

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended September 30, 1994

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-6639

CHARTER MEDICAL CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

58-1076937
(I.R.S. Employer
Identification No.)

3414 Peachtree Road, N.E.
Suite 1400
Atlanta, Georgia
(Address of principal executive offices)

30326
(Zip Code)

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

See Table of Additional Registrants below.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (\$0.25 par value)	American Stock Exchange
11.25% Series A Senior Subordinated Notes due 2004	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the Registrant at November 30, 1994 was approximately \$605 million.

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes / No

The number of shares of the Registrant's Common Stock outstanding as of November 30, 1994 was 26,909,259.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Registrant's Proxy Statement for the annual meeting of stockholders (which Proxy Statement will be filed with the Securities and Exchange Commission on or before January 28, 1995) are incorporated by reference in Part III hereof.

ADDITIONAL REGISTRANTS(1)			
Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	Address including zip code, and telephone number including area code, of registrant's principal executive offices
Ambulatory Resources, Inc.	Georgia	58-1456102	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Atlanta MOB, Inc.	Georgia	58-1558215	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Beltway Community Hospital, Inc.	Texas	58-1324281	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
C.A.C.O. Services, Inc.	Ohio	58-1751511	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
CCM, Inc.	Nevada	58-1662418	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
CMCI, Inc.	Nevada	88-0224620	1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
CMFC, Inc.	Nevada	88-0215629	1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
CMSF, Inc.	Florida	58-1324269	3550 Colonial Boulevard Fort Myers, FL 33912 (813) 939-0403
CPS Associates, Inc.	Virginia	58-1761039	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Alvarado Behavioral Health System, Inc.	California	58-1394959	7050 Parkway Drive La Mesa, CA 91942-2352 (619) 465-4411
Charter Appalachian Hall Behavioral Health System, Inc.	North Carolina	58-2097827	60 Caledonia Road Asheville, NC 28803 (704) 253-3681

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ADDITIONAL REGISTRANTS(1)	
State or other	Address including zip code, and telephone number

Exact name of registrant as specified in its charter	jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	including area code, of registrant's principal executive offices
Charter Augusta Behavioral Health System, Inc.	Georgia	58-1615676	3100 Perimeter Parkway Augusta, GA 30909 (404) 868-6625
Charter Arbor Indy Behavioral Health System, Inc.	Indiana	35-1916340	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Bay Harbor Behavioral Health System, Inc.	Florida	58-1640244	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Beacon Behavioral Health System, Inc.	Indiana	58-1524996	1720 Beacon Street Fort Wayne, IN 46805 (219) 423-3651
Charter Behavioral Health System at Fair Oaks, Inc.	New Jersey	58-2097832	19 Prospect Street Summit, NJ 07901 (908) 277-9102
Charter Behavioral Health System at Hidden Brook, Inc.	Maryland	52-1866212	522 Thomas Run Road Bel Air, MD 21014 (410) 879-1919
Charter Behavioral Health System at Los Altos, Inc.	California	33-0606642	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Potomac Ridge, Inc.	Maryland	52-1866221	14901 Broschart Road Rockville, MD 20850 (301) 251-4500
Charter Behavioral Health System at Warwick Manor, Inc.	Maryland	52-1866214	3680 Warwick Road, Route 1 East New Market, MD 21631 (410) 943-8108
Charter Behavioral Health System of Athens, Inc.	Georgia	58-1513304	240 Mitchell Bridge Road Athens, GA 30606 (404) 546-7277
Charter Behavioral Health System of Austin, Inc.	Texas	58-1440665	8402 Cross Park Drive Austin, TX 78754 (512) 837-1800
Charter Behavioral Health System of Baywood, Inc.	Texas	76-0430571	709 Medical Center Boulevard Webster, TX 77598 (713) 332-9550

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Charter Behavioral Health System of Bradenton, Inc.	Florida	58-1527678	1324 37th Avenue, E. Bradenton, FL 34208 (813) 746-1388
Charter Behavioral Health System of Canoga Park, Inc.	California	95-4470774	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Central Georgia, Inc.	Georgia	58-1408670	3500 Riverside Drive Macon, GA 31210 (912) 474-6200
Charter Behavioral Health System of Charleston, Inc.	South Carolina	58-1761157	2777 Speissegger Drive Charleston, SC 29405-8299 (803) 747-5830
Charter Behavioral Health System of Charlottesville, Inc.	Virginia	58-1616917	2101 Arlington Boulevard Charlottesville, VA 22903-1593 (804) 977-1120
Charter Behavioral Health System of Chicago, Inc.	Illinois	58-1315760	4700 North Clarendon Avenue Chicago, IL 60640 (312) 728-7100
Charter Behavioral Health System of Chula Vista, Inc.	California	58-1473063	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Columbia, Inc.	Missouri	61-1009977	200 Portland Street Columbia, MO 65201 (314) 876-8000
Charter Behavioral Health System of Corpus Christi, Inc.	Texas	58-1513305	3126 Rodd Field Road Corpus Christi, TX 78414 (512) 993-8893
Charter Behavioral Health System of Dallas, Inc.	Texas	58-1513306	6800 Preston Road Plano, TX 75024 (214) 964-3939
Charter Behavioral Health System of Evansville, Inc.	Indiana	35-1916338	7200 East Indiana Evansville, IN 47715 (812) 476-7200

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Charter Behavioral Health System of Fort Worth, Inc.	Texas	58-1643151	6201 Overton Ridge Blvd. Fort Worth, TX 76132 (817) 292-6844
Charter Behavioral Health System of Jackson, Inc.	Mississippi	58-1616919	East Lakeland Drive Jackson, MS 39208 (601) 939-9030
Charter Behavioral Health System of Jacksonville, Inc.	Florida	58-1483015	3947 Salisbury Road Jacksonville, FL 32216 (904) 296-2447
Charter Behavioral Health System of Jefferson, Inc.	Indiana	35-1916342	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200

Charter Behavioral Health System of Kansas City, Inc.	Kansas	58-1603154	8000 West 127th Street Overland Park, KS 66213 (913) 897-4999
Charter Behavioral Health System of Lafayette, Inc.	Louisiana	72-0686492	310 Youngsville Highway Lafayette, LA 70508 (317) 448-6999
Charter Behavioral Health System of Lake Charles, Inc.	Louisiana	62-1152811	4250 Fifth Avenue, South Lake Charles, LA 70605 (318) 474-6133
Charter Behavioral Health System of Lakewood, Inc.	California	33-0606647	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Michigan City, Inc.	Indiana	35-1916343	3714 S. Franklin Street Michigan City, IN 46360 (219) 872-0531
Charter Behavioral Health System of Mobile, Inc.	Alabama	58-1569921	5800 Southland Drive Mobile, AL 36609 (205) 661-3001
Charter Behavioral Health System of Nashua, Inc.	New Hampshire	02-0470752	29 Northwest Boulevard Nashua, NH 03063 (603) 886-5000
Charter Behavioral Health System of Nevada, Inc.	Nevada	58-1321317	7000 West Spring Mountain Rd. Las Vegas, NV 89117 (702) 876-4357

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Charter Behavioral Health System of New Mexico, Inc.	New Mexico	58-1479480	5901 Zuni Road, SE Albuquerque, NM 87108 (505) 265-8800
Charter Behavioral Health System of Northern California, Inc.	California	58-1857277	101 Cirby Hills Drive Roseville, CA 95678 (916) 969-4666
Charter Behavioral Health System of Northwest Arkansas, Inc.	Arkansas	58-1449455	4253 Crossover Road Fayetteville, AR 72703 (501) 521-5731
Charter Behavioral Health System of Northwest Indiana, Inc.	Indiana	58-1603160	101 West 61st Avenue State Road 51 Hobart, IN 46342 (219) 947-4464
Charter Behavioral Health System of Paducah, Inc.	Kentucky	61-1006115	435 Berger Road Paducah, KY 42002-7609 (502) 444-0444
Charter Behavioral Health System of Rockford, Inc.	Illinois	36-3946945	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of San Jose, Inc.	California	58-1747020	455 Silicon Valley Boulevard San Jose, CA 95138 (408) 224-2020
Charter Behavioral Health System of Savannah, Inc.	Georgia	58-1750583	1150 Cornell Avenue Savannah, GA 31406 (912) 354-3911

Charter Behavioral Health System of Southern California, Inc.	California	58-1366605	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Tampa Bay, Inc.	Florida	58-1616916	4004 North Riverside Drive Tampa, FL 33603 (813) 238-8671
Charter Behavioral Health System of Texarkana, Inc.	Arkansas	71-0752815	801 Arkansas Boulevard Texarkana, AR 75502 (501) 773-3131
Charter Behavioral Health System of the Inland Empire, Inc.	California	95-2685883	2055 Kellogg Drive Corona, CA 91719 (714) 735-2910

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Charter Behavioral Health System of Toledo, Inc.	Ohio	58-1731068	1725 Timberline Road Maumee, Ohio 43537 (419) 891-9333
Charter Behavioral Health System of Tucson, Inc.	Arizona	86-0757462	7220 E. Rosewood Street Tucson, AZ 85710 (602) 296-2828
Charter Behavioral Health System of Winston-Salem, Inc.	North Carolina	56-1050502	3637 Old Vineyard Road Winston-Salem, NC 27104 (919) 768-7710
Charter Behavioral Health System of Virginia Beach, Inc.	Virginia	54-1703071	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Visalia, Inc.	California	33-0606644	1100 S. Akers Visalia, CA 93277 (209) 627-3301
Charter Behavioral Health System of Waverly, Inc.	Minnesota	41-1775626	109 North Shore Drive Waverly, MN 55390 (612) 658-4811
Charter Behavioral Health System of Yorba Linda, Inc.	California	33-0606646	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health Systems of Atlanta, Inc.	Georgia	58-1900736	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Brawner Behavioral Health System, Inc.	Georgia	58-0979827	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter By-The-Sea Behavioral Health System, Inc.	Georgia	58-1351301	2927 Demere Road St. Simons Island, GA 31522 (912) 638-1999
Charter Canyon Behavioral Health System, Inc.	Utah	58-1557925	175 West 7200 South Midvale, UT 84047 (801) 561-8181
Charter Canyon Springs Behavioral Health System, Inc.	California	33-0606640	69696 Ramon Road Cathedral City, CA 92234 (619) 321-2000

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Charter Centennial Peaks Behavioral Health System, Inc.	Colorado	58-1761037	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Colonial Institute, Inc.	Virginia	58-1492652	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Community Hospital, Inc.	California	58-1398708	21530 South Pioneer Boulevard Hawaiian Gardens, CA 90716 (310) 860-0401
Charter Community Hospital of Des Moines, Inc.	Iowa	58-1523702	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Contract Services, Inc.	Georgia	58-2100699	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Cove Forge Behavioral Health System, Inc.	Pennsylvania	25-1730464	New Beginnings Road Williamsburg, PA 16693 (814) 832-2121
Charter Crescent Pines Behavioral Health System, Inc.	Georgia	58-1249663	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Fairbridge Behavioral Health System, Inc.	Maryland	52-1866218	14907 Broschart Road Rockville, MD 20850 (301) 251-4565
Charter Fairmount Behavioral Health System, Inc.	Pennsylvania	58-1616921	561 Fairthorne Avenue Philadelphia, PA 19128 (215) 487-4000
Charter Fenwick Hall Behavioral Health System, Inc.	South Carolina	57-0995766	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Financial Offices, Inc.	Georgia	58-1527680	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Forest Behavioral Health System, Inc.	Louisiana	58-1508454	9320 Linwood Avenue Shreveport, LA 71106 (318) 688-3930

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Charter Grapevine Behavioral	Texas	58-1818492	2300 William D. Tate Ave.

Health System, Inc.			Grapevine, TX 76051 (817) 481-1900
Charter Greensboro Behavioral Health System, Inc.	North Carolina	58-1335184	700 Walter Reed Drive Greensboro, NC 27403 (919) 852-4821
Charter Health Management of Texas, Inc.	Texas	58-2025056	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Columbus, Inc.	Ohio	58-1598899	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Denver, Inc.	Colorado	58-1662413	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Ft. Collins, Inc.	Colorado	58-1768534	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Laredo, Inc.	Texas	58-1491620	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Miami, Inc.	Florida	61-1061599	11100 N.W. 27th Street Miami, FL 33172 (305) 591-3230
Charter Hospital of Mobile, Inc.	Alabama	58-1318870	251 Cox Street Mobile, AL 36604 (205) 432-4111
Charter Hospital of Northern New Jersey, Inc.	New Jersey	58-1852138	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Santa Teresa, Inc.	New Mexico	58-1584861	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Hospital of St. Louis, Inc.	Missouri	58-1583760	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Torrance, Inc.	California	58-1402481	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Indianapolis Behavioral Health System, Inc.	Indiana	58-1674291	5602 Caito Drive Indianapolis, IN 46226 (317) 545-2111
Charter Lafayette Behavioral Health System, Inc.	Indiana	58-1603158	3700 Rome Drive Lafayette, IN 47905 (317) 448-6999
Charter Lakehurst	New Jersey	22-3286879	440 Beckerville Road

Behavioral Health System, Inc.			Lakehurst, NJ 08733 (908) 657-4800
Charter Lakeside Behavioral Health System, Inc.	Tennessee	62-0892645	2911 Brunswick Road Memphis, TN 38134 (901) 377-4700
Charter Laurel Heights Behavioral Health System, Inc.	Georgia	58-1558212	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Laurel Oaks Behavioral Health System, Inc.	Florida	58-1483014	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Linden Oaks Behavioral Health System, Inc.	Illinois	36-3943776	852 West Street Naperville, IL 60540 (708) 305-5500
Charter Little Rock Behavioral Health System, Inc.	Arkansas	58-1747019	1601 Murphy Drive Maumelle, AR 72113 (501) 851-8700
Charter Louisville Behavioral Health System, Inc.	Kentucky	58-1517503	1405 Browns Lane Louisville, KY 40207 (502) 896-0495
Charter MOB of Charlottesville, Inc.	Virginia	58-1761158	1023 Millmont Avenue Charlottesville, VA 22901 (804) 977-1120

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ADDITIONAL REGISTRANTS(1)

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Charter Meadows Behavioral Health System, Inc.	Maryland	52-1866216	730 Maryland, Route 3 Gambrills, MD 21054 (410) 923-6022
Charter Medfield Behavioral Health System, Inc.	Florida	58-1705131	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - California, Inc.	Georgia	58-1357345	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - Clayton County, Inc.	Georgia	58-1579404	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - Cleveland, Inc.	Texas	58-1448733	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - Dallas, Inc.	Texas	58-1379846	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - Long Beach, Inc.	California	58-1366604	6060 Paramount Boulevard Long Beach, CA 90805 (310) 220-1000
Charter Medical - New York, Inc.	New York	58-1761153	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical (Cayman	Cayman Islands, BWI	58-1841857	Caledonian Bank & Trust

Islands)

Swiss Bank Building
Georgetown-Grand Cayman
Cayman Islands
(809) 949-0050

Charter Medical Executive Corporation Georgia 58-1538092 3414 Peachtree Rd., N.E., Suite 1400
Atlanta, GA 30326
(404) 841-9200

Charter Medical Information Services, Inc. Georgia 58-1530236 3414 Peachtree Rd., N.E., Suite 1400
Atlanta, GA 30326
(404) 841-9200

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Charter Medical International, Inc.	Cayman Islands, BWI	N/A	Caledonian Bank & Trust Swiss Bank Building Georgetown-Grand Cayman Cayman Islands (809) 949-0050
Charter Medical International, S.A., Inc.	Nevada	58-1605110	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical Management Company	Georgia	58-1195352	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of East Valley, Inc.	Arizona	58-1643158	2190 N. Grace Boulevard Chandler, AZ 85224-2195 (602) 899-8989
Charter Medical of England, Ltd.	United Kingdom	N/A	111 Kings Road SW3 4PB London, England 44-71-351-1272
Charter Medical of Florida, Inc.	Florida	58-2100703	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of North Phoenix, Inc.	Arizona	58-1643154	6015 W. Peoria Avenue Glendale, AZ 85302 (602) 878-7878
Charter Medical of Orange County, Inc.	Florida	58-1615673	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of Puerto Rico, Inc.	Commonwealth of Puerto Rico	58-1208667	Caso Building, Suite 1504 1225 Ponce De Leon Avenue Santurce, P.R. 00907 (809) 723-8666
Charter Mental Health Options, Inc.	Florida	58-2100704	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Mid-South Behavioral Health System, Inc.	Tennessee	58-1860496	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Milwaukee Behavioral Health System, Inc.	Wisconsin	58-1790135	11101 West Lincoln Avenue West Allis, WI 53227 (414) 327-3000
Charter Mission Viejo Behavioral Health System, Inc.	California	58-1761156	23228 Madero Mission Viejo, CA 92691 (714) 830-4800
Charter North Behavioral Health System, Inc.	Alaska	58-1474550	2530 DeBarr Road Anchorage, AK 99508-2996 (907) 258-7575
Charter Northbrooke Behavioral Health System, Inc.	Wisconsin	39-1784461	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter North Counseling Center, Inc.	Alaska	58-2067832	2530 DeBarr Road Anchorage, AL 99508-2996 (907) 258-7575
Charter Northridge Behavioral Health System, Inc.	North Carolina	58-1463919	400 Newton Road Raleigh, NC 27615 (919) 847-0008
Charter Northside Hospital, Inc.	Georgia	58-1440656	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Oak Behavioral Health System, Inc.	California	58-1334120	1161 East Covina Boulevard Covina, CA 91724 (818) 966-1632
Charter of Alabama, Inc.	Alabama	63-0649546	3414 Peachtree Rd., N.E., Suite 1400 Macon, Georgia 31298 (404) 841-9200
Charter Palms Behavioral Health System, Inc.	Texas	58-1416537	1421 E. Jackson Avenue McAllen, TX 78502 (512) 631-5421
Charter Peachford Behavioral Health System, Inc.	Georgia	58-1086165	2151 Peachford Road Atlanta, GA 30338 (404) 455-3200
Charter Pines Behavioral Health System, Inc.	North Carolina	58-1462214	3621 Randolph Road Charlotte, NC 28211 (704) 365-5368

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Charter Plains Behavioral Health System, Inc.	Texas	58-1462211	801 N. Quaker Avenue Lubbock, TX 79416 (806) 744-5505
Charter-Provo School, Inc.	Utah	58-1647690	4501 North University Ave. Provo, UT 84604 (801) 227-2000
Charter Psychiatric Hospitals, Inc.	Delaware	58-1852072	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Real Behavioral Health System, Inc.	Texas	58-1485897	8550 Huebner Road San Antonio, TX 78240 (512) 699-8585
Charter Regional Medical Center, Inc.	Texas	74-1299623	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Richmond Behavioral Health System, Inc.	Virginia	58-1761160	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Ridge Behavioral Health System, Inc.	Kentucky	58-1393063	3050 Rio Dosa Drive Lexington, KY 40509 (606) 269-2325
Charter Rivers Behavioral Health System, Inc.	South Carolina	58-1408623	2900 Sunset Boulevard West Columbia, SC 29169 (803) 796-9911
Charter San Diego Behavioral Health System, Inc.	California	58-1669160	11878 Avenue of Industry San Diego, CA 92128 (619) 487-3200
Charter Serenity Lodge Behavioral Health System, Inc.	Virginia	54-1703066	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Sioux Falls Behavioral Health System, Inc.	South Dakota	58-1674278	2812 South Louise Avenue Sioux Falls, SD 57106 (605) 361-8111
Charter South Bend Behavioral Health System, Inc.	Indiana	58-1674287	6704 North Main Street Granger, IN 46530 (219) 272-9799

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ADDITIONAL REGISTRANTS(1)

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	Address including zip code, and telephone number including area code, of registrant's principal executive offices
Charter Springs Behavioral Health System, Inc.	Florida	58-1517461	3130 S.W. 27th Avenue Ocala, FL 32674 (904) 237-7293
Charter Springwood Behavioral Health System, Inc.	Virginia	58-2097829	Route 4, Box 50 Leesburg, VA 22075 (703) 777-0800
Charter Suburban Hospital of Mesquite, Inc.	Texas	75-1161721	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Terre Haute Behavioral Health System, Inc.	Indiana	58-1674293	1400 Crossing Boulevard Terre Haute, IN 47802 (812) 299-4196

Charter Thousand Oaks Behavioral Health System, Inc.	California	58-1731069	150 Via Merida Thousand Oaks, CA 91361 (805) 495-3292
Charter Tidewater Behavioral Health System, Inc.	Virginia	54-1703069	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Treatment Center of Michigan, Inc.	Michigan	58-2025057	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Westbrook Behavioral Health System, Inc.	Virginia	54-0858777	1500 Westbrook Avenue Richmond, VA 23227 (804) 266-9671
Charter White Oak Behavioral Health System, Inc.	Maryland	52-1866223	Post Office Box 56 1441 Taylors Island Road Woolford, MD 21677 (410) 228-7000
Charter Wichita Behavioral Health System, Inc.	Kansas	58-1634296	8901 East Orme Wichita, KS 67207 (316) 686-5000
Charter Woods Behavioral Health System, Inc.	Alabama	58-1330526	700 Cottonwood Road Dothan, AL 36301 (205) 794-4357
Charter Woods Hospital, Inc.	Alabama	58-2102628	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200

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ADDITIONAL REGISTRANTS(1)

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	Address including zip code, and telephone number including area code, of registrant's principal executive offices
Charterton/LaGrange, Inc.	Kentucky	61-0882911	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Desert Springs Hospital, Inc.	Nevada	88-0117696	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Employee Assistance Services, Inc.	Georgia	58-1501282	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Florida Health Facilities, Inc.	Florida	58-1860493	21808 State Road 54 Lutz, FL 33549 (813) 948-2441
Gulf Coast EAP Services, Inc.	Alabama	58-2101394	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Gwinnett Immediate Care Center, Inc.	Georgia	58-1456097	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
HCS, Inc.	Georgia	58-1527679	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Holcomb Bridge Immediate Care Center, Inc.	Georgia	58-1374463	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200

Hospital Investors, Inc.	Georgia	58-1182191	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Mandarin Meadows, Inc.	Florida	58-1761155	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Metropolitan Hospital, Inc.	Georgia	58-1124268	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Middle Georgia Hospital, Inc.	Georgia	58-1121715	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200

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ADDITIONAL REGISTRANTS(1)

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	Address including zip code, and telephone number including area code, of registrant's principal executive offices
NEPA - Massachusetts, Inc.	Massachusetts	58-2116751	#6 Courthouse Lane Chelmsford, MA 01863 (508) 441-2332
NEPA - New Hampshire, Inc.	New Hampshire	58-2116398	29 Northwest Boulevard Nashua, NH 03063 (603) 886-5000
Pacific-Charter Medical, Inc.	California	58-1336537	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Peachford Professional Network, Inc.	Georgia	58-2100700	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Rivoli, Inc.	Georgia	58-1686160	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Schizophrenia Treatment and Rehabilitation, Inc.	Georgia	58-1672912	209 Church Street Decatur, GA 30030 (404) 377-1986
Shallowford Community Hospital, Inc.	Georgia	58-1175951	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Sistemas De Terapia Respiratoria, S.A., Inc.	Georgia	58-1181077	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Stuart Circle Hospital Corporation	Virginia	54-0855184	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200
Western Behavioral Systems, Inc.	California	58-1662416	3414 Peachtree Rd., N.E., Suite 1400 Atlanta, GA 30326 (404) 841-9200

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

CHARTER MEDICAL CORPORATION
ANNUAL REPORT ON FORM 10-K

For the Year Ended September 30, 1994

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PART I

Item 1. Business

General

Charter Medical Corporation (the "Company") is a behavioral healthcare company. As of September 30, 1994, the Company operated 98 acute care psychiatric hospitals, three residential treatment centers and one physician outpatient practice with an aggregate capacity of 8,908 licensed beds.

Additionally, 92 of the Company's hospitals operate partial hospitalization programs, and the Company operates 150 outpatient centers, staffed by mental health professionals. Between September 30, 1994 and November 30, 1994, the Company acquired 13 additional facilities. In this report, the Company uses the term "psychiatric hospitals" or "hospitals" to refer to the 98 facilities licensed as acute care psychiatric hospitals, the three facilities licensed as residential treatment centers and the physician outpatient practice. A residential treatment center offers less intensive and longer stay services than do acute care psychiatric hospitals.

The Company's business strategy is to develop and operate integrated behavioral healthcare delivery systems in certain markets in which it presently operates one or more hospitals and in selected other markets in which the Company does not presently operate a hospital. The integrated delivery systems that the Company is developing offer a comprehensive range of behavioral healthcare services including inpatient treatment, day and partial hospitalization services, group and individual outpatient treatment, and residential and other less intensive services. The Company is establishing such systems by using its hospitals as a base and by arranging for other services through acquisitions, contracts or affiliations with physicians, psychologists and other mental health professionals and, in some markets, with general acute care hospitals and other institutional healthcare providers. The Company is also developing information systems that will assist in the integration of the financing and delivery of behavioral healthcare services.

Recent Developments

Acquisition of Hospitals

As of March 29, 1994 the Company entered into two agreements with National Medical Enterprises, Inc. ("NME") providing for the purchase by the Company of substantially all of the assets of 36 psychiatric hospitals, eight chemical-dependency treatment facilities, two residential treatment centers and one physician outpatient practice, including related outpatient facilities and other associated assets. Under a consent order that has been conditionally approved by the Federal Trade Commission, the Company has agreed not to acquire six of such facilities; the Company and NME subsequently agreed that the Company will not acquire one facility. The remaining 40 facilities (the "Acquired Hospitals") have, as of November 30, 1994, been acquired (the "Acquisition") by subsidiaries of the Company. The purchase price for the Acquired Hospitals was approximately \$120.4 million in cash plus an additional cash amount of approximately \$51 million, subject to adjustment, for the net working capital of the Acquired Hospitals. The Acquired Hospitals have an aggregate capacity of 2,873 licensed beds and are located in 19 states. For their fiscal year ended May 31, 1994, the Acquired Hospitals had net revenue of approximately \$315.1 million.

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On June 30, 1994, the Company completed the purchase of 27 of the Acquired Hospitals for a cash purchase price of approximately \$129.6 million, which included approximately \$39.3 million, subject to adjustment, for the net working capital of the facilities. On October 31, 1994, the Company completed the purchase of three additional Acquired Hospitals for a cash purchase price of approximately \$5 million, which included approximately \$2.2 million related to the net working capital of the facilities. On November 30, 1994, the Company completed the purchase of the remaining ten Acquired Hospitals for a cash purchase price of approximately \$36.8 million, including approximately \$9.5 million related to the net working capital of the ten Acquired Hospitals. The Company accounted for the Acquisition using the purchase method of accounting.

Debt Refinancing

In order to finance the Acquisition and to refinance substantially all of the Company's outstanding long-term debt, on May 2, 1994 the Company entered into a Second Amended and Restated Credit Agreement with certain financial institutions for a five-year reducing, revolving credit facility in an aggregated committed amount of \$300 million (the "Revolving Credit Agreement") and issued \$375 million of 11.25% Series A Senior Subordinated Notes which mature on April 15, 2004 (the "Notes") and are general unsecured obligations of the Company. (See Note 6 of the Company's Consolidated Financial Statements.)

Sale of General Hospitals

On September 30, 1993, the Company sold its general hospitals and related assets to Quorum, Inc., for approximately \$338 million. The Company retained the assets and liabilities relating to these hospitals for professional liability claims incurred and cost report settlements for periods prior to September 30, 1993.

For fiscal 1993, the general hospitals had net revenue of approximately \$347 million, a net loss of approximately \$15 million, and admissions and patient days of 39,669 and 205,843, respectively. In 1993, the Company restated its consolidated financial statements to reflect the sales of the general hospitals and its interest in a non-hospital subsidiary as discontinued operations.

Financial Restructuring

In its 1992 fiscal year, the Company completed a restructuring of its debt and equity capitalization (the "Restructuring") pursuant to a prepackaged plan of reorganization filed under chapter 11 of the United States Bankruptcy Code (the "Plan"), which became effective on July 21, 1992. As a result of the Restructuring, the Company's long-term debt was reduced by approximately \$700 million and its redeemable preferred stock of \$233 million was eliminated. The holders of the debt and preferred stock that were reduced or eliminated received approximately 97% of the Company's common stock outstanding on July 21, 1992.

Psychiatric Hospital Operations

The Company's psychiatric hospitals operated on September 30, 1994 are located in well-populated urban and suburban locations in 31 states and two

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foreign countries. Thirteen of the Company's hospitals are affiliated with medical schools for residency and other post-graduate teaching programs.

Following are financial and statistical results from operations of hospitals which are included in the Company's consolidated financial statements:

Selected Psychiatric Hospital Operating Data

	Fiscal Year ended September 30				
	1990	1991	1992	1993	1994
Number of Psychiatric Hospitals..	91	80	79	74	101
Bed Capacity:					
Licensed Beds.....	8,124	7,310	7,228	6,902	8,908
Average Licensed Beds.....	7,660	7,284	7,288	7,145	7,468
Licensed Bed Days.....	2,795,793	2,658,760	2,667,428	2,607,996	2,725,679
Net Revenue (In Thousands)(1)....	\$893,105	\$838,167	\$875,776	\$853,792	\$850,575
Total Patient Days(2).....	1,768,387	1,494,844	1,430,815	1,373,835	1,383,388
Total Equivalent Patient Days(3) .	1,818,634	1,551,180	1,508,716	1,481,221	1,527,855
Net Revenue/Equivalent Patient					
Day(3).....	\$491	\$540	\$580	\$576	\$557
Admissions.....	74,254	73,120	81,311	86,794	102,802
Average Length of Stay (Days)....	23.7	20.4	17.8	15.8	13.6
Private Pay and Other Sources/					
Gross Revenue(4).....	74%	70%	65%	56%	49%
Government Programs/Gross					
Revenue(4) (5).....	26%	30%	35%	44%	51%

<FN>

(1) Includes inpatient and outpatient revenue.

(2) Provision of care to one patient for one day.

(3) Represents inpatient days adjusted to reflect outpatient utilization, computed by dividing patient charges by inpatient charges per day.

(4) Gross Revenue is revenue before deducting contractual allowances and discounts from established billing rates. Gross Revenue is not separately identified in the Company's Consolidated Statements of Operations;

instead, Net Revenue in the Consolidated Statements of Operations reflects gross revenue after deductions for contractual allowances and discounts from established billing rates.

- (5) Government Programs include Medicare, Medicaid and the Civilian Health and Medical Program of the Uniformed Services ("CHAMPUS"), which provides payment for medical services to military dependents and retired military personnel.

Most of the Company's hospitals offer a full continuum of behavioral care in their service area. The continuum includes inpatient hospitalization, partial hospitalization, intensive outpatient services and, in some markets, residential treatment services.

The Company's hospitals provide structured and intensive treatment programs for mental health, and alcohol and drug dependency disorders in children, adolescents and adults. The specialization of programs enables the clinical staff to provide care that is specific to the patient's needs and

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facilitates monitoring the patient's progress. A typical treatment program of the Company integrates physicians and other patient-care professionals with structured activities, providing patients with testing, adjunctive therapies (occupational, recreational and other), group therapy, individual therapy and educational programs. A treatment program includes one or more of the types of treatment settings provided by the Company's continuum of care. For those patients who do not have a personal psychiatrist or other specialist, the hospital refers the patient to a member of its medical staff.

A significant portion of hospital admissions are provided by physician referrals, and professional relationships are an important aspect of the Company's ongoing business. Management believes that the quality of the Company's treatment programs, staff employees and physical facilities are important factors in maintaining good professional relationships.

The Company's hospitals work closely with mental health professionals, non-psychiatric physicians, emergency rooms and community agencies that come in contact with individuals who may need treatment for mental illness or substance abuse. A portion of the Company's marketing efforts are directed at increasing general awareness of mental health and addictive disease and the services offered by the Company's hospitals.

In addition to receiving hospital admissions from physicians, other healthcare professionals and community agencies, the Company's hospitals also seek to provide services to persons covered by managed care plans by offering a continuum of care that is conducive to cost-effective care management and, in certain cases, a capitated or other at-risk payment methods.

Seasonality

The Company's business is seasonal in nature, with a reduced demand for certain services generally occurring in the fourth fiscal quarter and around major holidays, such as Thanksgiving and Christmas.

Related Businesses

As part of the Company's business strategy, the Company in fiscal 1993 and 1994, (i) acquired a company that develops information systems relating to the financing and delivery of behavioral healthcare services; (ii) acquired a company that provides outpatient treatment for schizophrenia patients; and (iii) organized a subsidiary, Group Practice Affiliates, Inc., that acquires or manages professional group practices. Group Practice Affiliates, Inc. has acquired one such practice and a related managed behavioral care company and has entered into agreements or letters of intent to acquire two additional practices. To date, the activities of these subsidiaries have not been material to the Company.

Hospital Properties

The following table provides information relating to the 101 hospitals operated by the Company as of September 30, 1994. Each hospital is operated by a wholly-owned subsidiary of the Company, except for the hospital located in Naperville, Illinois which is 75% owned by the Company.

Name	State/ Country	City	Number of Licensed Beds	Date of Acquisition or Opening by the Company
Charter Woods Behavioral Health System ("BHS") (2)	Alabama	Dothan	75	June 1980
Charter Academy of Mobile (2) (3)	Alabama	Mobile	72	September 1987
Charter Behavioral Health System ("CBHS") of Mobile (4)	Alabama	Mobile	84	June 1978
Charter North BHS (2)	Alaska	Anchorage	74	May 1984
CBHS of Arizona/East Valley (2)	Arizona	Chandler	80	June 1987
CBHS of Arizona/Glendale (2)	Arizona	Glendale	90	May 1987
CBHS of Arizona/Tucson	Arizona	Tucson	60	June 1994
CBHS of Northwest Arkansas (2)	Arkansas	Fayetteville	65	March 1983
CBHS of Little Rock (2)	Arkansas	Maumelle	60	May 1990
CBHS of Texarkana	Arkansas	Texarkana	60	June 1994
CBHS of Southern California/Palm Springs	California	Cathedral City	80	June 1994
CBHS of Southern California/Corona (2)	California	Corona	92	December 1978
CBHS of Southern California/Charter Oak (2)	California	Covina	95	September 1980
CBHS of Southern California/Mission Viejo (2)	California	El Toro	80	April 1990
CBHS of San Diego/API	California	La Mesa	62	June 1994
CBHS of Southern California/Long Beach (4)	California	Long Beach	227	January 1980
CBHS of Northern California	California	Roseville	80	August 1988
CBHS of San Diego	California	San Diego	80	May 1988
CBHS of Northern California/San Jose	California	San Jose	80	June 1994
CBHS of Southern California/Thousand Oaks (2)	California	Thousand Oaks	80	March 1990
CBHS of Central California/Visalia	California	Visalia	64	June 1994
CBHS at Centennial Peaks (4)	Colorado	Louisville	72	June 1994
Charter Clinic Chelsea (4)	England	London	45	July 1980
Charter Nightingale	England	London	78	February 1987
CBHS of Tampa Bay at Manatee Palms	Florida	Bradenton	72	June 1994
Charter Glade BHS (2)	Florida	Ft. Myers	154	August 1983
CBHS of Jacksonville (2)	Florida	Jacksonville	64	January 1987
CBHS Orlando (2)	Florida	Kissimmee	60	July 1989
CBHS of Tampa Bay at Pasco (2)	Florida	Lutz	72	March 1990
CBHS of South Florida (2)	Florida	Miami	88	October 1986
Charter Springs BHS (2)	Florida	Ocala	92	October 1985
CBHS of Tampa Bay at Tampa (2)	Florida	Tampa	146	July 1985
CBHS of Athens (2)	Georgia	Athens	80	July 1985
CBHS of Atlanta at Peachford (2)	Georgia	Atlanta	224	January 1974
Charter Augusta BHS (2)	Georgia	Augusta	63	January 1987
CBHS of Central Georgia (2)	Georgia	Macon	118	September 1982
Charter Savannah BHS (2)	Georgia	Savannah	112	July 1972
Charter By-the-Sea BHS (2)	Georgia	St. Simons	101	September 1982
CBHS of Chicago (2)	Illinois	Chicago	123	March 1978
Linden Oaks (1) (4)	Illinois	Naperville	92	June 1994
CBHS of Indiana/Evansville	Indiana	Evansville	60	June 1994
Charter Beacon BHS (2)	Indiana	Fort Wayne	97	September 1985
Charter South Bend BHS (2)	Indiana	Granger	60	January 1990

Name	Country	City	Beds	by the Company
CBHS of Northwest Indiana(2)	Indiana	Hobart	60	January 1990
Charter Indianapolis BHS(2)	Indiana	Indianapolis	80	March 1990
Charter Lafayette BHS(2)	Indiana	Lafayette	64	September 1986
CBHS of Indiana/Michigan City	Indiana	Michigan City	89	June 1994
Charter Terre Haute BHS	Indiana	Terre Haute	66	March 1988
CBHS of Kansas City(2)	Kansas	Overland Park	80	November 1986
Charter Wichita BHS(2)	Kansas	Wichita	80	November 1986
Charter Ridge BHS(2)	Kentucky	Lexington	110	August 1982
Charter Louisville BHS(2)	Kentucky	Louisville	66	October 1978
CBHS of Paducah(2)	Kentucky	Paducah	80	July 1985
CBHS at Acadian Oaks	Louisiana	Lafayette	70	June 1994
CBHS of Lake Charles(2)	Louisiana	Lake Charles	60	July 1985
Charter Forest BHS(2)	Louisiana	Shreveport	83	July 1985
CBHS of Maryland at Hidden Brook	Maryland	Bel Air	51	June 1994
CBHS of Chesapeake/Warwick(4)	Maryland	East New Market	42	June 1994
CBHS of Maryland at Meadows	Maryland	Gambrills	60	June 1994
CBHS of Maryland at Fairbridge(4)	Maryland	Rockville	60	June 1994
CBHS of Maryland at Potomac Ridge(4)	Maryland	Rockville	97	June 1994
CBHS of Chesapeake/White Oak(4)	Maryland	Woolford	40	June 1994
CBHS of Waverly	Minnesota	Waverly	40	June 1994
CBHS of Mississippi(2)	Mississippi	Jackson	111	July 1985
CBHS of Columbia(2)	Missouri	Columbia	96	December 1984
CBHS of Nevada(2)	Nevada	Las Vegas	84	April 1986
Charter Brookside BHS of New England	New Hampshire	Nashua	100	June 1994
CBHS of New Jersey/Lakehurst	New Jersey	Lakehurst	24	June 1994
CBHS of New Jersey/Summit	New Jersey	Summit	150	June 1994
CBHS of New Mexico(1)(4)	New Mexico	Albuquerque	80	March 1985
Charter Asheville BHS	North Carolina	Asheville	139	June 1994
Charter Pines BHS(2)	North Carolina	Charlotte	60	April 1985
CBHS of Greensboro(2)	North Carolina	Greensboro	100	July 1981
Charter Northridge BHS(2)	North Carolina	Raleigh	85	September 1984
CBHS of Winston-Salem(2)	North Carolina	Winston-Salem	99	July 1981
CBHS of Toledo(2)	Ohio	Maumee	38	September 1990
Charter Fairmount BHS	Pennsylvania	Philadelphia	169	July 1985
CBHS at Cove Forge(4)	Pennsylvania	Williamsburg	96	June 1994
Charter Charleston BHS(2)	South Carolina	Charleston	102	January 1990
Charter Greenville BHS(2)	South Carolina	Greer	60	August 1989
Charter Rivers BHS(2)	South Carolina	West Columbia	80	February 1983
Charter Sioux Falls BHS(2)	South Dakota	Sioux Falls	60	July 1989
La Metairie Clinic(2)	Switzerland	Nyon	69	June 1985
Charter Lakeside BHS(2)	Tennessee	Memphis	204	August 1976
CBHS of Austin(2)	Texas	Austin	94	January 1986
CBHS of Corpus Christi(2)	Texas	Corpus Christi	80	June 1986
CBHS of Ft. Worth(2)	Texas	Ft. Worth	80	January 1987
Charter Grapevine BHS(2)	Texas	Grapevine	80	September 1989
CBHS of Kingwood(2)	Texas	Kingwood	80	October 1986
Charter Plains BHS(2)	Texas	Lubbock	80	February 1984
Charter Palms BHS(2)	Texas	McAllen	80	May 1983
CBHS of Dallas(2)	Texas	Plano	116	August 1987

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Name	State/ Country	City	Number of Licensed Beds	Date of Acquisition or Opening by the Company
Charter Real BHS(2)	Texas	San Antonio	106	October 1985
CBHS of Sugar Land(2)	Texas	Sugar Land	68	October 1986
CBHS of Clear Lake	Texas	Webster	131	June 1994
Charter Provo Canyon School(2)(3)	Utah	Provo	212	December 1985
Charter Canyon BHS(2)	Utah	Salt Lake City	62	January 1986
CBHS of Charlottesville(2)	Virginia	Charlottesville	75	July 1985
CBHS at Springwood(4)	Virginia	Leesburg	77	June 1994
Charter Westbrook BHS(2)	Virginia	Richmond	210	April 1970
CBHS of Milwaukee/West Allis	Wisconsin	West Allis	80	May 1989

<FN>

(1) Leasehold interest is mortgaged.

- (2) Assets of hospital facility are mortgaged.
- (3) Licensed as an intensive residential treatment center.
- (4) A leased hospital facility or property.

All of the Company's hospitals located in the United States have been accredited by the Joint Commission on Accreditation of Healthcare Organizations (the "Joint Commission"). The Joint Commission is a national commission which establishes standards relating to the physical plant, administration, quality of patient care, governing body and medical staffs of hospitals.

The Company operates 13 leased hospitals, including one 150-bed general hospital, not listed above, which is managed by an unaffiliated third party. The leased hospitals have terms expiring between 1996 and 2069. The leases for two hospitals contain options to purchase these hospitals for nominal consideration at the end of their respective lease terms.

Sixty-seven of the Company's hospitals listed above are subject to mortgages. The stock of substantially all of the domestic subsidiaries of the Company has been pledged as collateral for the Company's secured bank financing.

The Company owns 15 medical office buildings (with an aggregate of approximately 187,000 square feet) and leases an additional six (with an aggregate of approximately 19,000 square feet), all of which are located near certain of the Company's hospitals. These buildings have a total of approximately 120 tenants. Five of the Company's medical office buildings are subject to mortgages.

The Company leases office space for approximately 150 outpatient centers located in 31 states. The leases for these centers aggregate approximately 330,000 square feet of office space, and generally have lease terms of less than five years.

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Divestitures

During fiscal 1994, the Company sold the following facilities which had been closed during fiscal 1992 and fiscal 1993:

Location	Size/Type of Facility	Date
Denver, CO	60-bed psychiatric hospital	October 1993
Laredo, TX	64-bed psychiatric hospital	December 1993
West Palm Beach, FL	60-bed psychiatric hospital	August 1994

In addition, the Company leases, with options to purchase by the lessees, two facilities which it previously operated prior to fiscal 1991. The Company is also attempting to sell or lease two other previously operated hospitals and a related medical office building and certain unimproved real estate.

Competition

Each of the Company's hospitals competes with other hospitals, some of which are larger and have greater financial resources. Some competing hospitals are owned and operated by governmental agencies, others by nonprofit organizations supported by endowments and charitable contributions and others by proprietary hospital corporations. The hospitals frequently draw patients from areas outside their immediate locale and, therefore, the Company's

hospitals may, in certain markets, compete with both local and distant hospitals. In addition, the Company's hospitals compete not only with other psychiatric hospitals, but also with psychiatric units in general hospitals, and outpatient services provided by the Company may compete with private practicing mental health professionals. The competitive position of a hospital is, to a significant degree, dependent upon the number and quality of physicians who practice at the hospital and who are members of its medical staff.

In recent years, the competitive position of hospitals has been affected by the ability of such hospitals to obtain contracts with Preferred Provider Organizations ("PPO's"), Health Maintenance Organizations ("HMO's") and other managed care programs to provide inpatient and other services. Such contracts normally involve a discount from the hospital's established charges, but provide a base of patient referrals. These contracts also frequently provide for pre-admission certification and for concurrent length of stay reviews. The importance of obtaining contracts with HMO's, PPO's and other managed care companies varies from market-to-market, depending on the individual market strength of the managed care companies. The Company's strategy is intended, in part, to increase the Company's revenues from managed care companies or managed care employers by offering the continuum of care described above, information systems that support care management and at-risk pricing mechanisms.

State certificate of need laws place limitations on the Company's and its competitors' ability to build new hospitals and to expand existing hospitals. Protection from new competition is reduced in those states where there is no certificate of need law. The Company operates 47 hospitals in 12 states (Arizona, Arkansas, California, Colorado, Indiana, Kansas, Louisiana, Nevada, New Mexico, South Dakota, Texas and Utah) which do not have certificate of need laws applicable to hospitals. In most cases, these state laws do not

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restrict the ability of the Company or its competitors to offer new outpatient services.

Industry Trends

The Company's hospitals have been adversely affected by factors influencing the entire psychiatric hospital industry. Factors which affect the Company include (i) the imposition of more stringent length of stay and admission criteria by payors; (ii) the failure of reimbursement rate increases from certain payors that reimburse on a per diem or other discounted basis to offset increases in the cost of providing services; (iii) an increase in the percentage of its business that the Company derives from payors that reimburse on a per diem or other discounted basis; (iv) a trend toward higher deductible and co-insurance for individual patients; (v) a trend toward limiting employee health benefits, such as reductions in annual and lifetime limits on mental health coverage; and (vi) a trend toward agreements with payors where the Company agrees to assume the risk for the provision of treatment to all members of a particular group for a specified revenue amount. In response to these conditions, the Company has (i) strengthened controls to reduce cost increases and capital expenditures, (ii) reviewed its portfolio of hospitals and sold, closed or leased hospitals or consolidated operations in certain locations and (iii) developed strategies to increase outpatient services and partial hospitalization programs to meet the demands of the marketplace.

Healthcare Reform

Between October 1993 and the early fall of 1994, President Clinton and various U.S. Senators and Representatives introduced in Congress a number of healthcare reform proposals. The proposals ranged from the Clinton Administration's comprehensive healthcare reform proposal that would have restructured the financing and delivery of healthcare services through a combination of managed competition and mandated employer coverage of employees to less comprehensive proposals that would have required private health insurance to be "portable" and eliminated coverage limitations for pre-existing health conditions. The numerous proposals varied in their proposed coverage of behavioral healthcare services and in their potential effect on the Company. No proposal was adopted by either house of Congress.

The Company anticipates that numerous healthcare reform proposals will be

introduced in the next session of Congress beginning in January 1995. Particularly in light of the change in control of both houses of Congress as the result of the November 1994 elections, the Company is unable to predict whether any such proposal will be adopted or the effect on the Company of any proposal that does become law.

A number of states in which the Company has operations have either adopted or are considering the adoption of healthcare reform proposals at the state level. Various reform measures have been adopted in Florida, Minnesota and Tennessee, among others. These state reform laws have, in many cases, not been fully implemented. The Company cannot predict the effect of these state healthcare reform laws on its operations.

Sources of Revenue

Payments are made to the Company's hospitals by patients, by insurance companies and self-insured employers, by the federal and state governments

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under Medicare, Medicaid, CHAMPUS and other programs and by HMO's, PPO's and other managed care programs. Amounts received under government programs, HMO, PPO and other managed health care arrangements, certain self-insured employers and certain Blue Cross plans are generally less than the hospital's established charges. The approximate percentages of gross patient revenue (which is revenue before deducting contractual allowances and discounts from established billing rates) derived by the Company's hospitals from various payment sources for the last three fiscal years were as follows:

	Percentage of Hospital Gross Patient Revenue for the Year ended September 30		
	1992	1993	1994
Medicare.....	18%	23%	27%
Medicaid.....	11	15	16
	29	38	43
HMO's and PPO's.....	9	11	14
CHAMPUS.....	6	6	5
Other Government Programs.....	--	--	3
Other (primarily Blue Cross and Commercial Insurance).....	56	45	35
Total.....	100%	100%	100%

Most private insurance carriers reimburse their policyholders or make direct payments to the hospitals for charges at rates specified in their policies. The patient remains responsible to the hospital for any difference between the insurance proceeds and the total charges. Certain Blue Cross programs have negotiated reimbursement rates with certain of the Company's hospitals which are less than the hospital's charges.

Most of the Company's hospitals have entered into contracts with HMO's, PPO's, certain self-insured employers and other managed care plans which provide for reimbursement at rates less than the hospital's normal charges. In addition to contracts entered into by individual hospitals with such managed care plans, the Company has entered into regional and national contracts with HMO's, PPO's, self-insured employers and other managed care plans that apply to all of the Company's hospitals in the geographic areas covered by a contract. The Company is seeking to obtain additional regional and national contracts. The Company expects its percentage of revenue from these payor sources to increase in the future.

Under the Medicare provisions of the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"), costs per Medicare case are determined for each of the Company's hospitals. A target cost per case is established for each year (the "Target Rate"). If a hospital's costs per case are less than the Target Rate, the hospital receives a bonus of 50% of the difference between its actual

costs per case and the Target Rate (limited to 5% of the Target Rate). Hospitals with costs which exceed the Target Rate are paid an additional amount equal to 50% of the excess, up to 10% of the Target Rate. These limits apply only to operating costs and do not apply to capital costs, including lease expense, depreciation and interest associated with capital expenditures. The Target Rate for each hospital is increased annually by the application of an "update factor".

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Most of the Company's hospitals participate in state operated Medicaid programs. Federal law prohibits Medicaid funding for inpatient services in freestanding psychiatric hospitals for patients between the ages of 21 and 64. Each state is responsible for establishing the Medicaid eligibility and coverage criteria, payment methodology and funding mechanisms which apply in that state, subject to federal guidelines. Accordingly, the level of Medicaid payments received by the Company's hospitals varies from state to state. In addition to the basic payment level for patient care, several state programs include a financial benefit for hospitals which treat a disproportionately large volume of Medicaid patients as a percentage of the total patient population. These "disproportionate share" benefits are subject to annual review and revision by the related state governments and could be substantially reduced or eliminated at any point in the future. The Omnibus Budget Reconciliation Act of 1993 ("OBRA 93") prohibits disproportionate share payments to hospitals which have a Medicaid utilization rate of less than 1% effective for state fiscal years ending in 1994. For state fiscal years beginning on or after January 1, 1995, the amount of disproportionate share payments each hospital can receive will be limited through the use of formulas based generally on the cost of providing services to Medicaid and uninsured patients. The Company received approximately \$13 million, \$15 million and \$11 million in Medicaid disproportionate share payments in fiscal 1992, 1993 and 1994, respectively.

Within the statutory framework of the Medicare and Medicaid programs, there are substantial areas subject to administrative rulings and interpretations which may affect payments made under either or both of such programs. In addition, federal or state governments could reduce the future funds available under such programs or adopt additional restrictions on admissions and more stringent requirements for utilization of services. These types of measures could adversely affect the Company's operations. Final determination of amounts payable under Medicare and certain Medicaid programs are subject to review and audit. The Company's management believes that adequate provisions have been made for any adjustments that might result from such reviews or audits.

Most of the Company's hospitals receive revenues from the CHAMPUS program. Under CHAMPUS, psychiatric hospitals are classified into two groups, each with different payment methods. The first group, classified as high volume CHAMPUS hospitals, are those hospitals with 25 or more CHAMPUS discharges during a federal fiscal year. The Company has 54 hospitals included within this group. These hospitals receive a per diem payment, subject to a limitation of \$732 per day. The remainder of the Company's psychiatric hospitals are classified as low volume CHAMPUS hospitals and receive a per diem based on a wage-adjusted regional rate.

CHAMPUS patients are subject to annual limits on the number of psychiatric days covered by CHAMPUS. Covered inpatient services are generally limited to 30 days for adult acute patients, 45 days for child and adolescent acute patients, and 150 days for residential treatment center patients.

The Company's Medicare revenue has been and may in the future be reduced under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by The Budget Enforcement Act of 1990 and OBRA 93 (the "Budget Acts"). These laws remain in effect through fiscal year 1998, and require that federal spending automatically be reduced in amounts determined by calculations set out in the Budget Acts, if certain requirements relating to

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the amount of the federal deficit are not met. Under the Budget Acts, Medicare expenditures for a fiscal year can be reduced by no more than 4%.

Medicaid funding is exempt from reductions under the Budget Acts. There were no reductions in fiscal 1992, 1993 or 1994. Payment reductions under the Budget Acts, if implemented in future years, could have a material adverse effect on the Company's net revenue. However, because the actual amount of the reduction for any fiscal year may vary according to the federal deficit, the financial impact of the Budget Acts on the Company cannot be predicted.

Regulation and Other Factors

Operations of psychiatric hospitals are subject to substantial federal, state and local government regulation. Such regulations provide for periodic inspections or other reviews by state agencies, the United States Department of Health and Human Services (the "Department") and CHAMPUS to determine compliance with their respective standards of medical care, staffing, equipment and cleanliness necessary for continued licensing or participation in the Medicare, Medicaid or CHAMPUS programs. The admission and treatment of patients at the Company's hospitals are also subject to substantial state regulation relating to involuntary admissions, confidentiality and patients' rights and to federal regulation relating to confidentiality of medical records of substance abuse patients.

The obtaining of approvals for construction of new hospitals and for renovation of and additions to existing hospitals is subject to various governmental requirements, such as approval of sites and findings of community need for additional hospital facilities and services. In addition, in certain states, as a practical matter, it is necessary to pledge to provide various amounts of uncompensated care to indigent persons in order to obtain a certificate of need. Except for Arizona, Arkansas, California, Colorado, Indiana, Kansas, Louisiana, Nevada, New Mexico, South Dakota, Texas and Utah, the states in which the Company presently operates hospitals have adopted certificate of need or similar statutes.

Federal law contains numerous provisions designed to insure that services rendered by hospitals to Medicare and Medicaid patients are medically necessary and are of a quality which meets professionally recognized standards and to insure that claims for reimbursement under the Medicare and Medicaid programs are properly filed. Among other things, services provided at the Company's hospitals are subject to periodic review by Peer Review Organizations ("PRO's"). All hospitals which participate in the Medicare program are subject to review by PRO's. PRO activities include reviews of certain admissions and services to determine medical necessity and to determine whether quality of care meets professionally recognized standards. PRO's have the authority to recommend to the Department that a provider who is in substantial noncompliance with the medical necessity and quality of care standards of a PRO or who has grossly and flagrantly violated an obligation to render quality care be excluded from participation in the Medicare program or be required to reimburse the federal government for certain payments previously made to the provider under the Medicare program.

The Company's hospitals have been subject to and have complied with various forms of utilization review since 1970. The Company has implemented a quality assurance program in each of its hospitals, which includes procedures for utilization review and retrospective patient care evaluation.

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The Medicare and Medicaid Patient and Program Protection Act of 1987 expanded the authority of the Department to exclude from participation in the Medicare and Medicaid programs those hospitals which engage in defined prohibited activities. The Department is required under this Act to exclude from participation in the Medicare and Medicaid programs any individual or entity that has been convicted of a criminal offense relating to the delivery of services under Medicare and Medicaid or to the neglect or abuse of patients. In addition, the Department has authority to exclude from participation in the Medicare program individuals or hospitals under certain other circumstances. These include engaging in illegal remuneration arrangements with physicians and other healthcare providers, license revocation, exclusion from some other government programs (such as CHAMPUS), filing claims for excess charges or for unnecessary services, failure to comply with conditions of participation and failure to disclose certain required information or to grant proper access to hospital books and records.

The Department has authority to impose civil monetary penalties against any participant in the Medicare program which makes claims for payment for

services which were not rendered or were rendered by a person or entity not properly licensed under state law. The Department also has authority to impose a penalty of not more than \$2,000 for each improperly claimed service and an assessment equal to not more than twice the amount claimed for each service not rendered.

Federal law makes it a felony, subject to certain exceptions, for a hospital to make false statements relating to claims for payments under the Medicare program, to engage in illegal remuneration arrangements with physicians and other healthcare providers, to make false statements relating to compliance with the Medicare conditions of participation, or to make false claims for Medicare or Medicaid payments. A number of states have adopted laws that also make illegal under state law certain remuneration and referral arrangements with physicians and other healthcare providers.

In order to provide guidance to healthcare providers with respect to the statute that makes certain remuneration arrangements between hospitals and physicians and other healthcare providers illegal, the Department has issued regulations outlining certain "safe harbor" practices, which, although potentially capable of inducing prohibited referrals of business, would not be subject to enforcement action under the illegal remuneration statute. The practices covered by the regulations include, among others, certain investment transactions, lease of space and equipment, personal services and management contracts, sales of physician practices, payments to employees and waivers of beneficiary deductibles and co-payments. Additional proposed safe harbors were published in 1993 by the Department. Certain transactions and agreements of the Company do not satisfy all the applicable criteria contained in the final and proposed safe harbor regulations that relate to such transactions and agreements. However, the Company believes that such leases and contracts do not violate the statute that makes certain remuneration arrangements illegal. There can be no assurance that (i) government enforcement agencies will not assert that certain of these arrangements are in violation of the illegal remuneration statute or (ii) the statute will ultimately be interpreted by the courts in a manner consistent with the Company's practices.

CHAMPUS regulations authorize CHAMPUS to exclude from the CHAMPUS program any provider who has committed fraud or engaged in abusive practices. The regulations permit CHAMPUS to make its own determination of abusive practices without reliance on any actions of the Department. The term "abusive

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practices" is defined broadly to include, among other things, the provision of medically unnecessary services, the provision of care of inferior quality, and the failure to maintain adequate medical or financial records.

A number of states have adopted hospital rate review legislation, which generally provides for state regulation of rates charged for various hospital services. Such laws are in effect in the state of Florida in which the Company operates eight hospitals. In Florida, the Health Care Board approves a budget for each hospital, which establishes a permitted level of revenues per discharge. If this level of permitted revenues per discharge is exceeded by a hospital in a particular year by more than a specified amount, certain penalties, including cash penalties, can be imposed.

The Company's subsidiary that owns or manages professional group practices is subject to the federal and state illegal remuneration statutes described above. In addition, in some states, practice of medicine and certain other health professions' laws prohibit the subsidiary from owning, but not from managing, professional practices.

Medical Staffs and Employees

At September 30, 1994, approximately 1,600 licensed physicians were active members of the medical staffs of the Company's hospitals. Many of these physicians also serve on the medical staffs of other hospitals. A number of these physicians serve in administrative capacities in the Company's hospitals. Most of these physicians are independent contractors who have private practices in addition to their duties for the Company, while certain of these physicians are employees of the Company. The medical and professional affairs of each hospital are supervised by the medical staff of the hospital, under the control of its board of trustees. The Company recruits physicians to serve in administrative capacities at its hospitals and to engage in private practice in communities where the Company's hospitals are

located. The Company's agreements with recruited physicians generally provide for, among other things, allowances for reimbursement of relocation and office start-up expenses and a guarantee of a specified level of physician income during the recruited physician's first year of practice.

Registered nurses and certain other hospital employees are required to be licensed under the professional licensing laws of most states. The Company's hospital subsidiaries require such employees to maintain such professional licenses as a condition of employment.

At September 30, 1994, the Company had approximately 9,500 full-time and 4,000 part-time employees. The Company's hospitals have had generally satisfactory labor relations.

Liability Insurance

Effective June 1, 1994, Plymouth Insurance Company, Ltd. ("Plymouth"), a wholly-owned Bermuda subsidiary of the Company, provides \$25 million per occurrence general and hospital professional liability insurance for the Company's hospitals. The insurance coverage does not contain a per occurrence deductible. Between 90% and 100% of the risk of losses from \$1.5 million to \$25 million per occurrence has been reinsured with unaffiliated insurers; and the percentage so insured varies by layer. The Company also insures with an unaffiliated insurer 100% of the risk of losses between \$25 million and \$100 million per occurrence. The Company's general and professional liability coverage is written on a "claims made or circumstances reported" basis.

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For the five years from June 1, 1989, through May 31, 1994, the Company had a similar general and hospital professional liability insurance program. For those years, the per occurrence deductible (with respect to which the Company was self-insured) was \$2.5 million for the years ended May 31, 1990 and 1991, \$2 million for the years ended May 31, 1992 and 1993 and \$1.5 million (relating to the Company's general hospitals sold on September 30, 1993) for the year ended May 31, 1994. For psychiatric hospitals, Plymouth's coverage did not contain a per occurrence deductible for the year ended May 31, 1994.

Executive Officers of the Registrant

Name and Age of Executive Officer	Position with the Company and Principal Occupations During the Past Five Years
E. Mac Crawford 45	Chairman of the Board of Directors, President and Chief Executive Officer (since 1993) President and Chief Operating Officer (1992-1993) and Director (since 1990); Executive Vice President - Hospital Operations (1990- 1992); Assistant to the President and Chairman (1990); President of Mulberry Street Investment Co., Macon, Georgia (1988-1990).
Lawrence W. Drinkard 55	Executive Vice President and Chief Financial Officer (since 1994) and Director (since 1991); Senior Vice President (1990-1993); Treasurer (1986-1991); Vice President (1987-1990).
William E. Hale 49	Senior Vice President - Operations (since 1994); Vice President - Hospital Operations (1993-1994); Chief Operating Officer of Behavioral Health Resources (1987-1993).
C. Clark Wingfield	Vice President - Administrative Services

(since 1990); Vice President - Human Resources (1990); Senior Executive Director - Compensation and Benefits (1989-1990).

Mulberry Street Investment Company manages the personal investments of William A. Fickling, Jr., former Chairman of the Board of Directors of the Company, and his family. As president of Mulberry Street Investment Company, Mr. Crawford had responsibility for managing real estate and other investments and related financings.

Behavioral Health Resources is a diversified company which specializes in patient care, managed care and employee assistance program services. As chief operating officer of Behavioral Health Resources, Mr. Hale oversaw the development and operation of a psychiatric hospital and various clinics, outpatient programs, partial hospitalization programs and employee assistance programs.

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International Operations

The Company owns and operates two psychiatric hospitals in London, England (a 45-bed hospital and a 78-bed hospital) and a 69-bed psychiatric hospital in Nyon, Switzerland. In July 1991, the Company began managing three psychiatric-substance abuse hospitals in Jeddah, Riyadh and Damman in the Kingdom of Saudi Arabia (with 180 beds each) pursuant to a fixed-price contract for a period of approximately three years. This contract was not renewed during fiscal 1994. These activities do not represent a significant portion of the Company's operations.

The Company's international operations also include the Bermuda insurance company that provides the coverages described under "Liability Insurance."

Item 2. Properties

Information relating to the Company's owned and leased operating hospital facilities, their location, licensed bed capacity and usage is contained under the caption "Item 1. Business - Hospital Properties." Such information is incorporated herein by reference.

The Company owns or leases five hospital facilities which are not operated by the Company. Two of the facilities have been leased to other operators, with options to purchase by the lessees. Three of the hospitals are subject to a mortgage.

The Company leases one 150-bed general hospital which is managed by an unaffiliated third party. The lease and the management agreement expire in 1997.

Item 3. Legal Proceedings

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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PART II

Item 5. Market Price for Registrant's Common Equity and Related Stockholder Matters

The Company has one class of Common Stock, which is listed for trading on

the American Stock Exchange (ticker symbol "CMD"). As of November 30, 1994, there were 10,746 holders of record of the Company's \$0.25 par value Common Stock. The following table sets forth the high and low sales prices of the Company's Common Stock from October 1, 1992 through the fiscal year ended September 30, 1994 as reported by the American Stock Exchange:

Calendar Year	Common Stock Sales Prices	
	High	Low
1992		
Fourth Quarter.....	8	4 5/8
1993		
First Quarter.....	16 1/8	8
Second Quarter.....	17 5/8	12 3/4
Third Quarter.....	24	17 5/8
Fourth Quarter.....	27	21
1994		
First Quarter.....	28	21 3/8
Second Quarter.....	26 1/8	21 3/4
Third Quarter.....	28 1/2	21 1/4

The Company is prohibited from paying dividends (other than dividends payable in shares of Common Stock) on its Common Stock under the terms of its Revolving Credit Agreement, except for cash dividends that, in the aggregate from May 1994, do not exceed 6% of the net cash proceeds from issuances of capital stock, reduced by the aggregate cost of stock purchases since May 1994 and certain other limited circumstances.

Item 6. Selected Financial Data

The following table sets forth selected historical financial information of the Company for each of the five years in the period ended September 30, 1994. The information is not comparable because of the consummation of the Company's Restructuring and the implementation of fresh start accounting in fiscal 1992, which included the revaluation of the Company's assets and liabilities and resulted in, among other things, significant reductions in long-term debt and interest expense and elimination of preferred stock and preferred stock dividend requirements. In 1993, the Company restated its consolidated financial statements to reflect the sale of certain subsidiaries as discontinued operations. The Summary of Operations and Balance Sheet Data for the five years ended September 30, 1994, presented below, have been derived from, and should be read in conjunction with, the Company's audited consolidated financial statements and the related notes thereto. The following financial information should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company indicated in the Index on page F-1 of this Annual Report on Form 10-K.

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SUMMARY OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended September 30,		Ten Months ended	Two Months ended	Year ended September 30,	
	1990	1991	July 31, 1992	September 30, 1992	1993	1994
Net revenue.....	\$ 954,508	\$ 868,264	: \$777,855	\$142,850	\$897,907	\$904,646
Salaries, general and administrative expenses.....	804,897	656,828	: 563,600	107,608	640,847	661,516
Bad debt expense.....	78,944	51,617	: 50,403	14,804	67,300	70,623
Depreciation and amortization.....	66,571	48,659	: 35,126	3,631	26,382	28,354
Amortization of reorganization value in excess of amounts			:			

allocable to identifiable assets.....	--	--	:	--	7,167	42,678	31,200
Interest, net.....	205,723	232,218	:	169,244	12,690	74,156	39,394
ESOP expense (credit).....	52,033	(3,962)	:	33,714	4,811	45,874	49,197
Stock option expense (credit)....	--	--	:	--	(789)	38,416	10,614
Unusual items.....	105,000	45,000	:	--	--	--	71,287
Deferred compensation expense....	6,815	5,061	:	3,190	--	--	--
Loss from continuing operations before income taxes, reorganization items, extraordinary item and cumulative effect of a change in accounting principle.....	(365,475)	(167,157)	:	(77,422)	(7,072)	(37,746)	(57,539)
Provision for (Benefit from) income taxes.....	(43,132)	--	:	4,259	1,054	1,874	(10,536)
Loss from continuing operations before reorganization items, extraordinary item and cumulative effect of a change in accounting principle...	(322,343)	(167,157)	:	(81,681)	(8,126)	(39,620)	(47,003)
Discontinued operations:			:				
Income (Loss) from discontinued operations.....	18,606	37,115	:	24,211	930	(14,703)	--
Gain on disposal of discontinued operations.....	--	--	:	--	--	10,657	--
Loss before reorganization items, extraordinary item and cumulative effect of a change in accounting principle.....	(303,737)	(130,042)	:	(57,470)	(7,196)	(43,666)	(47,003)
Reorganization items:			:				
Professional fees and other expenses.....	--	--	:	(8,156)	--	--	--
Adjust accounts to fair value...	--	--	:	83,004	--	--	--
Extraordinary item - gain (loss) on early extinguishment or discharge of debt.....	--	--	:	730,589	--	(8,561)	(12,616)
Cumulative effect of a change in accounting principle.....	(7,567)	--	:	--	--	--	--
Net income (loss).....	\$ (311,304)	\$ (130,042)	:	\$ 747,967	\$ (7,196)	\$ (52,227)	\$ (59,619)
Earnings (Loss) per common share:			:				
Loss from continuing operations before extraordinary item....			:		\$(.33)	\$(1.59)	\$(1.78)
Income (Loss) from discontinued operations and disposal of discontinued operations.....			:		.04	(.16)	--
Loss before extraordinary item.....			:		(.29)	(1.75)	(1.78)
Extraordinary loss on early extinguishment of debt.....			:		--	(.35)	(.48)
Net loss.....	--(A)	--(A)	:	--(A)	\$(.29)	\$(2.10)	\$(2.26)

(Footnotes on following page)

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BALANCE SHEET DATA
(In thousands)

	1990	1991	September 30, 1992	1993	1994
Current assets.....	\$ 255,644	\$ 320,755	\$ 290,742	\$231,915	\$ 324,627
Current liabilities.....	1,986,748	2,123,006	296,144	272,598	215,048
Working capital.....	(1,731,104)	(1,802,251)	(5,402)	(40,683)	109,579
Working capital ratio.....	--	--	--	--	1.51:1
Property and equipment -- net....	696,813	645,173	486,762	444,786	494,345
Total assets.....	1,333,659	1,338,823	1,299,198	838,186	961,480
Long-term debt and capital lease obligations.....	12,633	5,920	844,839	350,205	533,476
Redeemable preferred stock.....	189,989	214,842	--	--	--
Common stockholders' equity (deficit).....	(984,954)	(1,138,279)	10,424	57,298	56,221

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(A) Earnings (loss) per share for periods prior to the two months ended September 30, 1992 are not presented because they are not meaningful due to the implementation of fresh start accounting and increase in the number of shares outstanding as a result of the Plan.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

For the fiscal years ended September 30, 1992, 1993 and 1994, the Company

derived approximately 9%, 11% and 14%, respectively, of its gross patient revenue from HMO's and PPO's; 56%, 45% and 38%, respectively, from other private payor sources (primarily Blue Cross and commercial insurance); 18%, 23% and 27%, respectively, from Medicare; 11%, 15% and 16%, respectively, from Medicaid; and 6%, 6% and 5%, respectively, from CHAMPUS. The Company does not expect its current payor mix to be altered significantly as a result of the acquisition of 40 behavioral healthcare systems (the "Acquired Hospitals") from National Medical Enterprises, Inc. Changes in the mix of the Company's patients among the private-pay, Medicare and Medicaid categories, and among different types of private-pay sources, can significantly affect the profitability of the Company's operations. The psychiatric hospital industry has been adversely affected by the trends described under "Item 1. Business - Industry Trends."

The Company continues to experience admission increases at its hospitals, but as a result of the reductions in average length of stay, aggregate patient days have decreased except for an increase in the fourth quarter due to the effect of 27 Acquired Hospitals purchased on June 30, 1994. Also an increasing percentage of the Company's revenue is coming from Medicare, Medicaid and HMO's and PPO's and less from traditional commercial insurance.

Because of the industry factors referred to previously and the impact of the 27 facilities purchased on June 30, 1994, the Company's operating margins declined to 19.1% in fiscal year 1994 from 21.1% for the prior year. Operating income (net revenue less salaries, general and administrative expenses and bad debt expenses) was \$172.5 million for fiscal 1994, compared with \$189.8 million in fiscal 1993. The Company may continue to experience reduced

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margins when compared to prior periods. The Company intends to increase its outpatient services and to enter new markets, in addition to those the Company entered as a result of the purchase of the Acquired Hospitals, in response to this trend. The Company continues to broaden the scope of healthcare services it provides by offering alternatives to traditional inpatient treatment settings, such as partial hospitalization, intensive outpatient and residential treatment programs.

The Company's ability to increase the rates it charges to offset increased costs is limited because the Company derives a significant portion of its revenues from patients covered by governmental and managed-care programs. With respect to governmental programs, the amount the Company is paid for its services is established by law and regulation. With respect to managed-care programs, the amount is established by the managed-care contracts. Although inflation has not been a significant factor in the Company's results of operations in recent years, a resurgence of inflation could adversely affect the Company's results of operations because of such limitations on the Company's ability to increase its rates. It is unlikely that federal and state governments will increase reimbursement rates under their programs in amounts sufficient to offset future price increases that result from general inflationary pressures.

The Company's business is seasonal in nature, with a reduced demand for certain services generally occurring in the fourth quarter and around major holidays, such as Thanksgiving and Christmas.

Management believes that the purchase of the Acquired Hospitals will assist the Company in implementing its strategy by increasing the Company's size, market position and geographical coverage. For example, the acquisition permits the Company to enter 16 new markets, including markets in the mid-Atlantic and northeastern United States. Management believes the operating results of the Acquired Hospitals will provide sufficient cash flow for debt service and capital expenditures related to those facilities. The aggregate purchase price for the Acquired Hospitals was approximately \$120.4 million in cash plus approximately \$51 million for the related net working capital. Of this amount, \$106.3 million was obtained from the net proceeds of the Notes issued in May 1994, \$39.1 million was borrowed pursuant to the Revolving Credit Agreement and approximately \$26 million of cash on hand was used. Pro forma results of operations for fiscal 1994 which include the 40 Acquired Hospitals are included in Note 2 of the Company Consolidated Financial Statements.

As of September 30, 1990, the Company operated 91 psychiatric hospitals and 12 general hospitals with an aggregate capacity of 9,798 licensed beds.

During fiscal years 1991, 1992, 1993 and 1994, the Company sold nine psychiatric hospitals for a total of \$46.1 million, leased two psychiatric hospitals, with options to purchase by the lessees, and closed four psychiatric hospitals. Of these 15 hospitals, 11 were included in the divestiture plan and written down to net realizable value and their estimated carrying costs accrued as part of the restructuring charges recorded in fiscal 1990 and 1991; therefore, these eleven facilities had no impact on the Company's results of operations in subsequent periods. The four hospitals not in the divestiture plan did not have a material impact on the Company's results of operations. Of the four psychiatric hospitals that were closed, one of the closed hospitals was leased, and the lease was terminated, one facility

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is being marketed for sublease and two facilities are now being used for residential treatment programs by existing Company facilities. During fiscal year 1992, the Company closed one general hospital, and on September 30, 1993, it sold ten general hospitals. As a result of these transactions, the combining into one facility of two psychiatric hospitals formerly licensed separately and the acquisition of 27 Acquired Hospitals on June 30, 1994, the Company operated 101 psychiatric hospitals as of September 30, 1994. The Company leases one general hospital, which is managed by an unrelated third party. The lease and management agreement expire in 1997.

The ten general hospitals were sold on September 30, 1993, for approximately \$338.0 million. The Company retained the assets and liabilities for professional liability claims incurred and cost report settlements for periods prior to September 30, 1993. The results of operations of the general hospitals sold on September 30, 1993 have been reported as discontinued operations in the Company's financial statements. For fiscal 1993, the general hospitals had net revenue of approximately \$347 million and a net loss of approximately \$15 million. The sale of the general hospitals enabled the Company to concentrate its efforts on behavioral healthcare systems and to reduce its long-term debt by approximately \$310.3 million.

During fiscal 1992, the Company filed a voluntary petition for relief pursuant to chapter 11 of the U.S. Bankruptcy Code. The prepackaged plan of reorganization (the "Plan") effected a restructuring of the Company's debt and equity capitalization (the "Restructuring"). The Restructuring, which became effective on July 21, 1992, resulted in a reduction of approximately \$700 million principal amount of long-term debt and the elimination of redeemable preferred stock having an aggregate liquidation preference of \$233 million. The Company accounted for the Restructuring by using the principles of fresh start accounting. Accordingly, the Company's total assets were recorded at their assumed reorganization value, with the reorganization value allocated to identified tangible assets on the basis of their estimated fair value at July 31, 1992. The excess of the reorganization value over the value of identifiable assets is reported as "reorganization value in excess of amounts allocable to identifiable assets."

Results of Operations

Effect of the Plan and Fresh Start Accounting

As a result of the consummation of the Plan and the implementation of fresh start accounting, the results of operations of the Company after consummation of the Plan are not comparable to results of operations for prior periods. Additionally, under fresh start accounting, the statement of operations for fiscal 1992 is separated into two statements: one for the period prior to consummation of the Plan (July 31, 1992 for accounting purposes) and for the period subsequent to consummation.

Depreciation and amortization expense was reduced due to the write-down of depreciable property and equipment and the write-off of deferred charges and goodwill which occurred upon consummation of the Plan and the implementation of fresh start accounting. This reduction is offset by additional depreciation expense related to the Acquisition. In addition, the excess of reorganization value over the value of identifiable assets, recorded in connection with fresh start accounting, is being amortized over a three-year period.

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The Company also recognized certain nonrecurring items in fiscal 1992 related to the Plan and fresh start accounting. The Company recognized a net credit of approximately \$83 million representing the adjustment of accounts to fair value resulting from the implementation of fresh start accounting. The gain on extinguishment of debt of approximately \$731 million includes the forgiven principal and interest reduced by the value of Common Stock issued to the holders of certain debt securities outstanding prior to consummation of the Plan.

Discontinued Operations

The results of operations of the general hospitals sold on September 30, 1993 have been reported as discontinued operations in the Company's financial statements. Included in these amounts are net interest expenses related to debt specifically identifiable as debt of the general hospitals.

On September 15, 1993, the Company sold its interest in Beech Street of California, Inc. ("Beech Street"). Beech Street operates preferred provider networks and provides utilization review services to third parties. Immediately prior to the sale, the Company owned 71.1% of the voting stock and 19.8% of the equity ownership of Beech Street. The operations of Beech Street were consolidated with the Company and have been reported as discontinued operations in the Company's financial statements. For fiscal 1993, Beech Street had revenues of approximately \$26 million and net income of approximately \$700,000.

The Company recognized after-tax gains from the sale of the general hospitals and Beech Street of approximately \$10.7 million during the fourth quarter of fiscal 1993.

Psychiatric Hospital Results

The Company's consolidated financial statements include results of operations for the 27 Acquired Hospitals purchased on June 30, 1994 for the three months ended September 30, 1994. The comparability of the Company's psychiatric hospital net revenue, operating expenses and bad debt expense was not affected by the consummation of the Plan or the sale of the general hospitals.

The following table summarizes, for the periods indicated, changes in selected operating indicators.

	Percentage of Net Revenue			% Change	
	1992	1993	1994	1993	1994
Net revenue.....	100.0%	100.0%	100.0%	(3)	1
Operating expenses:					
Salaries and benefits.....	39.9	39.4	41.6	(4)	6
Other operating expenses....	33.0	32.0	31.5	(6)	(1)
Bad debt expenses.....	7.1	7.5	7.8	3	5
Total expenses.....	80.0	78.9	80.9	(4)	3
Operating margin.....	20.0	21.1	19.1	3	(9)

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The table below presents "same store" data for facilities in operation on September 30, 1994.

Selected Psychiatric Hospital Operating Data					
Fiscal Year ended September 30					
1992	1993	% Change	1994	% Change	

Number of Psychiatric Hospitals.....	75	75	--	101	35%
Average Licensed Beds.....	7,011	7,013	--	7,468	6
Licensed Bed Days.....	2,565,974	2,559,839	--	2,725,679	6
Net Revenue (In thousands) (1).....	\$851,501	\$843,842	(1)%	\$850,575	1
Total Patient Days (2).....	1,395,961	1,358,857	(3)	1,383,388	2
Total Equivalent Patient Days (3)....	1,471,389	1,465,368	--	1,527,855	4
Net Revenue/Equivalent Patient					
Day (1) (3).....	\$579	\$576	(1)	\$557	(3)
Admissions.....	79,128	86,067	9	102,802	19
Average Length of Stay (Days).....	17.8	15.7	(12)	13.6	(13)
Private Pay and Other Sources/					
Gross Revenue (4).....	64%	55%	(14)	49%	(11)
Government Programs/ Gross					
Revenue (4) (5).....	36%	45%	25	51%	13

<FN>

- (1) Includes inpatient and outpatient revenue.
- (2) Provision of care to one patient for one day.
- (3) Represents inpatient days adjusted to reflect outpatient utilization, computed by dividing patient charges by inpatient charges per day.
- (4) Gross Revenue is revenue before deducting contractual allowances and discounts from established billing rates. Gross revenue is not separately identified in the Company's Consolidated Statements of Operations; instead, Net Revenue in the Consolidated Statements of Operations reflects gross revenue after deductions for contractual allowances and discounts from established billing rates.
- (5) Government Programs include Medicare, Medicaid and CHAMPUS.

Fiscal 1993 Compared to Fiscal 1994. Patient days at the Company's hospitals increased 24,531 or 2%, to 1,383,388 in fiscal 1994 from 1,358,857 in fiscal 1993. The increase resulted from the Acquired Hospitals, which provided 92,994 patient days. Patient days at the same store hospitals decreased 68,463, or 5%, due to a 17% decrease in the average length of stay from 15.7 days in fiscal 1993 to 13.4 days in fiscal 1994 for the same store hospitals. Total admissions increased 19%, or 16,735, from 86,067 in fiscal 1993 to 102,802 in fiscal 1994. Of that increase, 5,794 admissions were provided by the Acquired Hospitals.

The Company's net revenue increased \$6,739,000, or 1%, from \$897,907,000 in fiscal 1993 to \$904,646,000 in fiscal 1994. Net revenue at the Company's non-psychiatric operations increased \$9,648,000, including \$3,444,000 at the Company's general hospital which is managed by a third party and \$1,874,000 provided by companies acquired or developed in the Company's expansion of services pursuant to its business strategy. Net revenue decreased \$9,642,000 due to the disposal of hospitals which were considered core hospitals during

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portions of fiscal 1993. Net revenue at the Company's same store hospitals decreased \$45,356,000 from \$843,842,000 in fiscal 1993 to \$798,486,000 in fiscal 1994. The Company derived net revenue in fiscal 1994 of \$52,089,000 from the Acquired Hospitals. Net revenue per equivalent patient day decreased 3% to \$557 in fiscal 1994 from \$576 in fiscal 1993. The decreases resulted primarily from a continued shift in payor mix toward Medicare and Medicaid programs. Services to Medicare and Medicaid patients have increased due to increased recognition and treatment of the behavioral illnesses of the elderly and disabled and, in some states, improved coverage of behavioral services in psychiatric hospitals for Medicaid beneficiaries. The Company believes that, at the same time, revenue from Blue Cross and commercial insurance payors has declined because of a shift by purchasers of health coverage to HMOs and PPOs.

Following is a discussion of changes in operating expenses for fiscal 1993 compared to fiscal 1994.

The Company's salaries, general and administrative expenses increased \$20,669,000, or 3%, to \$661,516,000 in fiscal 1994 from \$640,847,000 in fiscal 1993, due to expenses incurred by the Acquired Hospitals of \$40,173,000. The same store psychiatric hospitals and other operations of the Company decreased their salaries, general and administrative expenses primarily by reducing advertising expenses, purchased services, salaries and benefits and medical professional fees.

The Company's bad debt expenses increased to \$70,623,000 in fiscal 1994 from \$67,300,000 in fiscal 1993, an increase of \$3,323,000, or 5%. The Acquisition resulted in additional bad debt expense of \$3,727,000 during fiscal 1994. Bad debt expenses as a percentage of net revenue increased to 7.8% for fiscal 1994 from 7.5% for fiscal 1993. The Company anticipates future increases in bad debt expenses due to increased deductibles and co-insurance and reduced annual and lifetime psychiatric maximum payment limits for individual patients, which will result in the Company not collecting full charges on an increasing number of patients.

Depreciation and amortization increased \$1,972,000, or 7% to \$28,354,000 in fiscal 1994. The increase resulted primarily from depreciation of the Acquired Hospitals, \$1,133,000, and the amortization of the related covenant not to compete and goodwill purchased during fiscal 1994.

Reorganization value in excess of amounts allocable to identifiable assets (the "Excess Reorganization Value") is being amortized over the three-year period ending July 1995. During fiscal 1993, Excess Reorganization Value was reduced by approximately \$21 million to reflect the recognition of tax benefits related to pre-Reorganization tax loss carryforwards and accordingly, amortization expense for the Excess Reorganization Value decreased \$11,478,000, or 27%, to \$31,200,000 in fiscal 1994 from \$42,678,000 in fiscal 1993.

Net interest expense for fiscal 1994 decreased 47% from the previous fiscal year due to the debt reductions resulting from the sale of the general hospitals on September 30, 1993, mandatory and voluntary prepayments and scheduled payments in fiscal 1993 and fiscal 1994. Interest expense during the fourth quarter of fiscal 1994 increased over the first three quarters due to the issuance of the Notes and to borrowings under the Revolving Credit Agreement used in the Acquisition.

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Interest expense was significantly reduced by the consummation of the Plan and as a result of the payments on debt made with proceeds from the sale of the general hospitals. Interest expense for fiscal 1995 will increase due to borrowings under the Revolving Credit Agreement and the issuance of the Notes in connection with the Acquisition.

ESOP expense for fiscal 1994 increased \$3,323,000, or 7%, to \$49,197,000 from \$45,874,000 for fiscal 1993. These increases resulted primarily from changes in eligibility requirements, which increased the number of employees who participate in the ESOP.

Stock option expense for fiscal 1994 decreased from the previous year due to a one-time charge during the second quarter of fiscal 1993 of \$21.3 million related to the vesting of certain options held by a former employee and director. Under the terms of the 1992 Stock Option Plan (on March 4, 1993), upon the satisfaction of certain financial targets and the termination of employment, all of the employee's options vested immediately and the option prices were reduced to \$.25 per share. Prior to March 4, 1993, such options were accounted for as a variable stock option plan because the option price was not determinable at the date of grant. Subsequent to March 4, 1993, the options were accounted for as a fixed plan because both the number of shares to be issued and the option price were known. Accordingly, on March 4, 1993, the Company recognized \$21.3 million of stock option expense. On December 3 and December 29, 1993, all of the options under the 1992 Stock Option Plan were exercised by the former employee. On December 3, 1993, 326,000 options were exercised and the option exercise price was paid by reducing the number of shares issuable by the number of shares having a fair market value equal to the option exercise price (3,326 shares). An exercise in this manner triggers a new measurement date for the options exercised and, since the stock price had increased since March 4, 1993, additional compensation expense of \$3.9 million was recognized in December 1993. The option exercise price for the 1,894,336 options exercised on December 29, 1993, was paid in cash; accordingly, no additional compensation expense was triggered. For both of the exercises, the former employee elected to surrender optioned shares (approximately 570,000 shares) as consideration for the payment of required withholding taxes of approximately \$14.2 million. These withholdings represent the minimum required tax withholding amounts required in order to avoid triggering a new measurement date and additional compensation expense. The Company was required to make withholding tax payments on behalf of the former employee of approximately \$14.2 million which was charged against

additional paid-in capital. This charge was offset by a tax benefit recorded of approximately \$9.4 million related to additional stock option expense allowable for income tax purposes. The remaining decrease in stock option expense for fiscal 1994 was due to fluctuations in the market price of the Company's common stock.

During fiscal 1994 the Company recorded unusual items of approximately \$71.3 million. Included in the unusual charges was the resolution in November 1994 between the Company and a group of insurance carriers of disputes that arose in the fourth quarter related to claims paid predominantly in the 1980's. As part of the resolution, the Company will pay the insurance carriers approximately \$31 million plus interest, for a total of \$37.5 million in four installments over a three year period. The Company and the insurance carriers will continue to do business at the same or similar general levels. Furthermore, the parties will seek additional business opportunities that will serve to enhance their present relationships.

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As a result of the Acquisition, the Company reassessed its business strategy in certain markets. The Company plans to consolidate services in selected markets and close or sell certain facilities owned prior to the Acquisition. Accordingly, the Company recorded a charge of \$23 million in the fourth quarter of 1994 to write down the assets of those facilities to their net realizable value. Also recorded as an unusual charge during fiscal 1994 were expenses related to the relocation of the Company's executive offices.

As of September 30, 1994, the Company had estimated tax net operating loss (NOL) carryforwards of approximately \$247 million available to reduce future federal taxable income. These NOL carryforwards expire in 2006 through 2009 and are subject to examination by the Internal Revenue Service. Due to the ownership change which occurred as a result of the Reorganization, the Company's utilization of NOLs generated prior to the consummation of the Reorganization is significantly limited. The Internal Revenue Service is currently examining the Company's income tax returns for fiscal 1989 through 1993. Adjustments arising from such examination could reduce or eliminate the NOL carryforwards. In Management's opinion adequate provisions have been made for any adjustments which may result from such examinations.

During fiscal 1994 the Company recorded an extraordinary loss of approximately \$12.6 million (net of income tax benefit of approximately \$8.4 million) related to the defeasance of the Company's 7.5% Senior Subordinated Debentures due 2003 and the pay-off of certain subsidiary mortgages. The extraordinary loss includes the difference between the redemption price and the carrying value of the debentures and prepayment penalties related to the subsidiary mortgages.

Fiscal 1992 Compared to Fiscal 1993. The Company had 1,358,857 patient days in fiscal 1993, a decrease of 37,104, or 3%, from 1,395,961 in fiscal 1992. The decrease in patient days occurred despite an increase of 6,939, or 9%, in admissions from 79,128 in fiscal 1992 to 86,067 in fiscal 1993. The decline in average length of stay from 17.8 days to 15.7 days was caused by stringent criteria regarding inpatient treatment by payors and changes in program mix.

The Company's net revenue decreased \$22,798,000, or 2%, from \$920,705,000 in fiscal 1992 to \$897,907,000 in fiscal 1993. Of this decline, \$14,325,000 resulted from the disposal of hospitals in fiscal 1992, and \$814,000 was related to non-psychiatric operations. Net revenue at the "same store" core hospitals in operation at September 30, 1993 decreased to \$843,842,000 in fiscal 1993 as compared to \$851,501,000 for fiscal 1992, a decrease of \$7,659,000, or 1%. Net revenue per equivalent patient day also decreased 1% in fiscal 1993 from \$579 in fiscal 1992 to \$576 in fiscal 1993. The decreases were primarily the result of an increase in the percentage of business the Company derived from Medicare and Medicaid patients during fiscal 1993. Services to Medicare and Medicaid patients have increased due to increased recognition and treatment of the behavioral illnesses of the elderly and disabled and, in some states, improved coverage of behavioral services in psychiatric hospitals for Medicaid beneficiaries. The Company believes that, at the same time, revenue from Blue Cross and commercial insurance payors has declined because of a shift by purchasers of health coverage to HMOs and PPOs. Net revenue in 1993 includes approximately \$8 million over the prior year from the normal settlement of reimbursement issues. In fiscal 1993, gross outpatient revenue increased 53% to \$100,376,000 from \$65,686,000 in fiscal

1992.

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Following is a discussion of changes in operating expenses for fiscal 1992 compared to fiscal 1993.

The Company's salaries, general and administrative expenses declined from \$671,208,000 in fiscal 1992 to \$640,847,000 in fiscal 1993, a decrease of \$30,361,000, or approximately 5%. The decrease in fiscal 1993 resulted primarily from reductions in salaries and benefits and purchased services and the sale of two facilities during the year. The reductions in salaries and benefits and purchased services were the result of the Company's continued focus on controlling its variable costs including a decrease in the number of employees and reduced fees for professional services.

The Company's bad debt expense increased \$2,093,000, or 3%, from \$65,207,000 in fiscal 1992 to \$67,300,000 in fiscal 1993. Bad debt expenses as a percentage of net revenue were 7.5% for fiscal 1993.

Depreciation and amortization expense decreased \$12,375,000, or 32%, in fiscal 1993 from \$38,757,000 in fiscal 1992 to \$26,382,000 in fiscal 1993 due to the writedown of depreciable property and equipment and the write-off of deferred charges which occurred upon consummation of the Restructuring and the implementation of fresh start accounting.

Net interest expense decreased \$107,778,000, or 59%, in fiscal 1993 to \$74,156,000 as compared to \$181,934,000 in fiscal 1992 due to the reduction of debt upon consummation of the Reorganization and the significant debt reductions which occurred since consummation of the Restructuring.

ESOP expense for fiscal 1993 increased \$7,349,000, or 19% to \$45,874,000 as compared to \$38,525,000 for fiscal 1992 due primarily to increased contributions to the ESOP, which were required as a result of larger debt service requirements in fiscal 1993. Also, the ESOP plan was amended to permit broader participation in the plan which increased the number of employees eligible to receive an ESOP contribution in calendar 1993.

Upon consummation of the Reorganization, the Company implemented the 1992 Stock Option Plan. A former employee and director of the Company was granted options under the 1992 Stock Option Plan to purchase approximately 2.2 million shares at exercise prices of either \$4.36 per share or \$9.60 per share. On March 4, 1993, all of the options issued to the former employee and director vested and the option prices were reduced to \$.25 per share, which resulted in the Company recognizing approximately \$21.3 million in additional stock option expense during the second quarter of fiscal 1993. The remaining expenses related to the 1992 Stock Option Plan were due to increases in the market price of the underlying Common Stock and the impact of additional shares vesting in fiscal 1993.

The Company's tax provision in fiscal 1993 resulted primarily from the fact that the amortization of reorganization value in excess of amounts allocable to identifiable assets is not deductible for tax purposes.

The consolidated statements of operations for the year ended September 30, 1993 include extraordinary after-tax losses of \$8,561,000 on early extinguishment of debt which includes fees incurred upon the retirement of the Company's Senior Secured Notes, certain debt under the credit agreement, mortgages on the general hospitals and the write-off of the unamortized discount or premium remaining on certain debt.

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See "Business -- Competition," "-- Sources of Revenues," "-- Regulation and Other Factors," "-- Medical Staffs and Employees," "-- Industry Trends," and "-- Liability Insurance" for additional information on trends that may affect operations.

Liquidity and Sources of Capital

Operational Activities. Management believes that the Company will have adequate cash flow from operations to fund its operations, capital expenditures and debt service obligations over the next year. The Company had

working capital deficiencies at September 30, 1992 and 1993 due primarily to the retention of liabilities for cost report settlements for the general hospitals sold on September 30, 1993, and \$19.5 million and \$13.9 million of long-term debt classified as current at September 30, 1992 and 1993, respectively, resulting from mandatory payments made in October 1992 and 1993.

Although the Acquired Hospitals have historically provided a negative cash flow (approximately \$4.3 million for the year ended May 31, 1994), the Company believes that improved operating management along with reductions in overhead and intercompany allocations will allow the Acquired Hospitals to provide adequate cash flow to fund their operations.

The number of days of net patient revenue in net patient accounts receivable was 65 days at September 30, 1994 and 61 days at September 30, 1993.

Investing Activities. During fiscal 1993 and fiscal 1994, the Company incurred approximately \$11 million and \$15 million, respectively, in capital expenditures, primarily for routine capital replacement. During fiscal 1994, the Company also incurred expenditures of approximately \$127 million in connection with the Acquisition and approximately \$3 million for the acquisitions of businesses related to the implementation of the Company's new growth and expansion strategy. The capital outlays were financed from borrowings under the Revolving Credit Agreement, proceeds from the issuance of the Notes and from cash provided by operations.

Future cash flows provided by investing activities will be reduced by the amount of cash previously provided by the discontinued operations which was approximately \$42.5 million in fiscal year 1993. However, the sale of the general hospitals allowed the Company to reduce its debt and save approximately \$32.3 million in annual interest expense. The Company believes the sale of the general hospitals will not have a material adverse effect on the financial position, results of operation or liquidity of the Company.

Financing Activities. On May 2, 1994, the Company entered into the Revolving Credit Agreement and issued the 11.25% Senior Subordinated Notes (the "Notes"). The net proceeds from the sale of the Notes, together with borrowings pursuant to the Revolving Credit Agreement, were used to refinance the indebtedness outstanding pursuant to the Company's previous credit agreement, to retire the 7 1/2% Senior Subordinated Debentures, to refinance certain existing mortgage indebtedness of certain of the subsidiaries of the Company and to finance the Acquisition and to pay related transaction expenses. Commitments under the Revolving Credit Agreement will automatically be reduced by \$24.5 million on March 31, 1996, \$49.1 million each on March 31, 1997 and 1998 and \$175 million on March 31, 1999. The Company believes that its hospitals, including the Acquired Hospitals, will generate sufficient cash flows from operations to meet its debt service requirements. The Notes mature

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on April 15, 2004. Interest on the Notes is payable each April 15 and October 15, commencing on October 15, 1994.

The Company obtained increased operational and financial flexibility as a result of entering into the Revolving Credit Agreement and issuing the Notes because the covenants contained in the Revolving Credit Agreement and the indenture for the Notes are less restrictive than those formerly in effect. However, the Revolving Credit Agreement and the indenture for the Notes contain a number of restrictive covenants, which, among other things, limit the ability of the Company to incur other indebtedness, engage in transactions with affiliates, incur liens, make certain restricted payments, and enter into certain business combination and asset sale transactions. The Revolving Credit Agreement also limits the Company's ability to incur capital expenditures and requires the Company to maintain certain specified financial ratios. A failure by the Company to maintain such financial ratios or to comply with the restrictions contained in the Revolving Credit Agreement, the indenture for the Notes or other agreements relating to the Company's debt could cause such indebtedness (and by reason of cross-acceleration provisions, other indebtedness) to become immediately due and payable.

Item 8. Financial Statements and Supplementary Data

Information with respect to this Item is contained in the Company's consolidated financial statements and financial statement schedules indicated in the Index on Page F-1 of this Annual Report on Form 10-K and is

incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Information with respect to the Company's executive officers is contained under "Item 1. Business - Executive Officers of the Registrant." Pursuant to General Instruction G(3) to Form 10-K, the information required by this item with respect to directors has been omitted inasmuch as the Company files with the Securities and Exchange Commission a definitive proxy statement not later than 120 days subsequent to the end of its fiscal year. Such information is incorporated herein by reference.

Item 11. Executive Compensation

Pursuant to General Instruction G(3) to Form 10-K, the information required with respect to this item has been omitted inasmuch as the Company files with the Securities and Exchange Commission a definitive proxy statement not later than 120 days subsequent to the end of its fiscal year. Such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Pursuant to General Instruction G(3) to Form 10-K, the information required with respect to this item has been omitted inasmuch as the Company files with the Securities and Exchange Commission a definitive proxy statement not later than 120 days subsequent to the end of its fiscal year. Such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Pursuant to General Instruction G(3) to Form 10-K, the information required with respect to this item has been omitted inasmuch as the Company files with the Securities and Exchange Commission a definitive proxy statement not later than 120 days subsequent to the end of its fiscal year. Such information is incorporated herein by reference.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents filed as part of the Report:

1. Financial Statements

Information with respect to this item is contained on Pages F-2 to F-32 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

Information with respect to this item is contained on pages S-1 to S-4 of this Annual Report on Form 10-K.

3. Exhibits

Exhibit

No.

Description of Exhibit

- 2(a) - Asset Sale Agreement (First Facilities), dated March 29, 1994, between National Medical Enterprises, Inc., as Seller, and the Company, as Buyer, which was filed as Exhibit 2(d) to the Company's Amendment No. 1 to Registration Statement on Form S-4 (No. 33-53701) filed July 1, 1994, and is incorporated herein

by reference.

- 2(b) - Asset Sale Agreement (Subsequent Facilities), dated March 29, 1994, between National Medical Enterprises, Inc., as Seller, and the Company, as Buyer, which was filed as Exhibit 2(e) to the Company's Amendment No. 1 to Registration Statement on Form S-4 (No. 33-53701) filed July 1, 1994, and is incorporated herein by reference.
Exhibit 2(a) and 2(b) do not contain copies of the exhibits and schedules to such agreements. Such agreement describe such exhibits and schedules. The Company agrees to furnish supplementally to the Commission, upon request, a copy of any omitted exhibit or schedule to such agreements.
- 2(c) - Amendment No. 1, dated September 12, 1994, to Asset Sale Agreement (First Facilities), dated March 29, 1994, between National Medical Enterprises, Inc., as Seller and the Company, as Buyer.
- 2(d) - Amendment No. 1, dated September 12, 1994, to Asset Sale Agreement (Subsequent Facilities), dated March 29, 1994, between National Medical Enterprises, Inc., as Seller and the Company, as Buyer.
- 2(e) - Amendment No. 2, dated September 29, 1994, to Asset Sale Agreement (Subsequent Facilities), dated March 29, 1994, between National Medical Enterprises, Inc., as Seller and the Company, as Buyer.
- 2(f) - Amendment No. 3, dated November 15, 1994, to Asset Sale Agreement (Subsequent Facilities), dated March 29, 1994, between National Medical Enterprises, Inc., as Seller and the Company, as Buyer.

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Exhibit No.	Description of Exhibit
2(g) -	Incorporation, Conveyance and Stock Purchase Agreement, dated August 16, 1993, among Quorum, Inc., the Company and certain subsidiaries which was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, dated as of September 30, 1993, and which is incorporated herein by reference.
3(a) -	Restated Certificate of Incorporation of the Company, as filed in Delaware on October 16, 1992, which was filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended September 30, 1992, and is incorporated herein by reference.
3(b) -	Bylaws of the Company, as amended, effective July 21, 1994.
4(a) -	Indenture, dated as of May 2, 1994, among the Company, the Guarantors listed therein and Marine Midland Bank, as Trustee, relating to the 11.25% Senior Subordinated Notes due April 15, 2004 of the Company, which was filed as Exhibit 4(a) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(b) -	Second Amended and Restated Credit Agreement, dated as of May 2, 1994, among the Company, the financial institutions listed therein, Bankers Trust Company, as Agent, and First Union National Bank of North Carolina, as Co-Agent, which was filed as Exhibit 4(e) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(c) -	Second Amended and Restated Subsidiary Credit Agreement, dated as of May 2, 1994, among certain subsidiaries of the Company, the financial institutions listed therein, Bankers Trust Company, as Agent, and First Union National Bank of North Carolina, as Co-Agent, which was filed as Exhibit 4(f) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(d) -	Second Amended and Restated Company Stock and Notes Pledge Agreement, dated as of May 2, 1994, between the Company and Bankers Trust Company, as Collateral Agent, which was filed as Exhibit 4(g) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(e) -	Second Amended and Restated Subsidiary Stock and Notes Pledge Agreement, dated as of May 2, 1994, among various subsidiaries

of the Company and Bankers Trust Company, as Collateral Agent, which was filed as Exhibit 4(h) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.

- 4(f) - Second Amended and Restated Subsidiary Pledge and Security Agreement, dated as of May 2, 1994, among various subsidiaries of the Company and Bankers Trust Company, as Collateral Agent, which was filed as Exhibit 4(i) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
- 4(g) - Second Amended and Restated Subsidiary Pledge and Security Agreement (ESOP collateral), dated as of May 2, 1994, between the Company and Bankers Trust Company, as Collateral Agent, which was filed as Exhibit 4(j) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.

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Exhibit No.	Description of Exhibit
4(h) -	Second Amended and Restated FINCO Pledge and Security Agreement I, dated as of May 2, 1994, between CMFC, Inc. and Bankers Trust Company, as Collateral Agent, which was filed as Exhibit 4(k) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(i) -	Second Amended and Restated Subsidiary Guaranty, dated as of May 2, 1994, executed by various subsidiaries of the Company, which was filed as Exhibit 4(l) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(j) -	Second Amended and Restated Company Collateral Accounts Assignment Agreement, dated as of May 2, 1994, between the Company and Bankers Trust Company, as agent, which was filed as Exhibit 4(m) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(k) -	Company Pledge and Security Agreement, dated as of May 2, 1994, between the Company and Bankers Trust Company, as Collateral Agent, which was filed as Exhibit 4(n) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(l) -	Second Amended and Restated FINCO Pledge and Security Agreement II, dated as of May 2, 1994, between CMCI, Inc. and Bankers Trust Company, as Collateral Agent, which was filed as Exhibit 4(o) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(m) -	Second Amended and Restated Company Guaranty, dated as of May 2, 1994, executed by the Company, which was filed as Exhibit 4(p) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(n) -	Second Amended and Restated Subsidiary Collateral Accounts Assignment Agreement, dated as of May 2, 1994, among various subsidiaries of the Company and Bankers Trust Company, as Agent, which was filed as Exhibit 4(q) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(o) -	Form of Indenture of Mortgage, Deed to Secure Debt, Deed of Trust, Security Agreement and Assignment of Leases and Rents; Amended Indenture of Mortgage, Deed to Secure Debt, Deed of Trust, Security Agreement and Assignment of Leases and Rents; and Consolidated Agreement, executed as of May 2, 1994, by 71 subsidiaries of the Company and Bankers Trust Company, as Agent, and various trustees as shown on individual subsidiary cover pages attached, which was filed as Exhibit 4(t) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(p) -	Purchase Agreement, dated April 22, 1994, between the Company and Bear, Stearns & Co. Inc. and BT Securities Corporation, which was filed as Exhibit 4(u) to the Company's Registration

Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.

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Exhibit No.	Description of Exhibit
4(q) -	Exchange and Registration Rights Agreement, dated April 22, 1994 between the Company and Bear, Stearns & Co. Inc. and BT Securities Corporation, which was filed as Exhibit 4(v) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
4(r) -	Amendment No. 1, dated as of June 9, 1994, to Second Amended and Restated Credit Agreement, dated as of May 2, 1994, among the Company, the financial institutions listed therein, Bankers Trust Company, as Agent, and First Union National Bank of North Carolina, as Co-Agent, which was filed as Exhibit 4(w) to the Company's Amendment No. 1 to Registration Statement on Form S-4 (No. 33-53701) filed July 1, 1994, and is incorporated herein by reference.
4(s) -	Amendment No. 2, dated September 30, 1994, to Second Amended and Restated Credit Agreement, dated as of May 2, 1994, among the Company, the financial institutions listed therein, Bankers Trust Company, as Agent, and First Union National Bank of North Carolina, as Co-Agent.
4(t) -	Indenture Supplement No. 1, dated June 3, 1994, among the Company, the Guarantors listed therein and Marine Midland Bank, as Trustee, relating to the 11.25% Senior Subordinated Notes due April 15, 2004, together with a schedule identifying substantially similar documents, pursuant to Instruction 2 to Item 601 of Regulation S-K.
4(u) -	Indenture Supplement No. 3, dated August 30, 1994, among the Company, the Guarantors listed therein and Marine Midland Bank, as Trustee, relating to the 11.25% Senior Subordinated Notes due April 15, 2004. The Company and the Additional Registrants agree, pursuant to (b)(4)(iii) of Item 601 of Regulation S-K, to furnish to the Commission, upon request, a copy of each agreement relating to long-term debt where the total amount of debt under each such agreement does not exceed 10% of the Registrants' respective total assets on a consolidated basis.
10(a) -	Written description of Corporate Annual Incentive Plan for the year ended September 30, 1994.
10(b) -	1989 Non-Qualified Deferred Compensation Plan of the Company, adopted January 1, 1989, as amended, which was filed as Exhibit 10(f) to the Company's Annual Report on Form 10-K dated as of September 30, 1989 and is incorporated herein by reference.
10(c) -	1992 Stock Option Plan of the Company, as amended.
10(d) -	Directors' Stock Option Plan of the Company, as amended.
10(e) -	1994 Stock Option Plan of the Company, as amended.
10(f) -	Directors' Unit Award Plan of the Company, which was filed as Exhibit 10(i) to the Company's Registration Statement on Form S-4 (No. 33-53701) filed May 18, 1994, and is incorporated herein by reference.
10(g) -	Description of Flexible Benefits Plan.

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Exhibit No.	Description of Exhibit
10(h) -	Employment Agreement, dated July 21, 1992, between the Company and William A. Fickling, Jr., Chairman of the Board of Directors and Chief Executive Officer of the Company which was filed as Exhibit 10(e) the Company's Annual Report on Form 10-K dated September 30, 1992 and is incorporated herein by reference.
10(i) -	Employment Agreement, dated July 21, 1992, between the Company and E. Mac Crawford, Director, President and Chief Operating Officer of the Company which was filed as Exhibit 10(f) the Company's Annual Report on Form 10-K dated September 30, 1992

- and is incorporated herein by reference.
- 10(j) - Employment Agreement, dated July 21, 1992, between the Company and Lawrence W. Drinkard, Director and Senior Vice President - Finance (principal financial officer) of the Company which was filed as Exhibit 10(g) the Company's Annual Report on Form 10-K dated September 30, 1992 and is incorporated herein by reference.
- 21 - List of subsidiaries of the Company.
- 23 - Consent of independent public accountants.
- 27 - Financial Data Schedules

(b) Reports on Form 8-K:

On September 20, 1994, the Company filed a Form 8-K/A (Amendment No. 2) dated June 30, 1994 disclosing the acquisition of substantially all the assets of 18 psychiatric hospitals, seven chemical-dependency treatment facilities, one residential treatment facility and one physician outpatient practice from National Medical Enterprises, Inc., a Nevada corporation, for a purchase price of approximately \$88.7 million in cash, plus \$2 million in cash for a covenant not to compete, plus an additional amount of cash equal to the net working capital of the facilities acquired, amounting to approximately \$38.4 million.

(c) Exhibits Required by Item 601 of Regulation S-K:

Exhibits required to be filed by the Company pursuant to Item 601 of Regulation S-K are contained in a separate volume.

(d) Financial Statement Schedules Required By Regulation S-X:

Separate financial statements and schedules of Charter Medical Corporation (Parent Company) have been omitted since the restricted net assets as defined by Rule 4-08(e)(3) of Regulation S-X of the Parent Company's consolidated subsidiaries do not exceed 25% of the consolidated net assets of the Company as of September 30, 1994.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

CHARTER MEDICAL CORPORATION
(Registrant)

Date: December 13, 1994

/s/ Lawrence W. Drinkard
Lawrence W. Drinkard
Executive Vice President and
Chief Financial Officer and
Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ E. Mac Crawford E. Mac Crawford	Chairman of the Board of Directors, President and Chief Executive Officer	December 13, 1994
/s/ John R. Day John R. Day	Vice President-Controller	December 13, 1994

/s/ Edwin M. Banks Edwin M. Banks	Director	December 13, 1994
/s/ Andre C. Dimitriadis Andre C. Dimitriadis	Director	December 13, 1994
/s/ Raymond H. Kiefer Raymond H. Kiefer	Director	December 13, 1994
/s/ Gerald L. McManis Gerald L. McManis	Director	December 13, 1994

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS

The following consolidated financial statements of the Registrant and its subsidiaries are submitted herewith in response to Item 8 and Item 14(a)1:

	Page
Charter Medical Corporation:	
Report of independent public accountants.....	F-2
Consolidated balance sheets as of September 30, 1993 and 1994.....	F-3
Consolidated statements of operations for the ten months ended July 31, 1992, the two months ended September 30, 1992 and the years ended September 30, 1993 and 1994.....	F-5
Consolidated statements of changes in stockholders' equity for the ten months ended July 31, 1992, the two months ended September 30, 1992 and the years ended September 30, 1993 and 1994.....	F-6
Consolidated statements of cash flows for the ten months ended July 31, 1992, the two months ended September 30, 1992, and the years ended September 30, 1993 and 1994.....	F-7
Notes to consolidated financial statements.....	F-8

The following financial statement schedules of the Registrant and its subsidiaries are submitted herewith in response to Item 14(a)2:

	Page
Schedule V -- Property and Equipment.....	S-1
Schedule VI -- Accumulated depreciation, depletion and amortization of property and equipment.....	S-2
Schedule VIII -- Valuation and qualifying accounts.....	S-3
Schedule X -- Supplemental income statement information....	S-4

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable or have been disclosed in the Notes to Consolidated Financial Statements and, therefore, have been omitted.

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To the Board of Directors and Stockholders of
Charter Medical Corporation:

We have audited the accompanying consolidated balance sheets of Charter Medical Corporation (a Delaware Corporation) and subsidiaries as of September 30, 1993 and 1994, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the ten months ended July 31, 1992, the two months ended September 30, 1992 and the years ended September 30, 1993 and 1994. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charter Medical Corporation and subsidiaries as of September 30, 1993 and 1994, and the results of their operations and their cash flows for the ten months ended July 31, 1992, the two months ended September 30, 1992 and the years ended September 30, 1993 and 1994, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 3, the Company's reorganization plan was confirmed by the U.S. Bankruptcy Court on July 8, 1992 and became effective on July 21, 1992 (effective on July 31, 1992 for financial reporting purposes). In accordance with Statement of Position No. 90-7 of the American Institute of Certified Public Accountants, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," the Company was required to account for the reorganization using fresh start reporting. Accordingly, all consolidated financial statements prior to July 31, 1992 are not comparable to the consolidated financial statements for periods after the implementation of fresh start reporting.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
December 2, 1994

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS

September 30,
1993 1994

Current Assets		
Cash, including cash equivalents of \$60,242 in 1993 and \$68,237 in 1994, at cost which approximates market.....	\$ 86,002	\$ 129,603
Accounts receivable, less allowance for doubtful accounts of \$28,843 in 1993 and \$43,555 in 1994.....	119,638	170,295
Supplies.....	5,051	6,097
Other current assets.....	21,224	18,632
Total Current Assets.....	231,915	324,627
Assets Restricted for Settlement		
of Unpaid Claims.....	81,608	74,532
Property and Equipment		
Land.....	95,886	96,373
Buildings and improvements.....	310,649	360,586
Equipment.....	67,421	92,044
	473,956	549,003
Accumulated depreciation.....	(30,098)	(56,967)
	443,858	492,036
Construction in progress.....	928	2,309
	444,786	494,345
Other Long-Term Assets.....	22,676	14,355
Reorganization Value in Excess of Amounts Allocable to Identifiable Assets.....	57,201	26,001
Other Intangible Assets.....	--	27,620
	<u>\$838,186</u>	<u>\$961,480</u>

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except shares and per share amounts)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30,	
	1993	1994
Current Liabilities		
Accounts payable.....	\$ 52,264	\$ 50,745
Accrued salaries and wages.....	28,298	29,110
Other accrued liabilities.....	109,600	129,791
Current income taxes payable.....	11,479	2,749
Current maturities of long-term debt and capital lease obligations.....	70,957	2,653
Total Current Liabilities.....	272,598	215,048
Long-Term Debt and Capital Lease		
Obligations.....	350,205	533,476

Deferred Income Tax Liabilities.....	38,789	12,380
Reserve for Unpaid Claims.....	99,675	100,250
Deferred Credits and Other Long-Term Liabilities.....	19,621	44,105
Stockholders' Equity		
Preferred Stock, without par value		
Authorized - 10,000,000 shares		
Issued and outstanding - none.....	--	--
Common Stock, par value \$0.25 per share		
Authorized - 80,000,000 shares		
Issued and outstanding - 25,001,042 shares in 1993 and 26,899,471 shares in 1994.....	6,250	6,725
Other Stockholders' Equity		
Additional paid-in capital.....	237,581	244,339
Accumulated deficit.....	(59,423)	(119,042)
Unearned compensation under ESOP.....	(122,724)	(73,527)
Warrants outstanding.....	274	180
Cumulative foreign currency adjustments.....	(4,660)	(2,454)
	57,298	56,221
Commitments and Contingencies		
	<u>\$838,186</u>	<u>\$961,480</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Ten Months ended July 31, 1992	Two Months ended September 30, 1992	Year ended September 30, 1993	Year ended September 30, 1994
Net revenue.....	\$ 777,855	\$ 142,850	\$ 897,907	\$ 904,646
Costs and expenses				
Salaries, general and administrative expenses.....	563,600	107,608	640,847	661,516
Bad debt expense.....	50,403	14,804	67,300	70,623
Depreciation and amortization.....	35,126	3,631	26,382	28,354
Amortization of reorganization value in excess of amounts allocable to identifi- able assets.....	--	7,167	42,678	31,200
Interest, net.....	169,244	12,690	74,156	39,394
ESOP expense.....	33,714	4,811	45,874	49,197
Stock option expense (credit).....	--	(789)	38,416	10,614
Unusual items.....	--	--	--	71,287
Deferred compensation expense.....	3,190	--	--	--
	855,277	149,922	935,653	962,185
Loss from continuing operations before income taxes, reorganization items and extraordinary item.....	(77,422)	(7,072)	(37,746)	(57,539)
Provision for (Benefit from) income taxes...	4,259	1,054	1,874	(10,536)
Loss from continuing operations before reorganization items and extraordinary				

item.....	(81,681)	:	(8,126)	(39,620)	(47,003)
Discontinued operations:		:			
Income (Loss) from discontinued operations(1).....	24,211	:	930	(14,703)	--
Gain on disposal of discontinued operations (net of income tax provision of \$42,838).....	--	:	--	10,657	--
Loss before reorganization items and extraordinary item.....	(57,470)	:	(7,196)	(43,666)	(47,003)
Reorganization items:		:			
Professional fees and other expenses.....	(8,156)	:	--	--	--
Adjust accounts to fair value.....	83,004	:	--	--	--
Extraordinary item - gain (loss) on early extinguishment or discharge of debt (net of income tax benefit of \$5,298 in 1993 and \$8,410 in 1994).....	730,589	:	--	(8,561)	(12,616)
Net income (loss).....	\$ 747,967	:	\$ (7,196)	\$ (52,227)	\$ (59,619)
Average number of common shares outstanding(2).....	--	:	24,828	24,875	26,394
Earnings (Loss) per common share(2):		:			
Loss from continuing operations before extraordinary item.....	--	:	\$(.33)	\$(1.59)	\$(1.78)
Income (Loss) from discontinued operations and gain on disposal of discontinued operations.....	--	:	.04	(.16)	--
Loss before extraordinary item.....	--	:	(.29)	(1.75)	(1.78)
Extraordinary loss on early extinguishment of debt.....	--	:	--	(.35)	(.48)
Net loss.....	--	:	\$(.29)	\$(2.10)	\$(2.26)

<FN>

- (1) Net of income tax provisions of \$79, \$122 and \$10,708 in the ten months ended July 31, 1992, the two months ended September 30, 1992 and fiscal 1993, respectively.
- (2) Share and per share amounts for the period ended July 31, 1992 has not been presented because it is not meaningful due to the implementation of fresh start accounting and the substantial change in the number of shares outstanding subsequent to the consummation of the Plan.

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

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Ten Months ended July 31, 1992	Two Months ended September 30, 1992	Year ended September 30, 1993	Year ended September 30, 1994
Common Stock:				
Balance, beginning of period.....	\$ --	\$ 6,207	\$ 6,207	\$ 6,250
Exercise of options and warrants.....	--	--	43	475
Consummation of the Restructuring.....	6,207	--	--	--
Balance, end of period.....	6,207	6,207	6,250	6,725
Class B Common Stock:				
Balance, beginning of period.....	3,537	--	--	--
Consummation of the Restructuring.....	(3,537)	--	--	--
Balance, end of period.....	--	--	--	--
Additional Paid-in Capital:				
Balance, beginning of period.....	39,891	199,412	198,623	237,581
Deferred compensation and stock option expense (credit).....	3,190	(789)	38,416	10,614
Exercise of options and warrants.....	--	--	542	(3,856)
Consummation of the Restructuring.....	364,888	--	--	--
Adjust accounts to fair value.....	3,993	--	--	--
Fresh start equity reclassifications.....	(212,550)	--	--	--

Acquisitions of businesses.....	--	:	--	--	(130,550)
(Increase) Decrease in assets restricted for settlement of unpaid claims.....	(1,629)	:	(16,438)	(14,152)	7,076
Proceeds from sale of assets (including discontinued operations).....	3,008	:	--	354,173	16,584
Cash flows from discontinued operations.....	33,812	:	10,977	42,487	--
Net cash provided by (used in) investing activities.....	26,323	:	(6,891)	371,407	(121,516)
Cash Flows From Financing Activities		:			
Payments on debt and capital lease obligations.....	(120,197)	:	(42,931)	(533,942)	(311,553)
Proceeds from issuance of debt.....	1,462	:	--	17,200	381,798
Proceeds from exercise of stock options and warrants.....	--	:	--	576	1,315
Tax benefit related to the exercise of stock options.....	--	:	--	--	9,424
Income tax payments made on behalf of stock optionee.....	--	:	--	--	(14,214)
Net cash provided by (used in) financing activities.....	(118,735)	:	(42,931)	(516,166)	66,770
Net increase (decrease) in cash and cash equivalents.....	(15,471)	:	(11,462)	(54,801)	43,601
Cash and cash equivalents at beginning of period.....	167,736	:	152,265	140,803	86,002
Cash and cash equivalents at end of period.....	\$ 152,265	:	\$ 140,803	\$ 86,002	\$129,603

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

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1994

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

On June 2, 1992, the Company filed a voluntary petition under chapter 11 of the United States Bankruptcy Code. The prepackaged plan of reorganization (the "Plan") effected a restructuring of the Company's debt and equity capitalization (the "Restructuring"). The Company's Plan was confirmed on July 8, 1992, and became effective on July 21, 1992 (effective on July 31, 1992 for financial reporting purposes). The consolidated financial statements as of and for the two months ended September 30, 1992 and the years ended September 30, 1993 and 1994 are presented for the Company after the consummation of the Plan. These statements were prepared under the principles of fresh start accounting and are not comparable to the statements of prior periods. Accordingly, a line has been used to separate the financial statements of the Company after the consummation of the Plan from those of the Company prior to the consummation of the Plan.

Property and Equipment

As a result of the adoption of fresh start accounting, property and equipment were adjusted to their estimated fair value as of July 31, 1992 and historical accumulated depreciation was eliminated. Expenditures for renewals and improvements are charged to the property accounts; however, replacements, maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. The Company removes the cost and related accumulated depreciation from the accounts for property sold or retired, and any resulting gain or loss is included in operations. Amortization of capital lease assets is included in depreciation expense. Depreciation is provided on a straight-line basis. Upon implementation of fresh start accounting, the average of the remaining useful lives of buildings and improvements was approximately 22 years. The general range of estimated useful lives is three to ten years for equipment.

Excess Reorganization Value

Excess Reorganization Value is being amortized on a straight-line basis over three years. Amortization expense for the two months ended September 30,

1992 and the years ended September 30, 1993 and 1994 was \$7.2 million, \$42.7 million and \$31.2 million, respectively. The unamortized Excess Reorganization Value of \$58.6 million attributable to the general hospitals sold on September 30, 1993, reduced the gain from the disposal of such hospitals. Excess Reorganization Value was reduced by approximately \$21 million during fiscal 1993 to reflect the recognition of tax benefits related to pre-Plan tax loss carryforwards. (See Note 8.)

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Foreign Currency

Changes in the cumulative translation of foreign currency assets and liabilities are presented as a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions, which were not material, are included in operations as incurred.

Net Revenue

Net revenue is based on established billing rates, less estimated allowances for patients covered by Medicare and other contractual reimbursement programs and discounts from established billing rates. Amounts received by the Company for treatment of patients covered by Medicare and other contractual reimbursement programs, which may be based on cost of services provided or predetermined rates, are generally less than the established billing rates of the Company's hospitals. Final determination of amounts earned under contractual reimbursement programs is subject to review and audit by the appropriate agencies. Management believes that adequate provision has been made for any adjustments that may result from such reviews.

Charity Care

The Company provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policies. Because the Company does not pursue collection of amounts determined to be charity care, they are not reported as revenue. For the ten months ended July 31, 1992, the two months ended September 30, 1992 and the years ended September 30, 1993 and 1994 the Company provided, at its established billing rates, approximately \$30 million, \$5.8 million, \$33.1 million and \$29.3 million, respectively, of such care.

Interest, Net

The Company records interest expense net of capitalized interest and interest income. Interest income for the ten months ended July 31, 1992, the two months ended September 30, 1992 and the years ended September 30, 1993 and 1994 was approximately \$6.7 million, \$.8 million, \$3.6 million and \$4.4 million, respectively.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid interest-bearing investments with a maturity of three months or less when purchased, consisting primarily of money market instruments.

Assets Restricted for the Settlement of Unpaid Claims

Assets restricted for the settlement of unpaid claims include marketable securities which are carried at fair market value. Transfer of such investments from the insurance subsidiaries to the Company or any of its other subsidiaries is subject to meeting certain criteria under the Revolving Credit Agreement and approval by certain regulatory authorities.

During fiscal 1994 the Company adopted Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"). Under SFAS 115, investments are classified into

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three categories: i) held to maturity; ii) available for sale; and iii) trading. Unrealized holding gains or losses are recorded for trading and available for sale securities. The Company's investments are classified as available for sale and the adoption of SFAS 115 did not have a material effect

on the Company's financial statements, financial condition and liquidity or results of operations.

Net Loss Per Common Share

Net loss per common share for periods subsequent to the Restructuring was computed based on the weighted average number of shares of Common Stock outstanding during the period. Common stock equivalents were not dilutive and therefore were not included in the calculation.

2. Significant Transactions

Acquisitions

As of March 29, 1994 the Company entered into two agreements with National Medical Enterprises, Inc. ("NME") providing for the purchase by the Company of substantially all of the assets of 36 psychiatric hospitals, eight chemical-dependency treatment facilities, two residential treatment centers and one physician outpatient practice, including related outpatient facilities and other associated assets. Under a consent order that has been conditionally approved by the Federal Trade Commission, the Company has agreed not to acquire six of such facilities; the Company and NME subsequently agreed that the Company will not acquire one facility. The remaining 40 facilities (the "Acquired Hospitals") have, as of November 30, 1994, been acquired (the "Acquisition") by subsidiaries of the Company. The purchase price for the Acquired Hospitals was approximately \$120.4 million in cash plus an additional cash amount of approximately \$51 million, subject to adjustment, for the net working capital of the Acquired Hospitals.

On June 30, 1994, the Company completed the purchase of 27 of the Acquired Hospitals for a cash purchase price of approximately \$129.6 million, which included approximately \$39.3 million, subject to adjustment, for the net working capital of the facilities. On October 31, 1994 the Company completed the purchase of three additional Acquired Hospitals for a cash purchase price of approximately \$5 million which included approximately \$2.2 million related to the net working capital of the facilities. On November 30, 1994, the Company completed the purchase of the remaining ten Acquired Hospitals for a cash purchase price of approximately \$36.8 million, including approximately \$9.5 million related to the net working capital of ten Acquired Hospitals. The Company accounted for the Acquisition using the purchase method of accounting.

The Company's Consolidated Statement of Operations for the year ended September 30, 1994 includes results of operations of 27 of the Acquired Hospitals for the three months ended September 30, 1994. Because all of the Acquired Hospitals have been purchased as of November 30, 1994, the purchases have been considered one transaction for pro forma disclosure. Below are unaudited pro forma results of operations for the years ended September 30, 1993 and 1994 as though the Acquired Hospitals had been purchased on October 1, 1992 and 1993, respectively. The pro forma information does not purport to be indicative of the results which would actually have been

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attained had the acquisition been completed on such date or which may be attained in the future. (In thousands, except for per share data.)

	For the Year Ended			
	September 30, 1993		September 30, 1994	
	Actual	Pro Forma (Unaudited)	Actual	Pro Forma (Unaudited)
Net revenue.....	\$897,907	\$1,230,851	\$904,646	\$1,161,250
Loss from continuing operations before discontinued operations and extraordinary items...	\$(39,620)	\$ (5,845)	\$(47,003)	\$ (41,733)
Net loss.....	\$(52,227)	\$ (18,452)	\$(59,619)	\$ (54,349)

Loss per common share:

Loss from continuing operations before discontinued operations and extraordinary items.....	\$ (1.59)	\$ (.23)	\$ (1.78)	\$ (1.58)
Net loss.....	\$ (2.10)	\$ (.74)	\$ (2.26)	\$ (2.06)

Discontinued Operations

On September 30, 1993, the Company sold its general hospitals and the related assets for approximately \$338 million. The Company retained the assets and liabilities relating to these subsidiaries for professional liability claims incurred and cost report settlements for periods prior to September 30, 1993. On September 15, 1993, the Company sold its interest in Beech Street of California, Inc. ("Beech Street") (see Note 12). Beech Street operates preferred provider networks and provides utilization review services to third parties. Immediately prior to the sale, the Company owned 71.1% of the voting stock and 19.8% of the equity ownership of Beech Street. Summarized results of the discontinued operations were as follows (in thousands):

	Ten Months ended July 31, 1992	Two Months ended September 30, 1992	Year ended September 30, 1993
Net revenue.....	\$292,266	\$ 61,779	\$372,431
Operating and bad debt expenses.....	241,942	50,533	308,706
Amortization of reorganization value in excess of amounts allocable to identifiable assets.....	--	5,333	32,000
Other expenses(1).....	26,113	4,983	46,428
Net income (loss).....	\$ 24,211	\$ 930	\$ (14,703)

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- (1) Included in these amounts are income taxes and interest expense related to debt specifically identifiable as debt of the discontinued operations. Such interest expense is not material.

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The net assets, results of operations and the gains on the sales of the general hospitals and Beech Street have been reported in the accompanying financial statements as discontinued operations. Therefore, the financial statements for all prior periods presented have been restated to segregate these amounts from continuing operations.

3. The Restructuring and Fresh Start Reporting

The consummation of the Plan discussed above in Note 1 resulted in, among other things, (i) a reduction of approximately \$700 million in long-term debt, (ii) elimination of \$233 million of preferred stock and (iii) the issuance of approximately 24.8 million shares of Common Stock to certain holders of debt securities, the preferred stockholders and common stockholders.

As a result of the consummation of the Plan, the financing under the \$880 Million Credit Agreement between the Company and certain banks dated September 1, 1988, was replaced by new facilities under the Amended and Restated Credit Agreement dated July 21, 1992, among the Company and certain banks (the "Credit Agreement").

Upon consummation of the Plan, the Company recognized an extraordinary gain on debt discharge of approximately \$731 million which represented forgiveness of debt, principal and interest, reduced by the estimated fair value of common stock issued to certain debtholders of the Company. The Company's long-term debt was stated at the present value of amounts to be paid, based on market interest rates on July 31, 1992. This adjustment to present value resulted in an aggregate carrying amount for the Company's long-term debt which was less than the aggregate principal amount thereof, and resulted in the amortization of the difference into interest expense over the terms of the debt instruments and, upon extinguishment of the debt prior to scheduled maturity, resulted in a loss on debt extinguishment.

Under the principles of fresh start accounting, the Company's total assets were recorded at their assumed reorganization value, with the reorganization value allocated to identifiable tangible assets on the basis of their estimated fair value. Accordingly, the Company's property and equipment was reduced and its intangible assets were written off. In addition, the Company's accumulated deficit, common stock in treasury and cumulative foreign currency adjustments were eliminated. The excess of the reorganization value over the value of identifiable assets is reported as "reorganization value in excess of amounts allocable to identifiable assets" (the "Excess Reorganization Value").

The total reorganization value assigned to the Company's assets was estimated by calculating projected cash flows before debt service requirements, for a five-year period, plus an estimated terminal value of the Company (calculated using a multiple of approximately six (6) on projected EBDIT (which is net revenue less operating and bad debt expenses)), each discounted back to its present value using a discount rate of 12% (representing the estimated after-tax weighted cost of capital). This amount was approximately \$1.2 billion and was increased by (i) the estimated net realizable value of assets to be sold and (ii) estimated cash in excess of normal operating requirements. The above calculations resulted in an estimated reorganization value of approximately \$1.3 billion, of which the Excess Reorganization Value was \$225 million, of which \$129 million related to continuing operations. The Excess Reorganization Value is being amortized over three years.

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4. Unusual Items

During fiscal 1994 the Company recorded a charge for unusual items of approximately \$71.3 million. Included in the unusual charges is the resolution in November 1994 between the Company and a group of insurance carriers of disputes that arose in the fourth quarter of fiscal 1994 related to claims paid predominantly in the 1980's. As part of the resolution, the Company will pay the insurance carriers approximately \$31 million plus interest, for a total of \$37.5 million in four installments over a three year period. The Company and the insurance carriers will continue to do business at the same or similar general levels. Furthermore, the parties will seek additional business opportunities that will serve to enhance their present relationships.

As a result of the Acquisition, the Company reassessed its business strategy in certain markets. The Company plans to consolidate services in selected markets and close or sell certain facilities owned prior to the Acquisition. Accordingly, the Company recorded a charge of \$23 million in the fourth quarter of 1994 to write down the assets of those facilities to their net realizable value. Also recorded as an unusual charge during fiscal 1994 were expenses related to the relocation of the Company's executive offices.

5. Benefit Plans

The Company maintains an Employee Stock Ownership Plan (the "ESOP"), a noncontributory retirement plan that enables eligible employees to participate in the ownership of the Company. The ESOP borrowed approximately \$455 million from the Company to acquire its ownership interest. At September 30, 1994, the ESOP owed the Company approximately \$65.6 million.

The Company has recorded unearned compensation to reflect the cost of Common Stock purchased by the ESOP but not yet allocated to participants' accounts. In the period that shares are allocated, or projected to be allocated, to participants, ESOP expense is recorded and unearned compensation

is reduced. Interest expense on the remaining portion of the debt incurred to finance the ESOP transaction amounted to \$2,472,000, \$10,380,000 and \$6,197,000 for the two months ended September 30, 1992, fiscal 1993 and 1994, respectively, and \$16,169,000 for the ten months ended July 31, 1992 and is included in interest expense in the statements of operations.

The Internal Revenue Service has ruled that the ESOP qualifies under Section 401 of the Internal Revenue Code of 1986, as amended. Such determination allows the Company to deduct its contributions to the ESOP for federal income tax purposes.

During fiscal 1992, the Company reinstated a defined contribution plan (the "401-K Plan"). Effective January 1, 1992, employee participants could elect to voluntarily contribute up to 5% of their compensation to the 401-K Plan. Effective October 1, 1992, the Company began making contributions to the 401-K Plan based on employee compensation and contributions. The Company makes a discretionary contribution of 2% of each employee's compensation and matches 50% of each employee's contribution up to 3% of their compensation. During the years ended September 30, 1993 and 1994, the Company made contributions of \$2,539,000 and \$4,870,000, respectively, to the 401-K Plan.

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6. Long-Term Debt and Capital Lease Obligations

Information with regard to the Company's long-term debt and capital lease obligations at September 30, 1993 and 1994 follows (in thousands):

	September 30 1993	September 30 1994
Revolving Credit Agreement due through 1999 (7.0% at September 30, 1994).....	\$ --	\$ 72,584
Financing under the Credit Agreement.....	161,490	--
11.25% (11.75% at September 30, 1994) Senior Subordinated Notes due 2004.....	--	375,000
Debentures due 2003 (net of discount of \$43,997 at September 30, 1993).....	156,003	--
8% to 10.75% Mortgage and other collateralized notes payable through 1999.....	21,502	6,434
Variable rate secured notes due through 2013 (3.65% to 3.852% at September 30, 1994)...	64,175	63,125
7.5% Swiss Bonds.....	6,443	6,443
3.65% to 12.5% Capital lease obligations due through 2014.....	11,965	12,870
	421,578	536,456
Less amounts due within one year.....	70,957	2,653
Less debt service funds.....	416	327
	\$350,205	\$533,476

The aggregate scheduled maturities of long-term debt and capital lease obligations during the five years subsequent to September 30, 1994, follow: 1995 -- \$2,653,000; 1996 -- \$2,795,000; 1997 -- \$2,964,000; 1998 -- \$2,519,000; and 1999 -- \$74,866,000.

The Company's debt is carried at cost which approximates fair market value.

Revolving Credit Agreement

On May 2, 1994 the Company entered into a Second Amended and Restated Credit Agreement with certain financial institutions for a five-year reducing, revolving credit facility in an aggregate committed amount of \$300 million (the "Revolving Credit Agreement"). Proceeds from the Revolving Credit Agreement were used (i) to refinance certain mortgage indebtedness of certain subsidiaries of the Company in the principal amount of approximately \$14.7 million and the loans to certain subsidiaries of the Company outstanding under the Credit Agreement in the principal amount of approximately \$46.8 million, (ii) for continued credit enhancement of certain currently outstanding variable rate demand notes issued by or for the benefit of certain subsidiaries of the Company and (iii) for working capital and other general corporate purposes, including to finance, in part, the Acquisition and to finance other permitted acquisitions and investments.

The amounts available under the Revolving Credit Agreement will be reduced by the amounts and on the dates indicated below:

Amount	Date
\$ 24,537,446	March 31, 1996
49,074,892	March 31, 1997
49,074,892	March 31, 1998
175,000,000	March 31, 1999

In addition to the scheduled reductions above, the Revolving Credit Commitment shall be reduced (i) by an amount equal to 70% (or if a default or an event of default exists, 100%) of the net proceeds of certain asset sales, (ii) by an amount equal to 25% (or if a default or an event of default exists, 100%) of the net proceeds of certain issuances or sales of the Company's capital stock or other equity interests, except that no such reduction shall be required if the Company meets specified financial ratios and no default or event of default has occurred and is continuing, and (iii) by an amount equal to the principal amount of permitted subordinated indebtedness subject to a required repurchase or repurchase offer by the Company as a result of any asset sale. All such reductions described in the foregoing clauses (i) through (iii) shall be applied first on a pro rata basis to all scheduled reductions of the Revolving Credit Agreement other than the last scheduled reduction of the Revolving Credit Agreement, and thereafter to the last scheduled reduction.

The loans outstanding under the Revolving Credit Agreement bear interest (subject to certain potential adjustments) at a rate per annum equal to (a) the sum of the Base Lending Rate plus 3/4 of 1%, or (b) at the option of the Company, the sum of the maximum reserve-adjusted one, two, three or six-month LIBOR plus 1 3/4%. The Base Lending Rate is the higher of (x) the rate announced from time to time as Bankers Trust Company's prime lending rate, (y) the Federal Reserve's reported weekly average dealer offering rate for three-month certificates of deposit, adjusted for maximum reserves, plus 1/2 of 1%, and (z) the Federal Funds Rate plus 1/2 of 1%.

Senior Subordinated Notes

Also on May 2, 1994, the Company issued \$375 million of 11.25% Senior Subordinated Notes which mature on April 15, 2004 (the "Notes") and are general unsecured obligations of the Company. Interest on the Notes is payable semi-annually on each April 15 and October 15, commencing on October 15, 1994. The Notes were originally issued as unregistered securities and later exchanged for securities which were registered with the Securities and Exchange Commission. Due to a delay in the registration of the notes to be exchanged, the Company was required to increase the interest rate on the Notes by 50 basis points per annum for the period September 1, 1994 through October 21, 1994, the date of issuance of the notes to be exchanged. Proceeds of \$181.8 million from the sale of the Notes were used to defease, and, subsequently on June 9, 1994, to redeem the Company's outstanding 7.5% Senior Subordinated Debentures due 2003 (the "Debentures"). Certain remaining proceeds were used, along with proceeds from the Revolving Credit Agreement, to finance the Acquisition. The Notes are guaranteed on an unsecured senior subordinated basis by substantially all of the Company's existing subsidiaries and certain subsidiaries created after the issuance of the Notes.

The Notes are not redeemable at the option of the Company prior to April 15, 1999. Thereafter, the Notes will be subject to redemption at the option of the Company, in whole or in part, at the redemption prices (expressed as a percentage of the principal amount) set forth below, plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the twelve-month period beginning April 15 of the years indicated below:

Year	Redemption Price
1999.....	105.625%

2000.....	103.750%
2001.....	101.875%
2002 and thereafter.....	100.000%

Covenants

The Revolving Credit Agreement and the indenture for the Notes contain a number of restrictive covenants, which, among other things, limit the ability of the Company and certain of its subsidiaries to incur other indebtedness, engage in transactions with affiliates, incur liens, make certain restricted payments, and enter into certain business combination and asset sale transactions. The Revolving Credit Agreement also limits the Company's ability to incur capital expenditures and requires the Company to maintain certain specified financial ratios.

Extraordinary Losses

The consolidated statements of operations for the years ended September 30, 1993 and 1994 include extraordinary after-tax losses of \$8,561,000 and \$12,616,000, respectively, resulting from the early extinguishment of debt. The loss during fiscal 1993 includes fees incurred upon the retirement of the Senior Secured Notes, certain debt under the credit agreement and mortgages on the general hospitals and the write-off of the unamortized discount or premium remaining on certain debt. The extraordinary loss in fiscal 1994 was related to the defeasance of the Debentures and the pay-off of certain subsidiary mortgages and includes the difference between the redemption price and the carrying value of the Debentures and prepayment penalties related to the subsidiary mortgages.

Leases

The Company leases certain hospital facilities, some of which may be purchased during the term or at expiration of the leases. The book value of capital leased assets was approximately \$9.0 million at September 30, 1994. The leases, which expire through 2069, generally require the Company to pay all maintenance, property tax and insurance costs.

At September 30, 1994, aggregate amounts of future minimum payments under operating leases were as follows: 1995 - \$6.4 million; 1996 - \$4.6 million; 1997 - \$2.1 million; 1998 - \$1.3 million; 1999 - \$.9 million; subsequent to 1999 - \$39.8 million.

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Operations for the ten months ended July 31, 1992 included rental expense on operating leases of \$10.4 million. Operations for the two months ended September 30, 1992, and the years ended September 1993 and 1994 included rental expenses on operating leases of \$1.9 million, \$11.3 million and \$11.4 million, respectively.

7. Stockholders' Equity

Pursuant to the Company's Restated Certificate of Incorporation, the Company is authorized to issue 80 million shares of common stock, \$.25 par value per share, and 10 million shares of preferred stock, without par value. Under the terms of the Plan, approximately 24,828,000 shares of common stock were issued to certain holders of debt securities, the preferred stockholders, and common stockholders. No shares of preferred stock have been issued as of September 30, 1994.

Common Stock

The Company is prohibited from paying dividends (other than dividends payable in shares of common stock) on its common stock under the terms of the Revolving Credit Agreement except under certain limited circumstances.

1992 Stock Option Plan

The 1992 Stock Option Plan provides for the issuance of 3,437,939 options to purchase common stock. A summary of changes in options outstanding and other related information is as follows:

	Ten Months ended July 31, 1992	Two Months ended September 30, 1992	Year Ended September 30, 1993	Year Ended September 30, 1994
Balance, beginning of period...	--	3,416,826	3,416,826	3,228,076
Granted.....	3,416,826	--	21,750	6,000
Cancelled.....	--	--	(27,000)	(24,000)
Exercised.....	--	--	(183,500)	(2,437,560)
Balance, end of period.....	3,416,826	3,416,826	3,228,076	772,516
Option prices, end of period...	\$4.36 - \$9.60	\$4.36 - \$9.60	\$.25 - \$16.875	\$4.36 - \$22.75
Price range of exercised options.....	--	--	\$ 4.36	\$.25 - \$ 4.36
Average exercise price.....	--	--	\$ 4.36	\$.62

The exercise price of certain options will be reduced if a change in control of the Company occurs prior to July 1995 or, in the case of termination of employment of certain optionees without cause, if certain financial targets included in the 1992 Stock Option Plan are achieved.

Options issued pursuant to the 1992 Stock Option Plan are exercisable upon vesting and expire through October 2000. As of September 30, 1994, 70.3% of the options outstanding were vested. The remaining options vest over the next fiscal year if the Company achieves certain financial targets. If a change in control of the Company occurs, all options vest immediately prior to such event, and upon termination of employment of certain optionees without

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cause, all options granted to such optionees vest immediately, provided certain financial targets have been met.

Upon the termination of the employment of the Company's former Chairman of the Board on March 4, 1993, and under the provisions of the 1992 Stock Option Plan, all of the former employee's options vested and the option prices were reduced to \$.25 per share. Such options totalled 2,220,336 at September 30, 1993. As a result, the Company recognized approximately \$21.3 million in additional stock option expense during the second quarter of fiscal 1993. On December 3 and December 29, 1993, all of the options under the 1992 Stock Option Plan were exercised by the former employee. On December 3, 1993, 326,000 options were exercised and the option exercise price was paid by reducing the number of shares issuable by the number of shares having a fair market value equal to the option exercise price (3,326 shares). An exercise in this manner triggers a new measurement date for the options exercised and, since the stock price had increased since March 4, 1993, additional compensation expense of \$3.9 million was recognized in December 1993. The option exercise price for the 1,894,336 options exercised on December 29, 1993, was paid in cash; accordingly, no additional compensation expense was triggered. For both of the exercises, the former employee elected to surrender optioned shares (approximately 570,000 shares) as consideration for the payment of required withholding taxes of approximately \$14.2 million. These withholdings represent the minimum required tax withholding amounts required in order to avoid triggering a new measurement date and additional compensation expense. The Company was required to make withholding tax payments on behalf of the former employee of approximately \$14.2 million which was charged against additional paid-in capital. This charge was offset by a tax benefit recorded of approximately \$9.4 million related to additional stock option expense allowable for income tax purposes.

1994 Stock Option Plan

During 1994 the Company adopted the 1994 Stock Option Plan covering 1.3 million shares of common stock. Options must be granted on or before December 31, 1996. Officers and key employees of the Company are eligible to participate. The options have an exercise price which approximates fair market value of the common stock at the date of grant. A summary of changes in options outstanding and other related information is as follows:

Year ended
September 30,
1994

Balance, beginning of period...	--
Granted.....	921,000
Cancelled.....	44,500
Exercised.....	--
Balance, end of period.....	876,500
Option prices.....	\$22.687 - \$28.312

Options granted under the 1994 Stock Option Plan are exercisable to the extent vested. An option vests at the rate of 33-1/3% of the shares covered by the option on each of the first three anniversary dates of the grant of the option if the optionee is an employee of the Company on such dates. Options must be exercised no later than ten years after the date of grant.

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1994 Employee Stock Purchase Plan

During 1994 the Company also adopted the 1994 Employee Stock Purchase Plan ("ESPP") covering 600,000 shares of common stock that can be purchased by eligible employees of the Company.

The ESPP consists of three offerings of a maximum of 300,000 shares each, except that the maximum number of shares offered in the third offering period may not exceed the then remaining number of shares available under the ESPP. The first offering period began on April 1, 1994 and will end on March 31, 1995. On the first date of each offering period, a participant will be granted an option to purchase a certain number of shares of common stock (85,115 aggregate options granted for the first offering period). The purchase price for the first offering period is \$21.144 per share.

Directors' Stock Option Plan and Directors' Unit Award Plan

The Directors' Stock Option Plan provides for the grant of options to non-employee members of the Company's Board of Directors to purchase up to 175,000 shares of the Company's common stock, subject to adjustments to reflect certain changes in capitalization. The options have an exercise price which approximates the fair market value of the common stock on the date of grant. During fiscal 1993, 100,000 options were granted at an exercise price of \$14.56 per share. During fiscal 1994, 25,000 of these options were exercised and an additional 25,000 options were granted at an exercise price of \$23.163 per share.

Options granted can be exercised from the date of vesting until February 1, 2003. No options can be granted after February 4, 1998. Options vest 20% when granted and an additional 20% on each successive February 1 for a period of four years, if the optionee continues to serve as a non-employee director on the applicable February 1. Unvested options vest in full in certain instances of termination.

In addition, during 1994, the Company approved the Directors' Unit Award Plan (the "Unit Plan") which provides for the award of a maximum of 15,000 units (the "Units") that, upon vesting under the terms of the Unit Plan, would result in the issuance of an aggregate of 15,000 shares of common stock in settlement of Units.

The Unit Plan provides for the award to each director who is not an employee of the Company of 2,500 Units. Upon vesting of the Units awarded to a director, the Company will settle the Units by issuing to the director, with no exercise price, a number of shares of the Company's common stock equal to the number of vested Units.

Rights Plan

Also upon consummation of the Plan, the Company adopted a Share Purchase Rights Plan (the "Rights Plan"). Pursuant to the Rights Plan, each share of common stock also represents one Share Purchase Right (collectively, the "Rights"). The Rights trade automatically with the underlying shares of common stock. Upon becoming exercisable, but prior to the occurrence of certain events, each Right initially entitles its holder to buy one share of common stock from the Company at an exercise price of \$60.00. The Rights will be distributed and become exercisable only if a person or group acquires, or

announces its intention to acquire, common stock exceeding certain levels, as specified in the Rights Plan. Upon the occurrence of such events, the exercise price of each Right reduces to one-half of the then current market price. The Rights also give the holder certain rights in an acquiring company's common stock. The Company is entitled to redeem the Rights at a price of \$.01 per Right at any time prior to the distribution of the Rights. The Rights have no voting power until exercised.

Common Stock Warrants

The Company has two series of warrants outstanding, the 2002 Warrants and the 2006 Warrants.

In connection with the Plan, the Company issued 114,690 of the 2002 Warrants to purchase one share each of the Company's common stock. These warrants, which expire on June 30, 2002, have an exercise price of \$5.24 per share. During fiscal 1994, 37,395 shares were issued upon the exercise of these warrants.

The 2006 Warrants, which expire on September 1, 2006, were subject to certain adjustments as a result of the Plan, and accordingly, 146,791 of such warrants are currently outstanding with an exercise price of \$38.70 per share.

8. Income Taxes

The provision (benefit) for income taxes attributable to continuing operations consisted of the following (in thousands):

	Ten Months ended July 31, 1992	Two Months ended September 30, 1992	Year ended September 30, 1993	Year ended September 30, 1994
Income taxes currently payable:	:	:	:	:
Federal.....	\$ 14	\$ 3	\$ 181	\$ --
State.....	1,055	113	315	639
Foreign.....	803	461	986	1,466
Deferred income taxes:	:	:	:	:
Federal.....	2,387	477	370	(11,106)
State.....	--	--	(39)	(1,587)
Foreign.....	--	--	61	52
	\$ 4,259	\$ 1,054	\$ 1,874	\$ (10,536)

The Company's income tax provision (benefit) attributable to continuing operations differs from that computed based on the statutory federal income tax rate for the following reasons (in thousands):

	Ten Months ended July 31, 1992	Two Months ended September 30, 1992	Year ended September 30, 1993	Year ended September 30, 1994
Income tax benefit at federal statutory income tax rate.....	\$(26,323)	\$(2,404)	\$(13,117)	\$(20,139)
State income taxes, net of federal income tax benefit.....	699	75	180	(616)
Amortization of Excess Reorganization Value.....	--	2,437	14,831	10,920
Losses for which no tax benefit has been	:	:	:	:

recorded.....	26,323	:	--	--	--
Other -- net.....	3,560	:	946	(20)	(701)
Income tax provision (benefit).....	\$ 4,259	:	\$ 1,054	\$ 1,874	\$ (10,536)

Under the federal income tax laws, the Company was not required to include in its federal taxable income any cancellation of debt income as a result of the debt forgiven pursuant to the Plan. Accordingly, no income taxes have been provided on the \$731 million extraordinary gain on debt discharge in the statement of operations for the ten months ended July 31, 1992.

As of September 30, 1994, the Company has estimated tax net operating loss ("NOL") carryforwards of approximately \$247 million available to reduce future federal taxable income. These NOL carryforwards expire in 2006 through 2009 and are subject to examination by the Internal Revenue Service. Due to the ownership change which occurred as a result of the Restructuring, the Company's utilization of NOLs generated prior to the Effective Date is significantly limited. Based on these limitations and certain other factors, the Company has recorded a valuation allowance against the entire amount of the NOL deferred tax asset and other deferred tax assets, that in management's opinion, are not likely to be recovered.

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Components of the net deferred income tax liability at September 30, 1993 and 1994 are as follows (in thousands):

	September 30,	
	1993	1994
Deferred tax liabilities:		
Property and depreciation.....	\$ 14,991	\$ 6,636
Long-term debt and interest.....	44,157	26,623
ESOP.....	17,013	26,019
Other.....	22,847	11,200
Total deferred tax liabilities.....	99,008	70,478
Deferred tax assets:		
Operating loss carryforwards.....	(66,122)	(101,443)
Insurance settlement.....	--	(16,031)
Self-insurance reserves.....	(47,307)	(48,222)
Restructuring costs.....	(25,397)	(9,365)
Stock option expense.....	(14,898)	(6,649)
Tax capitalization of costs expensed for book purposes.....	(10,030)	(5,338)
Accruals.....	(10,018)	(14,504)
Other.....	(19,861)	(18,632)
Total deferred tax assets.....	(193,633)	(220,184)
Valuation allowance.....	133,414	162,086
Deferred tax assets after valuation allowance.....	(60,219)	(58,098)
Net deferred tax liabilities.....	\$ 38,789	\$ 12,380

Effective January 1, 1993, the federal statutory corporate tax rate increased from 34% to 35%. The effect of the increase was not material to the Company.

The Internal Revenue Service is currently examining the Company's income tax returns for fiscal 1989 through 1993. In management's opinion, adequate provisions have been made for any adjustments which may result from these examinations.

9. Other Accrued Liabilities

Other accrued liabilities include amounts due health insurance programs of \$59.3 million and \$37.6 million at September 30, 1993 and 1994, respectively. Also included in other accrued liabilities is accrued interest

payable of \$2.8 million and \$18.5 million as of September 30, 1993 and 1994, respectively.

10. Supplemental Cash Flow Information

Below is supplemental cash flow information related to the ten months ended July 31, 1992, the two months ended September 30, 1992 and the years ended September 30, 1993 and 1994 (see Note 3 for a discussion of the non-cash financing activities related to the consummation of the Plan) (in thousands):

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	Ten Months ended July 31, 1992	Two Months ended September 30, 1992	Year ended September 30, 1993	1994
Federal and state income taxes paid, net of refunds received.....	\$ 2,944	\$ 269	\$ 11,136	\$ 7,097
Payments to ESOP.....	40,697	23,000	69,123	42,000
Interest paid, net of amounts capitalized.....	69,658	6,803	74,167	25,554
Liabilities assumed in connection with acquisitions:				
Long-term debt.....	--	--	--	4,573
Other liabilities.....	--	--	--	12,578

11. Commitments and Contingencies

The Company is self-insured for a substantial portion of its general and professional liability risks. The reserves for self-insured general and professional liability losses, including loss adjustment expenses, are based on actuarial estimates using the Company's historical claims experience adjusted for current industry trends. The reserve for unpaid claims is adjusted, as such claims mature, to reflect revised actuarial estimates based on actual experience. While management and its actuaries believe that the present reserve is reasonable, ultimate settlement of losses may vary from the amount provided.

In addition to general and professional liability claims, the Company is subject to other claims, suits, surveys and investigations. The Company has reached an agreement-in-principle to settle one of such matters upon payment of an amount that the Company believes will not exceed \$2 million. The terms of such settlement are subject to certain third-party approvals. In the opinion of management, the ultimate resolution of such other pending matters will not have a material adverse effect on the Company's financial position or results of operations.

Subsequent to the resolution of disputes with a group of insurance carriers, as described in Note 4, the Company was contacted by and began negotiations with two additional insurance carriers concerning similar issues. While the ultimate outcome of these discussions can not be predicted at this time, management believes that it has meritorious defenses to any related lawsuits which may be filed if satisfactory resolution is not achieved and that resolution of any disputes with these two additional insurance carriers would not have a material effect on the consolidated balance sheet or future results of operations.

The Resolution Trust Corporation ("RTC"), for itself or in its capacity as conservator or receiver for 12 financial institutions, formerly held certain debt securities that were issued by the Company in 1988. RTC has indicated to the Company that it believes that certain financial statements and other disclosures made by the Company in connection with such debt securities contained materially misleading statements or material omissions and that such misleading statements or omissions resulted in an overvaluation of such debt securities. Specifically, the RTC has indicated its belief that the Company's financial statements overstated net income for the 1987 fiscal

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year and the first three quarters of the 1988 fiscal year due to understatement of contractual allowances and the allowance for bad debts and that the Company believed, but did not disclose, that certain negative industry factors or trends would occur in the foreseeable future. The Company believes that the financial institutions represented by RTC purchased in 1988 and 1989 \$103.4 million face amount of subordinated debt securities originally issued by the Company in September 1988. Although the RTC has not disclosed to the Company its (or its financial institutions') trading losses from the purchases and sales of these subordinated debt securities, the RTC has disclosed the dates purchases and sales were made and the face amounts of the subordinated debt securities involved in these transactions. The Company believes that the trading losses were approximately \$45 million. The Company has agreed to a tolling of the statute of limitations applicable to RTC's claims. Based on a review of relevant law and the facts known to the Company, the Company believes it has a substantial defense to a potential claim by RTC and that such claim would not have a material adverse effect on the Company's financial position or results of operations.

12. Certain Relationships and Related Transactions

The Company owns 50% of the Charter Medical Building in Macon, Georgia, and leases space in such building for certain corporate offices. Through September 30, 1994 the Company's corporate headquarters were located in the building and the lease, which expired September 30, 1994, provided for an average annual rental of approximately \$1.2 million. Currently the Company is paying approximately \$45,000 per month in rent on the building. Mr. William A. Fickling, Jr., a former Director and former Chairman of the Board of Directors of the Company, and his father's estate own 25% of the building. In the opinion of management, such office space has been leased on terms as favorable as could be obtained from an unaffiliated party. As a result of the Company's interest in the building, the Company received distributions of approximately \$280,000 in fiscal 1994.

On September 15, 1993, the Company sold its ownership interest in Beech Street to the children of Mr. Fickling for approximately \$5.5 million, plus the right to receive additional consideration, if certain events (e.g. a public offering of Beech Street stock or if Beech Street sells 50% or more of its assets) occur within two years. The Company obtained a fairness opinion by an independent appraisal firm stating that the financial consideration was fair. The Company acquired its ownership interest in a series of related transactions beginning in May 1989, for a total purchase price of \$2,956,000. During the period of its ownership, the Company received \$1,242,000 in dividend distributions from Beech Street.

Beech Street was, prior to May 1989, a wholly owned subsidiary of Beech Street, Inc., in which Mr. Fickling beneficially owns a majority of the outstanding stock.

The Company also has agreements with Beech Street where certain of the Company's hospitals provide services to employers (and their related employee and covered dependent groups) who have entered into agreements with Beech Street to utilize a Beech Street Preferred Provider Organization ("PPO") for hospital and other healthcare services. Such agreements provide for covered services to be rendered under terms (including discounts from the hospital's normal charges) which management of the Company believes are customary for hospital PPO agreements. The Beech Street PPO reviews claims and serves as an

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intermediary between the Company's hospitals and the contracting employers. The Company derived approximately \$14.8 million, \$21.4 million and \$5.2 million in revenue from these agreements during fiscal 1992, 1993 and 1994, respectively. The aggregate discount from customary charges was 17% in fiscal 1992, 12% in fiscal 1993 and 19% in 1994.

Gerald L. McManis, who was elected director on February 18, 1994, is the President of McManis Associates, Inc. ("MAI"), a healthcare development and management consulting firm and a subsidiary of MMI Companies, Inc. ("MMI"). Mr. McManis also serves on the Board of Directors of MMI. During fiscal 1993 and 1994, MAI provided consulting services for the Company related to the development of strategic plans and a review of the Company's business processes. The Company incurred \$1,003,000 and \$1,321,000 in fees for such services during fiscal 1993 and 1994, respectively, and reimbursed MAI

\$128,000 and \$244,000, respectively, for expenses.

13. Selected Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly results of operations for the years ended September 30, 1993 and 1994. Certain amounts presented below differ from amounts previously reported in the Company's Quarterly Reports on Form 10-Q due to the restatement of the consolidated financial statements to reflect as discontinued operations the sale of certain subsidiaries in the fourth quarter of fiscal 1993. The fourth quarter of fiscal 1994 contained unusual changes of approximately \$71.3 million. See Note 4 for an explanation of these charges.

	Fiscal Quarters			
	First	Second	Third	Fourth
	(In thousands, except per share amounts)			
1993				
Net revenue.....	\$226,390	\$233,160	\$231,737	\$206,620
Loss from continuing operations before extraordinary item.....	(4,028)	(16,879)	(2,473)	(16,240)
Income (Loss) from discontinued operations and gain on disposal of discontinued operations.....	(3,196)	(2,812)	(2,872)	4,834
Loss before extraordinary item...	(7,224)	(19,691)	(5,345)	(11,406)
Net loss.....	(7,224)	(19,691)	(5,345)	(19,967)
Loss per common share:				
Loss from continuing operations before extraordinary item.....	\$ (0.16)	\$ (0.68)	\$ (0.10)	\$ (0.65)
Net loss.....	(0.29)	(0.79)	(0.21)	(0.80)
1994				
Net revenue.....	\$208,817	\$212,610	\$220,857	\$262,362
Income (Loss) from continuing operations before extraordinary item.....	(3,866)	1,123	2,110	(46,370)
Net income (loss).....	(3,866)	1,123	(10,506)	(46,370)
Income (Loss) per common share:				
Income (Loss) from continuing operations before extraordinary item.....	\$ (.15)	\$.04	\$.08	\$ (1.72)
Net income (loss).....	(.15)	.04	(.39)	(1.72)

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14. Guarantor Condensed Consolidating Financial Statements

CHARTER MEDICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(In thousands, except shares and per share amounts)

ASSETS	September 30, 1993				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Charter Medical Corporation (Parent Corporation)	Consolidated Elimination Entries	Consolidated Total
Current Assets					
Cash and cash equivalents.....	\$ 45,147	\$ 2,756	\$ 38,099	\$ --	\$ 86,002
Accounts receivable, net.....	118,398	1,699	(459)	--	119,638
Supplies.....	4,641	68	342	--	5,051
Other current assets.....	8,138	66	25,799	(12,779)	21,224
Total Current Assets.....	176,324	4,589	63,781	(12,779)	231,915
Assets restricted for settlement of unpaid claims.....	--	61,351	20,257	--	81,608
Property and Equipment					
Land.....	89,440	5,432	1,014	--	95,886
Buildings and improvements.....	304,313	5,000	1,336	--	310,649
Equipment.....	64,621	863	1,937	--	67,421
	458,374	11,295	4,287	--	473,956
Accumulated depreciation.....	(30,141)	(487)	530	--	(30,098)
Construction in progress.....	924	4	--	--	928
	429,157	10,812	4,817	--	444,786
Other Long-Term Assets(1).....	354,315	2,539	715,993	(1,050,171)	22,676

Reorganization Value in Excess of Amounts			57,201	--	57,201
Allocable to Identifiable Assets, net.....	--	--			
	<u>\$ 959,796</u>	<u>\$79,291</u>	<u>\$ 862,049</u>	<u>\$(1,062,950)</u>	<u>\$ 838,186</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts payable.....	\$ 41,977	\$ 421	\$ 9,866	\$ --	\$ 52,264
Accrued expenses and other current liabilities...	86,397	912	62,068	--	149,377
Current maturities of long-term debt and capital lease obligations.....	6,102	28	64,827	--	70,957
Total Current Liabilities.....	134,476	1,361	136,761	--	272,598
Long-Term Debt and Capital Lease Obligations.....	137,081	1,094	544,050	(332,020)	350,205
Deferred Income Taxes.....	--	946	37,843	--	38,789
Reserve for Unpaid Claims.....	--	45,816	66,638	(12,779)	99,675
Deferred Credits and Other Long-Term Liabilities(1).....	29,895	--	19,459	(29,733)	19,621
Stockholders' Equity					
Common Stock, par value \$0.25 per share					
Authorized - 80,000,000 shares					
Issued and outstanding - 25,001,042 shares.....	2,833	586	6,250	(3,419)	6,250
Other Stockholders' Equity					
Additional paid-in capital.....	713,705	25,079	237,581	(738,784)	237,581
Retained earnings (Accumulated deficit).....	(57,147)	5,580	(59,423)	51,567	(59,423)
Unearned compensation under ESOP.....	--	--	(122,724)	--	(122,724)
Warrants outstanding.....	--	--	274	--	274
Cumulative foreign currency adjustments.....	(1,047)	(1,171)	(4,660)	2,218	(4,660)
Commitments and Contingencies	658,344	30,074	57,298	(688,418)	57,298
	<u>\$ 959,796</u>	<u>\$79,291</u>	<u>\$ 862,049</u>	<u>\$(1,062,950)</u>	<u>\$ 838,186</u>

<FN>

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

The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these balance sheets.

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(In thousands)

	September 30, 1994				
	Guarantor	Nonguarantor	Charter	Consolidated	Consolidated
ASSETS	Subsidiaries	Subsidiaries	Corporation (Parent Corporation)	Elimination Entries	Total
Current Assets					
Cash and cash equivalents.....	\$ 71,850	\$ 8,606	\$ 49,147	\$ --	\$129,603
Accounts receivable, net.....	166,191	2,780	1,324	--	170,295
Supplies.....	5,713	75	309	--	6,097
Other current assets.....	11,461	177	19,018	(12,024)	18,632
Total Current Assets.....	255,215	11,638	69,798	(12,024)	324,627
Assets Restricted for Settlement of Unpaid Claims..	--	61,475	13,057	--	74,532
Property and Equipment					
Land.....	89,340	6,019	1,014	--	96,373
Buildings and improvements.....	369,518	5,666	(14,598)	--	360,586
Equipment.....	88,483	1,262	2,299	--	92,044
	547,341	12,947	(11,285)	--	549,003
Accumulated depreciation.....	(55,505)	(1,056)	(406)	--	(56,967)
Construction in progress.....	2,143	166	--	--	2,309
	493,979	12,057	(11,691)	--	494,345
Other Long-Term Assets(1).....	44,400	11,003	972,059	(1,013,107)	14,355
Reorganization Value in Excess of Amounts					
Allocable to Identifiable Assets, net.....	--	--	26,001	--	26,001
Other Intangibles.....	8,038	3,382	16,200	--	27,620
	<u>\$ 801,632</u>	<u>\$99,555</u>	<u>\$1,085,424</u>	<u>\$(1,025,131)</u>	<u>\$961,480</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts payable.....	\$ 43,476	\$ 1,107	\$ 6,162	\$ --	\$ 50,745
Accrued expenses and other current liabilities...	63,742	1,684	96,224	--	161,650
Current maturities of long-term debt and capital lease obligations.....	2,537	116	--	--	2,653
Total Current Liabilities.....	109,755	2,907	102,386	--	215,048
Long-Term Debt and Capital Lease Obligations.....	(258,010)	1,497	789,989	--	533,476
Deferred Income Taxes.....	--	647	11,733	--	12,380
Reserve for Unpaid Claims.....	--	54,759	57,515	(12,024)	100,250
Deferred Credits and Other Long-Term Liabilities(1).....	349,146	669	67,580	(373,290)	44,105
Stockholders' Equity					
Common Stock, par value \$0.25 per share					
Authorized - 80,000,000 shares					
Issued and outstanding - 26,899,486.....	2,866	587	6,725	(3,453)	6,725
Other Stockholders' Equity					
Additional paid-in capital.....	707,744	30,455	244,339	(738,199)	244,339
Retained earnings (Accumulated deficit).....	(109,093)	7,734	(119,042)	101,359	(119,042)
Unearned compensation under ESOP.....	--	--	(73,527)	--	(73,527)
Warrants outstanding.....	--	--	180	--	180
Cumulative foreign currency adjustments.....	(776)	300	(2,454)	476	(2,454)
Commitments and Contingencies	600,741	39,076	56,221	(639,817)	56,221
	<u>\$ 801,632</u>	<u>\$99,555</u>	<u>\$1,085,424</u>	<u>\$(1,025,131)</u>	<u>\$ 961,480</u>

<FN>

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

The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these balance sheets.

CHARTER MEDICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)

	For the Ten Months Ended July 31, 1992				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Charter Medical Corporation (Parent Corporation)	Consolidated Elimination Entries	Consolidated Total
Net revenue.....	\$ 818,308	\$14,989	\$ (32,279)	\$ (23,163)	\$ 777,855
Costs and expenses					
Salaries, general and administrative expenses.....	709,559	10,931	(133,727)	(23,163)	563,600
Bad debt expense.....	55,150	56	(4,803)	--	50,403
Depreciation and amortization.....	39,316	343	(4,533)	--	35,126
Interest, net.....	2,261	84	166,928	(29)	169,244
ESOP expense.....	31,477	--	2,208	29	33,714
Deferred compensation expense.....	--	--	3,190	--	3,190
	837,763	11,414	29,263	(23,163)	855,277
Income (Loss) from continuing operations before income taxes, equity in earnings (loss) of subsidiaries, reorganization items and extraordinary item.....	(19,455)	3,575	(61,542)	--	(77,422)
Provision for income taxes.....	1,393	372	2,494	--	4,259
Income (Loss) from continuing operations before equity in earnings (loss) of subsidiaries, reorganization items and extraordinary item.....	(20,848)	3,203	(64,036)	--	(81,681)
Equity in earnings (loss) of continuing subsidiaries.....	614	--	(17,645)	17,031	--
Income (Loss) from discontinued operations.....	25,230	3,362	(4,381)	--	24,211
Equity in earnings (loss) of discontinued subsidiaries.....	--	--	28,592	(28,592)	--
Income (Loss) before reorganization items and extraordinary item.....	4,996	6,565	(57,470)	(11,561)	(57,470)
Reorganization items.....	(206,274)	--	74,848	206,274	74,848
Extraordinary gain (loss) on early discharge of debt.....	(2,851)	--	730,589	2,851	730,589
Net income (loss).....	\$ (204,129)	\$ 6,565	\$747,967	\$197,564	\$ 747,967

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities...	\$ 85,616	\$ 1,897	\$ (10,572)	\$ --	\$ 76,941
Cash Flows from Investing Activities:					
Cash flows from discontinued operations.....	33,812	--	--	--	33,812
Cash flows from other investing activities.....	(5,506)	(618)	(1,365)	--	(7,489)
Cash provided by (used in) investing activities...	28,306	(618)	(1,365)	--	26,323
Cash Flows from Financing Activities:					
Payments on debt and capital lease obligations..	(63,494)	(1,160)	(55,543)	--	(120,197)
Cash flows from other financing activities.....	302	1,160	--	--	1,462
Cash used in financing activities.....	(63,192)	--	(55,543)	--	(118,735)
Net increase (decrease) in cash and cash equivalents.....	50,730	1,279	(67,480)	--	(15,471)
Cash and cash equivalents at beginning of period..	45,779	1,941	120,016	--	167,736
Cash and cash equivalents at end of period.....	\$ 96,509	\$ 3,220	\$ 52,536	\$ --	\$ 152,265

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

CHARTER MEDICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)

	For the Two Months Ended September 30, 1992				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Charter Medical Corporation (Parent Corporation)	Consolidated Elimination Entries	Consolidated Total
Net revenue.....	\$149,152	\$ 2,281	\$ (3,472)	\$ (5,111)	\$142,850
Costs and expenses					
Salaries, general and administrative expenses...	136,375	(98)	(23,560)	(5,109)	107,608
Bad debt expense.....	15,110	(2)	(304)	--	14,804
Depreciation and amortization.....	3,731	74	(172)	(2)	3,631
Amortization of reorganization value in excess of amounts allocable to identifiable assets....	--	--	7,167	--	7,167
Interest, net.....	(169)	1	12,829	29	12,690
ESOP expense.....	4,306	--	534	(29)	4,811
Stock option expense (credit).....	--	--	(789)	--	(789)
	159,353	(25)	(4,295)	(5,111)	149,922
Income (Loss) from continuing operations before income taxes and equity in earnings (loss) of subsidiaries.....	(10,201)	2,306	823	--	(7,072)
Provision for income taxes.....	277	625	152	--	1,054
Income (Loss) from continuing operations before equity in earnings (loss) of subsidiaries.....	(10,478)	1,681	671	--	(8,126)

Equity in earnings (loss) of continuing subsidiaries.....	(413)	--	(8,797)	9,210	--
Income (Loss) from discontinued operations.....	6,581	1,084	(6,735)	--	930
Equity in earnings (loss) of discontinued subsidiaries.....	--	--	7,665	(7,665)	--
Net income (loss).....	\$ (4,310)	\$ 2,765	\$ (7,196)	\$ 1,545	\$ (7,196)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities...	\$ 30,049	\$10,491	\$ (2,180)	\$ --	\$ 38,360
Cash Flows from Investing Activities:					
Increase in assets restricted for the settlement of unpaid claims.....	--	(11,535)	(4,903)	--	(16,438)
Cash flows from discontinued operations.....	10,977	--	--	--	10,977
Cash flows from other investing activities.....	(1,374)	(36)	(20)	--	(1,430)
Cash provided by (used in) investing activities...	9,603	(11,571)	(4,923)	--	(6,891)
Cash Flows from Financing Activities:					
Payments on debt and capital lease obligations..	(21,983)	--	(20,948)	--	(42,931)
Cash used in financing activities.....	(21,983)	--	(20,948)	--	(42,931)
Net increase (decrease) in cash and cash equivalents.....	17,669	(1,080)	(28,051)	--	(11,462)
Cash and cash equivalents at beginning of period..	96,509	3,220	52,536	--	152,265
Cash and cash equivalents at end of period.....	\$114,178	\$ 2,140	\$ 24,485	\$ --	\$140,803

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

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)

	For the Year Ended September 30, 1993				
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Charter Medical Corporation (Parent Corporation)	Consolidated Elimination Entries	Consolidated Total
Net revenue.....	\$ 922,221	\$ 16,911	\$ (20,514)	\$ (20,711)	\$ 897,907
Costs and expenses					
Salaries, general and administrative expenses.....	876,792	11,913	(227,147)	(20,711)	640,847
Bad debt expense.....	68,086	121	(907)	--	67,300
Depreciation and amortization.....	26,816	411	(845)	--	26,382
Amortization of reorganization value in excess of amounts allocable to identifiable assets.....	(8)	--	42,686	--	42,678
Interest, net.....	(7,465)	36	81,585	--	74,156
ESOP expense.....	41,563	--	4,311	--	45,874
Stock option expense.....	--	--	38,416	--	38,416
	1,005,784	12,481	(61,901)	(20,711)	935,653
Income (Loss) from continuing operations before income taxes and extraordinary item and equity in earnings (loss) of subsidiaries.....	(83,563)	4,430	41,387	--	(37,746)
Provision for (benefit from) income taxes.....	(30,313)	520	31,667	--	1,874
Income (Loss) from continuing operations before extraordinary item and equity in earnings (loss) of subsidiaries.....	(53,250)	3,910	9,720	--	(39,620)
Equity in earnings (loss) of continuing subsidiaries....	909	--	(49,340)	48,431	--
Discontinued operations:					
Income (Loss) from discontinued operations.....	14,734	5,492	(34,929)	--	(14,703)
Equity in earnings (loss) of discontinued subsidiaries.....	--	--	104,402	(104,402)	--
Gain (Loss) on disposal of discontinued operations....	84,176	--	(73,519)	--	10,657
Income (Loss) before extraordinary item.....	46,569	9,402	(43,666)	(55,971)	(43,666)
Extraordinary loss on early extinguishment of debt.....	314	--	8,561	(314)	8,561
Net income (loss).....	\$ 46,255	\$ 9,402	\$ (52,227)	\$ (55,657)	\$ (52,227)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities.....	\$ (404,185)	\$ 5,066	\$ 489,077	\$ --	\$ 89,958
Cash Flows from Investing Activities:					
Capital expenditures.....	(10,806)	(76)	(219)	--	(11,101)
Increase in assets restricted for the settlement of unpaid claims.....	--	(10,084)	(4,068)	--	(14,152)
Proceeds from the sale of assets.....	342,781	5,710	5,682	--	354,173
Cash flows from discontinued operations.....	42,487	--	--	--	42,487
Cash provided by (used in) investing activities.....	374,462	(4,450)	1,395	--	371,407
Cash Flows from Financing Activities:					
Proceeds from the issuance of debt.....	17,200	--	--	--	17,200
Payments on debt and capital lease obligations.....	(56,508)	--	(477,434)	--	(533,942)
Cash flows from other financing activities.....	--	--	576	--	576
Cash used in financing activities.....	(39,308)	--	(476,858)	--	(516,166)
Net increase (decrease) in cash and cash equivalents....	(69,031)	616	13,614	--	(54,801)
Cash and cash equivalents at beginning of period.....	114,178	2,140	24,485	--	140,803
Cash and cash equivalents at end of period.....	\$ 45,147	\$ 2,756	\$ 38,099	\$ --	\$ 86,002

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

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CHARTER MEDICAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)

For the Year Ended September 30, 1994

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Charter Medical Corporation (Parent Corporation)	Consolidated Elimination Entries	Consolidated Total
Net revenue.....	\$ 890,737	\$24,390	\$ 6,931	\$(17,412)	\$904,646
Costs and expenses					
Salaries, general and administrative expenses...	794,650	21,187	(136,909)	(17,412)	661,516
Bad debt expense.....	70,856	(2)	(231)	--	70,623
Depreciation and amortization.....	26,602	1,027	725	--	28,354
Amortization of reorganization value in excess of amounts allocable to identifiable assets....	--	--	31,200	--	31,200
Interest, net.....	(20,830)	21	60,203	--	39,394
ESOP expense.....	46,316	--	2,881	--	49,197
Stock option expense.....	--	--	10,614	--	10,614
Unusual items.....	787	196	70,304	--	71,287
	918,381	22,429	38,787	(17,412)	962,185
Income (Loss) from continuing operations before income taxes, equity in earnings (loss) of subsidiaries and extraordinary item.....	(27,644)	1,961	(31,856)	--	(57,539)
Income tax benefit.....	(8,753)	(195)	(1,588)	--	(10,536)
Income (Loss) from continuing operations before equity in earnings (loss) of subsidiaries and extraordinary item.....	(18,891)	2,156	(30,268)	--	(47,003)
Equity in earnings (loss) of subsidiaries.....	1,889	--	(16,735)	14,846	--
Income (Loss) before extraordinary item.....	(17,002)	2,156	(47,003)	14,846	(47,003)
Extraordinary item - loss on early extinguishment or discharge of debt (net of income tax benefit of \$8,410).....	--	--	(12,616)	--	(12,616)
Net income (loss).....	\$ (17,002)	\$ 2,156	\$(59,619)	\$ 14,846	\$(59,619)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities...	\$ 153,152	\$ 7,097	\$(61,902)	\$ --	\$ 98,347
Cash Flows from Investing Activities:					
Capital expenditures.....	(14,282)	(344)	--	--	(14,626)
Proceeds from the sale of assets.....	11,584	--	5,000	--	16,584
Acquisitions of businesses.....	(129,816)	(734)	--	--	(130,550)
(Increase) Decrease in assets restricted for settlement of unpaid claims.....	--	(124)	7,200	--	7,076
Cash provided by (used in) investing activities...	(132,514)	(1,202)	12,200	--	(121,516)
Cash Flows from financing activities:					
Proceeds from the issuance of debt.....	25,862	--	355,936	--	381,798
Payments on debt and capital lease obligations..	(19,797)	(45)	(291,711)	--	(311,553)
Cash flows from other financing activities.....	--	--	(3,475)	--	(3,475)
Cash provided by (used in) financing activities...	6,065	(45)	60,750	--	66,770
Net increase in cash and cash equivalents.....	26,703	5,850	11,048	--	43,601
Cash and cash equivalents at beginning of period..	45,147	2,756	38,099	--	86,002
Cash and cash equivalents at end of period.....	\$ 71,850	\$ 8,606	\$ 49,147	\$ --	\$129,603

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

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14. Guarantor Condensed Consolidating Financial Statements

Notes to the Condensed Consolidating Financial Statements

General - These condensed consolidating financial statements reflect the Guarantors under the Notes and the Revolving Credit Agreement consummated in May 1994. The direct and indirect Guarantors are wholly owned by the Company or a Guarantor Subsidiary of the Company. Separate financial statements of the Guarantors are not presented because the Guarantors are jointly, severally and unconditionally liable under the guarantee, and the Company believes the condensed consolidating financial statements presented are more meaningful in understanding the financial position of the Guarantor Subsidiaries, and the separate financial statements are deemed not material to investors.

Distributions - There are no restrictions on the ability of the Guarantor Subsidiaries to make distributions to the Company.

Transfers from Guarantors to Nonguarantors - The Revolving Credit Agreement permits the Company to contribute the assets of hospitals and related medical facilities to joint ventures that conduct a healthcare business, provided that certain conditions are satisfied and that the aggregate fair market value or book value, whichever is greater, of all such facilities contributed to joint ventures with respect to which the Company and its wholly-owned subsidiaries do not have a majority of the equity interests or are not entitled to elect or appoint the directors, managers or trustees,

as applicable, does not exceed \$100 million. Furthermore, the Revolving Credit Agreement permits the Company and its Restricted Subsidiaries (as defined in the Revolving Credit Agreement), subject to the satisfaction of certain conditions, to invest up to \$70 million plus the lesser of \$30 million and an amount equal to "accumulated excess cash flow" (as defined in the Revolving Credit Agreement), of cash and other assets (other than hospitals and related medical facilities) in subsidiaries of the Company formed to pursue strategic investments and joint ventures in clinical services and management information services and to invest up to \$80 million in other types of investments. The indenture related to the Notes also contains provisions that permit the Company and its Restricted Subsidiaries (as defined in the indenture for the Notes) to make investments in non-guarantors. The provisions contained in the indenture are less restrictive than those contained in the Revolving Credit Agreement and are, therefore, not relevant to the ability of the Company and its Restricted Subsidiaries to make investments in non-guarantors as long as the Revolving Credit Agreement is in effect.

The Company intends to make investments in Permitted Joint Ventures (as defined in the Revolving Credit Agreement) and Unrestricted Subsidiaries (as defined in the Revolving Credit Agreement) to the extent it believes doing so will be consistent with its business strategy. To the extent the Company or its Restricted Subsidiaries make investments of the type described above, the assets available for debt payments and guarantee obligations could be diminished.

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SCHEDULE V - PROPERTY AND EQUIPMENT

(In thousands)

Classification	Balance at Beginning of Period	Additions at Cost	Retirements and/or Dispositions	Other Changes Add (Deduct) -- Describe	Balance at End of Period
Ten months ended July 31, 1992:					
Land.....	\$ 93,052	\$ --	\$ 350	816 (C) (20) (E)	\$ 101,727
Buildings and improvements..	575,877	1,227	3,540	8,229 (B) 12,848 (A) 1,781 (C) (1,857) (E)	324,534
Equipment.....	147,817	4,021	2,321	(261,802) (B) 472 (A) 444 (C) 568 (E)	61,320
Construction in progress....	11,091	2,820	--	(89,681) (B) (13,320) (A) 29 (C) 1,270 (E) (258) (B)	1,632
	\$ 827,837	\$ 8,068	\$ 6,211	\$ (340,481)	\$ 489,213
Two months ended September 30, 1992 (See Note 2):					
Land.....	\$ 101,727	\$ --	\$ --	\$ 165 (C)	\$ 101,892
Buildings and improvements..	324,534	469	37	436 (A) (477) (C) (4) (E)	324,921
Equipment.....	61,320	1,601	74	68 (A) 10 (C) 15 (E)	62,940
Construction in progress....	1,632	160	--	(504) (A) 34 (C)	1,322
	\$ 489,213	\$ 2,230	\$ 111	\$ (257)	\$ 491,075
Year ended September 30, 1993					
Land.....	\$ 101,892	\$ --	\$ 4,824	\$ (1,251) (C) 69 (E)	\$ 95,886
Buildings and improvements..	324,921	1,909	11,474	1,594 (A)	310,649

				(2,182) (C)	
				103 (E)	
				(4,222) (F)	
Equipment.....	62,940	6,792	3,043	1,001 (A)	67,421
				(277) (C)	
				8 (E)	
Construction in progress....	1,322	2,400	--	(2,595) (A)	928
				(116) (C)	
				(83) (E)	
Year ended September 30, 1994:	\$ 491,075	\$ 11,101	\$ 19,341	\$ (7,951)	\$ 474,884
Land.....	\$ 95,886	\$ 3,729	\$ 3,943	\$ 701 (C)	\$ 96,373
Buildings and improvements..	310,649	72,223	6,409	1,146 (A)	360,586
				966 (C)	
				87 (E)	
				(18,076) (F)	
Equipment.....	67,421	25,351	2,123	1,284 (A)	92,044
				158 (C)	
				(47) (E)	
Construction in progress....	928	3,973	--	(2,430) (A)	2,309
				4 (C)	
				(166) (E)	
	\$ 474,884	\$ 105,276 (G)	\$ 12,475	\$ (16,373)	\$ 551,312

<FN>

- (A) Reclassification of completed construction to property and equipment.
(B) Adjust accounts to fair value pursuant to the implementation of fresh start accounting.
(C) Adjustment for foreign currency translation.
(D) Write-off of construction costs of discontinued projects.
(E) Property reclassifications.
(F) Adjustment to net realizable value of assets.
(G) Includes \$90.4 million related to the acquisition of assets from National Medical Enterprises, Inc.

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SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY AND EQUIPMENT

(In Thousands)

Classification	Balance at Beginning of Period	Additions	Retirements and/or Dispositions	Other Changes Add (Deduct) -- Describe	Balance at End of Period
Ten months ended July 31, 1992:					
Buildings and improvements..	\$ 108,233	\$ 14,799	\$ 1,512	\$ 2 (A)	\$ --
				357 (B)	
				(713) (C)	
				(121,166) (D)	
Equipment.....	74,431	12,879	1,184	70 (A)	--
				279 (B)	
				(86,475) (D)	
	\$ 182,664	\$ 27,678	\$ 2,696	\$ (207,646)	\$ --
Two months ended September 30, 1992 (See Note 2):					
Buildings and improvements..	\$ --	\$ 2,765	\$ --	\$ (72) (A)	\$ 3,399
				(7) (B)	
				713 (C)	
Equipment.....	--	920	49	43 (B)	914
	\$ --	\$ 3,685	\$ 49	\$ 677	\$ 4,313
Year ended September 30, 1993:					
Buildings and improvements..	\$ 3,399	\$ 14,402	\$ 287	\$ (750) (A)	\$ 16,710
				(21) (B)	
				(33) (C)	
Equipment.....	914	11,980	235	750 (A)	13,388
				(6) (B)	
				(15) (C)	

Year ended September 30, 1994:	\$ 4,313	\$26,382	\$ 522	\$ (75)	\$ 30,098
Buildings and improvements..	\$ 16,710	\$15,070	\$ 172	\$ 72 (B)	\$ 31,966
				286 (C)	
Equipment.....	13,388	12,083	445	51 (B)	25,001
				(76) (C)	
	\$ 30,098	\$27,153	\$ 617	\$ 333	\$ 56,967

-
- (A) Property reserve reclassifications.
(B) Adjustment for foreign currency translation.
(C) Other reclassifications and adjustments.
(D) Write-off of accumulated depreciation pursuant to the implementation of fresh start accounting.

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SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

(In Thousands)

Classification	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to		Deductions-- Describe	Balance at End of Period
			Other Accounts-- Describe			
Ten months ended July 31, 1992:						
Allowance for doubtful accounts.....	\$30,734	\$ 50,403	\$15,837 (A)	\$ 1,540 (B)	\$ 66,852 (C)	\$31,095
	\$30,734	\$ 50,403	2,513 (B)	\$ 68,392		\$31,095
Two months ended September 30, 1992 (See Note 2):						
Allowance for doubtful accounts.....	\$31,095	\$ 14,804	\$ 3,044 (A)	\$ 18,931 (C)		\$30,272
	\$31,095	\$ 14,804	260 (B)	\$ 18,931		\$30,272
Year ended September 30, 1993:						
Allowance for doubtful accounts.....	\$30,272	\$ 67,300	\$19,598 (A)	\$ 89,272 (C)		\$28,843
	\$30,272	\$ 67,300	945 (B)	\$ 89,272		\$28,843
Year ended September 30, 1994:						
Allowance for doubtful accounts.....	\$28,843	\$ 70,623	\$19,877 (A)	\$ 109 (B)	\$ 84,239 (C)	\$43,555
	\$28,843	\$ 70,623	8,560 (D)	\$ 84,348		\$43,555

<FN>

- (A) Recoveries of amounts previously charged to income.
(B) Included in provision for restructuring of operations or reorganization items.
(C) Accounts written off.
(D) Allowance for doubtful accounts purchased in acquisitions.

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SCHEDULE X - SUPPLEMENTAL INCOME STATEMENT INFORMATION

(In thousands)

	Ten Months ended July 31, 1992	Two Months ended September 30, 1992 (See Note 2)	Year ended September 30, 1993	Year ended September 30, 1994	
Advertising costs.....	\$31,996	:	\$ 6,485	\$39,393	\$35,641
		:			
Amortization of reorganization value in excess of amounts allocable to identifiable assets.....	--	:	\$ 7,167	\$42,678	\$31,200

<FN>
 Certain items noted in Rule 12-11 of Regulation S-X have been excluded from the above schedule on the basis that each is less than 1% of net revenue as reported in the related Consolidated Statements of Operations.

AMENDMENT NO. 1
TO
ASSET SALE AGREEMENT
(FIRST FACILITIES)

THIS AMENDMENT NO. 1 TO ASSET SALE AGREEMENT (FIRST FACILITIES) (this "Amendment") is entered into as of the 12th day of September 1994 by and between NATIONAL MEDICAL ENTERPRISES, INC., a Nevada corporation ("Seller"), and CHARTER MEDICAL CORPORATION, a Delaware corporation ("Buyer"), with reference to the following facts:

A. Buyer and Seller are parties to that certain Asset Sale Agreement (First Facilities) between them dated as of March 29, 1994 (the "Asset Sale Agreement").

B. Buyer and Seller wish to amend certain of the provisions of the Asset Sale Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals and the agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. Defined Terms (Article 1). Unless otherwise defined in this Amendment, all capitalized terms herein shall have the meanings given to them in the Asset Sale Agreement.

2. Purchase Price (Section 2.5). The dollar amount set forth in Section 2.5(a) of the Asset Sale Agreement is hereby amended to read "Ninety-One Million One Hundred Thirty-Four Thousand Dollars (\$91,134,000)."

3. Allocation of Purchase Price (Section 2.7). The Allocation Schedule set forth in Schedule 2.7, as modified in accordance with the second sentence of Section 2.7, shall be further modified, as to Facilities Nos. 35, 36 and 53 as set forth in Schedule 2.7(A), attached hereto. The Allocation Schedule for all purposes of the Asset Sale Agreement shall be Schedule 2.7, as modified prior to the date hereof, and as further modified by Schedule 2.7(A).

4. Termination (Section 10.1(b)). Section 10.1(b) of the Asset Sale Agreement is hereby amended to add, after the last sentence thereof, the following: "Notwithstanding the foregoing, the Termination Date as to Facilities Nos. 35, 36 and 53 shall be October 31, 1994."

5. Efficacy. This Amendment shall become effective upon its execution, which may occur in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Captions, paragraph headings and introductory language used herein that do not actually amend the Asset Sale Agreement are used herein for

convenience only, are not a part of the Asset Sale Agreement as amended by this Amendment, and shall not be used in construing the Asset Sale Agreement as amended by this Amendment. Each reference to the Asset Sale Agreement in any Related Agreement, whether or not accompanied by a reference to this Amendment, shall be deemed a reference to the Asset Sale Agreement as amended by this Amendment.

IN WITNESS WHEREOF, the parties have duly executed this Amendment No. 1 to the Asset Sale Agreement as of the date first above written.

Buyer:

CHARTER MEDICAL CORPORATION

By: /s/ Lawrence W. Drinkard
Name: Lawrence W. Drinkard
Title: Exec. V.P. and C.F.O.

Seller:
NATIONAL MEDICAL ENTERPRISES, INC.

By: /s/ Donald W. Thayer
Name: Donald W. Thayer
Title: Vice President

AMENDMENT NO. 1
TO
ASSET SALE AGREEMENT
(SUBSEQUENT FACILITIES)

THIS AMENDMENT NO. 1 TO ASSET SALE AGREEMENT (SUBSEQUENT FACILITIES) (this "Amendment") is entered into as of the 12th day of September 1994 by and between NATIONAL MEDICAL ENTERPRISES, INC., a Nevada corporation ("Seller"), and CHARTER MEDICAL CORPORATION, a Delaware corporation ("Buyer"), with reference to the following facts:

A. Buyer and Seller are parties to that certain Asset Sale Agreement (Subsequent Facilities) between them dated as of March 29, 1994 (the "Asset Sale Agreement").

B. Buyer and Seller wish to amend certain of the provisions of the Asset Sale Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals and the agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. Defined Terms (Article 1). Unless otherwise defined in this Amendment, all capitalized terms herein shall have the meanings given to them in the Asset Sale Agreement. The "Subsequent Facilities" or the "Facilities", as set forth in Recital A of the Asset Sale Agreement shall be limited to the following:

NME No.	Name	City	State
4.	Los Altos Hospital & Medical Center	Long Beach	CA
6.	Yorba Hills Hospital and Mental Health Center	Yorba Linda	CA
11.	Bay Harbor Residential Treatment Center	Largo	FL
14.	Medfield Hospital	Largo	FL
15.	Laurel Heights Hospital	Atlanta	GA
17.	Brawner Midtown Mental Health System	Atlanta	GA
18.	Arbor Hospital of Greater Indianapolis	Indianapolis	IN
19.	Jefferson Hospital	Jeffersonville	IN
37.	Northbrooke Hospital	Brown Deer	WI
38.	New Beginnings at Lakewood	Lakewood	CA
50.	Fenwick Hall	Johns Island	SC

2. Purchase Price (Section 2.5). The dollar amount set forth in Section 2.5(a) of the Asset Sale Agreement is hereby amended to read "Thirty-One Million Sixty Thousand Dollars (\$31,060,000)."

3. Allocation of Purchase Price (Section 2.7). The Allocation Schedule set forth in Schedule 2.7, as modified prior to the date hereof, shall be further modified as set forth in Schedule 2.7(A) attached hereto. The Allocation Schedule for all purposes of the Asset Sale Agreement shall be Schedule 2.7, as modified prior to the date

hereof, and as further modified by Schedule 2.7(A).

C. Efficacy. It is the intent of the parties hereto that

Section 1 of this Amendment shall operate to rescind the Asset Sale Agreement as it relates to the following facilities which were originally included in such Asset Sale Agreement:

NME No.	Name	City	State
13.	Laurel Oaks Hospital	Orlando	FL
16.	Brawner South Mental Health System	Stockbridge	GA
32.	MidSouth Hospital	Memphis	TN
34.	Psychiatric Institute of Richmond	Richmond	VA
42.	Brawner North Mental Health System	Smyrna	GA
59.	Laurel Oaks Residential Treatment Center	Orlando	FL

This Amendment shall become effective upon its execution, which may occur in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Captions, paragraph headings and introductory language used herein that do not actually amend the Asset Sale Agreement are used herein for convenience only, are not a part of the Asset Sale Agreement as amended by this Amendment, and shall not be used in construing the Asset Sale Agreement as amended by this Amendment. Each reference to the Asset Sale Agreement in any Related Agreement, whether or not accompanied by a reference to this Amendment, shall be deemed a reference to the Asset Sale Agreement as amended by this Amendment.

IN WITNESS WHEREOF, the parties have duly executed this Amendment No. 1 to Asset Sale Agreement as of the date first above written.

Buyer:

CHARTER MEDICAL CORPORATION

By: /s/ Lawrence W. Drinkard
Name: Lawrence W. Drinkard
Title: Exec. V.P. and C.F.O.

Seller:

NATIONAL MEDICAL ENTERPRISES, INC.

By: /s/ Donald W. Thayer
Name: Donald W. Thayer
Title: Vice President

AMENDMENT NO. 2
TO
ASSET SALE AGREEMENT
(SUBSEQUENT FACILITIES)

THIS AMENDMENT NO. 2 TO ASSET SALE AGREEMENT (SUBSEQUENT FACILITIES) (this "Amendment") is entered into as of the 29th day of September 1994 by and between NATIONAL MEDICAL ENTERPRISES, INC., a Nevada corporation ("Seller"), and CHARTER MEDICAL CORPORATION, a Delaware corporation ("Buyer"), with reference to the following facts:

A. Buyer and Seller are parties to that certain Asset Sale Agreement (Subsequent Facilities) between them dated as of March 29, 1994, as amended by that certain Amendment No. 1 to Asset Sale Agreement (Subsequent Facilities) dated as of September 12, 1994 (the "Asset Sale Agreement").

B. Buyer and Seller wish to amend further certain of the provisions of the Asset Sale Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals and the

agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. Defined Terms (Article 1). Unless otherwise defined in this Amendment, all capitalized terms herein shall have the meanings given to them in the Asset Sale Agreement.

2. Buyer's Conditions to Closing (Section 8.5). Subsection 8.5(c)(ii)(C) is hereby amended by adding the following parenthetical phrase immediately after the first use of the phrase "written agreement" and immediately prior to the phrase "which would resolve."

(or if an agreement is required of only one party, then such agency and such party)

3. Seller's Conditions to Closing (Section 9.5). Subsection 9.5(c)(ii)(C) is hereby amended by adding the following parenthetical phrase immediately after the first use of the phrase "written agreement" and immediately prior to the phrase "which would resolve:"

(or if an agreement is required of only one party, then such agency and such party)

4. Termination (Section 10.1). The second sentence of Section 10.1(b) is hereby amended to read as follows:

The Termination Date for the First Closing shall be September 1, 1994, unless on or prior to such date there has been a "First Closing" under the

First Facilities Agreement, in which case, the Termination Date for the First Closing under this Agreement shall be October 15, 1994, and the Termination Date for all other Closings under this Agreement shall be October 31, 1994.

5. Efficacy. This Amendment shall become effective upon its execution, which may occur in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Captions, paragraph headings and introductory language used herein that do not actually amend the Asset Sale Agreement are used herein for convenience only, are not a part of the Asset Sale Agreement as amended by this Amendment, and shall not be used in construing the Asset Sale Agreement as amended by this Amendment. Each reference to the Asset Sale Agreement in any Related Agreement, whether or not accompanied by a reference to this Amendment, shall be deemed a reference to the Asset Sale Agreement as amended by this Amendment.

IN WITNESS WHEREOF, the parties have duly executed this Amendment No. 2 to Asset Sale Agreement as of the date first above written.

Buyer:

CHARTER MEDICAL CORPORATION

By: /s/ Lawrence W. Drinkard
Name: Lawrence W. Drinkard
Title: Exec. V.P. and C.F.O.

Seller:

NATIONAL MEDICAL ENTERPRISES, INC.

By: /s/ Donald W. Thayer
Name: Donald W. Thayer
Title: Vice President

AMENDMENT NO. 3
TO
ASSET SALE AGREEMENT
(SUBSEQUENT FACILITIES)

THIS AMENDMENT NO. 3 TO ASSET SALE AGREEMENT (SUBSEQUENT FACILITIES) (this "Amendment") is entered into as of the 15th day of November 1994 by and between NATIONAL MEDICAL ENTERPRISES, INC., a Nevada corporation ("Seller"), and CHARTER MEDICAL CORPORATION, a Delaware corporation ("Buyer"), with reference to the following facts:

A. Buyer and Seller are parties to that certain Asset Sale Agreement (Subsequent Facilities) between them dated as of March 29, 1994, as amended by that certain Amendment No. 1 to Asset Sale Agreement (Subsequent Facilities) dated as of September 12, 1994 and by that certain Amendment No. 2 to Asset Sale Agreement (Subsequent Facilities) dated as of September 29, 1994 (the "Asset Sale Agreement").

B. Buyer and Seller wish to amend further certain of the provisions of the Asset Sale Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals and the agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. Defined Terms (Article 1). Unless otherwise defined in this Amendment, all capitalized terms herein shall have the meanings given to them in the Asset Sale Agreement.

2. Purchase Price (Section 2.5). In the first sentence of Section 2.5, in clause "(a)," the amount of "Fifty-Two Million Four Hundred Two Thousand Dollars (\$52,402,000)" is hereby deleted and the following is inserted in its place:

Twenty-Six Million Two Hundred Seventy
One Thousand Dollars (\$26,271,000).

3. Termination (Section 10.1). The second sentence of Section 10.1(b) is hereby amended to read as follows:

The Termination Date for the First Closing shall be September 1, 1994, unless on or prior to such date there has been a "First Closing" under the First Facilities Agreement, in which case, the Termination Date for all Closings under this Agreement shall be November 30, 1994.

4. Efficacy. This Amendment shall become effective upon its execution, which may occur in one or more counterparts, each

of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Captions, paragraph headings and introductory language used herein that do not actually amend the Asset Sale Agreement are used herein for convenience only, are not a part of the Asset Sale Agreement as amended by this Amendment, and shall not be used in construing the Asset Sale Agreement as amended by this Amendment. Each reference to the Asset Sale Agreement in any Related Agreement, whether or not accompanied by a reference to this Amendment, shall be deemed a reference to the Asset Sale Agreement as amended by this Amendment.

IN WITNESS WHEREOF, the parties have duly executed this Amendment No. 3 to Asset Sale Agreement (Subsequent Facilities) as of the date first above written.

Buyer:
CHARTER MEDICAL CORPORATION

BY: /s/ Lawrence W. Drinkard
Name: Lawrence W. Drinkard
Title: Exec. V.P. and C.F.O.

Seller:
NATIONAL MEDICAL ENTERPRISES, INC.

BY: /s/ Donald W. Thayer
Name: Donald W. Thayer
Title: Vice President

BYLAWS
OF
CHARTER MEDICAL CORPORATION

ARTICLE I

OFFICES

Section 1. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. All meetings of the stockholders for the election of directors shall be held in the City of Macon, State of Georgia, at such place as may be fixed from time to time by the Board of Directors, or at such other place either within or without the State of Delaware as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual meetings of stockholders shall be held on the last Thursday of January if not a legal holiday, and if a legal holiday then on the next secular day following, at 11:00 A.M., or at such other date and time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which the stockholders shall elect members of the Board of Directors and transact such other business as may properly be brought before the meeting. Election of directors need not be by written ballot.

Section 3. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 4. The officer who has charge of the stock ledger of the corporation shall prepare and make, or cause to be prepared and made, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 5. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, may be called only by the affirmative vote of a majority of the Board of Directors.

Section 6. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting, to each stockholder entitled to vote at such meeting.

Section 7. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 8. The holders of a majority of the shares of all classes of stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. Except as provided in Section 3 of Article III of these Bylaws, or unless the question is one upon which, by express provision of statute or the certificate of incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question, (1) when a quorum is present at any meeting of stockholders, the vote of the holders of a majority of the voting power of the shares of all classes of stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, and (2) in voting on such questions, every stockholder of record who is entitled to vote shall be entitled to one vote for each share of stock held by him on the record date for such meeting.

Section 10. Except as otherwise provided by law or by the certificate of incorporation, the holders of shares of all classes of stock shall have the right to vote, in person or by proxy, together on all matters to come before a meeting of the stockholders.

Section 11. No proxy shall be voted on after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally. In the event that any proxy shall designate two or more persons to act as proxies, a majority of such persons present at the meeting, or if only one be present that one, shall have all of the powers conferred by the proxy upon all of the persons so designated unless the proxy shall otherwise provide.

Section 12. The stockholders may not take any actions required to be taken at an annual or special meeting of the stockholders, or any actions which may be taken at an annual meeting or special meeting of the stockholders, by written consent in lieu of a meeting.

Section 13. The Board of Directors, in advance of any meeting of the stockholders of the Corporation, shall appoint one or more inspectors of elections to act at such meeting, and any adjournment thereof. In case any person who has been designated as an inspector of elections fails to appear or act, the vacancy may be filled by an alternate appointed by the Board, in advance of the meeting, or at the meeting by the person presiding thereat. An inspector, before entering upon discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability. The inspector or inspectors so appointed shall perform the duties required by Section 231 of the Delaware General Corporation Law.

Section 14. The Chairman of the Board of Directors, or in his absence the President, shall serve as Chairman of every stockholders' meeting unless some other person is elected to serve as Chairman by a majority vote of the voting power of the shares represented at the meeting. The Chairman shall appoint the Secretary of the corporation, or in his absence an Assistant Secretary, as Secretary of every stockholders' meeting and such other persons as he deems required to assist with the meeting.

ARTICLE III

DIRECTORS

Section 1. The number of directors which shall constitute the whole Board shall be eight. A change in the number of directors shall only occur by an affirmative vote of at least seventy-five percent (75%) of the issued and outstanding shares of the corporation entitled to vote thereon cast at a meeting of the stockholders called for such purpose. The Board of Directors shall be divided into three classes, as nearly equal in numbers as the then total number of directors constituting the whole Board permits, with the term of office of one class expiring each year. The directors shall be elected at the annual meeting of the stockholders, except as provided in Sections 2 and 3 of this Article, and each director elected shall hold office until his successor is elected and qualifies. Directors need not be stockholders or a resident of the State of Delaware.

Section 2. Any vacancies in the Board of Directors for any reason, and any newly created directorships resulting from any increase in the authorized number of directors, may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next election of the respective class or classes for which such directors shall have been chosen and until their successors are duly elected and shall qualify, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

Section 3. Notwithstanding any other provision of these Bylaws (and notwithstanding the fact that some lesser percentage may be specified by law), any director or the entire Board of Directors of the corporation may be removed from office at any time, but only (i) for cause by the affirmative

vote of the holders of a majority of the issued and outstanding shares of the capital stock of the corporation entitled to vote thereon cast at a meeting of the stockholders called for that purpose, or (ii) without cause by the affirmative vote of the holders of at least seventy-five percent (75%) of the issued and outstanding shares of capital stock of the corporation entitled to vote thereon cast at a meeting of the stockholders called for that purpose.

Section 4. The business of the corporation shall be managed by its Board of Directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

MEETINGS OF THE BOARD OF DIRECTORS

Section 5. The Board of Directors of the corporation may hold meetings, both regular and special, either within or without the State of Delaware. The Board of Directors shall appoint from its members a Chairman of the Board of Directors who shall preside at all meetings of the stockholders and the Board of Directors. In the absence of the Chairman of the Board of Directors from a meeting of the Board of Directors, the Board of Directors shall appoint from its members, by a majority vote of all directors constituting a quorum, another director who shall preside at such meeting. The Chairman of the Board of Directors may but need not be an officer of or employed in an executive or any other capacity by the corporation.

Section 6. A meeting of the Board of Directors shall be held immediately following the annual meeting of stockholders at the same place as such annual meeting or, in the alternative, at such time and place as shall be fixed by the vote of the stockholders at the annual meeting. No notice of such meeting shall be necessary, provided a quorum shall be present. In the event such meeting is not held at the time and place determined under the preceding sentence, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

Section 7. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

Section 8. Special meetings of the Board of Directors may be called by the Chairman of the Board of Directors, the President, or a majority of the directors then in office (a) by written notice mailed to each director first class postage prepaid, not later than the fifth day before the meeting, or (b) by either written or oral notice given personally or by telephone or other

means of electronic communication, in which case the meeting may be held as soon after such notice is given as a quorum shall be assembled at the place of the meeting or by telephone conference call, unless another time shall be specified in the notice.

Section 9. At all meetings of the Board of Directors, a majority of the directors then in office shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the certificate of

incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 10. Unless otherwise restricted by the certificate of incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 11. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

COMMITTEES OF DIRECTORS

Section 12. The Board of Directors may, by resolution adopted by a majority of the whole Board of Directors, appoint three or more of its members to constitute an Executive Committee which to the extent provided by the Board of Directors shall have and exercise all of the authority of the Board of Directors, except as otherwise provided by law, in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it. All action taken by the Executive Committee shall be reported to the Board of Directors at its first meeting thereafter.

The Board of Directors may also from time to time by resolution passed by a majority of the whole Board appoint other committees, consisting of one or more members, from among its members; and such committee or committees shall have such powers and duties as the Board of Directors may from time to time prescribe.

Unless otherwise provided by the Board of Directors, a majority of the members of any committee appointed by the Board of Directors pursuant to this Section 12 shall constitute a quorum at any meeting thereof and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of such committee. Action may be taken by any such committee without a meeting by a writing as provided in Section 10 of this Article III. Any such committee shall, subject to any rules prescribed by the Board of Directors, prescribe its own rules for calling, giving notice of and holding meetings and its method of procedure at such meetings and shall keep a written record of all action taken by it.

Section 13. Each committee shall keep regular minutes of its meetings and periodically report the same to the Board of Directors.

COMPENSATION OF DIRECTORS

Section 14. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed

sum for attendance at each meeting of the Board of Directors or a stated salary as director or a combination thereof. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

NOTICES

Section 1. Whenever, under the provisions of the statutes or of the certificate of incorporation or of these Bylaws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given as provided in Section 8 of Article III.

Section 2. Whenever any notice is required to be given under the provisions of the statutes or of the certificate of incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Notice of all stockholders' meetings, whether annual or special, shall be given in writing and may be given by the Chairman of the Board of Directors or the Secretary (or in case of their refusal, by the person or persons entitled to call meetings under the provisions of these Bylaws). The notice shall state the general nature of the business to be transacted at the meeting and the place, day and hour thereof. If such notice is mailed or telegraphed, it shall be deemed to have been given when deposited in the United States mail or with a telegraph office for transmission, as the case may be. If any meeting is adjourned to another time or place, no notice as to such adjourned meeting or of the business to be transacted thereat need be given other than by announcement at the meeting at which such adjournment is given, except as otherwise expressly provided in Section 8 of Article II.

ARTICLE V

OFFICERS

Section 1. The officers of the corporation shall be chosen by the Board of Directors and shall be a President, a Vice President, a Secretary and a Treasurer. The Board of Directors may also choose additional Vice Presidents, and one or more Assistant Secretaries and Assistant Treasurers.

Section 2. The Board of Directors at its first meeting after each annual meeting of stockholders shall choose a President, one or more Vice Presidents, a Secretary and a Treasurer, or shall continue the incumbents in office.

Section 3. The Board of Directors may appoint 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 Board of Directors.

Section 4. The salaries of all officers and agents of the corporation shall be fixed by the Board of Directors or by a duly authorized committee.

Section 5. Each officer of the Corporation shall hold office until the earliest to occur of (a) his successor is elected and qualifies, (b) death or retirement of such officer, (c) resignation of such officer or (d) removal of such officer in the manner provided by these bylaws. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors or, in the case of all officers except the President, by the President. Any vacancy occurring in any office of the Corporation and all newly created officer positions shall be filled by the Board of Directors.

PRESIDENT

Section 6. The President shall be and perform the duties and responsibilities of the Chief Executive Officer of the corporation and as such shall have general supervision and control over all the affairs of the corporation, its officers and employees. The President may, but need not, be designated the Chief Operating Officer of the corporation. The President shall report to the Board of Directors regarding the affairs of the corporation and shall have such other duties and powers as may be assigned to or vested in him

from time to time by the Board of Directors or by the Executive Committee and as prescribed by these Bylaws.

Section 7. The President shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be delegated by the Board of Directors or the Executive Committee to some other officer or agent of the corporation.

THE VICE PRESIDENTS

Section 8. The Vice President, or if there shall be more than one the Vice Presidents, shall perform such duties and have such powers as the Board of Directors may from time to time prescribe.

THE SECRETARY AND ASSISTANT SECRETARIES

Section 9. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record or cause to be recorded all the proceedings of the meetings of the corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or Chairman of the Board of Directors, under whose supervision he shall be. He shall have custody of the corporate seal of the corporation, and he, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it; when so affixed, it may be attested by his signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his signature.

Section 10. The Assistant Secretary, or if there be more than one the Assistant Secretaries in the order determined by the Board of Directors, 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 Board of Directors may from time to time prescribe.

Section 11. The Treasurer shall have custody of the corporate funds and securities, shall together with the Controller keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the Board of Directors.

Section 12. The Treasurer and Controller shall disburse the funds of the corporation as may be ordered by the Board of Directors, and shall render to the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of the financial condition of the corporation.

Section 13. The Assistant Treasurer, or if there shall be more than one the Assistant Treasurers in the order determined by the Board of Directors, 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 Board of Directors may from time to time prescribe. Any one or more of the duties of the Treasurer may be delegated by the Board of Directors to the Controller, an Assistant Treasurer or any other officer of the corporation.

BONDS

Section 14. If required by the Board of Directors, any officer shall give the corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation.

ARTICLE VI

CERTIFICATES FOR SHARES OF STOCK

Section 1. Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation, by the Chairman of the Board of Directors, the President or a Vice President and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation, certifying the number of shares of capital stock of the corporation owned by him in the corporation.

Section 2. If the corporation shall be authorized to issue more than one class of stock, or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the

certificate which the corporation shall issue to represent such class of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 3. Where a certificate is signed (1) by a transfer agent or an assistant transfer agent or (2) a registrar, the signature of any such officer may be facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation, whether because of death, resignation or otherwise, before such certificate or certificates have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation.

LOST CERTIFICATES

Section 4. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost or destroyed.

TRANSFERS OF STOCK

Section 5. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, in each case with signatures guaranteed, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

FIXING OF RECORD DATE

Section 6. The Board of Directors shall fix in advance a date, not less than ten nor more than sixty days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining a consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof,

or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to give such consent, and in such case such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

REGISTERED STOCKHOLDERS

Section 7. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII

INDEMNIFICATION

Section 1. Actions Not By Or In The Right Of The Corporation. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer or employee of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. Actions By Or In The Right Of The Corporation. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer or employee of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and

in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Indemnification Where Director or Officer Successfully Defends Action. To the extent that a director, officer or employee of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article VII, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and

reasonably incurred by him in connection therewith.

Section 4. Determinations Required Prior To Indemnification. Except as provided in Section 3 of this Article VII and except as may be ordered by a court, any indemnification under Sections 1 and 2 of this Article VII shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer or employee is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 1 and 2 of this Article VII, as the case may be. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

Section 5. Advances. Expenses (including attorney's fees) incurred by an officer or director in defending any civil, criminal, administrative, or investigative action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this Article. Such expenses (including attorney's fees) incurred by other employees may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

Section 6. General. The indemnification and advancement of expenses provided by or granted pursuant to these Bylaws shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be or shall become entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to actions in an official capacity and as to actions in another capacity while holding such office.

Section 7. Insurance. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to

indemnify him against such liabilities under the certificate of incorporation, the provisions of these Bylaws or under the provisions of the General Corporation Law of the State of Delaware.

Section 8. The Corporation. For purposes of this Article VII, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had the power and authority to indemnify its directors, officers and employees, so that any person who is or was a director, officer or employee of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VII with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

Section 9. Employee Benefit Plans. For purposes of this Article VII, references to "other enterprises" shall include employee benefit plans; the reference to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer or employee with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Article VII.

Section 10. Continuation. The indemnification and advancement of expenses provided by, or granted pursuant to, these Bylaws shall continue as

to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 11. Future Amendments. In the event of any amendment or addition to Section 145 of the General Corporation Law of the State of Delaware or the addition of any other section of such law with regard to indemnification, the corporation shall indemnify to the fullest extent authorized or permitted by such then-existing General Corporation Law of the State of Delaware, as amended, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the corporation), by reason of the fact that he is or was a director, officer or employee of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding.

ARTICLE VIII

GENERAL PROVISIONS

Section 1. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Board of Directors shall think conducive to the interest of the corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

ANNUAL STATEMENT

Section 3. The Board of Directors shall present at each annual meeting, and at any special meeting, of the stockholders when called for by vote of the stockholders a concise statement of the business and condition of the corporation.

CHECKS

Section 4. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

FISCAL YEAR

Section 5. The fiscal year of the corporation shall be determined by the Board of Directors, and shall be from October 1 through September 30, unless otherwise determined by the Board of Directors.

SEAL

Section 6. The corporate seal shall be in the form prescribed by the Board of Directors. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

MISCELLANEOUS

Section 7. Unless otherwise ordered by the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary or the Treasurer in person or by proxy appointed by any of them shall have full power and authority on behalf of the corporation to vote, act and consent with respect to any shares of stock issued by other corporations which the corporation may own or as to which the corporation has the right to vote, act or consent.

ARTICLE IX

AMENDMENTS

These Bylaws may be altered or repealed at any regular meeting of the stockholders or of the Board of Directors or at any special meeting of the stockholders or of the Board of Directors if such notice of such alteration or repeal be contained in the notice of such special meeting. No Bylaw adopted by vote of the stockholders shall be subject to amendment by the Board of Directors if such Bylaw so provides. Notwithstanding the foregoing, neither Sections 5 nor 12 of Article II may be amended, altered, changed or repealed except by the affirmative vote of the holders of at least seventy-five percent (75%) of the issued and outstanding shares of capital stock of the Corporation entitled to vote thereon cast at a meeting of the stockholders called for that purpose.

AMENDMENT NO. 2
TO
SECOND AMENDED AND RESTATED CREDIT AGREEMENT

AMENDMENT NO. 2 dated as of September 30, 1994 (this "Amendment") to the SECOND AMENDED AND RESTATED CREDIT AGREEMENT dated as of May 2, 1994 (as amended by Amendment No. 1 thereto dated as of June 9, 1994, the "Credit Agreement"), each among CHARTER MEDICAL CORPORATION, a Delaware corporation (the "Company"), the banking and other financial institutions from time to time party thereto (the "Lenders"), BANKERS TRUST COMPANY, as agent for the Lenders, and FIRST UNION NATIONAL BANK OF NORTH CAROLINA, as Co-Agent. Capitalized terms used herein and not defined herein shall have the respective meanings set forth for such terms in the Credit Agreement.

W I T N E S S E T H :

WHEREAS, the Company has requested that the Credit Agreement be amended to, among other things: (a) permit the Company and its Wholly-Owned Restricted Subsidiaries to lease Facilities from time to time to Permitted Joint Ventures in which it or any of its Wholly-Owned Restricted Subsidiaries has an equity interest; (b) permit a Wholly-Owned Restricted Subsidiary to be converted into a Permitted Joint Venture by, among other things, issuing shares of its capital stock to, or merging or consolidating with, a third-party and (c) obligate the Agent to release (i) in connection with the conversion of any series of Variable Rate Notes into fixed rate notes, the Liens granted the Collateral Agent on the Facility that was financed with such series of Variable Rate Notes, and (ii) in connection with the conversion of any Wholly-Owned Restricted Subsidiary into a Permitted Joint Venture, such Wholly-Owned Restricted Subsidiary from the Subsidiary Guaranty and its property and assets from the Liens of the Security Documents; and

WHEREAS, subject to and upon certain terms and conditions, the Lenders party hereto are willing to permit the foregoing;

NOW THEREFORE, the parties hereto hereby agree as follows:

Section 1. Amendments to Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) Section 6.16 of the Credit Agreement is amended by inserting the parenthetical "(except, in the case of Permitted Joint Ventures that are Restricted Subsidiaries, to the extent disclosed to the Agent in writing)" after the word "has" in the second line of the last sentence of such Section.

(b) Section 7.1(e) of the Credit Agreement is amended by (i) renumbering clause (v) thereof as "(vii)", and (ii) inserting the following after clause (iv) thereof:

", (v) without duplication of the requirements of the preceding clause (iv), a description in reasonable detail of each Permitted JV Transaction entered into during such Report Period, the parties thereto and the properties and assets subject thereto, the material terms thereof, whether the Company and its Wholly-Owned Restricted

Subsidiaries have a Controlling Interest in the Permitted Joint Venture resulting therefrom and, if such Permitted JV Transaction involved the lease or sublease of a Facility to a Permitted Joint Venture pursuant to Section 8.2(i), the amount of the annual base rentals to be paid to the Company and its Wholly-Owned Restricted Subsidiaries under such lease or sublease, (vi) a description in reasonable detail of each amendment and other modification entered into during such Report Period to any lease or sublease of a Facility entered into pursuant to Section 8.2(i),".

(c) Section 8.1(g) of the Credit Agreement is amended by inserting "on assets (other than a VRN Facility)" after the word "Liens" in the first line thereof.

(d) Section 8.2(d) of the Credit Agreement is amended by inserting

the following after the semi-colon (";") ending such Section:

"provided that the foregoing provisions of this Section 8.2(d) shall not permit the Company or any of its Restricted Subsidiaries to sell or otherwise dispose of pursuant to any transaction any equity interests (including, without limitation, any warrants, options or other rights to acquire equity interests) in any Restricted Subsidiary unless either (A) all of the equity interests in such Restricted Subsidiary that are owned by the Company and its Restricted Subsidiaries are simultaneously sold to Persons other than the Company and any of its Subsidiaries, or (B) after giving effect to such transaction the Restricted Subsidiary whose equity securities are the subject thereof is a Wholly-Owned Restricted Subsidiary;"

(e) Section 8.2(e) of the Credit Agreement is amended by (i) deleting the parenthetical "(except for a contribution permitted by Section 8.8 of a Facility and its related working capital to a Permitted Joint Venture)" from clause (iv) thereof, and (ii) inserting the following after the semi-colon (";") ending such Section:

"provided that the foregoing provisions of this Section 8.2(e) shall not permit the Company or any of its Restricted Subsidiaries to sell pursuant to any transaction any equity interests (including, without limitation, any warrants, options or other rights to acquire equity interests) in any Restricted Subsidiary unless either (A) all of the equity interests in such Restricted Subsidiary that are owned by the Company and its Restricted Subsidiaries are simultaneously sold to Persons other than the Company and any of its Subsidiaries, or (B) after giving effect to such transaction the Restricted Subsidiary whose equity securities are the subject thereof is a Wholly-Owned Restricted Subsidiary;"

(f) Section 8.2 of the Credit Agreement is further amended by (i) deleting the word "and" at the end of paragraph (g) thereof, (ii) replacing the period (".") at the end of paragraph (h) thereof with a semi-colon (";"), and (iii) inserting the following after such semi-colon:

"(i) so long as no Default or Event of Default has occurred and is continuing or would result therefrom, the Company and its Wholly-Owned Restricted Subsidiaries may enter into a lease or sublease of Facilities to Permitted Joint Ventures; provided that no such entering into of a lease or sublease of a Facility to a Permitted Joint Venture shall be permitted unless:

(i) the Minimum Income Tests and Debt Service Coverage Tests are satisfied with respect thereto;

(ii) after giving effect to the entering into of such lease or sublease the Company or such Wholly-Owned Restricted Subsidiary, as the case may be, shall have a Controlling Interest in such Permitted Joint Venture (or the additional requirements in clause (v) below shall be satisfied);

(iii) such Permitted Joint Venture is not restricted by its governing documents or otherwise from making cash distributions to the Company or such Wholly-Owned Restricted Subsidiary, as the case may be;

(iv) the Company, its Restricted Subsidiaries and the Collateral Agent are insured with respect to the leased or subleased Facility and the businesses conducted thereon (either directly or as named additional insureds on insurance obtained by the lessee or sublessee of such Facility) in the manner and to the extent required by Section 7.3 as fully as if such property had not been leased or subleased to a Permitted Joint Venture;

(v) after giving effect to the entering into of such lease or sublease, (A) the Company or a Wholly-Owned Restricted Subsidiary owns common stock of, or a partnership interest or other equity interests of a substantially similar nature in, such Permitted Joint Venture, and (B) the aggregate Deemed Value of all Facilities subject to Limited Permitted JV Transactions after the Closing Date does not exceed \$100,000,000;

(vi) the Board of Directors of the Company determines in

good faith that the business purpose achieved by such lease or sublease renders the terms of such lease or sublease, taking into account the other terms of such Permitted JV Transaction, reasonable, and, if the Deemed Value of such Facility exceeds \$25,000,000, the Company has received an opinion from a nationally recognized investment banking firm that such lease or sublease, taking into account the other terms of such Permitted JV Transaction, is fair to the Company from a financial point of view;

(vii) such lease or sublease contains an environmental indemnity that is either in form and substance substantially similar to Section 5.11(f) of the Mortgages or otherwise reasonably satisfactory to the Agent with respect to acts and omissions occurring on or after the effective date of such lease or sublease, which indemnity shall be made by such Permitted Joint Venture in favor of the lessor or sublessor, as applicable, of such Facility and the Company; and

(viii) the Company complies with Section 4.2(a) or (c), as the case may be;

(j) so long as no Default or Event of Default has occurred and is continuing or would result therefrom, a Restricted Subsidiary may merge with or into, or consolidate with, any Person or Persons other than the Company or a Subsidiary thereof in order to convert such Restricted Subsidiary into a Permitted Joint Venture (other than a Wholly-Owned Restricted Subsidiary) between the owners of such Person or

Persons and the Company or a Wholly-Owned Restricted Subsidiary; provided that (i) the Board of Directors of the Company determines in good faith that the business purpose achieved by such merger or consolidation renders the terms of such merger or consolidation reasonable, and, if the aggregate Deemed Value of the assets of the Restricted Subsidiary party to such merger or consolidation exceeds \$25,000,000, the Company has received an opinion from a nationally recognized investment banking firm that such merger or consolidation is fair to the Company from a financial point of view; (ii) the Company complies with Section 4.2(a) or (c), as the case may be; (iii) the Collateral Agent has pursuant to the Security Documents or other security agreements reasonably satisfactory to the Agent a perfected first priority Lien on any non-cash consideration (including, without limitation, equity interests in the surviving Person of such merger or consolidation) received by the Company or any of its Restricted Subsidiaries (other than the Restricted Subsidiary that is a party to such merger or consolidation) in connection with the consummation of such merger or consolidation, other than notes and similar instruments having, in the aggregate for such merger or consolidation, a principal amount of less than \$500,000; (iv) the Minimum Income Tests and Debt Service Coverage Tests are satisfied with respect thereto at the time of such merger or consolidation; (v) the surviving Person of such merger or consolidation is not restricted by its governing documents or otherwise from making cash distributions to the Company or such Wholly-Owned Restricted Subsidiary; (vi) after giving effect to such merger or consolidation, the aggregate Deemed Value of all Facilities subject to Limited Permitted JV Transactions after the Closing Date does not exceed \$100,000,000; (vii) after giving effect to such merger or consolidation, the sum of (A) the aggregate Deemed Value of property and other assets (other than Facilities) subject to Limited Permitted JV Transactions after the Closing Date, (B) the then Outstanding JV Credit Amount, and (C) the aggregate amount of Investments outstanding pursuant to Section 8.8(r) does not exceed the then maximum amount of Investments permitted to be outstanding pursuant to Section 8.8(r); and (viii) the Company or a Wholly-Owned Restricted Subsidiary receives in connection therewith common stock of, or a partnership interest or other equity interests of a substantially similar nature in, the surviving Person of such merger or consolidation;

(k) so long as no Default or Event of Default has occurred and is continuing or would result therefrom, the Company or any Restricted Subsidiary may sell less than all of the shares of capital stock it owns of any of its Subsidiaries to any Person or Persons other than the Company or a Subsidiary thereof in order to convert such Subsidiary into a Permitted Joint Venture between such Person or Persons and the Company or a Wholly-Owned Restricted Subsidiary; provided that (i) the Board of Directors of the Company determines in good faith that

the business purpose achieved by such sale renders the terms of such sale reasonable, and, if the aggregate Deemed Value of the assets of the Subsidiary whose shares of capital stock are being sold exceeds \$25,000,000, the Company has received an opinion from a nationally recognized investment banking firm that such sale is fair to the Company from a financial point of view; (ii) the Company complies with Section 4.2(a) or (c), as the case may be; (iii) the Collateral Agent has pursuant to the Security Documents or other security agreements reasonably satisfactory to the Agent a perfected first priority Lien on

any non-cash proceeds received by the Company or any of its Restricted Subsidiaries (other than the Restricted Subsidiary whose stock is being sold) in connection with the consummation of such sale, other than notes and similar instruments having, in the aggregate for such sale, a principal amount of less than \$500,000; (iv) the Minimum Income Tests and Debt Service Coverage Tests are satisfied with respect thereto at the time of such sale; (v) after giving effect to such sale, such Permitted Joint Venture is not restricted by its governing documents or otherwise from making cash distributions to the Company or such Wholly-Owned Restricted Subsidiary; (vi) after giving effect to such sale, the aggregate Deemed Value of all Facilities subject to Limited Permitted JV Transactions after the Closing Date does not exceed \$100,000,000; and (vii) after giving effect to such sale, the sum of (A) the aggregate Deemed Value of all property and other assets (other than Facilities) subject to Limited Permitted JV Transactions after the Closing Date, (B) the then Outstanding JV Credit Amount, and (C) the aggregate amount of Investments outstanding pursuant to Section 8.8(r) does not exceed the then maximum amount of Investments permitted to be outstanding pursuant to Section 8.8(r); and

(1) the Company or a Restricted Subsidiaries may issue shares of its capital stock to the extent permitted by Section 8.5."

(g) Section 8.5 of the Credit Agreement is amended by (i) deleting the word "and" at the end of clause (c) thereof, and (ii) replacing the period (".") at the end of paragraph (d) thereof with the following:

; and (e) so long as no Default or Event of Default has occurred and is continuing or would result therefrom, a Restricted Subsidiary may issue or sell shares of its capital stock to a Person or Persons other than the Company or a Subsidiary thereof in order to convert such Restricted Subsidiary into a Permitted Joint Venture between such Person or Persons and the Company or a Wholly-Owned Restricted Subsidiary; provided that (i) the Board of Directors of the Company determines in good faith that the business purpose achieved by such issuance or sale renders the terms of such issuance reasonable, and, if the aggregate Deemed Value of the assets of the Restricted Subsidiary issuing or selling shares of its capital stock exceed \$25,000,000, the Company has received an opinion from a nationally recognized investment banking firm that such issuance or sale is fair to the Company from a financial point of view; (ii) the Company complies with Section 4.2(a) or (c), as the case may be; (iii) the Collateral Agent has pursuant to the Security Documents or other security agreements reasonably satisfactory to the Agent a perfected first priority Lien on any non-cash proceeds received by the Company or any of its Restricted Subsidiaries (other than the Restricted Subsidiary whose capital stock is being issued or sold) in connection with the consummation of such issuance or sale, other than notes and similar instruments having, in the aggregate for such issuance, a principal amount of less than \$500,000; (iv) the Minimum Income Tests and Debt Service Coverage Tests are satisfied with respect thereto at the time of such issuance or sale; (v) after giving effect to such issuance or sale, such Restricted Subsidiary is not restricted by its governing documents or otherwise from making cash distributions to the Company or such Wholly-Owned Restricted Subsidiary; (vi) after giving effect to such issuance or sale, the aggregate Deemed Value of all Facilities subject to Limited Permitted JV Transactions does not exceed \$100,000,000; and

(vii) after giving effect to such issuance or sale, the sum of (A) the aggregate Deemed Value of all property and other assets (other than Facilities) subject to Limited Permitted JV Transactions, (B) the then Outstanding JV Credit Amount, and (C) the aggregate amount of Investments outstanding pursuant to Section 8.8(r) does not exceed the then maximum amount of Investments permitted to be outstanding pursuant

to Section 8.8(r)."

(h) Section 8.8(n) of the Credit Agreement is amended by replacing all of clauses (ii) and (v) thereof with the following clauses (ii) and (v), respectively:

"(ii) after giving effect to such contribution, the Company or such Wholly-Owned Restricted Subsidiary, as the case may be, shall have a Controlling Interest in such Permitted Joint Venture (or the additional requirements of clause (v) below shall be satisfied);" and

"(v) after giving effect to such contribution, (A) the Company or a Wholly-Owned Restricted Subsidiary owns common stock of, or a partnership interest or other equity interests of a substantially similar nature in, such Permitted Joint Venture, and (B) the aggregate Deemed Value of all Facilities subject to Limited Permitted JV Transactions after the Closing Date does not exceed \$100,000,000;".

(i) Section 8.8(n) of the Credit Agreement is further amended by (i) deleting the word "and" at the end of clause (iv) thereof, and (ii) inserting the following after clause (v) thereof:

"(vi) the Board of Directors of the Company determines in good faith that the business purpose achieved by such contribution renders the terms of such contribution reasonable, and, if the Deemed Value of such Facility exceeds \$25,000,000, the Company has received an opinion from a nationally recognized investment banking firm that such contribution is fair to the Company from a financial point of view; and

(vii) the Company complies with Section 4.2(a) or (c), as the case may be;".

(j) Section 8.8(r) of the Credit Agreement is amended by (i) inserting the words "sum of the" after the word "the" in the second line of clause (ii) of the third proviso thereto; (ii) replacing the words "other types of Restricted Subsidiaries and Unrestricted Subsidiaries" in the last two lines of such clause (ii) with the words "other types of Restricted Subsidiaries, Unrestricted Subsidiaries and joint ventures permitted by this Agreement in which the Company and its Wholly-Owned Restricted Subsidiaries have a minority equity interest"; and (iii) inserting the following after the word "Investments" in the third line of such clause (ii):

"plus the sum of the then aggregate Deemed Value of all property and other assets (other than Facilities) subject to Limited Permitted JV Transactions after the Closing Date and the Outstanding JV Credit Amount".

(k) Section 8.10(b) of the Credit Agreement is amended by (i) inserting "(without duplication)" after the words "the sum" in the fifth line of clause (B) of the third proviso thereto; (ii) deleting the word "and"

before clause (ii) of such clause (B); (iii) replacing the words "other types of Restricted Subsidiaries and Unrestricted Subsidiaries" in the fifth, sixth and seventh lines of such clause (ii) with the words "other types of Restricted Subsidiaries, Unrestricted Subsidiaries and joint ventures permitted by this Agreement in which the Company and its Wholly-Owned Restricted Subsidiaries have a minority equity interest"; and (iv) inserting the following at the end of such clause (ii):

", (iii) the then aggregate Deemed Value of all property and other assets (other than Facilities) subject to Limited Permitted JV Transactions after the Closing Date, and (iv) the then Outstanding JV Credit Amount".

(l) Section 8.10(c) of the Credit Agreement is amended by inserting the following at the end of clause (ii) thereof:

"; and (iii) for all purposes of paragraph (b) above the word 'expenditures' shall include, without limitation, with respect to any Facility Acquisition: (A) the issuance by the Company of shares of Company Common Stock as complete or partial consideration for the assets acquired by the Company and its Restricted Subsidiaries in such Facility Acquisition; provided that the amount of any such expenditure shall be deemed to be zero; (B) the aggregate principal amount of Indebtedness

assumed by the Company or any of its Restricted Subsidiaries in connection with such Facility Acquisition; and (C) except to the extent the same is repaid by a Person other than the Company or any of its Restricted Subsidiaries prior to a Facility Acquisition, the aggregate outstanding principal amount of all Indebtedness of any Person acquired by the Company or any of its Restricted Subsidiaries in such Facility Acquisition".

(m) Section 8.11 of the Credit Agreement is amended by (i) deleting the "or" at the end of paragraph (d) thereof, (ii) replacing the period (".") at the end of paragraph (e) thereof with "; or", and (iii) inserting the following after paragraph (e) thereof:

"(f) decrease the amount of, or change the payment date for, any rent payable to the Company or any Wholly-Owned Restricted Subsidiary under a lease or sublease of a Facility to a Permitted Joint Venture that was entered into pursuant to Section 8.2(i) unless the Agent is given prior notice thereof and the Minimum Income Tests and Debt Service Coverage Tests are satisfied with respect thereto at the time of such change, or otherwise amend, supplement or modify any such lease or sublease in any manner that is adverse to the Lenders."

(n) Section 8.15(a) of the Credit Agreement is amended by replacing the words "other type of Restricted Subsidiary or any Unrestricted Subsidiary" in the fourth and fifth lines of clause (ix) thereof with the words "other type of Restricted Subsidiary, Unrestricted Subsidiary or joint venture permitted by this Agreement in which the Company and its Wholly-Owned Restricted Subsidiaries have a minority equity interest".

(o) The following is inserted after Section 8.15 of the Credit Agreement:

"8.16 Maintenance of Controlling Interests. If, after giving effect to any Permitted JV Transaction entered into pursuant to Section 8.2(i) or 8.8(n), the Company and its Wholly-Owned Restricted Subsidiaries have a Controlling Interest in the Permitted Joint Venture that is a party to such Permitted JV Transaction, the Company shall not, and shall not permit any of its Restricted Subsidiaries to, take or refrain from taking any action of any nature whatsoever (other than the entering into in accordance with this Agreement of another Permitted JV Transaction with respect to such Permitted Joint Venture and the consummation of any sale or other transfer permitted by this Agreement of all of the Company's and its Wholly-Owned Restricted Subsidiaries' equity interests in such Permitted Joint Venture) that would cause the Company and its Wholly-Owned Restricted Subsidiaries to fail to have a Controlling Interest in such Permitted Joint Venture, unless, after giving effect to such failure to have a Controlling Interest: (a) no Default or Event of Default exists, (b) the Minimum Income Tests and Debt Service Coverage Tests are satisfied as of the date such failure occurs, and (c) the aggregate Deemed Value of all Facilities subject to Limited Permitted JV Transactions after the Closing Date does not exceed \$100,000,000."

(p) Section 10 of the Credit Agreement is amended as follows:

(i) The definition therein of the term "Asset Sale" is amended by (A) inserting "and subleases" after the word "leases" in clause (vi) of the second proviso to such definition, (B) inserting "(other than ones received in a Permitted JV Transaction)" after the word "instruments" in the third line of clause (ii) of the second proviso to such definition, (C) inserting "except to the extent the same constitutes a transfer pursuant to the immediately following sentence," after each of the respective comma's (",") ending clauses (iii) and (vi) of the second proviso of such definition, and (D) inserting the following after the end of such definition:

"Without limitation of the foregoing, but in furtherance thereof, a Permitted JV Transaction shall be deemed to be a sale, lease, conveyance, disposition or transfer of assets to the extent the Company or any of its Restricted Subsidiaries (other than the Permitted Joint Venture resulting from such Permitted JV Transaction) receives any Cash ((including Cash receivable (when received) by way of a deferred payment obligation pursuant to a promissory note or preferred stock or otherwise (other than

interest and dividends accruing thereon at a rate no greater than the sum of 6% and the then yield for actively traded United States securities having a weighted average life to maturity that is substantially the same as the weighted average life to maturity of such deferred payment obligation), but excluding, in the case of a lease or a sublease of a Facility to a Permitted Joint Venture pursuant to Section 8.2(i), any base rent payable under such lease or sublease)) or other property or assets (other than, except to the extent the same are substantially equivalent to Cash receivable by way of deferred payments obligations, equity interests in the Permitted Joint Venture resulting from such Permitted JV Transaction) in connection with the consummation of such Permitted JV Transaction."

(ii) The definition therein of the term "Base Core EBITDA" is amended in its entirety to read as follows:

"'Base Core EBITDA' means, for any period, the total of (a) consolidated EBITDA of the Company and the Domestic Guarantors for such period, excluding, to the extent included therein, (i) the income (or loss) of any Person (other than a Domestic Guarantor) in which the Company or any Domestic Guarantor has an ownership interest, whether or not any such income has been actually received by the Company or any Domestic Guarantor in the form of dividends or similar distributions, and (ii) any rent payable to the Company or any of its Subsidiaries under a lease or sublease of a Facility to a joint venture pursuant to Section 8.2(i), whether or not such rent has been actually received by the Company or any of its Subsidiaries, minus (b) the excess, if any, of (i) income taxes paid by the Company or any Domestic Guarantor during such period in respect of its pro rata share of any Subsidiary's (other than a Wholly-Owned Restricted Subsidiary's) Net Income, over (ii) the amount of distributions made by such Subsidiary to the Company or any Domestic Guarantor during such period, plus, without duplication, (c) the Acquired NME Facilities EBITDA, if any, minus (d) the Company's and the Domestic Guarantors' aggregate pro rata share of the absolute amount of the net loss for such period of each Permitted Joint Venture in which the Company or a Domestic Guarantor has an ownership interest that has incurred a loss for such period and owns, leases or subleases a Facility that was subject to a Permitted JV Transaction; provided that in determining the net loss of any such Permitted Joint Venture for purposes of this clause (d), the aggregate amount of rent payable to the Company and the Domestic Guarantors under a lease or sublease of a Facility to any such Permitted Joint Venture that was entered into pursuant to Section 8.2(i) shall not be considered an expense of such Permitted Joint Venture."

(iii) The following is inserted after the definition therein of the term "Continuing Lenders":

"'Controlling Interest' means, with respect to any Person, (a) the ownership of at least a majority of the equity interests in such Person on a fully diluted basis, and (b) the ownership of equity interests in such Person providing the unlimited right to elect or appoint at least the greater of (i) 60% of the authorized number of directors, managers or trustees, as applicable, of such Person and (ii) such percentage of the authorized number of such directors, managers or trustees, as applicable, as are necessary under the governing documents of such Person or otherwise to authorize (and prevent) the taking by such Person of each and any action that may from time to time be proposed to be taken by such Person or to approve or adopt (and prevent the approval or adoption of) any other matter (including, without limitation, the appointment or removal of any individual as an officer of such Person) that may from time to time require the approval of, or adoption by, all or any portion of the directors, managers or trustees, as applicable, of such Person."

(iv) The definition therein of the term "Core EBITDA" is amended in its entirety to read as follows:

"'Core EBITDA' means, for any period, the total of (a)

consolidated EBITDA of the Company and its Wholly-Owned Restricted Subsidiaries for such period, excluding, to the extent included therein, (i) the income (or loss) of any Person (other than a Wholly-Owned Restricted Subsidiary) in which the Company or any Wholly-Owned Restricted Subsidiary has an equity interest, whether or not any such income has been actually received by the Company or any Wholly-Owned Restricted Subsidiary in the form of dividends or similar distributions, and (ii) any rent payable to the Company or any of its Subsidiaries under a lease or sublease of a Facility to a joint venture pursuant to Section 8.2(i), whether or not such rent has been actually received by the Company or any of its Subsidiaries, plus (b) to the extent the same does not exceed the product of (i) the Net Income of the payor thereof for such period or for the immediately preceding period and not previously received, and (ii) the Company's and its Wholly-Owned Restricted Subsidiaries aggregate percentage ownership interest therein, cash dividends and other cash distributions of profits and capital received in such period by the Company and its Wholly-Owned Restricted Subsidiaries from (i) Unrestricted Subsidiaries, (ii) joint ventures which are not Subsidiaries, and (iii) other Restricted Subsidiaries, minus (c) the Company's and its Wholly-Owned Restricted Subsidiaries' aggregate pro rata share of the absolute amount of net loss for such period of each (i) Unrestricted Subsidiary, (ii) other Restricted Subsidiary, and (iii) joint venture in which the Company or any Wholly-Owned Restricted Subsidiary has an ownership interest that (A) is not a Subsidiary of the Company, and (B) owns, leases or subleases a Facility that was subject to a Permitted JV Transaction, in each case that has incurred a loss for such period, plus, without duplication, (d) the Acquired NME Facilities EBITDA, if any, plus, without duplication, (e) rent received in such period by the Company or any Wholly-Owned Restricted Subsidiary under a lease or sublease of a Facility to a joint venture pursuant to Section 8.2(i), but only to the extent such rent accrued during such period or the immediately preceding period."

(v) The following is inserted after the definition therein of the term "Debt Service Coverage Tests":

"'Deemed Value' means, with respect to any property or other assets subject or to be subject to a Permitted JV Transaction, the greatest of (a) the fair market value of such property or other asset on the first date on which such property or other asset was or is to be subject to a Permitted JV Transaction (for purposes of the foregoing, the fair market value of a Facility and its related working capital shall be deemed to be equal to the product of 4.5 and the EBITDA of the Company and its Wholly-Owned Restricted Subsidiaries attributable to such Facility for the 12-month period preceding the Test Date applicable to the first date on which such Facility was or is to be subject to a Permitted JV Transaction), (b) the book value of such property or other asset on the first date on which such property or other asset was or is to be subject to a Permitted JV Transaction, and (c) in the case of a Facility and/or other asset or property that was or is to be subject to a Limited Permitted JV

Transaction described in clause (b) or (d) of the definition of such term, the sum of the aggregate amount of cash and the aggregate fair market value of all other property received by the Company and its Restricted Subsidiaries in consideration for the capital stock issued or sold in such Limited Permitted JV Transaction."

(vi) the definition therein of the term "Investment" is amended by inserting "(except as otherwise expressly set forth herein)" in lieu of "(except as otherwise set forth in Section 8.8(n) for contributions of Facilities to Permitted Joint Ventures)" appearing in the proviso to such definition.

(vii) The following is inserted after the definition therein of the term "Liens":

"'Limited Permitted JV Transaction' means any of the following: (a) the contribution pursuant to Section 8.8(n), or the

lease or sublease pursuant to Section 8.2(i), of a Facility by the Company or a Wholly-Owned Restricted Subsidiary to a Permitted Joint Venture, unless after giving effect thereto the Company and its Wholly-Owned Restricted Subsidiaries have a Controlling Interest in such Permitted Joint Venture, (b) the issuance or sale by a Restricted Subsidiary of its capital stock to a Person or Persons other than the Company or any Subsidiary thereof pursuant to clause (e) of Section 8.5, unless after giving effect thereto such Restricted Subsidiary is a Wholly-Owned Restricted Subsidiary, (c) the merger of a Restricted Subsidiary with or into, or the consolidation of a Restricted Subsidiary with, a Person or Persons other than the Company or any Subsidiary thereof pursuant to Section 8.2(j), (d) the sale pursuant to Section 8.2(k) by the Company or any of its Restricted Subsidiaries to a Person or Persons other than the Company or any Subsidiary thereof of less than all of the capital stock of a Restricted Subsidiary owned by the Company and its Restricted Subsidiaries, unless after giving effect thereto the Restricted Subsidiary whose capital stock is being sold is a Wholly-Owned Restricted Subsidiary, and (e) the failure for any reason of the Company and its Wholly-Owned Restricted Subsidiaries to have at any time a Controlling Interest in any Permitted Joint Venture that, as a result of the occurrence of any Permitted JV Transaction (other than a Limited Permitted JV Transaction described in the foregoing clauses (a) through (d)), owns, leases or subleases a Facility at the time of such failure, unless such failure results from the entering into of another Permitted JV Transaction with respect to such Permitted Joint Venture or the sale of all of the Company's and its Wholly-Owned Restricted Subsidiaries' equity interests in such Permitted Joint Venture. For purposes of this Agreement, any property or other asset (including, without limitation, a Facility and Cash) shall be deemed to have been subject to a Limited Permitted JV Transaction if it is contributed, leased or subleased pursuant to a transaction described in clause (a) of this definition of Limited Permitted JV Transaction, if it is owned by a Restricted Subsidiary at the time such Restricted Subsidiary enters into a transaction described in clause (b) or (c) of this definition of Limited Permitted JV Transaction, if it is owned by the Restricted

Subsidiary whose capital stock is being sold pursuant to a transaction described in clause (d) of this definition of Limited Permitted JV Transaction or if it is a Facility that is owned by, or leased or subleased to, a Permitted Joint Venture as a result of a Permitted JV Transaction (other than a Limited Permitted JV Transaction) at the time a Limited Permitted JV Transaction described in clause (e) above occurs with respect to such Permitted Joint Venture.

(viii) The definition therein of the term "Minimum Income Tests" is amended by replacing the first three lines of paragraph (a) thereof with the following:

"(a) in the case of a Permitted JV Transaction, an amendment or other modification to a lease or sublease of a Facility to a Permitted Joint Venture pursuant to Section 8.2(i) that decreases the amount of, or changes the payment date for, any installment of rent payable thereunder to the Company or any Wholly-Owned Restricted Subsidiary or a Facility Acquisition only:".

(ix) The definition therein of the term "Net Proceeds" is amended by (A) replacing "or otherwise (other than interest payable thereon)" in the fourth and fifth lines thereof with ", preferred stock or otherwise (other than interest and dividends accruing thereon at a rate no greater than the sum of 6% and the then yield for actively traded United States securities having a weighted average life to maturity that is substantially the same as the weighted average life to maturity of such deferred payment obligation)", and (B) inserting the following sentence at the end of such definition:

"Notwithstanding the foregoing, except to the extent the same is substantially equivalent to Cash receivable by way of deferred payment, 'Net Proceeds' shall not include any equity interest in a Permitted Joint Venture resulting from the consummation of a

Permitted JV Transaction that is received by the Company or any of its Restricted Subsidiaries in connection with the consummation of such Permitted JV Transaction."

(x) The following is inserted after the definition therein of the term "Original Company Credit Agreement":

"'Outstanding JV Credit Amount' means, at any time, the sum of (a) the then aggregate outstanding principal amount of each Subsidiary Loan initially made to a Wholly-Owned Restricted Subsidiary that was, at any time after the making of such Subsidiary Loan, converted into a Permitted Joint Venture pursuant to a Limited Permitted JV Transaction, (b) the then aggregate amount which is then available to be drawn (assuming the conditions for drawing thereunder have been met) under each Subsidiary Letter of Credit initially issued for the account of a Wholly-Owned Restricted Subsidiary that was, at any time after the issuance of such Subsidiary Letter of Credit, converted into a Permitted Joint Venture pursuant to a Limited Permitted JV Transaction, and (c) the then aggregate amount of all drawings under each such Subsidiary Letter of Credit referenced in clause (b) above honored by the applicable L/C Bank and not theretofore reimbursed by the Company or any of its Restricted Subsidiaries."

(xi) The following is inserted after the definition therein of the term "Permitted Joint Venture"

"'Permitted JV Transaction' means any of the following: (a) the contribution of a Facility by the Company or a Wholly-Owned Restricted Subsidiary to a Permitted Joint Venture pursuant to Section 8.8(n), (b) the lease or sublease of a Facility to a Permitted Joint Venture pursuant to Section 8.2(i), and (c) each and any Limited Permitted JV Transaction not described in the preceding clause (a) or (b). For purposes of this Agreement, any property or other asset (including, without limitation, a Facility and Cash) shall be deemed to have been subject to a Permitted JV Transaction if it is contributed, leased or subleased to a Permitted Joint Venture pursuant to Section 8.8(n) or 8.2(i), as applicable, if it is owned by a Restricted Subsidiary at the time such Restricted Subsidiary enters into a transaction described in clause (b) or (c) of the definition of Limited Permitted JV Transaction, if it is owned by a Restricted Subsidiary whose capital stock is being sold pursuant to a transaction described in clause (d) of the definition of Limited Permitted JV Transaction or if it is a Facility that is owned by, or leased or subleased to, a Permitted Joint Venture as a result of a Permitted JV Transaction (other than a Limited Permitted JV Transaction) at the time a Limited Permitted JV Transaction described in clause (e) of the definition of Limited Permitted JV Transaction occurs with respect to such Permitted Joint Venture."

(xii) The definitions therein of the terms "Pro Forma Base Core EBITDA" and "Pro Forma Core EBITDA" are amended in their entirety to read as follows:

"'Pro Forma Base Core EBITDA' means, for any period, with respect to any Subject Transaction, the total, without duplication, of (a) Base Core EBITDA for such period, plus (b) the EBITDA for such period of (i) any Person acquired directly by the Company or a Domestic Guarantor and which becomes a Domestic Guarantor, or (ii) any Facility (determined as if such Facility was a separate Person) acquired directly by the Company or any Domestic Guarantor, in either such case as part of such Subject Transaction, minus (c) in the case of a Permitted JV Transaction, the portion of the Base Core EBITDA for such period attributable to each Facility, if any, subject to such Permitted JV Transaction. In the case of a Subject Transaction involving the acquisition of a Person or a Facility that, as of the time of such acquisition has been in existence for less than 12 months, the EBITDA for such Person or Facility, as the case may be, for such period shall be deemed to be, for purposes of the preceding clause (b), the product of (1) its actual EBITDA, and (2) the quotient, expressed as percentage, of the number of months in such period divided by the number of months for which such Person or Facility,

as the case may be, has any EBITDA.

'Pro Forma Core EBITDA' means, for any period, with respect to any Subject Transaction, the total, without duplication, of (a) Core EBITDA for such period, plus (b) the EBITDA for such period of (i) any Person which is directly

acquired by the Company or a Wholly-Owned Restricted Subsidiary and becomes a Wholly-Owned Restricted Subsidiary of the Company, or (ii) any Facility (determined as if such Facility was a separate Person) directly acquired by the Company or any of its Wholly-Owned Restricted Subsidiaries, in either such case as part of such Subject Transaction, minus (c) in the case of a Permitted JV Transaction, the product of (i) the portion of the Core EBITDA for such period attributable to each Facility, if any, subject to such Permitted JV Transaction (minus, in the case of a lease or a sublease of a Facility to a Permitted Joint Venture pursuant to Section 8.8(i), the aggregate rent payable to the Company and its Wholly-Owned Restricted Subsidiaries under such lease or sublease during such period, assuming for such purpose that such lease or sublease had been entered into at the beginning of such period), and (ii) the excess of 100% over the Company's and its Wholly-Owned Restricted Subsidiaries aggregate percentage ownership interest in such Permitted Joint Venture after giving effect to such Permitted JV Transaction, plus (minus) (d) in the case of any change to the amount of, or any change in the payment date for, any rent payable to the Company or any of its Wholly-Owned Restricted Subsidiaries under a lease or sublease by any such Person of a Facility to a Permitted Joint Venture pursuant to Section 8.2(i), the change resulting therefrom to the aggregate amount of rent payable during such period, assuming for such purpose that such change became effective at the beginning of such period. In the case of a Subject Transaction involving the acquisition of a Person or a Facility that, as of the time of such acquisition has been in existence for less than 12 months, the EBITDA for such Person or Facility, as the case may be, for such period shall be deemed to be, for purposes of the preceding clause (b), the product of (1) its actual EBITDA, and (2) the quotient, expressed as a percentage, of the number of months in such period divided by the number of months for which such Person or Facility, as the case may be, has any EBITDA."

(xiii) The definition therein of the term "Subject Transactions" is amended by (A) replacing the text of clause (a) thereof with "any Permitted JV Transaction," (B) deleting the word "and" before clause (e) thereof, and (C) inserting the following after the end of such clause (e):

", and (f) the entering into of any amendment or other modification to a lease or sublease of a Facility to a Permitted Joint Venture pursuant to Section 8.2(i) that decreases the amount of, or changes the payment date for, any installment of rent payable to the Company or any Wholly-Owned Restricted Subsidiary pursuant thereto".

(xiv) The following is inserted after the definition therein of the term "Variable Rate Notes": "'VRN Facility' means each and any of the Facilities listed as number 29, 30, 31, 32, 33, 35, 36, 37, 38, 39, 40 or 41 on Schedule 10.1(d) hereto as in effect on the Closing Date and the Facility owned by Charter Fairmount Behavioral Health System, Inc. that is located at 561 Fairthorne Avenue, Philadelphia, PA 19128."

(i) Section 12.12 of the Credit Agreement is amended by (i) inserting "(other than pursuant to a Limited Permitted JV Transaction)" after

the words "disposed of" in clause (ii)(A) of paragraph (b) thereof; and (ii) inserting the following after paragraph (b) thereof:

"(c) Each Lender, the Agent and the Co-Agent hereby authorizes the Collateral Agent to, and, upon the request of the Company, the Collateral Agent, at the sole cost and expense of the Company and its Restricted Subsidiaries, shall, release a VRN Facility from the Mortgage, if any, applicable thereto; provided that (i) the

Agent is satisfied that, simultaneously with such release, the Variable Rate Notes issued to finance such VRN Facility will be converted into fixed-rate notes or bonds in accordance with the terms thereof and hereof, (ii) no Default or Event of Default has occurred and is continuing at the time of such release or has or will result from the conversion of such Variable Rate Notes into fixed-rate notes or bonds, (iii) simultaneously with such release the Letter of Credit or Subsidiary Letter of Credit, as the case may be, providing direct or indirect, as applicable, credit support for such Variable Rate Notes is surrendered to the Agent or the applicable L/C Bank (or provisions reasonably satisfactory to the Agent and the applicable L/C Bank for such surrender are made), and (iv) the Agent is satisfied that the fixed-rates notes or bonds into which such Variable Rate Notes are converted will not be secured by a Lien on such VRN Facility.

(d) Each Lender, the Agent and the Co-Agent hereby authorizes the Collateral Agent to, and, upon the request of the Company, the Collateral Agent, at the sole cost and expense of the Company and its Restricted Subsidiaries, shall, simultaneously with the consummation of any Limited Permitted JV Transaction described in clause (b), (c) or (d) of the definition thereof, release (i) the Restricted Subsidiary whose capital stock is sold or issued, or that is a party to a merger or consolidation, as applicable, pursuant to such Limited Permitted JV Transaction from any and all of its obligations under the Subsidiary Guaranty; and (ii) the property and other assets subject to such Limited Permitted JV Transaction from the Liens thereon, if any, under the Security Documents; Provided that, in the case of each and any release described in the preceding clause (i) or (ii): (A) the Agent is satisfied that, simultaneously with such release, a Limited Permitted JV Transaction involving such Restricted Subsidiary or property or other assets, as the case may be, will occur in accordance with the terms hereof, (B) no Default or Event of Default has occurred and is continuing at the time of such release or will result from the consummation of such Limited Permitted JV Transaction, (C) the Company has given the Agent at least five Business Days prior written notice of the date of such Limited Permitted JV Transaction and a description, in reasonable detail, of such transaction, the parties thereto, the property and other assets to be subject thereto and the respective Deemed Values of such property and other assets, (D) if a Subsidiary Borrower is to be a party to such Limited Permitted JV Transaction or any of its capital stock is being sold pursuant thereto, then (1) if after giving effect to such Limited Permitted JV Transaction such Subsidiary Borrower would no longer be a Subsidiary of the Company, then all Subsidiary Loans made to such Subsidiary Borrower shall have been repaid in full, together with all accrued and unpaid interest thereon, all outstanding amounts payable by such Subsidiary Borrower under the Credit Documents shall have been paid in full, and all Subsidiary Letters of Credit issued for the account of such Subsidiary Borrower

shall have been surrendered to the Agent or the applicable L/C Bank, and (2) such Subsidiary Borrower shall have acknowledged to the Agent for the benefit of the Lenders in a writing reasonably satisfactory to the Agent that such Subsidiary Borrower shall no longer be entitled to request the making of Subsidiary Loans or the issuance of Subsidiary Letters of Credit for its account pursuant to the Subsidiary Credit Agreement, and (E) the Restricted Subsidiary that is (or whose assets are) the subject of such requested release is simultaneously released from all of its obligations under each guaranty made by it of any Permitted Subordinated Indebtedness."

Section 2. Clarification of Section 1.15 of Mortgages. The Agent and each Lender party hereto agrees that nothing contained in Section 1.15 of any Mortgage shall be construed as a requirement that the Company and its Wholly-Owned Restricted Subsidiaries are required to manage any Facility that is contributed, leased or subleased by the Company or any Wholly-Owned Restricted Subsidiary to a Permitted Joint Venture pursuant to Section 8.2 or Section 8.8.

Section 3. Representations and Warranties. The Company hereby represents and warrants to the Agent and the Lenders that:

(a) the execution and delivery by the Company of this Amendment and the performance by the Company of the Credit Agreement as amended hereby are within the Company's corporate powers, have been duly

authorized by all necessary corporate or other action and will not (i) contravene the certificate or articles of incorporation or the bylaws of the Company, (ii) contravene any law, regulation, order, writ, judgment, decree, determination or award currently in effect binding on or affecting the Company or any of its Subsidiaries or any of their respective assets, except where such contravention would not have a Material Adverse Effect, or (iii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any Lien (except pursuant to the Security Documents) upon any of the property or assets of the Company or any of its Subsidiaries pursuant to the terms of, any indenture, mortgage, deed of trust, agreement or other instrument (including, without limitation, the Senior Subordinated Notes Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company, any of its Subsidiaries or any of their respective properties or assets is bound or subject to, except to the extent such conflict, breach, default or creation or imposition would not have a Material Adverse Effect;

(b) this Amendment, the Credit Agreement as amended hereby and, after giving effect to this Amendment, the other Credit Documents constitute the legal, valid and binding obligations of the Company and the Credit Parties party thereto, enforceable against the Company and such Credit Parties in accordance with their respective terms, except to the extent such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, and by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); and

(c) on and as of the date hereof, and both before and after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

Section 4. Effectiveness. This Amendment shall become effective when the Agent shall have received duly executed counterparts of this Amendment from the Company, each Subsidiary of the Company that is a party to any Credit Document and as many of the Lenders as shall be necessary to comprise the "Required Lenders".

Section 5. Status of Credit Documents. This Amendment is limited solely for the purposes and to the extent expressly set forth herein, and, except as expressly modified hereby, the terms, provisions and conditions of the Credit Documents and the Liens granted thereunder shall continue in full force and effect and are hereby ratified and confirmed in all respects.

Section 6. Counterparts. This Amendment may be executed and delivered in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with the Company and the Agent.

Section 7. Governing Law. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND SHALL BE GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF).

IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized officers to execute and deliver this Amendment No. 2 to the Second Amended and Restated Credit Agreement as of the date first above written.

CHARTER MEDICAL CORPORATION

By:
Name:
Title:

BANKERS TRUST COMPANY,
as Agent and a Lender

By:
Name:
Title:

FIRST UNION NATIONAL BANK OF
NORTH CAROLINA, as Co-Agent
and a Lender

By:
Name:
Title:

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By:
Name:
Title:

INDENTURE SUPPLEMENT
NO. 1

This Indenture Supplement No. 1 (the "Supplement"), dated as of June 3, 1994, is among Marine Midland Bank, as Trustee, Charter Medical Corporation, (the "Company"), the Guarantors listed in the Indenture, as defined below, and Schizophrenia Treatment and Rehabilitation, Inc. All defined terms used in this Supplement and not otherwise defined shall have the meanings ascribed to such terms in the Indenture.

For and in consideration of the premises, the Company, the Guarantors and the Trustee agree as follows:

1. Recital. This Supplement relates to the Indenture, dated as of May 2, 1994, among the Company, the Guarantors listed therein and Marine Midland Bank, with respect to the Company's 11 1/4% Senior Subordinated Notes due 2004 (the "Indenture"). This Supplement is executed by the Trustee pursuant to Section 10.01(5) of the Indenture.

2. Supplement. The Indenture is supplemented by adding Schizophrenia Treatment and Rehabilitation, Inc., Subsidiary of the Company, as Guarantor, pursuant to the provisions of Section 5.09 of the Indenture relating to additional Guarantors. By executing this Supplement, Schizophrenia Treatment and Rehabilitation, Inc. agrees that, effective as of the date first above written, it is a Guarantor under the Indenture.

3. Miscellaneous.

(a) Instruments to be Read Together. This Indenture Supplement No. 1 is an indenture supplemental to the Indenture, and such Indenture, and this Indenture Supplement No. 1 shall henceforth be read together.

(b) Confirmation. The Indenture as amended and supplemented by this Indenture Supplement No. 1, is in all respects confirmed and preserved.

(c) Governing Law. This Indenture Supplement No. 1 shall be construed in accordance with and governed by the laws of the State of New York, without reference to principles of conflicts of law.

(d) Severability. Any provision of this Indenture Supplement No. 1 which is prohibited or unenforceable in any jurisdiction shall not invalidate the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(e) Headings. Section, subsection and other headings used in this Indenture Supplement No. 1 are for convenience only and shall not affect the construction of this Indenture Supplement No. 1.

(f) Counterparts. This Indenture Supplement No. 1 may be executed in any number of counterparts, each of which, when so executed in any number of counterparts, shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture Supplement No. 1 to be duly executed as of the date and year first above written.

MARINE MIDLAND BANK,
as Trustee

By: /s/ Frank J. Godino
Name: Frank J. Godino
Title: Asst. Corp. Trust Officer

Attest:

/s/ Richard G. Pittius
Name: Richard G. Pittius
Title: Assistant Vice President

CHARTER MEDICAL CORPORATION

By: /s/ James R. Bedenbaugh
Name: James R. Bedenbaugh
Title: Treasurer

Attest:

/s/ Linton Newlin
Name: Linton Newlin
Title: Secretary

Each of the Guarantors listed
in the Indenture as listed in Exhibit A

By: /s/ Charlotte A. Sanford
Name: Charlotte A. Sanford
Title: Treasurer or as Director of
Charter Medical of England, Limited

Attest:

/s/ James R. Bedenbaugh
Name: James R. Bedenbaugh
Title: Assistant Secretary

Schizophrenia Treatment and
Rehabilitation, Inc.

By: /s/ Charlotte A. Sanford
Name: Charlotte A. Sanford
Title: Treasurer

Attest:

/s/ James M. Filush
Name: James M. Filush
Title: Secretary

Exhibit 4(t) Schedule

The form of Indenture Supplement filed as Exhibit 4(t) is used to admit certain subsidiaries of the Company as new Guarantors under the Indenture. In addition to Indenture Supplement No. 1, new Guarantors have been admitted as follows:

Supplement No.	Date	New Guarantor
2	July 15, 1994	NEPA - New Hampshire, Inc. NEPA - Massachusetts, Inc.
4	November 22, 1994	Charter Behavioral Health System at Manatee Palms Therapeutic Group Inc.

INDENTURE SUPPLEMENT
NO. 3

This Indenture Supplement No. 3 (the "Supplement"), dated as of August 30, 1994, is among Marine Midland Bank, as Trustee, Charter Medical Corporation, (the "Company"), the Guarantors listed in the Indenture, as defined below, and Schizophrenia Treatment and Rehabilitation, Inc. All defined terms used in this Supplement and not otherwise defined shall have the meanings ascribed to such terms in the Indenture.

For and in consideration of the premises, the Company, the Guarantors and the Trustee agree as follows:

1. Recital. This Supplement relates to the Indenture, dated as of May 2, 1994, among the Company, the Guarantors listed therein and Marine Midland Bank, with respect to the Company's 11 1/4% Senior Subordinated Notes due 2004 (the "Indenture"). This Supplement is executed by the Trustee pursuant to Section 10.01(5) of the Indenture.
2. Amendment. Section 6.02 of the Indenture is amended by replacing the term "Restricted Subsidiary" in the proviso of Section 6.02, which states "provided that if any Guarantor consolidates into, or merges with or into, a Restricted Subsidiary," and in clause (i) of Section 6.02, which states "such Restricted Subsidiary is or becomes a Guarantor," with the term "Person".
3. Miscellaneous.
 - (a) Instruments to be Read Together. This Indenture Supplement No. 3 is an indenture supplemental to the Indenture, and such Indenture, and this Indenture Supplement No. 3 shall henceforth be read together.
 - (b) Confirmation. The Indenture as amended and supplemented by this Indenture Supplement No. 3, is in all respects confirmed and preserved.
 - (c) Governing Law. This Indenture Supplement No. 3 shall be construed in accordance with and governed by the laws of the State of New York, without reference to principles of conflicts of law.
 - (d) Severability. Any provision of this Indenture Supplement No. 3 which is prohibited or unenforceable in any jurisdiction shall not invalidate the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.
 - (e) Headings. Section, subsection and other headings used in this Indenture Supplement No. 3 are for convenience only and shall not affect the

construction of this Indenture Supplement No. 3.

(f) Counterparts. This Indenture Supplement No. 3 may be executed in any number of counterparts, each of which, when so executed in any number of counterparts, shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture Supplement No. 3 to be duly executed as of the date and year first above written.

MARINE MIDLAND BANK,
as Trustee

By: /s/ Frank J. Godino
Name: Frank J. Godino
Title: Asst. Corp. Trust Officer

Attest:

/s/ Richard G. Pittius
Name: Richard G. Pittius
Title: Assistant Vice President

CHARTER MEDICAL CORPORATION

By: /s/ James R. Bedenbaugh
Name: James R. Bedenbaugh
Title: Treasurer

Attest:

/s/ Linton Newlin
Name: Linton Newlin
Title: Secretary

Each of the Guarantors listed
in the Indenture as listed in Exhibit A

By: /s/ Charlotte A. Sanford
Name: Charlotte A. Sanford
Title: Treasurer or as Director of
Charter Medical of England, Limited

Attest:

/s/ James R. Bedenbaugh
Name: James R. Bedenbaugh
Title: Assistant Secretary

Schizophrenia Treatment and
Rehabilitation, Inc.

By: /s/ Charlotte A. Sanford
Name: Charlotte A. Sanford
Title: Treasurer

Attest:

/s/ James M. Filush
Name: James M. Filush
Title: Secretary

CMC/CORPORATE INCENTIVE PLAN
FY 94

I. PURPOSE

The purpose of this plan is to provide an incentive to certain executives and key employees of the Company who contribute to the success of the enterprise by offering an opportunity to such persons to earn compensation in addition to their salaries, based on the operating income of the Company.

II. ELIGIBLE PARTICIPANTS

Eligibility for participation in the Incentive Plan shall be determined by management from among those key employees who are in a position to materially contribute to the success of the Company. Specific requirements for participation are outlined in Section VIII C, Conditions for Receiving Payment, in the Definition of Terms.

If a person otherwise eligible for participation in the Incentive Plan becomes an employee of the Company during the fiscal year, such employee shall be eligible to receive a prorated portion of an annual bonus (number of semimonthly pay periods of employment divided by twenty-four), subject to approval of such employee's vice president or, in the case of an officer, his superior's approval.

III. METHOD OF ALLOCATION

Each participant must meet the goals established by management. In order to receive a bonus, each participant must be recommended for all, part or none of his bonus by his superior, with the approval of the Chairman. Each participant's assigned bonus percentage corresponds to established targets set by management. The percentages are on a variable scale. The various percentages of achievement are:

	Target Bonus Percentage				
	90%	95%	100%	110%	120%
Executive Officer	0%	40%	50.0%	67.5%	85%
Senior Vice President	0%	32%	40.0%	65.0%	85%
Vice President	0%	32%	40.0%	65.0%	85%
Assistant Vice President	0%	26%	32.5%	60.0%	80%
Sr. Exec., Exec. and Sr. Director	0%	20%	25.0%	40.0%	50%
Director	0%	12%	15.0%	25.0%	35%
Corporate	0%	4%	5.0%	10.0%	15%

IV. PLAN SEGMENTS

For corporate personnel, the Incentive Plan consists of one segment with one target:

1. an EBDIT (defined in Section VIII A.) bonus target for the corporation

V. DISTRIBUTION

The distribution of bonuses shall be made promptly after completion of unaudited financial statements for the 1994 Fiscal Year or as may be otherwise approved by the Board of Directors. Specific provisions regarding distribution are outlined in Section VIII C, Conditions for Receiving Payment, in the Definition of Terms.

VI. ADMINISTRATION

The Plan will be administered by the Executive Committee of the Company.

VII. INTERPRETATION AND DURATION

Any areas of question, interpretation, dispute, etc., concerning any area of this plan shall be governed by the Executive Committee of the Company. The Executive Committee is defined as the Chairman, the Executive Vice President and Chief Financial Officer, and the Vice President of Administrative Services. This plan shall be effective for the fiscal year beginning October 1, 1993. The Executive Committee and the Board of Directors each retain the authority to modify, repeal or discontinue the plan.

VIII. DEFINITION OF TERMS

A. EBDIT

EBDIT is income of the Company before (1) interest expense, (2) ESOP expense, (3) depreciation and amortization, (4) provision for state and federal income taxes, (5) interest income, (6) restructuring charges, and (7) stock option expense, subject to adjustment for the following:

A significant, unexpected change in the operation of the company as a result of condemnation, major physical damage from a fire or other catastrophe, strike, governmental seizure, or disruption due to construction will result in an adjustment to income. This will avoid any penalty or windfall as a result of changes in capacity to contribute to overall parent company earnings which are not the result of the participant's ability to manage the operation. This does not include changes in Blue Cross or governmental reimbursement policies, loss of a prime admitter, expansion by another hospital, etc., which are regarded as normal business risks.

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B. Change in Accounting Policy or Practice

A material change (from the prior year) in accounting policy or practice which has an effect on the Company's EBDIT (i.e., changes in the procedures for reserving for doubtful accounts, asset sales or acquisitions, etc.) will be considered as an adjustment to EBDIT. Year end adjustments to correct prior errors or to adjust previous estimates and accruals will not be regarded as changes in policy or practice.

C. Conditions For Receiving Payment

Incentive compensation under the Incentive Plan is not an integral part of an employee's compensation package. An employee's base salary compensates the employee for the expected results of any given job. Payment of incentive compensation is in the discretion of the Executive Committee.

No incentive compensation will be paid to any employee if employment is terminated, whether voluntary or involuntary, prior to the actual payment date. However, the Executive Committee retains authority to make exceptions to the foregoing policy in

unusual or meritorious cases including, but not limited to, the death of an employee during the fiscal year or termination of employment due to total or partial disability or retirement with the consent of the Company.

If a person (eligible for the Incentive Plan) joins the Company within the first three quarters of the fiscal year, he will be eligible for the prorated amount of his bonus subject to the approval of the Executive Committee.

CHARTER MEDICAL CORPORATION
1992 STOCK OPTION PLAN
(as amended on 8/27/92, 4/1/93, 12/2/93 and 9/15/94)

1. Purpose. The purpose of the Charter Medical Corporation 1992 Stock Option Plan is to motivate and retain key employees of Charter Medical Corporation and its Subsidiaries who have major responsibility for the attainment of the primary long-term performance goals of Charter Medical Corporation.

2. Definitions. The following terms shall have the following meanings:

"Board" means the Board of Directors of the Corporation.

"Cause" means a finding by the Corporation that the Participant (i) has materially breached any material term of any employment contract between the Participant and the Corporation or any Subsidiary; (ii) is convicted by a court of competent jurisdiction of, or pleads nolo contendere to, a felony; (iii) refuses, fails or neglects to perform his employment duties as specified under any employment contract with the Corporation or any Subsidiary or as specified by his superiors or the Board, and such refusal, failure or neglect is substantially detrimental to the business of the Corporation or any Subsidiary; (iv) engages in illegal or other wrongful conduct substantially detrimental to the business or reputation of the Corporation or any Subsidiary; or (v) develops or pursues interests substantially adverse to the Corporation or any Subsidiary.

"Change in Control" means at any time following the consummation of the Restructuring (i) the sale, lease, transfer or other disposition in one or more related transactions of all or substantially all of the Corporation's assets, or the sale of substantially all of the stock or assets of the Corporation's subsidiaries that constitute a sale of substantially all of the Corporation's assets, to any person or related group of persons (including a "group" as such term is used in Section 13(d)(3) of the Exchange Act), (ii) the merger or consolidation of the Corporation with or into another corporation, or the merger of another corporation into the Corporation or any other transaction, with the effect that the stockholders of the Corporation immediately prior to such transaction hold less than 50% of the total voting power entitled to vote in the election of directors, managers or trustees of the surviving corporation resulting from such consolidation or such other transaction, (iii) any person or related group of persons acquires a majority in interest of the voting power or voting stock of the Corporation, or (iv) the liquidation or dissolution of the Corporation.

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"Code" means the Internal Revenue Code of 1986, as amended, and the rules promulgated thereunder.

"Committee" means a committee of two or more members of the Board constituted and empowered by the Board to administer the Plan in accordance with its terms.

"Contract Target EBDIT" means 100% of Target EBDIT for the Corporation's 1991 fiscal year, 80% of Target EBDIT for the Corporation's 1992 fiscal year and, for each fiscal year of the Corporation during the period commencing October 1, 1992 and ending September 30, 1995, 90% of Target EBDIT, as illustrated on Exhibit A.

"Corporation" means Charter Medical Corporation, a Delaware corporation.

"Director" means a member of the Board.

"Disability" means a physical or mental condition under which the Participant qualifies for (or will qualify for after expiration of a waiting period) disability benefits under the long-term disability plan of the Corporation or Subsidiary that employs such Participant.

"EBDIT" means earnings of the Corporation, on a consolidated basis, before depreciation and amortization, interest, taxes, ESOP expense and deferred compensation expense, expense of the Plan and provision for restructuring of operations, any gains (or losses) resulting from the early extinguishment of debt, any gains (or losses) resulting from the sale of assets other than in the ordinary course of business, and any gains (or losses) resulting from the termination of any interest rate or currency rate protection agreement, determined in accordance with generally accepted accounting principles consistently applied over the period.

"Effective Date" means the date that the Corporation's Plan of Reorganization pursuant to chapter 11 of the United States Bankruptcy Code and the rules promulgated thereunder becomes effective and the Restructuring is consummated.

"ERISA" means the Employee Retirement Income Security

Act of 1974, as amended, and the rules promulgated thereunder.

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

"Fair Market Value" means: (1) If the Stock is listed on a national securities exchange (as such term is defined by the Exchange Act) or is regularly traded in the over-the-counter market on the date of determination, the price equal to the mean between the high and low sales prices of a share of Stock on said national securities

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exchange on that day (or if no shares of the Stock are traded on that date but there were shares traded on dates within a reasonable period both before and after such date, the Fair Market Value shall be the weighted average of the means between the high and low sales prices of the Stock on the nearest date before and the nearest date after that date on which shares of the Stock are traded) or of the mean between the high "bid" and low "asked" prices per share in said over-the-counter market on that day, as reported by the National Association of Securities Dealers Automated Quotation System (or a successor to such system); (2) If the Stock is traded both on a national securities exchange and in the over-the-counter market, the Fair Market Value shall be determined by the prices on the national securities exchange, unless transactions on such exchange and in the over-the-counter market are jointly reported on a consolidated reporting system, in which case the Fair Market Value shall be determined by reference to such consolidated reporting system; (3) If the Stock is not listed for trading on a national securities exchange and is not regularly traded in the over-the-counter market, then the Committee shall determine the Fair Market Value of the Stock from time to time in its sole discretion.

"Financial Target EBDIT" means, for each fiscal year of the Corporation during the period commencing October 1, 1990 and ending September 30, 1995, 95% of Target EBDIT, as illustrated on Exhibit A. For the purpose only of determining whether Financial Target EBDIT or cumulative Financial Target EBDIT has been achieved, an amount not in excess of \$10 million will be added to EBDIT for the Corporation's 1992 fiscal year to the extent necessary in order for EBDIT for such fiscal year to equal 95% of Target EBDIT for the Corporation's 1992 fiscal year.

"Option" means a Series A Option or a Series B Option granted pursuant to Section 6.

"Participant" means an employee of the Corporation or any of its Subsidiaries who is selected to participate in the Plan in accordance with Section 4.

"Plan" means the Charter Medical Corporation 1992 Stock Option Plan.

"Restructuring" means the restructuring of the Corporation's debt and equity capitalization to be effected pursuant to the Corporation's Plan of Reorganization pursuant to chapter 11 of the Bankruptcy Code.

"Series A Options" means options to purchase shares of Stock granted pursuant to Section 6, which options shall have a per share exercise price of \$4.36 unless adjusted in accordance with the terms and provisions of this Plan.

"Series B Options" means options to purchase shares of Stock granted pursuant to Section 6, which options shall have a per share exercise price of \$9.60 unless adjusted in accordance with the terms and provisions of this Plan.

"Stock" means the common stock, par value \$0.25 per share, of the Corporation to be authorized upon consummation of the Restructuring.

"Stock Option Agreement" means the written agreement or instrument which sets forth the terms of an Option granted to a Participant under this Plan.

"Subsidiary" means any corporation, as defined in Section 7701 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, of which the Corporation, at the time, directly or indirectly, owns 50% or more of the outstanding securities having ordinary voting power to elect directors (other than securities having voting power only by reason of a contingency).

"Target EBDIT" means, for each fiscal year of the Corporation commencing October 1, 1990, the amount of EBDIT set forth for such year in Section 8, and as illustrated on Exhibit A.

3. Administration. The Plan shall be administered by the Committee. Subject to the provisions of the Plan, the Committee, acting in its absolute discretion, shall exercise such powers and take such action as expressly called for under this Plan and, further, the Committee shall have the power to interpret the Plan and (subject to Section 19 and Rule 16b-3 under the Exchange Act, if applicable) to take such other action in the administration and operation of this Plan as the Committee deems equitable under the circumstances. All actions of the Committee shall be binding on the Corporation, on each affected Participant and on each other person directly or indirectly affected by such action. Following such time as the Stock is first registered under Section 12 of the Exchange Act, no member of the Board shall serve as a member of the Committee unless such member is a "disinterested person" within the meaning of Rule 16b-3 under the Exchange Act.

4. Participation. Participants in the Plan shall be limited to those employees of the Corporation or any of its Subsidiaries who have been selected to participate in the Plan by the Committee acting in its absolute discretion.

5. Maximum Number of Shares Subject to Options. Subject to the provisions of Section 10, there shall be 3,437,939 shares of Stock reserved for use under this Plan, and such shares of Stock shall be reserved to the extent that the Committee and the Board deems appropriate from authorized but unissued shares of Stock or from shares of Stock which have been reacquired by the Corporation. Furthermore, any shares of Stock subject to any

Option which remain after the cancellation, expiration, exchange or forfeiture of such Option thereafter shall again become available for use under this Plan. All authorized and unissued

shares issued upon exercise of Options under the Plan shall be fully paid and nonassessable shares.

6. Grant of Options. The Committee, acting in its absolute discretion, shall have the right to grant Options to Participants under this Plan from time to time and, further, shall have the right to grant new Options in exchange for outstanding Options granted pursuant to this Section 6; provided, however, that the maximum number of shares of Stock issuable upon exercise of Series A Options shall not exceed 2,435,207, subject to adjustment as provided in Section 10.

7. Terms and Conditions of Options. Options granted pursuant to the Plan shall be evidenced by Stock Option Agreements in such form as the Committee from time to time shall approve and including such terms and conditions not inconsistent with the provisions set forth in the Plan as the Committee may determine; provided, that such Stock Option Agreements and the Options granted shall comply with and be subject to the following terms and conditions:

(a) Employment. Each Participant shall agree to remain in the employ of and to render services to the Corporation or a Subsidiary thereof for such period as the Committee may require in the Stock Option Agreement; provided, however, that such agreement shall not impose upon the Corporation or any Subsidiary thereof any obligation to retain the Participant in its employ for any period.

(b) Number of Shares. Each Stock Option Agreement shall state the total number of shares of Stock to which it pertains.

(c) Exercise Price. With respect to options granted prior to March 31, 1993, the exercise price per share for Series A Options shall be \$4.36, subject to adjustment as contemplated by Section 9 and 10. With respect to options granted on or after March 31, 1993, the exercise price per share for Series A Options shall be Fair Market Value of the Stock on the date of grant, but not less than \$4.36 per share, subject to adjustment as contemplated by Sections 9 and 10. The exercise price per share for Series B Options shall be \$9.60, subject to adjustment as contemplated by Sections 9 and 10.

(d) Medium and Time of Payment. The exercise price shall be payable upon the exercise of the Option, or as provided in Section 7(e) if the Corporation adopts a broker-directed cashless exercise/resale procedure, in each case in an amount equal to the number of shares then being purchased times the per share exercise price. Payment, at the election of the Participant, shall be (i) in cash; (ii) by delivery to the Corporation of a certificate or certificates for shares of Stock duly endorsed for transfer

to the Corporation with signature guaranteed by a member firm of the New York Stock Exchange or by a national banking association, (iii) by the withholding by the Corporation of shares of stock that otherwise would be issued to the Participant as a result of the exercise of such Option to the extent that the Participant elects to pay such exercise price through such withheld shares of Stock (provided, however, that any such election and withholding of shares of Stock pursuant to this clause (iii) shall be effected so as to comply with the provisions of Rule 16b-3 under the Exchange Act, if applicable), or (iv) by a combination of (i), (ii) and (iii). In the event of any payment by delivery or withholding of shares of Stock, such shares shall be valued on the basis of their Fair Market Value

determined as of the day prior to the date of delivery or withholding. If payment is made by delivery of shares of Stock, the value of such Stock may not exceed the total exercise price payment; but the preceding clause shall not prevent delivery of a stock certificate for a number of shares having a greater value, if the number of shares to be applied to payment of the exercise price is designated by the Participant and the Participant requests that a certificate for the remainder shares be delivered to the Participant.

In addition to the payment of the purchase price of the shares of Stock then being purchased, a Participant shall also, pursuant to Section 16, pay to the Corporation or otherwise provide for an amount equal to the amount, if any, which the Corporation at the time of exercise is required to withhold under the income tax withholding provisions of the Internal Revenue Code and other applicable income tax laws.

(e) Method of Exercise. All Options shall be exercised (i) by written notice directed to the Secretary of the Corporation at its principal place of business, accompanied by payment made in accordance with the foregoing subsection (d) of the option exercise price for the number of shares specified in the notice of exercise and by any documents required by Section 14, or (ii) by complying with the exercise and other provisions of any broker-directed cashless exercise/resale procedure adopted by the Corporation and approved by the Committee, and by delivery of any documents required by Section 14. The Corporation shall make delivery of such shares within a reasonable period of time or in accordance with applicable provisions of any such broker-directed cashless exercise/resale procedure; provided, however, that if any law or regulation requires the Corporation to take any action (including but not limited to the filing of a registration statement under the Securities Act of 1933 and causing such registration statement to become effective) with respect to the shares specified in such notice before their issuance, then the date of delivery of such shares shall be extended for the period necessary to take such action.

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(f) Term of Options. Except as otherwise specifically provided in the Plan or in a particular Stock Option Agreement, the terms of all Options shall commence on the date of grant and shall expire on October 1, 2000.

(g) Exercise of Options. Options are exercisable only to the extent they are vested as provided in Section 8. After Options have vested in accordance with Section 8, such Options are exercisable at any time, in whole or in part during their terms, except that Options that vest prior to December 31, 1995 shall not be exercisable after September 30, 2000. If a Participant's employment with the Corporation or any Subsidiary is terminated without Cause, the vested portion of each Option held by such Participant on the date of such termination (after giving effect to the provisions of Section 8) may be exercised for one year following the date of termination of employment, or, if such termination occurs subsequent to September 30, 1995, within six months of such termination of employment. In the event of the death, Disability or retirement at or after age 65 of a Participant, the vested portion of each Option held by such Participant on the date of such event may be exercised within six months of the date of such event.

In the event of the death of a Participant, the vested

portion of each Option previously held by such Participant may be exercised within the time set forth above by the executor or other legal representative of such Participant.

(h) Adjustments Upon Changes in Capitalization. Upon a change in capitalization pursuant to Section 10, the number of shares covered by an Option and the per share option exercise price shall be adjusted in accordance with the provisions of Section 10.

(i) Transferability. No Option shall be assignable or transferable by the Participant except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or ERISA. The designation of a beneficiary shall not constitute a transfer; and, during the lifetime of a Participant, all Options held by such Participant shall be exercisable only by him or his lawful representative in the event of his incapacity.

(j) Rights as a Stockholder. A Participant shall have no rights as a stockholder with respect to shares covered by his Option until the date of the issuance of the shares to him and only after such shares are fully paid. Unless specified in Section 10, no adjustment will be made for dividends or other rights for which the record date is prior to the date of such issuance.

(k) Miscellaneous Provisions. The Stock Option Agreements authorized under the Plan may contain such other provisions not inconsistent with the terms of this Plan as the Committee shall deem advisable.

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8. Vesting. Options granted under this Plan shall be exercisable only to the extent such Options have become vested pursuant to this Section 8.

(a) Options granted under this Plan prior to, on or within ninety (90) days following the Effective Date (1) shall become vested as follows, or (2), in the discretion of the Committee, shall become vested on terms that are no more favorable to a Participant than the following terms:

(i) 20% (or such lesser amount as the Committee may determine) of each Option shall be deemed vested on the Effective Date or date of grant, whichever is later.

(ii) 20% of each Option shall vest as of the last day of each of the fiscal years 1992 through 1995 in which the Corporation achieves 100% of cumulative Target EBDIT through such fiscal year. If cumulative Target EBDIT is achieved through a given fiscal year between the end of fiscal year 1991 through fiscal year 1995, such percentage of each Option which would have become vested had the Corporation achieved Target EBDIT for prior fiscal years shall be deemed vested as of the last day of the fiscal year in which cumulative Target EBDIT was achieved by the Corporation. Target EBDIT for each of the fiscal years 1991 through 1995 is set forth below and on Exhibit A:

Fiscal Year	Target EBDIT
1991	Actual
1992	\$222.000 million
1993	\$231.000 million
1994	\$154.692 million

(iii) 10% of each Option shall vest as of the last day of each of the fiscal years 1992 through 1995 in which the Corporation achieves exactly 100% of cumulative Financial Target EBDIT through such fiscal year. If cumulative Financial Target EBDIT is exactly achieved through a given fiscal year between the end of fiscal year 1991 through fiscal year 1995, such percentage of each Option which would have become vested had the Corporation achieved exactly 100% of Financial Target EBDIT for prior fiscal years shall be deemed vested as of the last day of the fiscal year in which cumulative Financial Target EBDIT was achieved exactly by the Corporation.

(iv) To the extent that the Corporation achieves a level of cumulative EBDIT between cumulative Target EBDIT and cumulative Financial Target EBDIT as of the end of any of the fiscal years 1992 through 1995, there

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shall be deemed to have vested as of the last day of such fiscal year such percentage of each Option as shall equal $[A - (B \times C)] - D$ where:

A equals:

the cumulative percentage of Options which would be deemed vested as of the last day of the fiscal year with respect to which this calculation is made had the Corporation achieved cumulative Target EBDIT through such date;

B equals:

(1) the difference between (a) the cumulative percentage of Options which would be deemed vested as of the last day of the fiscal year with respect to which this calculation is made had the Corporation achieved cumulative Target EBDIT through such date and (b) the cumulative percentage of Options which would be deemed vested as of the same date had the Corporation achieved exactly the cumulative Financial Target EBDIT for each of the fiscal years through such date, divided by (2) the difference between cumulative Target EBDIT through such date and cumulative Financial Target EBDIT through such date;

C equals:

the difference between cumulative Target EBDIT and cumulative EBDIT as of the last day of the fiscal year with respect to which this calculation is made; and

D equals:

the percentage of each Option which has already become vested.

(v) The unvested portion of each Option shall become fully vested in the event of a Change in Control.

(vi) The unvested portion of each Option shall terminate and be cancelled immediately upon the termination of a Participant's employment with the

Corporation or any Subsidiary for Cause.

(vii) With respect to Options granted prior to August 27, 1992, if a Participant's employment with the Corporation or any Subsidiary is terminated without Cause or upon the death, Disability or retirement at or after age 65, the unvested portion of each Option shall: (a) vest as of the date of termination of employment, death, Disability or retirement at or after

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age 65 if cumulative Contract Target EBDIT has been achieved by the Corporation through the end of the fiscal year ending most recently prior to the date of such termination of employment, death, Disability or retirement at or after age 65, or (b) terminate and be cancelled immediately upon termination of employment if cumulative Contract Target EBDIT has not been achieved by the Corporation through the end of the fiscal year ending most recently prior to the date of such termination of employment. With respect to Options granted on or after August 27, 1992, if a Participant's employment is terminated without Cause or upon the death, Disability or retirement at or after age 65, the unvested portion of each Option shall: (a) terminate and be cancelled immediately as of the date of termination of employment, death, Disability or retirement at or after age 65, or (b) vest, in whole or in part, as provided by the Committee in its discretion.

(b) Options granted under this Plan after ninety (90) days following the Effective Date shall become vested on such terms and conditions as the Committee shall determine, after consultation with the Chief Executive Officer.

9. Adjustment of Exercise Price.

In addition to adjustments made as a result of a change in the capitalization of the Corporation as provided in Section 10, the exercise price of Options shall be adjusted as follows:

(a) Change in Control. In the event of a Change in Control within three years following the Effective Date, the option exercise price per share shall be automatically reduced so as to equal the applicable percentage of the full exercise price per share set forth in the table below:

If Change in Control Occurs:	Percent of Full Exercise Price
Within twelve months of the Effective Date (Year One)	50%
First Quarter of Year Two	56.25%
Second Quarter of Year Two	62.5%
Third Quarter of Year Two	68.75%
Fourth Quarter of Year Two	75%
First Quarter of Year Three	81.25%

Second Quarter of Year Three	87.5%
Third Quarter of Year Three	93.75%
Fourth Quarter of Year Three and Thereafter	100%

(b) Termination Without Cause. With respect to Options granted prior to August 27, 1992, the exercise price of Options shall be adjusted as follows:

(i) If a Participant's employment with the Corporation or any Subsidiary is terminated without Cause, the exercise price per share of the vested portion of each Option of such Participant shall be reduced to 50% of the full exercise price if cumulative Contract Target EBDIT has been achieved by the Corporation through the end of the fiscal year ending most recently prior to the date of termination of employment of a Participant without Cause.

(ii) If cumulative Target EBDIT has been achieved by the Corporation through the end of the fiscal year ending most recently prior to the date of termination of employment of a Participant without Cause, the exercise price per share of the vested portion of each Option of such Participant shall be equal to: (a) the par value per share of shares of Stock issued from authorized but unissued shares of Stock in satisfaction of the exercise of the vested portion of such Options, and (b) \$0.10 per share for shares of Stock issued from shares of Stock held by the Corporation as treasury shares in satisfaction of the exercise of the vested portion of such Options.

(iii) If the Corporation has achieved a level of cumulative EBDIT in excess of cumulative Contract Target EBDIT through the end of the fiscal year most recently preceding the date of a Participant's termination of employment without Cause, but such cumulative EBDIT achieved

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by the Corporation does not equal or exceed cumulative Target EBDIT through such period, the percentage of the full exercise price per share of the vested percentage of each Option of such Participant shall equal the product of A and B where:

A equals:

(a) 50 divided by (b) the difference between 100% and the percentage derived by dividing cumulative Contract Target EBDIT by cumulative Target EBDIT through the end of the fiscal year with respect to which this calculation relates; and

B equals:

the difference between 100% and the percentage of cumulative Target EBDIT achieved by the Corporation through the end of the fiscal year with respect to which this calculation relates;

provided, however, that in no event shall the exercise price per share of Stock be reduced to an amount per share of less than (i) the par value per share of shares of Stock issued from authorized but unissued shares of Stock, or (ii) \$.10 per share for shares of Stock issued from shares of Stock held by the Corporation as treasury shares, in satisfaction of the exercise of the vested portion of any Option.

With respect to Options granted on or after August 27, 1992, the exercise price of Options shall not be adjusted upon termination of employment without Cause, except as may be otherwise provided by the Committee, in its discretion.

10. Change in Capitalization. If the Stock should, as a result of a stock split or stock dividend, combination of shares, recapitalization or other change in the capital structure of the Corporation or exchange of Stock for other securities by reclassification or otherwise, be increased or decreased or changed into, or exchanged for, a different number or kind of shares or other securities of the Corporation, or any other corporation, then the number of shares covered by Options, the number and kind of shares which thereafter may be distributed or issued under the Plan and the per share option price of Options shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent dilution of or increase in the rights granted to, or available for, Participants.

11. Fractional Shares. In the event that any provision of this Plan or a Stock Option Agreement would create a right to acquire a fractional share of Stock, such fractional share shall be disregarded.

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12. Successor Corporation. The obligations of the Corporation under the Plan shall be binding upon any successor corporation or organization succeeding to substantially all of the assets and business of the Corporation and shall continue to be binding upon the Corporation notwithstanding any change in ownership of the Corporation. The Corporation agrees that it will make appropriate provision for the preservation of Participants' rights under the Plan in any agreement or plan which it may enter into or adopt to effect any such transfer of assets or ownership.

13. Non-Alienation of Benefits. Except insofar as applicable law may otherwise require, (i) no Options, rights or interest of Participants or Stock deliverable to any Participant at any time under the Plan shall be subject in any manner to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge of encumbrance of any kind, and any attempt to so alienate, sell, transfer, assign, pledge, attach, charge or otherwise encumber any such amount, whether presently or thereafter payable, shall be void; and (ii), to the fullest extent permitted by law, the Plan shall in no manner be liable for, or subject to, claims, liens, attachments or other like proceedings or the debts, liabilities, contracts, engagements, or torts of any Participant or beneficiary. Nothing in this Section 13 shall prevent a Participant's rights and interests under the Plan from being transferred by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or ERISA; provided, however, that no transfer by will or by the laws of descent and distribution shall be effective to bind the Corporation unless the Committee or its designee shall have been furnished before or after the death of such Participant with a copy of such will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

14. Listing and Qualification of Shares. The Corporation, in its discretion, may postpone the issuance or delivery of shares of Stock until completion of any stock exchange listing, or other qualification or registration of such shares under any

state or federal law, rule or regulation, as the Corporation may consider appropriate, and may require any Participant to make such representations, including, but not limited to, a written representation that the shares are to be acquired for investment and not for resale or with a view to the distribution thereof, and furnish such information as it may consider appropriate in connection with the issuance or delivery of the shares in compliance with applicable laws, rules and regulations. The Corporation may cause a legend or legends to be placed on such certificates to make appropriate reference to such representation and to restrict transfer in the absence of compliance with applicable federal or state securities laws.

15. No Claim or Right Under the Plan. No employee of the Corporation or any Subsidiary shall at any time have the right to be selected as a Participant in the Plan nor, having been

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selected as a Participant and granted an Option, to be granted any additional Option. Neither the action of the Corporation in establishing the Plan, nor any action taken by it or by the Board or the Committee thereunder, nor any provision of the Plan, nor participation in the Plan, shall be construed to give, and does not give, to any person the right to be retained in the employ of the Corporation or any Subsidiary, or interfere in any way with the right of the Corporation or any Subsidiary to discharge or terminate any person at any time without regard to the effect such discharge or termination may have upon such person's rights, if any, under the Plan.

16. Taxes. The Corporation may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all federal, state, local and other taxes required by law to be withheld with respect to Options under the Plan, including, but not limited to, (i) deducting the amount required to be withheld from salary or any other amount then or thereafter payable to a Participant, beneficiary or legal representative, (ii) requiring a Participant, beneficiary or legal representative to pay to the Corporation the amount required to be withheld as a condition of releasing the Stock or (iii) complying with applicable provisions of any broker-directed cashless exercise/resale procedure adopted by the Corporation pursuant to Section 7(e). If, in the exercise of an Option, the Corporation requires payment pursuant to (ii), then, to the extent permitted by the Corporation in its discretion, payment may be made in any medium provided for in subsection (d) of Section 7. The Committee also shall have the right to provide in any Stock Option Agreement that a Participant may elect to satisfy federal and state withholding requirements through a reduction in the number of shares of Stock actually transferred to such Participant under this Plan and, if applicable, any such election and any such reduction shall be effected so as to satisfy the conditions of Rule 16b-3 under the Exchange Act.

17. No Liability of Directors. No member of the Board or Committee shall be personally liable by reason of any contract or other instrument executed by such member on his behalf in his capacity as a member of the Board or Committee, nor for any mistake of judgment made in good faith, and the Corporation shall indemnify and hold harmless each employee, officer and Director of the Corporation, to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Plan to the fullest extent permitted or required by the Corporation's governing instruments and, in addition, to the fullest extent of any applicable

insurance policy purchased by the Corporation.

18. Other Plans. Nothing contained in the Plan is intended to amend, modify or rescind any previously approved compensation plans or programs entered into by the Corporation or its

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Subsidiaries. The Plan shall be construed to be in addition to any and all such plans or programs. No award of Options under the Plan shall be construed as compensation under any other executive compensation or employee benefit plan of the Corporation or any of its Subsidiaries, except as specifically provided in any such plan or as otherwise provided by the Committee. The adoption of the Plan by the Board shall not be construed as creating any limitations on the power or authority of the Board to adopt such additional compensation or incentive arrangements as the Board may deem necessary or desirable.

19. Amendment or Termination. This Plan may be amended by the Board from time to time to the extent that the Board deems necessary or appropriate; provided, however, no such amendment shall be made absent the approval of the stockholders of the Corporation: (1) if stockholder approval of such amendment is required for continued compliance with Rule 16b-3 of the Exchange Act, or (2) if stockholder approval of such amendment is required by any other applicable laws or regulations or by the rules of the American Stock Exchange as long as the Stock is listed for trading on such Exchange. The Committee also may suspend the granting of Options under this Plan at any time and may terminate this Plan at any time; provided, however, the Corporation shall not have the right initially to modify, amend or cancel any Option granted before such suspension or termination unless (1) the Participant consents in writing to such modification, amendment or cancellation or (2) there is a dissolution or liquidation of the Corporation or a transaction described in Section 10 of this Plan or (3) there is a Change in Control.

20. Captions. The captions preceding the sections of the Plan have been inserted solely as a matter of convenience and shall not, in any manner, define or limit the scope or intent of any provisions of the Plan.

21. Governing Law. The Plan and all rights thereunder shall be governed by, and construed in accordance with, the laws of the State of Georgia, without reference to the principles of conflicts of law thereof.

22. Expenses. All expenses of administering the Plan shall be borne by the Corporation.

23. Effective Date. The Plan shall be effective as of the Effective Date following its adoption by the Board, provided that the stockholders of the Corporation shall approve this Plan after the date of its adoption in accordance with the requirements of Rule 16b-3 under the Exchange Act at a meeting of stockholders to be held prior to the Effective Date.

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ANNEX I

1992 STOCK OPTION PLAN - EXHIBIT A

Fiscal Year	Target EBDIT	Cumulative Target EBDIT	Financial Target EBDIT	Cumulative Financial Target EBDIT	Contract Target EBDIT	Cumulative Target EBDIT
1991	216	216	205.2	205.2	216	216
1992	222	438	210.9	416.1	177.6	393.6
1993	231	669	219.5	635.6	207.9	601.5
1994	154.692	--	--	--	--	--
1995	255	--	--	--	--	--

NOTE: All EBDIT figures are in millions.

CHARTER MEDICAL CORPORATION
 DIRECTORS' STOCK OPTION PLAN
 (as amended on December 15, 1993 and September 15, 1994)

1. Purpose. The Charter Medical Corporation Directors' Stock Option Plan (the "Plan") is intended as an incentive and as a means of encouraging stock ownership by non-employee members of the Board of Directors of Charter Medical Corporation (the "Company").

2. Administration.

(a) The Plan shall be administered, construed and interpreted by the Compensation Committee (the "Committee") of the Board of Directors. During any time that the Board of Directors does not have a Compensation Committee, the duties of the Committee under the Plan shall be performed by the Board of Directors.

(b) The interpretation and construction by the Committee of any provision of the Plan, any option granted under it or any Stock Option Agreement and any determination by the Committee, pursuant to any provision of the Plan, any such option or any provisions of a Stock Option Agreement, shall be final and conclusive. The terms and conditions of each individual Stock Option Agreement shall be in accordance with the provisions of the Plan, but the Committee may provide for such additional terms and conditions, not in conflict with the provisions of the Plan, as it deems advisable.

3. Eligibility. Members of the Board of Directors who are not employees of the Company or any subsidiary shall be granted options under and pursuant to the terms of the Plan.

4. Stock. The stock subject to the options and other provisions of the Plan shall be authorized but unissued or reacquired shares of the \$.25 par value Common Stock of the Company (the "Common Stock"). Subject to readjustment in accordance with the provisions of Section 6(h), the total amount of Common Stock on which options may be granted to Directors under the Plan shall not exceed in the aggregate 175,000 shares.

If any outstanding option (or portion thereof) under the Plan for any reason expires unexercised or is terminated without exercise prior to the end of the period during which options may be granted, the shares of Common Stock allocable to the unexercised portion of such option again may be subjected to an option under the Plan.

5. Grant of Options. Each eligible Director shall be granted on the later of February 4, 1993, or the date he or she first becomes a Director an option to purchase 25,000 shares of Common Stock, for so long as shares are available under the Plan, but no option shall be granted after February 4, 1998. Options granted shall be subject to the vesting and other terms and conditions of the Plan and each optionee's Stock Option Agreement.

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6. Terms and Conditions of Options. Stock options granted pursuant to the Plan shall be evidenced by Stock Option Agreements in such form as the Committee from time to time shall approve; such agreements and the stock options granted thereby shall comply with and be subject to the following terms and conditions:

(a) Number of Shares. Each Stock Option Agreement shall state the total number of shares of Common Stock to which it pertains.

(b) Exercise Price. The exercise price per share shall be the arithmetic average of the Fair Market Value per share of the Common Stock on the ten trading days that precede the date of grant, including the date of grant as the tenth trading day, on which shares of the Common Stock are traded.

(c) Medium and Time of Payment. The exercise price shall be payable upon the exercise of the option, or as provided in Section 6(f) if the Company adopts a broker-directed cashless exercise/resale procedure, in each case in an amount equal to the number of shares then being purchased times the per share

exercise price. Payment at the election of the optionee, shall be (i) in cash; (ii) by delivery to the Company of a certificate or certificates for shares of Common Stock, duly endorsed for transfer to the Company with signature guaranteed by a member firm of the New York Stock Exchange or by a national banking association; (iii) by the withholding by the Company of shares of stock that otherwise would be issued to the optionee as a result of the exercise of such option to the extent that the optionee elects to pay such exercise price through such withheld shares of Common Stock (provided, however, that any such election and withholding of shares pursuant to this clause (iii) shall be effected so as to comply with the provisions of Rule 16b-3 under the Securities Exchange Act of 1934, if applicable); or (iv) by a combination of (i), (ii) and (iii). In the event of any payment by delivery or withholding of shares of Common Stock, such shares shall be valued on the basis of their Fair Market Value determined as of the day prior to the date of delivery or withholding. If payment is made by delivery of shares of Common Stock, the value of such shares may not exceed the total exercise price payment; but the preceding clause shall not prevent delivery of a stock certificate for a number of shares having a greater value, if the number of shares to be applied to payment of the exercise price is designated by the optionee and the optionee requests that a certificate for the remainder shares be delivered to the optionee.

In addition to the payment of the purchase price of the shares then being purchased, an optionee shall also, pursuant to Section 12, pay to the Company or otherwise provide for an amount equal to the amount, if any, which the Company at the time of exercise is required to withhold under the income tax withholding provisions of the Internal Revenue Code and other applicable income tax laws.

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(d) Fair Market Value. For purposes of Sections 6(b) and (c), Fair Market Value of Common Stock shall be determined on the applicable date as follows. If the Common Stock is registered on a national securities exchange (as such term is defined by the Securities Exchange Act of 1934) or is regularly traded in the over-the-counter market on the date of determination, the Fair Market Value per share of the Common Stock shall be determined as the price equal to the mean between the high and low sales prices of a share of the Common Stock on said national securities exchange on that day [or, for purposes of Section 6(c), if no shares of the stock are traded on that date but there were shares traded on dates within a reasonable period both before and after such date, the Fair Market Value shall be the weighted average of the means between the high and low sales prices of the stock on the nearest date before and the nearest date after that date on which shares of the stock are traded] or of the mean between the high "bid" and low "asked" prices per share in said over-the-counter market on that day, as reported by the National Association of Securities Dealers Automated Quotation System (or a successor to such system). If the Common Stock is traded on two national securities exchanges, the Fair Market Value shall be determined by the weighted average Fair Market Value on such exchanges unless one of such exchanges is the American Stock Exchanges in which case Fair Market Value shall be determined by prices on that exchange. If the Common Stock is traded both on a national securities exchange and in the over-the-counter market, the Fair Market Value shall be determined by the prices on the national securities exchange, unless transactions on such exchange and in the over-the-counter market are jointly reported on a consolidated reporting system in which case the Fair Market Value shall be determined by reference to such consolidated

reporting system. If the Common Stock is not listed for trading on a national securities exchange and is not regularly traded in the over-the-counter market, then the Committee shall determine the Fair Market Value of the stock from all relevant available facts which may include opinions of independent experts as to value and may take into account any recent sales and purchases of such stock to the extent they are representative.

(e) Terms of Options; Date of Exercise. Terms of options granted under the Plan shall commence on the date of grant and shall expire on February 3, 2003, subject to Section 6(g). Each option shall become exercisable when vested.

(f) Method of Exercise. Options shall be exercised (i) by written notice directed to the Secretary of the Company at its principal place of business, accompanied by payment [made in accordance with Section 6(c)], in cash or personal check (which will be accepted subject to collection), or by certificates for shares of the Common Stock, or by directions for withholding of shares, or by a combination of the foregoing, of the option price for the number of shares specified in the notice of exercise and by any documents required by Section 6(j), or (ii) by complying with the exercise and other provisions of any broker-directed cashless exercise/resale procedure adopted by the Company and approved by the Committee, and by

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delivery of any documents required by Section 6(j). The Company shall make delivery of such shares within a reasonable period of time or in accordance with applicable provisions of any such broker-directed cashless exercise/resale procedure; provided, however, that if any law or regulation requires the Company to take any action (including but not limited to the filing of a registration statement under the Securities Act of 1933 and causing such registration statement to become effective) with respect to the shares specified in such notice before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to take such action.

(g) Effect of Termination of Service as a Director. If an optionee during his life ceases to be a non-employee Director of the Company (including its subsidiaries) due to voluntary resignation as a Director, voluntary decision not to stand for reelection or removal as a Director by the stockholders for cause, then the unvested portion of any option shall terminate on the earlier to occur of (i) the expiration date of the option, or (ii) the date of termination of service as a non-employee Director. If an optionee ceases to be a Director for any other reason, the unvested portion of options shall vest on the date of termination of service and may thereafter be exercised in accordance with their terms. In the event of the death of the optionee while he is a non-employee Director of the Company or after termination of such service, the vested portion any option may be exercised by his personal representatives, heirs or legatees at any time prior to the expiration of six months from the date of death of the optionee, but in no event later than the date of expiration of the option.

(h) Adjustments Upon Changes in Capitalization. If the Common Stock should, as a result of a stock split or stock divided, combination of shares, recapitalization or other change in the capital structure of the company or exchange of Common Stock for other securities by reclassification or otherwise, be increased or decreased or changed into, or exchanged for, a different number or kind of shares of other securities of the Company, or any other corporation, then the number of shares covered by options, the number and kind of shares which thereafter may be distributed or issued under the Plan and the per share option price of options shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent dilution of or increase

in the rights granted to, or available for, optionees.

(i) Who May Exercise. No option shall be assignable or transferable by the optionee except by will or by the laws of descent and distribution; and, during the lifetime of an optionee, the option shall be exercisable only by him.

(j) Optionee's Agreement. If, in the opinion of counsel for the Company, such action is necessary or desirable, no option shall be granted to any optionee unless at such time such optionee represents and warrants that the stock will be acquired for investment only and not for purposes of resale or distribution and makes such further representation and

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warranties as are deemed necessary or desirable by counsel to the Company with regard to holding and resale of the stock. If at the time of the exercise of any option, in the opinion of counsel for the Company, it is necessary or desirable, in order to comply with any applicable laws or regulations relating to the sale of securities, that the optionee shall represent and warrant that he is purchasing the shares that are subject to the option for investment and not with any present intention to resell or distribute the same or make other and further representations and warranties with regard to the holding and resale of the shares, the optionee, upon the request of the Committee, will execute and deliver to the Company an agreement or affidavit to such effect. All certificates issued pursuant to the exercise of any option shall be marked with a restrictive legend, if such marking, in the opinion of counsel to the Company, is necessary or desirable.

(k) Rights as a Stockholder. An optionee shall have no rights as a stockholder with respect to shares covered by his option until the date of the issuance of the shares to him and only after such shares are fully paid. Unless specified in Section 6(h), no adjustment will be made for dividends or other rights for which the record date is prior to the date of such issuance.

(l) Vesting. The right to purchase 20% of the shares of Common Stock covered by an option shall vest on the date of grant. An additional 20% of the shares of Common Stock covered by an option shall vest on the February 1st next following the date of grant and on each succeeding February 1st until fully vested, provided that the optionee must be a non-employee Director of the Company on a February 1st in order for options to vest on such February 1st.

(m) Miscellaneous Provisions. The Stock Option Agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the option as the Committee shall deem advisable.

7. Effective Date and Termination of Plan.

(a) The Plan shall become effective upon adoption by the Board of Directors of the Company, provided the Plan is approved by the holders of a majority of the shares of Common Stock voting on the matter at an annual or special meeting of stockholders held within twelve months of adoption by the Board of Directors.

(b) The Plan, with respect to the granting of options, shall terminate at midnight on February 4, 1998, but the Board of Directors may terminate the Plan at any time prior to said time and date. Such termination of the Plan by the Board of Directors shall not alter or impair any of the rights or obligations under any option theretofore granted under the Plan unless the affected optionee shall so consent.

8. Fractional Shares. If any provision of this Plan or a Stock Option Agreement would create a right to acquire a fractional share, such fractional share shall be disregarded.

9. Successor Corporation. The obligations of the Company under the Plan shall be binding upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company and shall continue to be binding upon the Company notwithstanding any change in ownership of the Company. The Company agrees that it will make appropriate provision for the preservation of optionees' rights under the Plan in any agreement or plan which it may enter into or adopt to effect any such transfer of assets or ownership.

10. Non-Alienation of Benefits. Except insofar as applicable law may otherwise require, (i) no options, rights or interest of optionees or Common Stock deliverable to any optionee at any time under the Plan shall be subject in any manner to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge of encumbrance of any kind, and any attempt to so alienate, sell, transfer, assign, pledge, attach, charge or otherwise encumber any such amount, whether presently or thereafter payable, shall be void; and (ii), to the fullest extent permitted by law, the Plan shall in no manner be liable for, or subject to, claims, liens, attachments or other like proceedings or the debts, liabilities, contracts, engagements, or torts of any optionee. Nothing in this Section 10 shall prevent a optionee's rights and interests under the Plan from being transferred by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or ERISA; provided, however, that no transfer by will or by the laws of descent and distribution shall be effective to bind the Company unless the Committee or its designee shall have been furnished before or after the death of such optionee with a copy of such will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

11. Listing and Qualification of Shares. The Company, in its discretion, may postpone the issuance or delivery of shares of Common Stock until completion of any stock exchange listing, or other qualification or registration of such shares under any state or federal law, rule or regulation, as the Company may consider appropriate, and may require any optionee to furnish such information as it may consider appropriate in connection with the issuance or delivery of the shares in compliance with applicable laws, rules and regulations.

12. Taxes. The Company may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all federal, state, local and other taxes required by law to be withheld with respect to options under the Plan, including, but not limited to, (i) deducting the amount required to be withheld from any amount then or thereafter payable to an optionee, beneficiary or legal representative, (ii) requiring an optionee, beneficiary or legal representative to pay to the Company the amount required to be withheld as a condition of releasing shares, or (iii) complying with applicable provisions of any broker-directed cashless exercise/resale

procedure adopted by the Company pursuant to Section 6(f). If, in the exercise of an Option, the Company requires payment pursuant to (ii),

then, to the extent permitted by the Company in its discretion, payment may be made in any medium provided for in subsection (d) of Section 6.

13. No Liability of Directors. No member of the Board or the Committee shall be personally liable by reason of any contract or other instrument executed by such member on his behalf in his capacity as a member of the Board or Committee, nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each employee, officer and Director of the Company, to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Plan to the fullest extent permitted or required by the Company's governing instruments and, in addition, to the fullest extent of any applicable insurance policy purchased by the Company.

14. Amendment. This Plan may be amended by the Board from time to time to the extent that the Board deems necessary or appropriate; provided, however, no such amendment shall be made absent the approval of the stockholders of the Company: (1) if stockholder approval of such amendment is required for continued compliance with Rule 16b-3 of the Securities Exchange Act, or (2) if stockholder approval of such amendment is required by any other applicable laws or regulations or by the rules of the American Stock Exchange as long as the Common Stock is listed for trading on such Exchange. The Committee also may suspend the granting of options under this Plan at any time; provided, however, the Company shall not have the right initially to modify, amend or cancel any option granted before such suspension unless (1) the optionee consents in writing to such modification, amendment or cancellation or (2) there is a dissolution or liquidation of the Company or a transaction described in Section 6(h) of this Plan.

15. Captions. The captions preceding the sections of the Plan have been inserted solely as a matter of convenience and shall not, in any manner, define or limit the scope or intent of any provisions of the Plan.

16. Governing Law. The Plan and all rights thereunder shall be governed by, and construed in accordance with, the laws of the State of Georgia, without reference to the principles of conflicts of law thereof.

17. Expenses. All expenses of administering the Plan shall be borne by the Company.

CHARTER MEDICAL CORPORATION
1994 STOCK OPTION PLAN
(as amended 9/15/94)

1. Purpose. The purpose of the Charter Medical Corporation 1994 Stock Option Plan is to motivate and retain officers and other key employees of Charter Medical Corporation and its Subsidiaries who have major responsibility for the attainment of the primary long-term performance goals of Charter Medical Corporation.

2. Definitions. The following terms shall have the following meanings:

"Board" means the Board of Directors of the Corporation.

"Code" means the Internal Revenue Code of 1986, as amended, and the rules promulgated thereunder.

"Committee" means a committee of two or more members of the Board constituted and empowered by the Board to administer the Plan in accordance with its terms.

"Corporation" means Charter Medical Corporation, a Delaware corporation.

"Director" means a member of the Board.

"Disability" means a physical or mental condition under which the Participant qualifies for (or will qualify for after expiration of a waiting period) disability benefits under the long-term disability plan of the Corporation or Subsidiary that employs such Participant.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules promulgated thereunder.

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

"Fair Market Value" means: (1) If the Stock is listed on a national securities exchange (as such term is defined by the Exchange Act) or is traded on the Nasdaq National Market System on the date of determination, the price equal to the mean between the high and low sales prices of a share of Stock on said national securities exchange or on said Nasdaq National Market System on that day (or if no shares of the Stock are traded on that date but there were shares traded on dates within a reasonable period both before and after such date, the Fair Market Value shall be the weighted average of the means between the high and low sales prices of the Stock on the nearest date before and the nearest date

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after that date on which shares of the Stock are traded); (2) If the Stock is traded both on a national securities exchange and in the over-the-counter market, the Fair Market Value shall be determined by the prices on the national securities exchange; and (3) If the Stock is not listed for trading on a national securities exchange and is not traded on the Nasdaq National Market System or otherwise in the over-the-counter market, then the Committee shall determine the Fair Market Value of the Stock from time to time in its sole discretion.

"Option" means an Option granted pursuant to Section 6.

"Participant" means an employee of the Corporation or any of its Subsidiaries who is selected to participate in the Plan in accordance with Section 4.

"Plan" means the Charter Medical Corporation 1994 Stock Option Plan.

"Stock" means the common stock, par value \$0.25 per share, of the Corporation.

"Stock Option Agreement" means the written agreement or

instrument which sets forth the terms of an Option granted to a Participant under this Plan.

"Subsidiary" means any corporation, as defined in Section 7701 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, of which the Corporation, at the time, directly or indirectly, owns 50% or more of the outstanding securities having ordinary voting power to elect directors (other than securities having voting power only by reason of a contingency).

3. Administration. The Plan shall be administered by the Committee. Subject to the provisions of the Plan, the Committee, acting in its absolute discretion, shall exercise such powers and take such action as expressly called for under this Plan and, further, the Committee shall have the power to interpret the Plan, to determine the terms of each Stock Option Agreement (subject to the provisions of the Plan) and (subject to Section 18 and Rule 16b-3 under the Exchange Act, if applicable) to take such other action in the administration and operation of this Plan as the Committee deems equitable under the circumstances. All actions of the Committee shall be binding on the Corporation, on each affected Participant and on each other person directly or indirectly affected by such action. No member of the Board shall serve as a member of the Committee unless such member is a "disinterested person" within the meaning of Rule 16b-3 under the Exchange Act. The Committee shall have the right to delegate to the chief executive officer of the Corporation the authority to select Participants and to grant Options (except to any person subject to Section 16 of the Exchange Act), subject to any review, approval, or notification required by the Committee or as may otherwise be required by law.

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4. Participation. Participants in the Plan shall be limited to those officers and employees of the Corporation or any of its Subsidiaries who have been selected to participate in the Plan by the Committee acting in its absolute discretion.

5. Maximum Number of Shares Subject to Options. Subject to the provisions of Section 9, there shall be 1,300,000 shares of Stock reserved for use under this Plan, and such shares of Stock shall be reserved to the extent that the Committee and the Board deems appropriate from authorized but unissued shares of Stock or from shares of Stock which have been reacquired by the Corporation. Any shares of Stock subject to any Option which remain after the cancellation, expiration, exchange or forfeiture of such Option thereafter shall again become available for use under this Plan. All authorized and unissued shares issued upon exercise of Options under the Plan shall be fully paid and nonassessable shares.

6. Grant of Options. The Committee, acting in its absolute discretion, shall have the right to grant Options to Participants under this Plan from time to time; provided, however, that the maximum number of shares of Stock issuable upon exercise of Options shall not exceed 1,300,000, subject to adjustment as provided in Section 9. No Option shall be granted after December 31, 1996. The maximum number of Options that are granted to any Participant shall not exceed 150,000, subject to adjustment as provided in Section 9.

7. Terms and Conditions of Options. Options granted pursuant to the Plan shall be evidenced by Stock Option Agreements in such form as the Committee from time to time shall approve and including such terms and conditions not inconsistent with the provisions set forth in the Plan as the Committee may determine; provided, that such Stock Option Agreements and the Options granted shall comply with and be subject to the following

terms and conditions:

(a) Employment. Each Participant shall agree to remain in the employ of and to render services to the Corporation or a Subsidiary thereof for such period as the Committee may require in the Stock Option Agreement; provided, however, that such agreement shall not impose upon the Corporation or any Subsidiary thereof any obligation to retain the Participant in its employ for any period.

(b) Number of Shares. Each Stock Option Agreement shall state the total number of shares of Stock to which it pertains.

(c) Exercise Price. The exercise price per share for Options shall be Fair Market Value of the Stock on the date of grant, subject to adjustment as contemplated by Section 9.

(d) Medium and Time of Payment. The exercise price shall be payable upon the exercise of the Option, or as

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provided in Section 7(e) if the Corporation adopts a broker-directed cashless exercise/resale procedure, in each case in an amount equal to the number of shares then being purchased times the per share exercise price. Payment shall be in cash; except that the Corporation, in its sole discretion, may permit payment by delivery to the Corporation of a certificate or certificates for shares of Stock duly endorsed for transfer to the Corporation with signature guaranteed by a member firm of the New York Stock Exchange or by a national banking association. In the event of any payment by delivery of shares of Stock, such shares shall be valued on the basis of their Fair Market Value determined as of the day prior to the date of delivery. If payment is made by delivery of shares of Stock, the value of such Stock may not exceed the total exercise price payment; but the preceding clause shall not prevent delivery of a stock certificate for a number of shares having a greater value, if the number of shares to be applied to payment of the exercise price is designated by the Participant and the Participant requests that a certificate for the remainder shares be delivered to the Participant.

In addition to the payment of the purchase price of the shares of Stock then being purchased, a Participant shall also, pursuant to Section 15, pay to the Corporation or otherwise provide for payment of an amount equal to the amount, if any, which the Corporation at the time of exercise is required to withhold under the income tax withholding provisions of the Code and other applicable income tax laws.

(e) Method of Exercise. All Options shall be exercised (i) by written notice directed to the Secretary of the Corporation at its principal place of business, accompanied by payment made in accordance with the foregoing subsection (d) of the option exercise price for the number of shares specified in the notice of exercise and by any documents required by Section 13, or (ii) by complying with the exercise and other provisions of any broker-directed cashless exercise/resale procedure adopted by the Corporation and approved by the Committee, and by delivery of any documents required by Section 13. The Corporation shall make delivery of such shares within a reasonable period of time or in accordance with applicable provisions of any such broker-directed cashless exercise/resale procedure; provided, however, that if any law or regulation

requires the Corporation to take any action (including but not limited to the filing of a registration statement under the Securities Act of 1933 and causing such registration statement to become effective) with respect to the shares specified in such notice before their issuance, then the date of delivery of such shares shall be extended for the period necessary to take such action.

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(f) Term of Options. Except as otherwise specifically provided in the Plan, the terms of all Options shall commence on the date of grant and shall expire ten years after the date of grant.

(g) Exercise of Options. Options are exercisable only to the extent they are vested as provided in Section 8. After Options have vested in accordance with Section 8, such Options are exercisable at any time, in whole or in part during their terms if the Participant is at the time of exercise employed by the Company or a Subsidiary. If a Participant's employment with the Corporation or any Subsidiary is terminated for any reason other than death or disability, the vested portion of each Option held by such Participant on the date of such termination may be exercised for 90 days following the date of termination of employment (but not after expiration of the term of the option). In the event of the death or Disability of a Participant, the vested portion of each Option held by such Participant on the date of such event may be exercised within twelve months of the date of such event (but not after the expiration of the term of the option).

In the event of the death of a Participant, the vested portion of each Option previously held by such Participant may be exercised within the time set forth above by the executor, other legal representative or, if none, the heir or legatee of such Participant.

(h) Adjustments Upon Changes in Capitalization. Upon a change in capitalization pursuant to Section 9, the number of shares covered by an Option and the per share option exercise price shall be adjusted in accordance with the provisions of Section 9.

(i) Transferability. No Option shall be assignable or transferable by the Participant except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or ERISA. The designation of a beneficiary shall not constitute a transfer; and, during the lifetime of a Participant, all Options held by such Participant shall be exercisable only by him or his lawful representative in the event of his incapacity.

(j) Rights as a Stockholder. A Participant shall have no rights as a stockholder with respect to shares covered by his Option until the date of the issuance of the shares to him and only after such shares are fully paid. Unless specified in Section 9, no adjustment will be made for dividends or other rights for which the record date is prior to the date of such issuance.

(k) Miscellaneous Provisions. The Stock Option Agreements authorized under the Plan may contain such other provisions not inconsistent with the terms of this Plan as the Committee shall deem advisable.

8. Vesting. Options granted under this Plan shall be exercisable only to the extent such Options have become vested pursuant to this Section 8. An Option shall vest at the rate of 33-1/3% of the shares covered by the Option on each of the first three anniversary dates of the grant of the Option if the Participant is an employee of the Company or a Subsidiary on such dates.

9. Change in Capitalization. If the Stock should, as a result of a stock split or stock dividend, combination of shares, recapitalization or other change in the capital structure of the Corporation or exchange of Stock for other securities by reclassification or otherwise, be increased or decreased or changed into, or exchanged for, a different number or kind of shares or other securities of the Corporation, or any other corporation, then the number of shares covered by Options, the number and kind of shares which thereafter may be distributed or issued under the Plan and the per share option price of Options shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent dilution of or increase in the rights granted to, or available for, Participants.

10. Fractional Shares. In the event that any provision of this Plan or a Stock Option Agreement would create a right to acquire a fractional share of Stock, such fractional share shall be disregarded.

11. Successor Corporation. If the Company is merged or consolidated with another corporation or other legal entity and the Company is not the surviving corporation or legal entity, or in the event all or substantially all of the property or common stock of the Company is acquired by another corporation or legal entity, or in case of a dissolution, reorganization or liquidation of the Company, the Board of Directors of the Company, or the board of directors or governing body of any corporation or other legal entity assuming the obligations of the Company hereunder, shall either: (i) make appropriate provision for the preservation of Participants' rights under the Plan in any agreement or plan it may enter into or adopt to effect any of the foregoing transactions; or (ii) upon written notice to each Participant, provide that all Options, whether or not vested, may be exercised within thirty days of the date of such notice and if not so exercised, shall be terminated.

12. Non-Alienation of Benefits. Except insofar as applicable law may otherwise require, (i) no Options, rights or interest of Participants or Stock deliverable to any Participant at any time under the Plan shall be subject in any manner to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge of encumbrance of any kind, and any attempt to so alienate, sell, transfer, assign, pledge, attach, charge or otherwise encumber any such amount, whether presently or thereafter payable, shall be void; and (ii), to the fullest extent permitted by law, the Plan shall in no manner be liable for, or subject to, claims, liens, attachments

or other like proceedings or the debts, liabilities, contracts, engagements, or torts of any Participant or beneficiary. Nothing in this Section 12 shall prevent a Participant's rights and interests under the Plan from being transferred by will or by the laws of descent and distribution or pursuant to a qualified

domestic relations order as defined by the Code or ERISA; provided, however, that no transfer by will or by the laws of descent and distribution shall be effective to bind the Corporation unless the Committee or its designee shall have been furnished before or after the death of such Participant with a copy of such will or such other evidence as the Committee may deem necessary to establish the validity of the transfer.

13. Listing and Qualification of Shares. The Corporation, in its discretion, may postpone the issuance or delivery of shares of Stock until completion of any stock exchange listing, or other qualification or registration of such shares under any state or federal law, rule or regulation, as the Corporation may consider appropriate, and may require any Participant to make such representations, including, but not limited to, a written representation that the shares are to be acquired for investment and not for resale or with a view to the distribution thereof, and furnish such information as it may consider appropriate in connection with the issuance or delivery of the shares in compliance with applicable laws, rules and regulations. The Corporation may cause a legend or legends to be placed on such certificates to make appropriate reference to such representation and to restrict transfer in the absence of compliance with applicable federal or state securities laws.

14. No Claim or Right Under the Plan. No employee of the Corporation or any Subsidiary shall at any time have the right to be selected as a Participant in the Plan nor, having been selected as a Participant and granted an Option, to be granted any additional Option. Neither the action of the Corporation in establishing the Plan, nor any action taken by it or by the Board or the Committee thereunder, nor any provision of the Plan, nor participation in the Plan, shall be construed to give, and does not give, to any person the right to be retained in the employ of the Corporation or any Subsidiary, or interfere in any way with the right of the Corporation or any Subsidiary to discharge or terminate any person at any time without regard to the effect such discharge or termination may have upon such person's rights, if any, under the Plan.

15. Taxes. The Corporation may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all federal, state, local and other taxes required by law to be withheld with respect to Options under the Plan, including, but not limited to, (i) deducting the amount required to be withheld from salary or any other amount then or thereafter payable to a Participant, beneficiary or legal representative, (ii) requiring a Participant, beneficiary or legal representative to pay to the Corporation the amount required to be withheld as a condition of releasing the Stock, or (iii) complying with applicable provisions of any broker-directed cashless

exercise/resale procedure adopted by the Corporation pursuant to Section 7(e).

16. No Liability of Directors. No member of the Board or Committee shall be personally liable by reason of any contract or other instrument executed by such member on his behalf in his capacity as a member of the Board or Committee, nor for any mistake of judgment made in good faith, and the Corporation shall indemnify and hold harmless each employee, officer and Director of the Corporation, to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Plan to the fullest extent permitted or required by the Corporation's governing instruments

and, in addition, to the fullest extent of any applicable insurance policy purchased by the Corporation.

17. Other Plans. Nothing contained in the Plan is intended to amend, modify or rescind any previously approved compensation plans or programs entered into by the Corporation or its Subsidiaries. The Plan shall be construed to be in addition to any and all such plans or programs. No award of Options under the Plan shall be construed as compensation under any other executive compensation or employee benefit plan of the Corporation or any of its Subsidiaries, except as specifically provided in any such plan or as otherwise provided by the Committee. The adoption of the Plan by the Board shall not be construed as creating any limitations on the power or authority of the Board to adopt such additional compensation or incentive arrangements as the Board may deem necessary or desirable.

18. Amendment or Termination. This Plan may be amended by the Board from time to time to the extent that the Board deems necessary or appropriate; provided, however, no such amendment shall be made absent the approval of the stockholders of the Corporation: (1) if stockholder approval of such amendment is required for continued compliance with Rule 16b-3 of the Exchange Act, or (2) if stockholder approval of such amendment is required by any other applicable laws or regulations or by the rules of any stock exchange as long as the Stock is listed for trading on such exchange. The Committee also may suspend the granting of Options under this Plan at any time and may terminate this Plan at any time; provided, however, the Corporation shall not have the right to modify, amend or cancel any Option granted before such suspension or termination unless (1) the Participant consents in writing to such modification, amendment or cancellation or (2) there is a dissolution or liquidation of the Corporation or a transaction described in Section 11 of this Plan.

19. Captions. The captions preceding the sections of the Plan have been inserted solely as a matter of convenience and shall not, in any manner, define or limit the scope or intent of any provisions of the Plan.

20. Governing Law. The Plan and all rights thereunder shall be governed by, and construed in accordance with, the laws of the State of Georgia, without reference to the principles of conflicts of law thereof.

21. Expenses. All expenses of administering the Plan shall be borne by the Corporation.

22. Effective Date. The Plan shall be effective as of the date of its adoption by the Board, subject to approval of this Plan by the stockholders of the Corporation after the date of its adoption in accordance with the requirements of Rule 16b-3 under the Exchange Act.

EXECUTIVE BENEFIT PLAN

Plan Year

The Plan Year for Executive Benefits is January 1 to December 31, and benefit levels will be based upon salary. Changes in benefit selections will be permitted annually, during the enrollment period.

FLEX Benefits

Participants may choose among tax-sheltered options to create a benefit package of the greatest value.

The amount of the FLEX Allowance is equal to 11% of base salary as of January 1.

It is important to note that to preserve the tax-favored status of benefits within the Execu-FLEX Benefit Plan, the FLEX Allowance cannot be distributed in cash under current tax law.

The calculations of benefit costs are estimated. Final calculations will be shown on Summary of Elections which will be sent to participants approximately 90 days after the enrollment period.

Individual Long-Term Disability Coverage

Overview. Using tax-sheltered FLEX dollars, a participant can purchase a personal disability insurance policy with provisions designed especially for the needs of executives, including a much greater benefit and more liberal definition

of disability.

Amount of benefit. Up to the carrier maximum.

Term of benefit. Benefits are paid until age 65, unless a participant becomes disabled after age 61:

Total Disability Beginning	Benefit Period
At age 62	42 months
At age 63	36 months
At age 64	30 months
At age 65	24 months
At age 66	21 months
At age 67	18 months
At age 68	15 months
At age 69 or older	12 months

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Waiting period. Benefits commence after a 180-day waiting period.

Definition of disability. Inability to perform the duties of the participant's occupation.

Benefit offsets. Benefits are not reduced by Social Security or any other disability income payments.

Partial disability. If partially disabled, benefits are paid for loss of earnings to age 65. All income earned prior to disability will be considered when determining the percentage of income which is lost.

Policy renewal. The policy is non-cancelable and guaranteed renewable.

Portability. Participants own the disability insurance policy and may continue it if the participants leave Charter.

Benefit increases. Coverage will increase automatically each year for five years regardless of health condition. The annual increase will match actual percentage increases in income not to exceed 15%, to a maximum total benefit of \$15,000 per month.

Optional provisions. The following coverages may be added to the individual long-term disability policy at an additional charge:

- Inflation adjustment
- Lifetime accident
- Premium refund

Group benefit is discontinued.

Tax status. Premiums for this benefit are charged against tax-sheltered FLEX dollars, and any benefits received will be subject to income tax.

However, a participant may pay some or all of the premiums with after-tax dollars to receive a tax-free benefit. The IRS considers the proportion of premiums contributed after-tax to the total of premiums paid during the prior year in determining the percentage of benefit sheltered; i.e., executive pays 60% of premium via payroll deduction, 60% of benefits received are tax free.

Evidence of insurability. FLEX disability coverage is subject to medical evidence of insurability, and a physical exam will be scheduled with a health care professional selected by the insurance company.

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Integration of coverage. The individual disability policy will integrate with any existing individual disability policies.

Benefit charge. The FLEX account will be charged with the annual cost of the coverage selected. The annual cost will increase at approximately the same percentage amount per year for the first five years as coverage automatically increases.

Supplemental Survivor Plan

Overview. A participant may allocate a portion of FLEX benefit dollars to the Supplemental Survivor Plan, for additional life insurance coverage both pre- and post-retirement. Charter will assist with the purchase of a permanent insurance policy by advancing premiums for a ten-year period. This benefit option is in addition to Charter-provided Benefits Plus Plan and the Executive Survivor insurance.

Amount of benefit. A participant may elect life insurance coverage of up to four times plan entry salary over and above the Basic and Executive survivor benefits. Insurance coverage is selected in whole multiples of salary.

Benefit increases. The benefit will not increase each year with compensation. Coverage will increase or decrease based upon the financial performance of the investment funds selected.

Type of insurance. This benefit is provided through a specially-selected variable universal life insurance policy.

Investment choices. The participant directs the investment of the premium deposits among portfolios within the insurance policy plus a Real Property Account and fixed-rate option. The participant may move the money within the portfolios up to four times per year without charge.

Charter sponsorship. To assist with the purchase of this benefit, Charter will deposit premiums, as an advance, into the life insurance contract for ten years. Upon retirement or at the end of 15 years, whichever is later, funds will be withdrawn and/or borrowed from the cash value of the policy to repay Charter's advances. The participant will retain ownership of the policy.

Post-Retirement Death Benefit. The amount and duration of the policy's post-retirement death benefit depend upon the amount of cash value retained in the policy after Charter withdraws its premium advances.

Early policy distribution. A participant may request an early release of the policy when the cash value equals the cumulative premium advances.

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Split Dollar insurance. The insurance is provided on a Split Dollar basis. In this case, the participant will legally own the policy. Cash accumulation value equal to Charter's deposits will be legally assigned to Charter and will be paid either from proceeds at death, or from cash values upon retirement (or at the end of 15 years, if later).

Termination of employment. The Supplemental Survivor policy is portable, and the participant may elect to continue it upon leaving Charter by repaying Charter its premium advances and making future premium payments.

After-tax contributions. Based on IRS rules, the participant will make after-tax contributions through payroll deductions in equal installments. By using Split Dollar, the lowest possible rates for valuing this benefit are used when calculating payments.

Evidence of insurability. Supplemental Survivor coverage is subject to medical evidence of insurability.

Benefit charge. The charge to the tax-sheltered FLEX Allowance is for the Time Value of Money (TVM) multiplied by Charter's cumulative outstanding advances. The current TVM is 3%.

Spouse Survivor Benefits

Overview. The participant may allocate a portion of the participant's tax-sheltered FLEX Allowance to the Spouse Survivor Benefit to purchase life insurance coverage on the participant's spouse.

Amount of benefit. The participant may elect either \$50,000 or \$100,000 of insurance coverage.

Charter sponsorship. To assist with the purchase of this benefit, Charter will deposit premiums, as an advance, into the life insurance contract for ten years.

Benefit increases. The amount of benefit does not change over time.

Type of insurance. This benefit is provided through a specially selected universal life insurance policy.

Split Dollar insurance. The insurance is provided on a Split Dollar basis. The participant legally owns the policy. Cash accumulation value equal to Charter deposits will be assigned to Charter and will be paid either from proceeds at death or from cash values at the end of 12 years.

Policy distribution. At the end of the twelfth year, the participant will withdraw and/or borrow funds from the cash value of the policy to repay Charter's advances.

Termination of employment. A spouse's policy is portable. If a participant leaves Charter before the end of 12 years, a participant may continue the policy by repaying Charter for its premium advances and by personally making future premium payments.

After-tax contributions. Based on IRS rules, a participant will make after-tax contributions through payroll deductions in equal installments. By using Split Dollar, the lowest

possible rates for valuing this benefit are used when calculating payments.

Evidence of insurability. The Spouse Survivor Benefit is subject to medical evidence of insurability.

Benefit charge. The charge to a tax-sheltered FLEX Allowance is for the Time Value of Money (TVM) multiplied by Charter's cumulative outstanding advances. The current TVM is 3%.

Executive Retirement Benefits - Annual Incentive Match

Overview. As of January 1, 1994 each Annual Incentive plan award will be matched by a 33 1/3% contribution by Charter.

Tax status. Credits to and earnings on the Annual Incentive match are tax-sheltered until the vesting date. Upon vesting, a benefit equal to the account balance will be distributed, and the participant will owe income taxes on the full amount.

Vesting. A participant may elect a vesting date from one of three options.

- Two years
- Mid-term date (more than two years but less than specified retirement date)
- Specified retirement date

Once a participant selects a mid-term date and/or specified retirement, all future deposits will be limited to two years or the previously-selected mid-term and retirement dates. One year prior to a selected mid-term date, a participant will have the opportunity to elect a new mid-term vesting date.

The vesting date will be the earliest of the following dates:

- Date elected
- Death
- Termination as a result of disability

- Involuntary termination without cause

Or in the case of any other termination, whether voluntary or terminated with cause:

- Twenty-four months following any other termination, provided the participant fulfills the terms of the noncompetition agreement

Substantial risk of forfeiture. The Annual Incentive Match is subject to a substantial risk of forfeiture in the form of a non-competition agreement. The non-competition agreement stipulates that the participant will not work for a competitor in the same or similar job duties for a period of 24 months as described in the agreement.

Employer insolvency. If Charter becomes insolvent, the participant will be an unsecured creditor and will have no preferred claim to any assets. However, a special trust is being implemented to safeguard assets informally funding the

Annual Incentive Match benefits from any other contingencies such as change in control of Charter.

Method of investment. A participant may elect from several investment funds within a mutual fund family. The interest credited will be equal the total investment returns on your selected funds, less any applicable loads and charges as described in the fund(s) prospectus.

Timing of deposits. Deposits will be made annually in January based on the previous year's incentive award.

FLEX Retirement Benefits - Capital Accumulation Account

Overview. The Capital Accumulation Account is a tax-sheltered opportunity to build net worth on a medium- or long-term basis. It is designed to be an effective means of supplementing retirement income from other sources.

This account is subject to the same elective vesting rules, the Substantial Risk of Forfeiture, and the risk of Employer insolvency as the Annual Incentive Match. A participant may elect the same or a different vesting date for a Capital Accumulation Account.

Timing of credits. FLEX Fund dollars allocated to the Capital Accumulation Account will be credited annually in April 1994.

Benefit charge. Tax-sheltered FLEX Allowance dollars are used to pay for this benefit should the participant elect it.

Exhibit 21

CHARTER MEDICAL CORPORATION
 SUBSIDIARY CORPORATIONS
 September 30, 1994

The following corporations are all of the direct or indirect subsidiary corporations of Charter Medical Corporation, a Delaware corporation. Charter Medical Corporation directly or indirectly owns all of the outstanding voting securities of such subsidiaries except where noted.

Name of Corporation:	State or Jurisdiction Of Incorporation
Ambulatory Resources, Inc.	Georgia
Subsidiaries:	
Gwinnett Immediate Care Center, Inc.	Georgia
Holcomb Bridge Immediate Care Center, Inc.	Georgia
Atlanta MOB, Inc.	Georgia
Beltway Community Hospital, Inc.	Texas
C.A.C.O. Services, Inc.	Ohio
CCM, Inc. (1)	Nevada
Charter of Alabama, Inc.	Alabama
Charter Alvarado Behavioral Health System, Inc.	California
Charter Appalachian Hall Behavioral Health System, Inc.	North Carolina
Charter Arbor Indy Behavioral Health System, Inc.	Indiana
Charter Augusta Behavioral Health System, Inc.	Georgia
Charter Bay Harbor Behavioral Health System, Inc.	Florida
Charter Beacon Behavioral Health System, Inc.	Indiana
Charter Behavioral Health System of Athens, Inc.	Georgia
Charter Behavioral Health Systems of Atlanta, Inc.	Georgia
Charter Behavioral Health System of Austin, Inc.	Texas
Charter Behavioral Health System of Baywood, Inc.	Texas
Charter Behavioral Health System of Bradenton, Inc.	Florida
Subsidiary:	
Charter Behavioral Health System at Manatee Palms Therapeutic Group Home, Inc.	Florida
Charter Behavioral Health System of Canoga Park, Inc.	California
Charter Behavioral Health System of Central Georgia, Inc.	Georgia
Charter Behavioral Health System of Charleston, Inc.	South Carolina
Charter Behavioral Health System of Charlottesville, Inc.	Virginia
Charter Behavioral Health System of Chicago, Inc.	Illinois
Charter Behavioral Health System of Chula Vista, Inc.	California
Charter Behavioral Health System of Columbia, Inc.	Missouri
Charter Behavioral Health System of Corpus Christi, Inc.	Texas
Charter Behavioral Health System of Dallas, Inc.	Texas
Charter Behavioral Health System of Evansville, Inc.	Indiana
Charter Behavioral Health System at Fair Oaks, Inc.	New Jersey
Charter Behavioral Health System of Fort Worth, Inc.	Texas
Charter Behavioral Health System at Hidden Brook, Inc.	Maryland

Name of Corporation:	State or Jurisdiction Of Incorporation
Charter Behavioral Health System of Jackson, Inc.	Mississippi
Subsidiary:	
Charter Behavioral Health System of Mississippi, Inc.	Mississippi
Charter Behavioral Health System of Jacksonville, Inc.	Florida
Charter Behavioral Health System of Jefferson, Inc.	Indiana
Charter Behavioral Health System of Kansas City, Inc.	Kansas
Charter Behavioral Health System of Lafayette, Inc.	Louisiana
Charter Behavioral Health System of Lake Charles, Inc.	Louisiana
Charter Behavioral Health System of Lakewood, Inc.	California

Charter Behavioral Health System at Los Altos, Inc.	California
Charter Behavioral Health System of Michigan City, Inc.	Indiana
Charter Behavioral Health System of Mobile, Inc.	Alabama
Charter Behavioral Health System of Nashua, Inc.	New Hampshire
Charter Behavioral Health System of Nevada, Inc.	Nevada
Charter Behavioral Health System of New Mexico, Inc.	New Mexico
Charter Behavioral Health System of Northwest Arkansas, Inc.	Arkansas
Charter Behavioral Health System of Northwest Indiana, Inc.	Indiana
Charter Behavioral Health System of Paducah, Inc.	Kentucky
Charter Behavioral Health System at Potomac Ridge, Inc.	Maryland
Charter Behavioral Health System of Rockford, Inc.	Illinois
Charter Behavioral Health System of San Jose, Inc.	California
Charter Behavioral Health System of Southern California, Inc.	California
Charter Behavioral Health System of Tampa Bay, Inc.	Florida
Subsidiary:	
Tampa Bay Behavioral Health Alliance, Inc.	Florida
Charter Behavioral Health System of Texarkana, Inc.	Arkansas
Charter Behavioral Health System of Toledo, Inc.	Ohio
Charter Behavioral Health System of Tucson, Inc.	Arizona
Charter Behavioral Health System of Virginia Beach, Inc.	Virginia
Charter Behavioral Health System of Visalia, Inc.	California
Charter Behavioral Health System at Warwick Manor, Inc.	Maryland
Charter Behavioral Health System of Waverly, Inc.	Minnesota
Charter Behavioral Health System of Winston-Salem, Inc.	North Carolina
Charter Behavioral Health System of Yorba Linda, Inc.	California
Charter Brawner Behavioral Health System, Inc.	Georgia
Subsidiary:	
Charter Behavioral Health System of Savannah, Inc.	Georgia
Charter-By-The Sea Behavioral Health System, Inc.	Georgia
Charter Canyon Behavioral Health System, Inc.	Utah
Charter Canyon Springs Behavioral Health System, Inc.	California
Charter Centennial Peaks Behavioral Health System, Inc.	Colorado
Charter Colonial Institute, Inc.	Virginia
Charter Community Hospital, Inc.	California
Charter Community Hospital of Des Moines, Inc.	Iowa
Charter Contract Services, Inc.	Georgia
Charter Cove Forge Behavioral Health System, Inc.	Pennsylvania
Charter Crescent Pines Behavioral Health System, Inc.	Georgia
Charter Fairbridge Behavioral Health System, Inc.	Maryland

Name of Corporation:	State or Jurisdiction Of Incorporation
Charter Fairmount Behavioral Health System, Inc.	Pennsylvania
Charter Fenwick Hall Behavioral Health System, Inc.	South Carolina
Charter Financial Offices, Inc.	Georgia
Charter Forest Behavioral Health System, Inc.	Louisiana
Charter Grapevine Behavioral Health System, Inc.	Texas
Charter Greensboro Behavioral Health System, Inc.	North Carolina
Charter Health Management of Texas, Inc.	Texas
Charter Hospital of Columbus, Inc.	Ohio
Charter Hospital of Denver, Inc.	Colorado
Charter Hospital of Ft. Collins, Inc.	Colorado
Charter Hospital of Laredo, Inc.	Texas
Charter Hospital of Mobile, Inc.	Alabama
Charter Hospital of Northern New Jersey, Inc.	New Jersey
Charter Hospital of Santa Teresa, Inc.	New Mexico
Charter Hospital of St. Louis, Inc.	Missouri
Subsidiary:	
Charter Hospital of Miami, Inc.	Florida
Charter Hospital of Torrance, Inc.	California
Charter Indianapolis Behavioral Health System, Inc.	Indiana
Charter Lafayette Behavioral Health System, Inc.	Indiana
Charter Lakehurst Behavioral Health System, Inc.	New Jersey
Charter Lakeside Behavioral Health System, Inc.	Tennessee
Charter Laurel Heights Behavioral Health System, Inc.	Georgia
Charter Laurel Oaks Behavioral Health System, Inc.	Florida

Charter Linden Oaks Behavioral Health System, Inc.	Illinois
Charter Little Rock Behavioral Health System, Inc.	Arkansas
Charter Louisville Behavioral Health System, Inc.	Kentucky
Charter Meadows Behavioral Health System, Inc.	Maryland
Charter Medfield Behavioral Health System, Inc.	Florida
Charter Medical - California, Inc.	Georgia
Subsidiary:	
Charter Behavioral Health System of Northern California, Inc.	California
Charter Medical (Cayman Islands) Ltd.	Cayman Islands
Charter Medical - Clayton County, Inc.	Georgia
Charter Medical - Cleveland, Inc.	Texas
Subsidiaries:	
Charter Regional Medical Center, Inc.	Texas
Charter Medical - Dallas, Inc.	Texas
Charter Medical of East Valley, Inc.	Arizona
Charter Medical Executive Corporation	Georgia
Charter Medical of England Limited	United Kingdom
Charter Medical of Florida, Inc.	Florida
Charter Medical Information Services, Inc.	Georgia
Charter Medical International, Inc.	Cayman Islands
Charter Medical International, S.A., Inc.	Nevada
Subsidiary:	
Societe Anonyme De La Metairie	Switzerland
Charter Medical - Long Beach, Inc.	California
Charter Medical Management Company	Georgia

Name of Corporation:	State or Jurisdiction Of Incorporation
Charter Medical - New York, Inc.	New York
Charter Medical of North Phoenix, Inc.	Arizona
Charter Medical of Orange County, Inc.	Florida
Charter Medical of Puerto Rico, Inc.	Commonwealth of Puerto Rico
Charter Mental Health Options, Inc.	Florida
Charter Mid-South Behavioral Health System, Inc.	Tennessee
Charter Milwaukee Behavioral Health System, Inc.	Wisconsin
Charter Mission Viejo Behavioral Health System, Inc.	California
Charter MOB of Charlottesville, Inc.	Virginia
Charter North Behavioral Health System, Inc.	Alaska
Charter North Counseling Center, Inc.	Alaska
Charter Northbrooke Behavioral Health System, Inc.	Wisconsin
Charter Northridge Behavioral Health System, Inc.	North Carolina
Charter Northside Hospital, Inc.	Georgia
Charter Oak Behavioral Health System, Inc.	California
Charter Palms Behavioral Health System, Inc.	Texas
Charter Peachford Behavioral Health System, Inc.	Georgia
Charter Pines Behavioral Health System, Inc.	North Carolina
Charter Plains Behavioral Health System, Inc.	Texas
Charter - Provo School, Inc.	Utah
Charter Psychiatric Hospitals, Inc.	Delaware
Charter Real Behavioral Health System, Inc.	Texas
Charter Richmond Behavioral Health System, Inc.	Virginia
Charter Ridge Behavioral Health System, Inc.	Kentucky
Charter Rivers Behavioral Health System, Inc.	South Carolina
Charter San Diego Behavioral Health System, Inc.	California
Charter Serenity Lodge Behavioral Health System, Inc.	Virginia
Charter Sioux Falls Behavioral Health System, Inc.	South Dakota
Charter South Bend Behavioral Health System, Inc.	Indiana
Charter Springs Behavioral Health System, Inc.	Florida
Charter Springwood Behavioral Health System, Inc.	Virginia
Charter Suburban Hospital of Mesquite, Inc.	Texas
Charter Terre Haute Behavioral Health System, Inc.	Indiana
Charter Thousand Oaks Behavioral Health System, Inc.	California
Charter Tidewater Behavioral Health System, Inc.	Virginia
Charterton/LaGrange, Inc.	Kentucky
Charter Treatment Center Of Michigan, Inc.	Michigan
Charter Westbrook Behavioral Health System, Inc.	Virginia
Subsidiary:	

CPS Associates, Inc.	Virginia
Charter White Oak Behavioral Health System, Inc.	Maryland
Charter Wichita Behavioral Health System, Inc.	Kansas
Charter Woods Behavioral Health System, Inc.	Alabama
Subsidiary:	
Charter Woods Hospital, Inc.	Alabama
CMSF, Inc.	Florida
Desert Springs Hospital, Inc.	Nevada
Subsidiary:	
CMCI, Inc.	Nevada
CMFC, Inc.	Nevada

Name of Corporation:	State or Jurisdiction Of Incorporation
Employee Assistance Services, Inc.	Georgia
Florida Health Facilities, Inc.	Florida
Golden Isle Assurance Company Ltd.	Bermuda
Group Practice Affiliates, Inc.	Delaware
Subsidiaries:	
GPA NovaPsy Clinic, Inc.	Virginia
GPA Management of Virginia, Inc. (2)	Virginia
GPA Pennsylvania, Inc.	Pennsylvania
Gulf Coast EAP Services, Inc.	Alabama
HCS, Inc.	Georgia
Hospital Investors, Inc.	Georgia
Mandarin Meadows, Inc.	Florida
Metroplex Behavioral Healthcare Services, Inc.	Texas
Metropolitan Hospital, Inc.	Georgia
Middle Georgia Hospital, Inc.	Georgia
NEPA - Massachusetts, Inc.	Massachusetts
NEPA - New Hampshire, Inc.	New Hampshire
Pacific - Charter Medical, Inc.	California
Subsidiary:	
Charter Behavioral Health System of the Inland Empire, Inc.	California
Peachford Professional Network, Inc.	Georgia
Plymouth Insurance Company, Ltd.	Bermuda
Rivoli, Inc.	Georgia
Schizophrenia Treatment and Rehabilitation, Inc.	Georgia
Shallowford Community Hospital, Inc.	Georgia
Sistemas De Terapia Respiratoria S.A., Inc.	Georgia
Strategic Advantage, Inc.	Minnesota
Stuart Circle Hospital Corporation	Virginia
Western Behavioral Systems, Inc.	California

- (1) 50% owned by Charter Medical Corporation; 50% owned by CMCI, Inc., a subsidiary of Desert Springs Hospital, Inc.
- (2) 90% owned by Group Practice Affiliates, Inc.

CONSENT OF INDEPENDENT ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated December 2, 1994, for Charter Medical Corporation (and to all references to our firm) included in this Form 10-K into the previously filed registration statements on Form S-8 (File Nos. 33-57210 and 33-62542).

/s/ Arthur Andersen LLP

Atlanta, Georgia
December 8, 1994

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