholly-owned affiliate or other permitted transferee, other than a wholly-owned affiliate or other permitted transferee who is at that time a holder of other Warrants, the Company shall have the right to require the holder and the affiliate or other transferee to make customary representations to the extent reasonably necessary to assure that the transfer will comply with the Securities Act and any applicable state securities laws. Each holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, then endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company and all other persons dealing with this Warrant as the absolute owner and holder hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant and to the registration of transfer hereof on the books of the Company; but until due presentment for registration of transfer on such books the Company may treat the registered holder hereof as the owner and holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Paragraph 7(e) hereof, for new Warrants of like tenor representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to be imprinted with the same legend appearing on the face of this Warrant and to represent the right to purchase such number of shares as shall be designated by said holder hereof at the time of such surrender. For purposes hereof, the term "Warrant" shall be deemed to include any and all such replacement Warrants, whether issued pursuant to this subparagraph (b) or any other Paragraph hereof.

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(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Paragraph 7, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Paragraph 7.

(e) Register. The Company shall maintain, at its principal office in Fort Worth, Texas (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which

the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Registration Rights. The issuance of any Warrant Shares required to be reserved for purposes of exercise of this Warrant and the resale of such Warrant Shares are entitled to the benefits of the registration rights set forth in the Purchase Agreement.

8. Notices. All notices, requests, and other communications required or permitted to be given or delivered hereunder to the holder of this Warrant shall be in writing, and shall be personally delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, to such holder at the address shown for such holder on the books of the Company, or at such other address as shall have been furnished to the Company by notice from such holder. All notices, requests, and other communications required or permitted to be given or delivered hereunder to the Company shall be in writing, and shall be personally delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, to the office of the Company at 777 Main Street, Fort Worth, Texas 76102, Attention: Chief Financial Officer, or at such other address as shall have been furnished to the holder of this Warrant by notice from the Company. Any such notice, request, or other communication may be sent by telegram or telex, but shall in such case be subsequently confirmed by a writing personally delivered or sent by certified or registered mail as provided above. All notices, requests, and other communications shall be deemed to have been given either at the time of the delivery thereof to (or the receipt by, in the case of a telegram or telex) the person entitled to receive such notice at the address of such person for purposes of this Paragraph 8, or, if mailed, at the completion of the third full day following the time of such mailing thereof to such address, as the case may be.

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9. GOVERNING LAW. THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF DELAWARE, WITHOUT REGARD TO ANY CHOICE OF LAW PRINCIPLES OF SUCH STATE.

10. Remedies. The Company stipulates that the remedies at law of the holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate, and that such terms may be specifically enforced by a decree for the specific enforcement of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

11. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may not be changed, waived, discharged, or terminated orally, but only by an instrument in writing signed by the party (or any predecessor in interest thereof) against which enforcement of the same is sought.

(b) Descriptive Headings. The descriptive headings of the several paragraphs of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(c) Successors and Assigns. This Warrant shall, to the extent provided in Section 4(e), be binding upon any entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all the Company's assets.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer under its corporate seal, attested by its duly

authorized officer, on this ___ day of June __, 1997.

CRESCENT OPERATING, INC.

By: _____
Name: Gerald W. Haddock
Title: President and Chief
Executive Officer

[CORPORATE SEAL]

Attest:

Jeffrey L. Stevens, Secretary

FORM OF EXERCISE AGREEMENT

Dated: _____, ____.

To: _____

Attention: _____

The undersigned, pursuant to the provisions set forth in the within Warrant, hereby agrees to purchase _____ shares of Common Stock covered by such Warrant, and makes payment herewith in full therefor at the price per share provided by such Warrant [in cash or by certified or official bank check in the amount of \$_____] held by the undersigned and any applicable taxes payable by undersigned. Please issue a certificate or certificates for such shares of Common Stock in the name of and pay any cash for any fractional share to:

Name: _____

Signature: _____
Title of Signing Officer or Agent (if any): _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant or with the name of the assignee appearing in the assignment form.

and, if said number of shares of Common Stock shall not be all the shares purchasable under the within Warrant, a new Warrant is to be issued in the name of said undersigned covering the balance of the shares purchasable thereunder less any fraction of a share paid in cash.

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights represented by and under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

| Name of Assignee | Address | No. of Shares |
|------------------|---------|---------------|
| - ----- | ----- | ----- |

, and hereby irrevocably constitutes and appoints _____ as agent and attorney-in-fact to transfer said Warrant on the books of the within-named corporation, with full power of substitution in the premises.

Dated: _____, ____.

In the presence of

- -----

Name: _____

Signature: _____

Title of Signing Officer or Agent

(if any): _____

Address: _____

Note: The above signature should correspond exactly with the name on the face of the within Warrant.