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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(MARK ONE)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 1-6639

MAGELLAN HEALTH SERVICES, INC.

(Exact name of Registrant as specified in its charter)

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

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

(Zip Code)

(404) 841-9200

(Registrant's telephone number, including area code)

SEE TABLE OF ADDITIONAL REGISTRANTS BELOW.

NOT APPLICABLE

(Former name, former address and former fiscal year,

if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No____

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

The number of shares of the Registrant's Common Stock outstanding as of July 31, 1997, was 28,970,003.

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
Behavioral Heath Systems of Indiana, Inc.	Indiana	35-1990127	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
Blue Grass Physician Management Group, Inc.	Kentucky	66-1294402	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
C.A.C.O. Services, Inc.	Ohio	58-1751511	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
CCM, Inc.	Nevada	58-1662418	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
CMCI, Inc.	Nevada	88-0224620	1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
CMFC, Inc.	Nevada	88-0215629	1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
CMSF, Inc.	Florida	58-1324269	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
CPS Associates, Inc.	Virginia	58-1761039	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Alvarado Behavioral Health System, Inc.	California	58-1394959	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Asheville Behavioral Health System, Inc.	North Carolina	58-2097827	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Arbor Indy Behavioral Health System, LLC	Delaware	58-2265776	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Augusta Behavioral Health System, Inc.	Georgia	58-1615676	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Bay Harbor Behavioral Health System, Inc.	Florida	58-1640244	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
The Charter Beacon Behavioral Health System, LLC	Delaware	35-1994155	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Corporation	Nevada	91-1819015	1061 E. Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
Charter Behavioral Health System at Fair Oaks, Inc.	New Jersey	58-2097832	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Behavioral Health System at Hidden Brook, Inc.	Maryland	52-1866212	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Los Altos, Inc.	California	33-0606642	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Manatee Adolescent Treatment Services, Inc.	Florida	65-0519663	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Potomac Ridge, Inc.	Maryland	52-1866221	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health Systems, Inc.	Delaware	58-2213642	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Athens, Inc.	Georgia	58-1513304	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Austin, Inc.	Texas	58-1440665	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Baywood, Inc.	Texas	76-0430571	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Behavioral Health System of Bradenton, Inc.	Florida	58-1527678	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326

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			(404) 841-9200
Charter Behavioral Health System of Central Georgia, Inc.	Georgia	58-1408670	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavorial Health System of Central Virginia, Inc.	Virginia	54-1765921	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Charleston, Inc.	South Carolina	58-1761157	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Charlottesville, Inc.	Virginia	58-1616917	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Chicago, Inc.	Illinois	58-1315760	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Chula Vista, Inc.	California	58-1473063	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Columbia, Inc.	Missouri	61-1009977	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Behavioral Health System of Corpus Christi, Inc.	Texas	58-1513305	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Dallas, Inc.	Texas	58-1513306	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Delmarva, Inc.	Maryland	52-1866214	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Behavioral Health System of Evansville, LLC.	Delaware	35-1994080	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Fort Worth, Inc.	Texas	58-1643151	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Jackson, Inc.	Mississippi	58-1616919	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Jacksonville, Inc.	Florida	58-1483015	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Behavioral Health System of Jefferson, LLC.	Delaware	35-1994087	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326

(404) 841-9200

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Charter Behavioral Health System of Kansas City, Inc.....	Kansas	58-1603154	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Lafayette, Inc.....	Louisiana	72-0686492	302 Dulles Drive Lafayette, LA 70506 (318) 233-9024
Charter Behavioral Health System of Lake Charles, Inc.....	Louisiana	62-1152811	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System..... of Maryland, Inc.	Maryland	52-2026699	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Behavioral Health System of Michigan City, LLC.....	Delaware	35-1994736	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Mississippi, Inc.....	Mississippi	58-2138622	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Mobile, Inc.....	Alabama	58-1569921	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Nashua, Inc.....	New Hampshire	02-0470752	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Behavioral Health System of Nevada, Inc.....	Nevada	58-1321317	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of New Mexico, Inc.....	New Mexico	58-1479480	5901 Zuni Road, SE Albuquerque, NM 87108 (505) 265-8800
Charter Behavioral Health System of North Carolina, Inc.....	North Carolina	56-1908581	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Northern California, Inc.....	California	58-1857277	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Northwest Arkansas, Inc.....	Arkansas	58-1449455	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326

			(404) 841-9200
The Charter Behavioral Health System of Northwest Indiana, LLC.....	Delaware	35-1994154	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Paducah, Inc.....	Kentucky	61-1006115	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health of Puerto Rico, Inc.....	Georgia	66-0523678	Caso Bldg., Suite 1504 1225 Ponce de Leon Avenue Santurce, PR 00907

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Charter Behavioral Health System of San Jose, Inc.....	California	58-1747020	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Savannah, Inc.....	Georgia	58-1750583	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Texarkana, Inc.....	Arkansas	71-0752815	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of the Inland Empire, Inc.....	California	95-2685883	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Toledo, Inc.....	Ohio	58-1731068	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Tucson, Inc.....	Arizona	86-0757462	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Visalia, Inc.....	California	33-0606644	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Waverly, Inc.....	Minnesota	41-1775626	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Behavioral Health System of Winston-Salem, Inc.....	North Carolina	56-1050502	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Yorba Linda, Inc.....	California	33-0606646	3414 Peachtree Rd., N.E. Suite 1400

			Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health Systems of Atlanta, Inc.	Georgia	58-1900736	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Talbott Behavioral Health System, Inc.	Georgia	58-0979827	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter By-The-Sea Behavioral Health System, Inc.	Georgia	58-1351301	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Call Center, Inc.	Georgia	58-2318455	2151 Peachford Road Atlanta, GA 30338
Charter Call Center of Texas, Inc.	Texas	75-2709908	920 South Main Street Suite 250 Grapevine, TX 76051
Charter Canyon Behavioral Health System, Inc.	Utah	58-1557925	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Canyon Springs Behavioral Health System, Inc.	California	33-0606640	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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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 Community Hospital, Inc.	California	58-1398708	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Contract Services, Inc.	Georgia	58-2100699	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Cove Forge Behavioral Health System, Inc.	Pennsylvania	25-1730464	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Fairmount Behavioral Health System, Inc.	Pennsylvania	58-1616921	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Fenwick Hall Behavioral Health System, Inc.	South Carolina	57-0995766	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Financial Offices, Inc.	Georgia	58-1527680	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Forest Behavioral Health System, Inc.	Louisiana	58-1508454	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Franchise Services, LLC	Delaware	58-2292977	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Grapevine Behavioral Health System, Inc.	Texas	58-1818492	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Greensboro Behavioral Health System, Inc.	North Carolina	58-1335184	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Health Management of Texas, Inc.	Texas	58-2025056	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Columbus, Inc.	Ohio	58-1598899	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Denver, Inc.	Colorado	58-1662413	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Ft. Collins, Inc.	Colorado	58-1768534	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Laredo, Inc.	Texas	58-1491620	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Hospital of Miami, Inc.	Florida	61-1061599	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Mobile, Inc.	Alabama	58-1318870	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Santa Teresa, Inc.	New Mexico	58-1584861	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of St. Louis, Inc.	Missouri	58-1583760	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Torrance, Inc.	California	58-1402481	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Indiana BHS Holding, Inc.	Indiana	58-2247985	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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The Charter Indianapolis Behavioral Health System, LLC	Delaware	35-1994923	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Lafayette Behavioral Health System, LLC	Delaware	35-1994151	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Lakehurst Behavioral Health System, Inc	New Jersey	22-3286879	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Lakeside Behavioral Health Network, Inc	Tennessee	Applied for	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Lakeside Behavioral Health System, Inc	Tennessee	62-0892645	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Laurel Heights Behavioral Health System, Inc	Georgia	58-1558212	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Linden Oaks Behavioral Health System, Inc	Illinois	36-3943776	852 West Street Naperville, IL 60540 (708) 305-5500
Charter Little Rock Behavioral Health System, Inc	Arkansas	58-1747019	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Louisiana Behavioral Health System, Inc	Louisiana	72-1319231	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Louisville Behavioral Health System, Inc	Kentucky	58-1517503	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Managed Care Services, LLC	Georgia	58-2324879	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Meadows Behavioral Health System, Inc	Maryland	52-1866216	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical--California, Inc	Georgia	58-1357345	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326

			(404) 841-9200
Charter Medical--Clayton County, Inc.	Georgia	58-1579404	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical--Cleveland, Inc.	Texas	58-1448733	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical--Long Beach, Inc.	California	58-1366604	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical--New York, Inc.	New York	58-1761153	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical (Cayman Islands) Ltd.	Cayman Islands, BWI	58-1841857	Caledonian Bank & Trust Swiss Bank Building Caledonian House Georgetown-Grand Cayman Cayman Islands (809) 949-0050

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Charter Medical Information Services, Inc.	Georgia	58-1530236	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical International, Inc.	Cayman Islands, BWI	N/A	Caledonian Bank & Trust Swiss Bank Building Caledonian House Georgetown-Grand Cayman Cayman Islands (809) 949-0050
Charter Medical International, S.A., Inc.	Nevada	58-1605110	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Managed Care Sales and Services, Inc.	Georgia	58-1195352	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of East Valley, Inc.	Arizona	58-1643158	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of England Limited.	United Kingdom	N/A	111 Kings Road Box 323 London SW3 4PB London, England 44-71-351-1272
Charter Medical of 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	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

	STATE OR OTHER	I.R.S.	ADDRESS INCLUDING ZIP CODE, AND TELEPHONE NUMBER

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Charter Medical of Puerto Rico, Inc.	Commonwealth of Puerto Rico	58-1208667	Caso Building, Suite 1504 1225 Ponce De Leon Avenue Santurce, P.R. 00907 (809) 723-8666
Charter Milwaukee Behavioral Health System, Inc.	Wisconsin	58-1790135	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Mission Viejo Behavioral Health System, Inc.	California	58-1761156	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter MOB of Charlottesville, Inc.	Virginia	58-1761158	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
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, AK 99508-2996 (907) 258-7575
Charter Northridge Behavioral Health System, Inc.	North Carolina	58-1463919	400 Newton Road Raleigh, NC 27615 (919) 847-0008
Charter Oak Behavioral Health System, Inc.	California	58-1334120	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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 of Alabama, Inc.	Alabama	63-0649546	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Palms Behavioral Health System, Inc.	Texas	58-1416537	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Peachford Behavioral Health System, Inc.	Georgia	58-1086165	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Pines Behavioral Health System, Inc.	North Carolina	58-1462214	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Plains Behavioral Health System, Inc.	Texas	58-1462211	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter-Provo School, Inc.	Utah	58-1647690	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Real Behavioral Health			

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
System, Inc.	Texas	58-1485897	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Ridge Behavioral Health System, Inc.	Kentucky	58-1393063	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Rivers Behavioral Health System, Inc.	South Carolina	58-1408623	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200

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 Rockford Behavioral Health System, Inc.	Delaware	51-0374617	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter San Diego Behavioral Health System, Inc.	California	58-1669160	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Sioux Falls Behavioral Health System, Inc.	South Dakota	58-1674278	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter South Bend Behavioral Health System, LLC.	Delaware	35-1994307	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Springs Behavioral Health System, Inc.	Florida	58-1517461	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Springwood Behavioral Health System, Inc.	Virginia	58-2097829	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Suburban Hospital of Mesquite, Inc.	Texas	75-1161721	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter System, LLC.	Nevada	91-1819015	1061 E. Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282

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The Charter Terre Haute Behavioral Health System, LLC.	Delaware	35-1994308	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Thousand Oaks Behavioral Health System, Inc.	California	58-1731069	3414 Peachtree Rd., N.E. Suite 1400

			Atlanta, GA 30326 (404) 841-9200
Charter Westbrook Behavioral Health System, Inc.	Virginia	54-0858777	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter White Oak Behavioral Health System, Inc.	Maryland	52-1866223	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Wichita Behavioral Health System, Inc.	Kansas	58-1634296	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Woods Behavioral Health System, Inc.	Alabama	58-1330526	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Correctional Behavioral Solutions, Inc.	Delaware	58-2180940	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Correctional Behavioral Solutions of Indiana, Inc.	Indiana	35-1978792	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Correctional Behavioral Solutions of New Jersey, Inc.	New Jersey	22-3436964	3000 Atrium Way Suite 410 Mount Laurel, NJ (609) 235-2339
Correctional Behavioral Solutions of Ohio, Inc.	Ohio	34-1826431	Allen Correctional Institute 2338 North West Street Lima, OH 45801 (419) 224-8000
Desert Springs Hospital, Inc.	Nevada	88-0117696	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Employee Assistance Services, Inc.	Georgia	58-1501282	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Florida Health Facilities, Inc.	Florida	58-1860493	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Gulf Coast EAP Services, Inc.	Alabama	58-2101394	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Hospital Investors, Inc.	Georgia	58-1182191	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Illinois Mentor, Inc.	Illinois	36-3643670	313 Congress St. Boston, MA 02210 (617) 790-4800
Magellan Executive Corporation	Georgia	58-2310891	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Magellan Public Solutions, Inc.	Delaware	58-2227841	222 Berkley Street Boston, MA 02117 (617) 437-6400

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Mandarin Meadows, Inc.	Florida	58-1761155	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Magellan Public Network, Inc.	Delaware	51-0374654	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Magellan Public Solutions of Ohio, Inc.	Ohio	Applied for	222 Berkley Street Boston, MA 02117 (617) 437-6400
Massachusetts Mentor, Inc.	Massachusetts	04-2799071	313 Congress St. Boston, MA 02210 (617) 790-4800
Metroplex Behavioral Healthcare Services, Inc.	Texas	58-2138596	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
National Mentor, Inc.	Delaware	04-3250732	313 Congress St. Boston, MA 02210 (617) 790-4800
National Mentor Healthcare, Inc.	Massachusetts	04-2893910	313 Congress St. Boston, MA 02210 (617) 790-4800
NEPA--Massachusetts, Inc.	Massachusetts	58-2116751	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
NEPA--New Hampshire, Inc.	New Hampshire	58-2116398	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Nevada Behavioral Services, Inc.	Nevada	Applied for	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Ohio Mentor, Inc.	Ohio	31-1098345	313 Congress St. Boston, MA 02210 (617) 790-4800
Pacific-Charter Medical, Inc.	California	58-1336537	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
South Carolina Mentor, Inc.	South Carolina	57-0782160	313 Congress St. Boston, MA 02210 (617) 790-4800
Southeast Behavioral Systems, Inc.	Georgia	58-2100700	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Schizophrenia Treatment and Rehabilitation, Inc.	Georgia	58-1672912	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Sistemas De Terapia Respiratoria, S.A., Inc.	Georgia	58-1181077	3414 Peachtree Rd., N.E. Suite 1400

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

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

FORM 10-Q

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

INDEX

MAGELLAN HEALTH SERVICES, INC.

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

PART I--FINANCIAL INFORMATION

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS	SEPTEMBER 30, 1996	JUNE 30, 1997
Current Assets:		
Cash and cash equivalents	$ 120,945	$ 326,243
Accounts receivable, net	189,878	151,620
Supplies	4,753	1,508
Refundable income taxes	1,323	--
Other current assets	21,251	18,568
Total Current Assets	338,150	497,939
Property and Equipment:		

Land	83,431	12,520
Buildings and improvements	388,821	69,164
Equipment	146,915	59,711
	619,167	141,395
Accumulated depreciation	(126,053)	(34,376)
	493,114	107,019
Construction in progress	2,276	429
	495,390	107,448
Assets Restricted for Settlement of Unpaid Claims and Other Long-Term Liabilities	105,303	92,335
Deferred income taxes	--	8,267
Investment in CBHS	--	7,101
Other Long-Term Assets	30,755	26,209
Goodwill, net	128,012	113,265
Other Intangible Assets, net	42,527	38,966
	$ 1,140,137	$ 891,530
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 78,966	$ 47,363
Accrued liabilities	189,599	167,969
Current maturities of long-term debt and capital lease obligations	5,751	3,592
Total Current Liabilities	274,316	218,924
Long-Term Debt and Capital Lease Obligations	566,307	391,926
Deferred Income Taxes	12,368	--
Reserve for Unpaid Claims	73,040	55,331
Deferred Credits and Other Long-Term Liabilities	39,769	21,842
Minority Interest	52,520	58,943
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock, without par value		
Authorized--10,000 shares		
Issued and outstanding--none	--	--
Common Stock, par value $0.25 per share		
Authorized--80,000 shares		
Issued and outstanding--33,007 shares at September 30, 1996 and 33,311 shares at June 30, 1997	8,252	8,330
Other Stockholders' Equity:		
Additional paid-in capital	327,681	336,692
Accumulated deficit	(129,457)	(140,118)
Warrants outstanding	54	25,050
Common Stock in Treasury, 4,424 shares at September 30, 1996 and June 30, 1997	(82,731)	(82,731)
Cumulative foreign currency adjustments	(1,982)	(2,659)
Stockholders' Equity	121,817	144,564
	$ 1,140,137	$ 891,530

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

MAGELLAN HEALTH SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
	1996	1997	1996	1997
Net revenue	$ 346,379	$ 324,921	$ 996,997	$ 1,021,662
Costs and expenses:				
Salaries, supplies and other operating expenses	274,536	263,915	780,880	830,248
Bad debt expense	18,886	12,081	61,293	47,456
Depreciation and amortization	12,886	12,044	36,186	38,231
Interest, net	13,065	12,602	35,459	39,324
Stock option expense (credit)	(210)	1,781	1,204	3,214
Equity in loss of CBHS	--	399	--	399
Loss on Crescent Transactions	--	59,868	--	59,868
Unusual items	33,959	(1,038)	33,959	357
	353,122	361,652	948,981	1,019,097
Income (loss) before provision for income taxes, minority interest and extraordinary items	(6,743)	(36,731)	48,016	2,565
Provision for (benefit from) income taxes	(2,698)	(14,693)	19,674	1,025

Income (loss) before minority interest and extraordinary items	(4,045)	(22,038)	28,342	1,540
Minority interest	1,677	2,403	4,247	6,948
Income (loss) before extraordinary items	(5,722)	(24,441)	24,095	(5,408)
Extraordinary items--losses on early extinguishments of debt (net of income tax benefit of $1,536 for the three months ended June 30, 1997 and $3,503 for the nine months ended June 30, 1997)	--	(2,303)	--	(5,253)
Net income (loss)	$ (5,722)	$ (26,744)	$ 24,095	$ (10,661)
Income (loss) per common share:				
Income (loss) before extraordinary items	$ (0.18)	$ (0.85)	$ 0.79	$ (0.19)
Extraordinary losses on early extinguishments of debt	--	(0.08)	--	(0.18)
Net income (loss)	$ (0.18)	$ (0.93)	$ 0.79	$ (0.37)
Weighted average number of common shares outstanding	32,464	28,830	30,559	28,715

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

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)
(IN THOUSANDS)

	FOR THE NINE MONTHS ENDED JUNE 30,	
	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 24,095	$ (10,661)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	36,186	38,231
Non-cash portion of unusual items	31,206	--
Equity in loss of CBHS	--	399
Loss on Crescent Transactions	--	59,868
Stock option expense	1,204	3,214
Non-cash interest expense	1,812	1,297
Gain on sale of assets	(867)	(5,747)
Extraordinary losses on early extinguishments of debt	--	8,756
Cash flows from changes in assets and liabilities, net of effects from sales and acquisitions of businesses:		
Accounts receivable, net	(3,201)	18,521
Other assets	2,291	8,409
Accounts payable and other accrued liabilities	(28,798)	(67,540)
Reserve for unpaid claims	(14,051)	(20,679)
Income taxes payable	11,514	(17,985)
Other liabilities	(5,957)	(17,400)
Minority interest, net of dividends paid	4,868	7,498
Other	155	(965)
Total adjustments	36,362	15,877
Net cash provided by operating activities	60,457	5,216
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(24,617)	(28,113)
Acquisitions and investments in businesses, net of cash acquired	(50,099)	(28,840)
Decrease (increase) in assets restricted for settlement of unpaid claims	(8,567)	12,551
Proceeds from sale of property and equipment to Crescent and CBHS, net of transaction costs	--	384,041
Proceeds from sale of assets	1,253	15,463
Net cash provided by (used in) investing activities	(82,030)	355,102
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt, net of issuance costs	68,125	203,643
Payments on debt and capital lease obligations	(84,492)	(389,406)
Proceeds from issuance of common stock, net of issuance costs	68,561	--
Proceeds from issuance of warrants	--	25,000
Proceeds from exercise of stock options and warrants	2,147	5,743
Income tax payments made on behalf of stock optionees	(1,678)	--
Net cash provided by (used in) financing activities	52,663	(155,020)
Net increase in cash and cash equivalents	31,090	205,298
Cash and cash equivalents at beginning of period	105,514	120,945
Cash and cash equivalents at end of period	$ 136,604	$ 326,243

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

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 1996, included in the Company's Annual Report on Form 10-K, as amended.

NOTE B--NATURE OF BUSINESS

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

NOTE C--SUPPLEMENTAL CASH FLOW INFORMATION

Below is supplemental cash flow information related to the nine months ended June 30, 1996 and 1997:

	FOR THE NINE MONTHS ENDED JUNE 30,	
	1996	1997
	(IN THOUSANDS)	
Income taxes paid, net of refunds received	$ 6,853	$ 14,419
Interest paid, net of amounts capitalized	53,350	53,945
Notes payable assumed in connection with acquisitions of businesses	12,100	--
Non-cash investment in CBHS	--	5,281

The non-cash portion of unusual items for the nine months ended June 30, 1996 includes the unpaid portion of the $30.0 million insurance settlement that was recorded during the quarter ended June 30, 1996. The payments of the insurance settlement are included in accounts payable and other accrued liabilities in the statement of cash flows for the nine months ended June 30, 1997.

(UNAUDITED)

NOTE D--LONG-TERM DEBT AND LEASES

Information with regard to the Company's long-term debt and capital lease obligations at September 30, 1996 and June 30, 1997 is as follows:

	SEPTEMBER 30, 1996	JUNE 30, 1997
	(IN THOUSANDS)	
New Revolving Credit Agreement due 2002	$ 105,593	$ --
11.25% Senior Subordinated Notes due 2004	375,000	375,000
6.8125% to 8.0% Mortgage and other notes payable through 1999	12,163	7,940
Variable rate secured notes	60,875	--
7.5% Swiss Bonds	6,443	6,443
4.25% capital lease obligations due through 2014	12,333	6,439
	572,407	395,822
Less amounts due within one year	5,751	3,592
Less debt service funds	349	304
	$ 566,307	$ 391,926

On October 28, 1996, the Company entered into a Credit Agreement with certain financial institutions for a five-year senior secured reducing revolving credit facility in an aggregate committed amount of $400 million (the "Revolving Credit Agreement"). The Company borrowed approximately $121.0 million under the Revolving Credit Agreement in October 1996 to (i) pay-off the existing borrowings outstanding under the previous revolving credit agreement that was terminated and (ii) pay for fees and expenses related to the Revolving Credit Agreement.

The loans outstanding under the Revolving Credit Agreement bore interest (subject to certain potential adjustments) at a rate per annum equal to one, two, three or six-month LIBOR plus 1.25% or the Prime Lending Rate.

The Company recorded an extraordinary loss from the early extinguishment of debt of approximately $3.0 million, net of tax, during the quarter ended December 31, 1996 to write off unamortized deferred financing costs related to its previous revolving credit agreement.

On June 17, 1997, the Company entered into a new Credit Agreement (the "New Revolving Credit Agreement") with certain financial institutions for a five-year senior secured revolving credit facility in an aggregate committed amount of $200 million. The Company paid off approximately $191.8 million of borrowings outstanding under the Revolving Credit Agreement on June 17, 1997 with proceeds from the Crescent Transactions (as hereinafter defined).

The loans outstanding under the New Revolving Credit Agreement bear interest (subject to certain potential adjustments) at a rate per annum equal to one, two, three or six-month LIBOR plus 1.25% or the Alternative Base Rate ("ABR"), as defined, plus .25%. Interest on ABR loans is payable at the end of each fiscal quarter. Interest on LIBOR-based loans is payable at the end of their respective terms, but a minimum of every three months.

NOTE D--LONG-TERM DEBT AND LEASES (CONTINUED)

The Company also paid off approximately $66 million of variable rate secured notes and other long-term debt during June 1997 related to the consummation of

the Crescent Transactions.

The Company recorded an extraordinary loss of approximately $2.3 million, net of tax, during the quarter ended June 30, 1997 to write off unamortized deferred financing costs related to the Revolving Credit Agreement and for costs related to paying off the variable rate secured notes.

NOTE E--ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	SEPTEMBER 30, 1996	JUNE 30, 1997
Salaries and wages	$ 39,841	$ 17,811
Amounts due health insurance programs	27,223	16,341
Medical claims payable	26,552	32,766
Interest	20,348	9,094
Crescent Transaction	--	20,306
Other	75,635	71,651
	$ 189,599	$ 167,969

NOTE F--CRESCENT TRANSACTIONS

On June 17, 1997, the Company consummated a series of transactions including the sale of substantially all of its domestic hospital real estate and related personal property (the "Assets") to Crescent Real Estate Equities Limited Partnership ("Crescent") and CBHS (as hereinafter defined). In addition, the Company's domestic portion of its provider business segment will be operated as a joint venture ("CBHS") that is initially owned equally by Magellan and Crescent Operating, Inc., an affiliate of Crescent ("COI"). The Company will account for its 50% investment in CBHS under the equity method of accounting. The Company received approximately $417.2 million in cash (before costs estimated to be $16.0 million) and warrants in COI for the purchase of 2.5% of COI's common stock, exercisable over 12 years. The Company also issued 1,283,311 warrants to Crescent and COI each for the purchase of Magellan common stock at an exercise price of $30 per share.

In related agreements, (i) Crescent leased the real estate and related assets to CBHS for annual rent beginning at approximately $41.7 million with a 5% annual escalation clause compounded annually (the "Facilities Lease") and (ii) CBHS will pay Magellan approximately $78.3 million in annual franchise fees, subject to increase, for the use of assets retained by Magellan and for support in certain areas. The franchise fees to be paid by CBHS to the Company are subordinated to the lease obligations in favor of Crescent. The assets retained by Magellan include, but are not limited to, the "CHARTER" name, intellectual property, protocols and procedures, clinical quality management, operating processes and the "1-800-CHARTER" telephone call center. Magellan will provide CBHS ongoing support in areas including advertising and marketing assistance, risk management services, outcomes monitoring, and consultation on

NOTE F--CRESCENT TRANSACTIONS (CONTINUED)
matters relating to reimbursement, government relations, clinical strategies, regulatory matters, strategic planning and business development.

The Company initially used a portion of the proceeds from the sale of the Assets to reduce its long-term debt, including borrowings under the Revolving Credit Agreement. Under the terms of its Senior Subordinated Notes (the "Notes") indenture, the Noteholders were given the right to put their Notes to the

Company at 101% of face value through July 21, 1997. No Noteholders elected to put their Notes to the Company. The Company intends to use the remaining proceeds from the sale of the Assets to pursue acquisitions in its managed care and public sector business segments, develop new products and increase managed care and public sector marketing efforts.

The Crescent Transactions are more fully described in the Company's Proxy Statement filed on Schedule 14A on April 24, 1997, which is incorporated herein by reference.

The Company recorded a loss before income taxes of approximately $59.9 million as a result of the Crescent Transactions, which consisted of the following (in thousands):

Accounts receivable collection fees	$ 21,400
Impairment losses on intangible assets	14,408
Exit costs and construction obligation	13,549
Loss on the sale of property and equipment	10,511
	$ 59,868

The $5.0 million of exit costs accrued as a result of the Crescent transactions include incremental staffing, consulting and related costs to prepare and coordinate audits of terminating Medicare cost reports, prepare and file income tax, property tax, sales and use tax and other tax returns and perform accounting functions related to the divested businesses (CBHS). The Company incurred approximately $0.1 million of such costs during the quarter and the nine months ended June 30, 1997.

The Company is constructing a hospital in Philadelphia as required by the Crescent Real Estate Purchase Agreement to replace CBHS' existing Philadelphia hospital. The Company has incurred approximately $2.0 million in construction costs as of June 30, 1997 and expects to incur up to $8.5 million in construction costs before completion.

The Company's Consolidated Statement of Operations for the nine months ended June 30, 1996 and 1997 include the operations of businesses divested as part of the Crescent Transactions through June 16, 1997. The unaudited pro forma information for the nine months ended June 30, 1996 and 1997 have been prepared assuming the Crescent Transactions were consummated on October 1, 1995. The pro forma information does not purport to be indicative of the results which would have actually been obtained had

NOTE F--CRESCENT TRANSACTIONS (CONTINUED)
the Crescent Transactions been consummated on October 1, 1995 or which may be attained in future periods (in thousands, except per share data).

	PRO FORMA FOR THE NINE MONTHS ENDED	
	JUNE 30, 1996	JUNE 30, 1997
Net Revenue	$ 454,639	$ 527,338
Income before extraordinary items(1)	14,515	24,448
Net income(1)	14,515	19,195
Income per common share--primary:		
Income before extraordinary items(1)	0.51	0.83
Net income(1)	0.51	0.66
Income per common share--fully diluted:		
Income before extraordinary items(1)	0.51	0.82
Net income(1)	0.51	0.64

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(1) Excludes the loss on the Crescent Transactions and assumes the excess proceeds from the Crescent Transactions are not invested. If the excess proceeds from the Crescent Transactions were assumed to be reinvested at the Company's historic temporary cash investment rate of 5.4% and 5.25% for the nine months ended June 30, 1996 and 1997, respectively, pro forma income before extraordinary items, net income, income per common share before extraordinary items and net income per common share would have been $19.3 million, $19.3 million, $0.68 (primary and fully diluted) and $0.68 (primary and fully diluted) for the nine months ended June 30, 1996, respectively, and $29.1 million, $23.9 million, $0.99 (primary) and $0.81 (primary) and $0.98 (fully diluted) and $0.80 (fully diluted) for the nine months ended June 30, 1997, respectively.

NOTE G--UNUSUAL ITEMS

INSURANCE SETTLEMENTS

Unusual items for the quarter and the nine months ended June 30, 1996 included the resolution of disputes between the Company and insurance carriers concerning certain billings for services.

In August 1996, the Company and a group of insurance carriers resolved a billing dispute which arose in fiscal 1996 related to matters originating in the 1980's. As part of the settlement of these claims, certain related payer matters and associated legal fees, the Company recorded a charge of approximately $30.0 million during the quarter ended June 30, 1996. The Company is paying the insurance settlement amount in twelve installments over a three year period, that began in August 1996. The Company and the insurance carriers have agreed that the dispute and settlement will not negatively impact any present or pending business relationships nor will it prevent the parties from negotiating in good faith concerning additional business opportunities available to, and future relationships between, the parties.

NOTE G--UNUSUAL ITEMS (CONTINUED)

FACILITY CLOSURES

During fiscal 1996, the Company consolidated, closed or sold nine psychiatric facilities (the "1996 Closed Facilities"). The 1996 Closed Facilities that are still owned by the Company will be sold, leased or used for alternative purposes depending on the market conditions in each geographic area. The Company recorded charges of approximately $4.1 million related to facility closures in fiscal 1996.

Severance and benefits related to the 1996 Closed Facilities were fully paid as of December 31, 1996. Other exit costs paid and applied against the resulting liabilities recorded during fiscal 1996 were approximately $0.1 million and $0.4 million during the quarter and the nine months ended June 30, 1997, respectively.

During the second quarter of fiscal 1997, the Company consolidated or closed three psychiatric facilities and its one general hospital (the "1997 Closed Facilities"). The 1997 Closed Facilities which were owned by the Company were sold as part of the Crescent Transactions. The Company recorded charges of approximately $4.2 million related to facility closures in the second quarter of fiscal 1997, which consisted of approximately $3.0 million for severance and related benefits and $1.2 million for contract terminations and other costs.

Approximately 700 employees were terminated at the 1997 Closed Facilities. Severance and related benefits paid and applied against the resulting liability were approximately $0.4 million and $2.7 million during the quarter and nine months ended June 30, 1997, respectively. Other exit costs paid and applied against the resulting liability were approximately $0.4 million and $0.7 million

during the quarter and the nine months ended June 30, 1997, respectively. The remaining obligations relating to the 1997 Closed Facilities sold to Crescent have been assumed by CBHS as part of the Crescent Transactions.

The following table presents net revenue, salaries, supplies and other operating expenses and bad debt expenses and depreciation and amortization of the 1996 Closed Facilities and the 1997 Closed Facilities (in thousands):

	QUARTER ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	1996	1997	1996	1997
Net Revenue	$ 21,304	$ 286	$ 72,939	$ 18,952
Salaries, supplies and other operating expenses and bad debt expenses	20,063	346	74,127	21,964
Depreciation and Amortization	407	--	1,509	272

The Company recorded a charge of approximately $2.0 million in the fourth quarter of fiscal 1996 related to severance and related benefits for employees who were terminated pursuant to planned overhead reductions. Substantially all of such severance and benefits was paid as of December 31, 1996.

FACILITY SALES

The Company sold two psychiatric facilities during the quarter ended March 31, 1997 that were closed during fiscal 1995. The Company received approximately $5.6 million in proceeds from the sales and recorded an aggregate gain on such sales of approximately $2.8 million during the quarter ended March 31,

NOTE G--UNUSUAL ITEMS (CONTINUED)
1997. The Company also sold one psychiatric facility during the quarter ended June 30, 1997 that was closed during fiscal 1996. The Company received approximately $4.8 million in proceeds from the sale and recorded a gain of approximately $2.6 million during the quarter and the nine months ended June 30, 1997.

OTHER

The Company recorded charges of approximately $1.6 million during the quarter and the nine months ended June 30, 1997 for costs incurred related primarily to the expiration of its agreement to sell its three European Hospitals. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Outlook" for further discussion.

NOTE H--INCOME PER COMMON SHARE

In February 1997, the Financial Accounting Standards Board issued Statement No. 128 "Earnings per Share" ("FAS 128"), which is more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Accounting Pronouncements". The Company is required to adopt FAS 128 in the first quarter of fiscal 1998. Income per common share under FAS 128, if applied to the three months and the nine months ended June 30, 1996 and 1997, is as follows:

FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE NINE MONTHS ENDED JUNE 30,	
1996	1997	1996	1997

	(IN)THOUSANDS, EXCEPT PER SHARE DATA			
Income (loss) per common share--Basic:				
Income (loss) before extraordinary items	$ (0.18)	$ (0.85)	$ 0.79	$ (0.19)
Extraordinary losses on early extinguishments of debt	--	(0.08)	--	(0.18)
Net income (loss)	$ (0.18)	$ (0.93)	$ 0.79	$ (0.37)
Income (loss) per common share--Diluted:				
Income (loss) before extraordinary item	$ (0.18)	$ (0.85)	$ 0.77	$ (0.19)
Extraordinary losses on early extinguishments of debt	--	(0.08)	--	(0.18)
Net income (loss)	$ (0.18)	$ (0.93)	$ 0.77	$ (0.37)
Weighted average number of common shares outstanding:				
Basic	32,464	28,830	30,559	28,715
Diluted	32,464	28,830	31,099	28,715

The difference between weighted average number of common shares outstanding for basic and diluted EPS for the nine months ended June 30, 1996 related primarily to stock option common stock equivalents computed under the treasury stock method.

NOTE I--INVESTMENT IN CBHS

The Company owned a 50% interest in CBHS as of June 30, 1997. The Company became a 50% owner of CBHS upon consummation of the Crescent Transactions. The Company accounts for its investment in CBHS using the equity method.

A summary of financial information for the Company's investment in CBHS is as follows (in thousands):

	JUNE 30, 1997
Current assets	$ 59,870
Property and equipment, net	18,863
Other noncurrent assets	3,340
Total Assets	82,073
Current liabilities	$ 40,980
Long-term debt(2)	25,875
Other noncurrent liabilities	1,016
Member capital	14,202
Total liabilities and Member capital	$ 82,073
Magellan equity investment	$ 7,101

	14 DAYS ENDED JUNE 30, 1997
Net revenue	$ 29,865

Operating expenses(1)	30,565
Interest, net	98
Net loss	$ (798)
Cash used in operating activities	$ (13,996)
Magellan equity loss	$ (399)

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(1) Includes salaries, supplies and other operating expenses, bad debt expense, depreciation and amortization.

(2) As of August 11, 1997, CBHS had $65 million of outstanding borrowings under its revolving credit agreement and had received $20 million of advances from its Members, including $10 million from the Company.

NOTE I--INVESTMENT IN CBHS (CONTINUED)

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

	14 DAYS ENDED JUNE 30, 1997
Franchise Fee revenue	$ 3,164
Expenses:	
Accounts receivable collection fees	1,426
Hospital-based Joint venture management fees	417
	1,843
Income before income taxes, minority interest and extraordinary items	$ 1,321

	JUNE 30, 1997
Accounts receivable collection fees	$ (1,426)
Hospital-based Joint venture management fees payable	(417)
Other receivables	5,571
Due from CBHS, net	$ 3,728

NOTE J--CONTINGENCIES

The Company is self-insured for a substantial portion of its general and professional liability risks. The reserves for self-insured general and professional liability losses, including loss adjustment expenses, are based on

actuarial estimates that are discounted at an average rate of 6% to their present value based on the Company's historical claims experience adjusted for current industry trends. The reserve for unpaid claims is adjusted periodically as such claims mature, to reflect changes in actuarial estimates based on actual experience. The Company recorded reductions of expenses of approximately $4.8 million and $12.3 million during the quarter and the nine months ended June 30, 1996, respectively, and $2.5 million and $7.5 million during the quarter and the nine months ended June 30, 1997, respectively. These reductions resulted primarily from updates to actuarial assumptions regarding the Company's expected losses for more recent policy years. These revisions are based on changes in expected values of ultimate losses resulting from the Company's claim experience, and increased reliance on such claim experience. While management and its actuaries believe that the present reserve is reasonable, ultimate settlement of losses may vary from the amount provided.

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

On August 1, 1996, the United States Department of Justice, Civil Division, filed its First Amended Complaint in a civil qui tam action initiated in November of 1994 against the Company and its Orlando South hospital subsidiary ("Charter Orlando") by two former employees. The First Amended Complaint

NOTE J--CONTINGENCIES (CONTINUED)
alleges that Charter Orlando violated the civil False Claims Act (the "Act") in billing for inpatient treatment provided to elderly patients. The Court granted the Company's motion to dismiss the government's First Amended Complaint yet granted the government leave to amend its First Amended Complaint. The government filed a Second Amended Complaint on December 12, 1996 which, similar to the First Amended Complaint alleges that the Company and its subsidiary violated the Act in billing for the treatment of geriatric patients. Like the First Amended Complaint, the Second Amended Complaint is based on disputed clinical and factual issues which the Company believes do not constitute a violation of the Act. The Company and its subsidiary, therefore, have filed a motion to dismiss the Second Amended Complaint. The Company and its subsidiary deny the allegations made in the Second Amended Complaint and will vigorously defend against its claims. The Company does not believe this matter will have a material adverse effect on its financial position or results of operations.

The Company has provided a guarantee, not to exceed $65 million, for CBHS' line of credit. CBHS has a $100 million, 5-year revolving credit facility.

NOTE K--GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	SEPTEMBER 30, 1996

ASSETS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Current Assets					
Cash and cash equivalents	$ 29,751	$ 79,552	$ 11,642	$ --	$ 120,945
Accounts receivable, net	139,523	44,904	5,451	--	189,878
Supplies	4,091	394	268	--	4,753
Other current assets	8,379	121	14,074	--	22,574
Total Current Assets	181,744	124,971	31,435	--	338,150
Assets restricted for settlement of unpaid claims and other long-term liabilities	--	78,542	26,761	--	105,303
Property and Equipment					
Land	74,790	6,657	1,984	--	83,431
Buildings and improvements	350,187	33,493	5,141	--	388,821
Equipment	112,748	25,206	8,961	--	146,915
	537,725	65,356	16,086	--	619,167
Accumulated depreciation	(111,556)	(10,313)	(4,184)	--	(126,053)
Construction in progress	1,586	621	69	--	2,276
	427,755	55,664	11,971	--	495,390
Other Long-Term Assets (1)	92,978	(78,517)	1,172,069	(1,155,775)	30,755
Goodwill, net	20,645	94,682	12,685	--	128,012
Other Intangible Assets, net	5,213	22,341	14,973	--	42,527
	$ 728,335	$ 297,683	$1,269,894	$(1,155,775)	$1,140,137
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	$ 32,644	$ 34,057	$ 12,265	$ --	$ 78,966
Accrued liabilities and income tax payable	57,948	55,208	76,443	--	189,599
Current maturities of long-term debt and capital lease obligations	2,620	3,131	--	--	5,751
Total Current Liabilities	93,212	92,396	88,708	--	274,316
Long-Term Debt and Capital Lease Obligations	(455,333)	8,815	1,012,825	--	566,307
Deferred Income Tax Liabilities	--	(4,252)	16,620	--	12,368
Reserve for Unpaid Claims	--	72,494	546	--	73,040
Deferred Credits and Other Long-Term Liabilities(1)	352,044	43,565	29,378	(385,218)	39,769
Minority interest	--	--	--	52,520	52,520
Stockholders' Equity					
Common Stock, par value $0.25 per share; Authorized--80,000 shares Issued and outstanding--33,007 shares	2,764	(483)	8,252	(2,281)	8,252
Committments and contingencies					
Other Stockholders' Equity					
Additional paid-in capital	609,627	30,237	327,681	(639,864)	327,681
Retained earnings (Accumulated deficit)	126,826	58,932	(129,457)	(185,758)	(129,457)
Warrants outstanding	--	--	54	--	54
Common Stock in treasury, 4,424 shares	--	(4,736)	(82,731)	4,736	(82,731)
Cumulative foreign currency adjustments	(805)	715	(1,982)	90	(1,982)
	738,412	84,665	121,817	(823,077)	121,817
	$ 728,335	$ 297,683	$1,269,894	$(1,155,775)	$1,140,137

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(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.

NOTE K--GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS(CONTINUED)
CONDENSED CONSOLIDATING BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
ASSETS					
Current Assets					
Cash and cash equivalents	$ 105,409	$ 65,215	$ 155,619	$ --	$ 326,243
Accounts receivable, net	91,995	51,421	8,204	--	151,620
Supplies	903	286	319	--	1,508
Other current assets	987	7,343	10,238	--	18,568
Total Current Assets	199,294	124,265	174,380	--	497,939
Assets restricted for settlement of unpaid claims and other long-term liabilities	--	74,219	18,116	--	92,335
Property and Equipment					
Land	6,266	5,382	872	--	12,520
Buildings and improvements	34,220	33,169	1,775	--	69,164
Equipment	20,323	30,451	8,937	--	59,711
	60,809	69,002	11,584	--	141,395
Accumulated depreciation	(14,407)	(15,819)	(4,150)	--	(34,376)
Construction in progress	39	340	50	--	429
	46,441	53,523	7,484	--	107,448
Investment in CBHS	7,101	--	--	--	7,101
Deferred income taxes	--	4,308	3,959	--	8,267
Other Long-Term Assets (1)	132,662	(24,026)	1,036,123	(1,118,550)	26,209
Goodwill, net	18,039	95,226	--	--	113,265
Other Intangible Assets, net	2,674	22,570	13,722	--	38,966
	$ 406,211	$ 350,085	$1,253,784	$(1,118,550)	$ 891,530
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	$ 23,707	$ 20,744	$ 2,912	$ --	$ 47,363
Accrued liabilities	32,539	61,792	73,638	--	167,969
Current maturities of long-term debt and capital lease obligations	460	3,132	--	--	3,592
Total Current Liabilities	56,706	85,668	76,550	--	218,924
Long-Term Debt and Capital Lease Obligations	(766,309)	4,217	1,154,018	--	391,926
Reserve for Unpaid Claims	--	65,576	(10,245)	--	55,331
Deferred Credits and Other Long-Term Liabilities (1)	61,772	12,681	(111,103)	58,492	21,842
Minority interest	--	--	--	58,943	58,943
Stockholders' Equity					
Common Stock, par value $0.25 per share; Authorized--80,000 shares					
Issued and outstanding--33,311 shares	2,752	(483)	8,330	(2,269)	8,330
Commitments and contingencies					
Other Stockholders' Equity					
Additional paid-in capital	1,024,344	125,672	336,692	(1,150,016)	336,692
Retained earnings (Accumulated deficit)	26,150	54,318	(140,118)	(80,468)	(140,118)
Warrants outstanding	--	--	25,050	--	25,050
Common stock in Treasury, 4,424 shares	--	--	(82,731)	--	(82,731)
Cumulative foreign currency adjustments	796	2,436	(2,659)	(3,232)	(2,659)
	1,054,042	181,943	144,564	(1,235,985)	144,564
	$ 406,211	$ 350,085	$1,253,784	$(1,118,550)	891,530

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(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.

(UNAUDITED)

NOTE K--GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS(CONTINUED)
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(IN THOUSANDS)

	FOR THE THREE MONTHS ENDED JUNE 30, 1996				
	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Net revenue	$ 252,810	$ 96,031	$ 1,776	$ (4,238)	$ 346,379
Costs and expenses					
Salaries, supplies and other operating expenses	194,157	82,021	2,596	(4,238)	274,536
Bad debt expense	21,482	1,671	(4,267)	--	18,886
Depreciation and amortization	9,015	3,443	428	--	12,886
Interest, net	(10,923)	(307)	24,295	--	13,065
Stock option expense (credit)	--	--	(210)	--	(210)
Unusual items	3,959	--	30,000	--	33,959
	217,690	86,828	52,842	(4,238)	353,122
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	35,120	9,203	(51,066)	--	(6,743)
Provision for (benefit from) income taxes	197	2,799	11	(5,705)	(2,698)
Income (loss) before equity in earnings (loss) of subsidiaries	34,923	6,404	(51,077)	5,705	(4,045)
Equity in earnings (loss) of subsidiaries	1,540	1,602	(45,355)	43,890	1,677
Net income (loss)	$ 33,383	$ 4,802	$ (5,722)	$ (38,185)	$ (5,722)

	FOR THE THREE MONTHS ENDED JUNE 30, 1997				
	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Net revenue	$ 202,006	$ 121,046	$ 2,122	$ (253)	$ 324,921
Costs and expenses					
Salaries, supplies and other operating expenses	157,059	101,705	5,404	(253)	263,915
Bad debt expense	11,690	835	(444)	0	12,081
Depreciation and amortization	7,385	3,748	911	0	12,044
Interest, net	(14,368)	(655)	27,625	0	12,602
Stock option expense	0	0	1,781	0	1,781
Equity in loss of CBHS	399	0	0	0	399
Los on Crescent Transactions	13,684	14	46,170	--	59,868
Unusual items	(2,583)	0	1,545	0	(1,038)
	173,266	105,647	82,992	(253)	361,652
Income (loss) before income taxes, equity in earnings (loss) of subsidiaries and extraordinary items	28,740	15,399	(80,870)	0	(36,731)
Provision for (benefit from) income taxes	826	3,345	(18,864)	0	(14,693)
Income (loss) before equity in earnings (loss) of subsidiaries and extraordinary items	27,914	12,054	(62,006)	0	(22,038)
Equity in earnings (loss) of continuing subsidiaries	(328)	(2,063)	37,565	(37,577)	(2,403)
Income (loss) before extraordinary items	27,586	9,991	(24,441)	(37,577)	(24,441)
Extraordinary item--loss on early extinguishment of debt (net of income tax benefit of $1,536)	(910)	--	(2,303)	910	(2,303)
Net income (loss)	$ 26,676	$ 9,991	$ (26,744)	$ (36,667)	$ (26,744)

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

NOTE K--GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS(CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(IN THOUSANDS)

	FOR THE NINE MONTHS ENDED JUNE 30, 1996				
	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Net revenue	$ 765,388	$ 235,720	$ 9,403	$ (13,514)	$ 996,997
Costs and expenses					
Salaries, supplies and other operating expenses	586,180	204,112	4,102	(13,514)	780,880
Bad debt expense	62,520	3,659	(4,886)	--	61,293
Depreciation and amortization	27,043	8,346	797	--	36,186
Interest, net	(31,309)	(575)	67,343	--	35,459
Stock option expense	--	--	1,204	--	1,204
Unusual items	3,959	--	30,000	--	33,959
	648,393	215,542	98,560	(13,514)	948,981
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	116,995	20,178	(89,157)	--	48,016
Provision for income taxes	1,538	4,845	219	13,072	19,674
Income (loss) before equity in earnings (loss) of subsidiaries	115,547	15,333	(89,376)	(13,072)	28,342
Equity in earnings (loss) of subsidiaries	1,172	2,747	(113,471)	113,799	4,247
Net income (loss)	$ 114,285	$ 12,586	$ 24,095	$ (126,871)	$ 24,095
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS					
Cash provided by operating activities	$ 6,702	$ 29,922	$ 23,833	$ --	$ 60,457
Cash Flows from Investing Activities:					
Capital expenditures	(17,359)	(2,320)	(4,938)	--	(24,617)
Proceeds from sale of assets	1,253	--	--	--	1,253
Acquisitions and investments in businesses, net of cash acquired	(438)	36,229	(85,890)	--	(50,099)
Increase in assets restricted for the settlement of unpaid claims	--	(7,059)	(1,508)	--	(8,567)
Cash provided by (used in) investing activities	(16,544)	26,850	(92,336)	--	(82,030)
Cash Flows from Financing Activities:					
Proceeds from the issuance of debt	--	125	68,000	--	68,125
Payments on debt and capital obligations	(12,465)	(4,027)	(68,000)	--	(84,492)
Proceeds from issuance of Common Stock, net of issuance costs	--	--	68,561	--	68,561
Income tax payments made on behalf of stock optionees	--	--	(1,678)	--	(1,678)
Proceeds from exercise of stock option and warrants	--	--	2,147	--	2,147
Cash provided by (used in) financing activities	(12,465)	(3,902)	69,030	--	52,663
Net increase (decrease) in cash and cash equivalents	(22,307)	52,870	527	--	31,090
Cash and cash equivalents at beginning of period	60,719	10,279	34,516	--	105,514
Cash and cash equivalents at end of period	$ 38,412	$ 63,149	$ 35,043	$ --	$ 136,604

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

NOTE K--GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS(CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(IN THOUSANDS)

	FOR THE NINE MONTHS ENDED JUNE 30, 1997				
	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	MAGELLAN HEALTH SERVICES, INC. (PARENT CORPORATION)	CONSOLIDATED ELIMINATION ENTRIES	CONSOLIDATED TOTAL
Net revenue	$ 669,274	$ 346,248	$ 7,093	$ (953)	$1,021,662
Costs and expenses					
Salaries, supplies and other operating expenses	518,843	291,983	20,375	(953)	830,248
Bad debt expense	44,776	3,124	(444)	--	47,456
Depreciation and amortization	24,147	11,221	2,863	--	38,231
Interest, net	(39,530)	(1,650)	80,504	--	39,324
Stock option expense (credit)	--	--	3,214	--	3,214
Equity in loss of CBHS	399	--	--	--	399
Loss on Crescent Transactions	13,684	14	46,170	--	59,868
Unusual Items	(1,188)	--	1,545	--	357
	561,131	304,692	154,227	(953)	1,019,097
Income (loss) before income taxes, equity in earnings (loss) of subsidiaries and extraordinary items	108,143	41,556	(147,134)	--	2,565
Provision for (benefit from) income taxes	1,860	9,531	(10,366)	--	1,025
Income (loss) before equity in earnings (loss) of subsidiaries and extraordinary items	106,283	32,025	(136,768)	--	1,540
Equity in earnings (loss) of continuing subsidiaries	(686)	(6,043)	131,360	(131,579)	(6,948)
Income (loss) before extraordinary items	105,597	25,982	(5,408)	(131,579)	(5,408)
Extraordinary items--loss on early extinguishments of debt (net of income tax benefit of $3,503)	(2,103)	--	(5,253)	2,103	(5,253)
Net income (loss)	$ 103,494	$ 25,982	$ (10,661)	$ (129,476)	$ (10,661)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities	$ 46,758	$ 5,170	$ (46,712)	$ --	$ 5,216
Cash Flows from Investing Activities:					
Capital expenditures	(18,462)	(8,086)	(1,565)	--	(28,113)
Acquisitions and investments in businesses, net of cash acquired	(19,657)	(8,656)	(527)	--	(28,840)
Decrease (increase) in assets restricted for the settlement of unpaid claims	--	1,934	10,617	--	12,551
Proceeds from the sale of property and equipment to Crescent and CBHS, net of transaction costs	196,066	--	187,975	--	384,041
Proceeds from the sale of assets	15,463	--	--	--	15,463
Cash provided by (used in) investing activities	173,410	(14,808)	196,500	--	355,102
Cash Flows from Financing Activities:					
Payments on debt and capital lease obligations	(272,944)	(4,699)	(111,763)	--	(389,406)
Proceeds from the issuance of debt	128,434	--	75,209	--	203,643
Proceeds from issuance of warrants	--	--	5,743	--	5,743

Proceeds from exercise of stock options and warrants	--	--	25,000	--	25,000
Cash provided by (used in) financing activities	(144,510)	(4,699)	(5,811)	--	(155,020)
Net increase (decrease) in cash and cash equivalents	75,658	(14,337)	143,977	--	205,298
Cash and cash equivalents at beginning of period	29,751	79,552	11,642	--	120,945
Cash and cash equivalents at end of period	$ 105,409	$ 65,215	$ 155,619	$ --	$ 326,243

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This document contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding the sufficiency of the Company's liquidity and sources of capital and the statements under the heading "Outlook". Actual results may differ materially from those projected in such forward-looking statements. These forward-looking statements are subject to certain risks, uncertainties and other factors which could cause actual results to differ materially from those anticipated, including, without limitation, potential reductions in reimbursement by third-party payers and changes in hospital payer mix, governmental budgetary constraints and healthcare reform, the impact of potential hospital closures, competition in the provider business and the managed care business, and the regulatory environment for the Company's businesses, as well as the other factors discussed in Exhibit 99 hereto, which is hereby incorporated by reference.

GREEN SPRING ACQUISITION

On December 13, 1995, the Company acquired a 51% ownership interest in Green Spring for approximately $68.9 million in cash, the issuance of 215,458 shares of Magellan Common Stock valued at approximately $4.3 million and the contribution of GPA, a wholly-owned subsidiary of the Company, which became a wholly-owned subsidiary of Green Spring. On December 20, 1995, the Company acquired an additional 10% ownership interest in Green Spring for approximately $16.7 million in cash as a result of an exercise by a minority stockholder of its Exchange Option ("Exchange Option") for a portion of the stockholder's interest in Green Spring. Green Spring provides managed behavioral healthcare services, which includes utilization management, care management and employee assistance programs through a 50-state provider network covering approximately 16.1 million people nationwide. The Company has accounted for the acquisition of Green Spring using the purchase method of accounting, which resulted in additional intangible assets of approximately $113 million.

The minority stockholders of Green Spring consist of four Blue Cross/Blue Shield organizations (the "Blues") that are key customers of Green Spring. In addition, two other Blues organizations that formerly owned a portion of Green Spring have continued as customers of Green Spring. As of June 30, 1997, the minority stockholders of Green Spring have the Exchange Option, under certain circumstances, to exchange their ownership interest in Green Spring for 2,831,739 shares of the Company's Common Stock or $65.1 million in subordinated notes. The Company may elect to pay cash in lieu of issuing the subordinated notes. The Exchange Option expires December 13, 1998.

CRESCENT TRANSACTIONS

On June 17, 1997, the Company consummated the Crescent Transactions, which are more fully described in Note F. The Company's resulting investment in CBHS will be accounted for under the equity method, which will result in a significant reduction in the Company's revenues and expenses from its provider segment in future periods.

PSYCHIATRIC HOSPITAL RESULTS

The following selected statistics include the psychiatric hospitals in operation, by quarter, for fiscal 1996 and 1997, including (a) psychiatric hospitals closed during fiscal 1996 and 1997 and (b) psychiatric hospitals acquired during fiscal 1996 and 1997 (from the date of acquisition). The selected statistics include the psychiatric hospitals controlled by CBHS as a result of the Crescent Transactions through June 16, 1997.

	FISCAL 1996	FISCAL 1997	% CHANGE
Hospitals in operation:			
December 31	102	95	(7)%
March 31	99	93	(6)
June 30	96	13	(86)
September 30	95		
Average licensed beds at:			
Quarter:			
First	9,110	8,463	(7)%
Second	9,040	8,468	(6)
Third	8,677	7,358	(15)
Fourth	8,469		
Year	8,805		
Net revenue (in thousands):			
Quarter:			
First	$ 253,565	$ 229,064	(10)%
Second	257,690	225,494	(12)
Third	249,145	195,981	(21)
Fourth	228,597		
Year	$ 988,997		
Patient days:			
Quarter:			
First	432,474	392,352	(9)%
Second	463,327	402,929	(13)
Third	452,864	350,877	(23)
Fourth	404,346		
Year	1,753,011		
Equivalent patient days:			
Quarter:			
First	478,693	437,960	(9)%
Second	513,502	447,551	(13)
Third	503,622	390,194	(23)
Fourth	450,708		
Year	1,946,525		
Net revenue per equivalent patient day:			
Quarter:			
First	$ 530	$ 523	(1)%
Second	502	504	--
Third	495	502	1
Fourth	507		
Year	508		
Admissions:			
Quarter:			
First	32,865	32,326	(2)%
Second	37,966	34,643	(9)
Third	35,854	29,848	(17)
Fourth	33,861		
Year	140,546		
Average length of stay (days):			
Quarter:			
First	12.4	11.5	(7)%
Second	12.2	11.1	(9)
Third	12.5	11.6	(7)
Fourth	12.5		
Year	12.4		

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Note: Includes Northstar Hospital in Anchorage, Alaska that is managed pursuant to a joint venture arrangement.

RESULTS OF OPERATIONS

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

	PERCENTAGE OF NET REVENUE			
	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	1996	1997	1996	1997
Net revenue	100.0%	100.0%	100.0%	100.0%
Salaries, supplies and other operating expenses	79.2	81.2	78.3	81.3
Bad debt expense	5.5	3.7	6.2	4.6
Total expenses	84.7	84.9	84.5	85.9
Operating margin	15.3%	15.1%	15.5%	14.1%

Patient days at the Company's hospitals decreased 22.5% and 15.0% for the quarter and the nine months ended June 30, 1997, respectively, as compared to the same periods of fiscal 1996. The decrease resulted primarily from patient days attributable to the hospitals closed during fiscal 1996 and 1997, declines in average length of stay and the consummation of the Crescent Transactions on June 17, 1997. Total admissions decreased 16.8% and 9.2% for the quarter and the nine months ended June 30, 1997, respectively, as compared to the prior year periods. The decrease resulted primarily from the hospitals closed in fiscal 1996 and 1997 and the consummation of the Crescent Transactions on June 17, 1997.

The Company's net revenue for the quarter ended June 30, 1997 decreased 6.2% as compared to the prior year quarter. The decrease was primarily attributable to (i) the closure of hospitals during fiscal 1996 and 1997, (ii) reduced equivalent patient days at the Company's operating hospitals and (iii) the effect of the consummation of the Crescent Transactions offset by revenue growth in the Company's managed care (Green Spring) and public sector (Public Solutions) businesses. The 44.0% increase in Green Spring revenue to $95.6 million was primarily attributable to obtaining several new contracts, which became effective July 1, 1996 and January 1, 1997, to manage the behavioral healthcare component of certain state Medicaid programs and increases in services to an insurer. The 39.0% increase in Public Solutions revenue to $24.6 million was primarily attributable to a 25.0 % increase in placements in mentor homes and $1.4 million in new revenues from correctional contracts.

The Company's net revenue for the nine months ended June 30, 1997 increased 2.5 % as compared to the prior year period. The increase was primarily attributable to the Green Spring acquisition and related internal growth (as previously described) and Public Solutions internal growth (as previously described) offset by (i) the closure of hospitals during fiscal 1996 and fiscal 1997, (ii) reduced equivalent patient days at the Company's operating hospitals and (iii) the effect of the consummation of the Crescent Transactions. Green Spring revenues increased 85.1% to $269.1 million and Public Solutions revenue increased 34.8% to $68.5 million.

The Company's salaries, supplies and other operating expenses decreased 3.9% and increased 6.3% in the quarter and the nine months ended June 30, 1997 compared to the same periods in fiscal 1996. The increases resulted primarily from the Green Spring acquisition and related internal growth less the effect of hospitals closed during fiscal 1996 and 1997 and the effect of the consummation of the Crescent Transactions.

The Company's bad debt expense decreased 36.0% and 22.6% in the quarter and the nine months ended June 30, 1997 compared to the same periods in fiscal 1996. These decreases are primarily attributable to (i) improvement in accounts receivable agings and turnover compared to prior periods, (ii) shifts towards governmental and managed care payers, which reduces the Company's credit risk associated with individual patients and (iii) the effect of the consummation of the Crescent Transactions.

Bad debt expense decreased to 3.7% and 4.6% of revenue for the quarter and the nine months ended June 30, 1997, respectively. These decreases are primarily

attributable to lower bad debt expense in the provider business and bad debt expense representing less than 1% of Green Spring revenues for the periods presented.

Depreciation and amortization decreased $0.8 million and increased $2.0 million in the quarter and the nine months ended June 30, 1997, respectively, compared to the same periods in fiscal 1996. These changes resulted primarily from depreciation and amortization related to the Green Spring acquisition and the effect of the consummation of the Crescent Transactions.

Interest expense, net, decreased $0.5 million and increased $3.9 million for the quarter and the nine months ended June 30, 1997, respectively, compared to the same periods in fiscal 1996. The decrease for the three months ended June 30, 1997 resulted primarily from lower average borrowings and higher temporary investments as a result of the Crescent Transactions. The increase for the nine months ended June 30, 1997 resulted primarily from approximately $5.0 million of interest income recorded during the nine months ended June 30, 1996 related to income tax refunds due from the State of California for the Company's income tax returns for fiscal 1982 through 1989 offset by reduced interest, net, as a result of the Crescent Transactions.

Stock option expense for the quarter and the nine months ended June 30, 1997 increased $2.0 million from the previous year periods primarily due to fluctuations in the market price of the Company's common stock.

Equity in loss of CBHS represents the Company's proportionate (50%) loss in CBHS for the 14 days ended June 30, 1997. See Note I for further information regarding the Company's Investment in CBHS.

The Company recorded a loss on the Crescent Transactions of approximately $59.9 million during the quarter and the nine months ended June 30, 1997. See Note F for further information regarding the Crescent Transactions.

The Company recorded unusual items, net, of $(1.0) million and $0.4 million, during the quarter and the nine months ended June 30, 1997, respectively, which consisted of (i) a $2.6 million and a $5.4 million pre-tax gain on the sale of previously closed psychiatric hospitals, respectively, (ii) a $4.2 million charge for the closure of three psychiatric hospitals and one general hospital during the nine months ended June 30, 1997 and (iii) $1.6 million charge related to the termination of an agreement to sell the Company's European hospitals during the quarter and the nine months ended June 30, 1997. During the quarter and the nine months ended June 30, 1996, the Company recorded an unusual item of $30.0 million related to the settlement of insurance claims. Also, during the quarter and the nine months ended June 30, 1996, the Company recorded unusual items of $2.8 million related to the closure of three hospitals and $1.2 million for an impairment loss. See Note G for further information regarding unusual items.

Minority interest increased $0.7 million and $2.7 million in the quarter and the nine months ended June 30, 1997 as compared to the prior year periods. The increases are primarily due to (i) the Company acquiring a controlling interest in Green Spring in December 1995, (ii) Green Spring's internal growth subsequent to the acquisition date and (iii) increased net income from hospital-based joint ventures.

The Company recorded extraordinary losses on early extinguishment of debt, net of tax, of $2.3 million and $5.3 million for the three months and the nine months ended June 30, 1997, respectively. See Note D for further information regarding the early extinguishment of debt.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123 ("FAS 123") "Accounting for Stock-Based Compensation," which became effective for fiscal years beginning after December 15, 1995. FAS 123 established new financial accounting and reporting standards for stock-based

compensation plans. Entities will be allowed to measure compensation expense for stock-based compensation under FAS 123 or APB Opinion No. 25, "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting in APB Opinion No. 25 will be required to make pro forma disclosures of net income and earnings per share as if the provisions of FAS 123 had been applied. The Company is adopting FAS 123 in fiscal 1997 on a proforma disclosure basis.

In February 1997, the Financial Accounting Standards Board ("FASB") issued FAS 128, which applies to entities with publicly held common stock or potential common stock. FAS 128 replaces APB Opinion 15, "Earnings per Share" and related interpretations. APB Opinion 15 required that entities with simple capital structures present a single "earnings per common share" ("EPS") on the face of the income statement, whereas those with complex capital structures present both "primary" and "fully diluted" EPS. Primary EPS shows the amount of income attributed to each share of common stock if every common stock equivalent were converted into common stock. Fully diluted EPS considers common stock equivalents and all other securities that could be converted into common stock.

Statement 128 simplifies the computation of EPS by replacing the presentation of primary EPS with a presentation of basic EPS. The Statement requires dual presentation of basic and diluted EPS by entities with complex capital structures. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted EPS under APB Opinion 15.

FAS 128 becomes effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. The Company will adopt FAS 128 during the quarter ended December 31, 1997, which is the first quarter of the fiscal year ended September 30, 1998. The Company has disclosed pro forma EPS amounts computed using FAS 128 in Note H to the financial statements for the quarter and the nine months ended June 30, 1996 and 1997. After the effective date, all prior-period EPS data presented will be restated to conform with the provisions of FAS 128.

The primary effect of FAS 128 on the Company's financial statements is the required dual presentation of basic and diluted income per common share for each interim and annual reporting period. APB Opinion No. 15 allowed entities with complex capital structures to present income per common share excluding common stock equivalents and other potentially dilutive securities if the dilution was less than three percent.

LIQUIDITY AND SOURCES OF CAPITAL

OPERATING ACTIVITIES. The Company's net cash provided by operating activities was approximately $60.5 million and $5.2 million for the nine months ended June 30, 1996 and June 30, 1997, respectively. The decrease in operating cash flows for the nine months ended June 30, 1997 was primarily the result of (i) higher income tax payments ($6.9 million and $14.4 million for the nine months ended June 30, 1996 and 1997, respectively), (ii) $5.0 million of interest income related to income tax refunds in fiscal 1996 and (iii) reduced cash flows from its provider business. Management believes its cash flows from operations will be adequate to fund operations, capital expenditures and debt service obligations in future periods.

INVESTING ACTIVITIES. The Company acquired a 61% ownership interest in Green Spring during the first quarter of fiscal 1996. The consideration paid for Green Spring and related acquisition costs resulted in the use of cash of approximately $87.2 million compared to approximately $28.8 million for acquisitions and investments in businesses during the nine months ended June 30, 1997.

The Crescent Transactions resulted in net proceeds of $384.0 million, during the nine months ended June 30, 1997 which consists of the following (in thousands):

Sale of Property and Equipment to Crescent and CBHS.....	$ 392,200
Crescent Transaction costs.....	(8,159)
	$ 384,041

The Company also made a $2.5 capital contribution to CBHS on June 20, 1997. The Company expects to fund an additional $15.4 million in transaction costs and

construction obligations related to the Crescent Transactions through fiscal 1998.

Management believes that its cash on hand, future cash flows from operations, borrowing capacity under the New Revolving Credit Agreement and its ability to issue debt and equity securities under current market conditions will provide adequate capital resources to support the Company's anticipated investing strategies.

FINANCING ACTIVITIES. The Company borrowed approximately $68.1 million and $88.0 million (excluding borrowings of approximately $115.6 million to pay off the previous Revolving Credit Agreement), respectively, during the nine months ended June 30, 1996 and 1997, primarily to fund the acquisition of Green Spring in fiscal 1996 and to (i)fund the payment of variable rate secured notes and other long-term debt, (ii)fund acquisitions and (iii)fund working capital needs in fiscal 1997. The Company believes that its businesses will generate sufficient cash flows from operations to meet its future debt service requirements.

The Company paid off approximately $84.5 million and $389.4 million of debt and capital lease obligations during the nine months ended June 30, 1996 and 1997, respectively. The payments relate primarily to servicing and refinancing long-term debt under the Revolving Credit Agreements and servicing variable rate secured notes and other long-term debt as a result of the Crescent Transactions.

The Company issued approximately 2.6 million warrants with a fair value of $25.0 million to Crescent and COI as part of the Crescent Transactions during the nine months ended June 30, 1997.

On September 27, 1996, the Company repurchased approximately 4.0 million shares of its Common Stock for approximately $73.5 million, including transaction costs, pursuant to a "Dutch Auction" self-tender offer to its stockholders. On November 1, 1996, the Company announced that its board of directors approved the repurchase of an additional 3.0 million shares of its Common Stock from time to time subject to the terms of the New Revolving Credit Agreement. The Company expects to use cash on hand, future cash flows from operations and borrowings under its New Revolving Credit Agreement to fund any future treasury stock purchases.

As of June 30, 1997, the Company had $193.4 million of availability under the New Revolving Credit Agreement. The Company was in compliance with all debt covenants at June 30, 1997.

OUTLOOK

CRESCENT TRANSACTIONS. The Company relinquished control of CBHS upon consummation of the Crescent Transactions. Magellan's operational input in CBHS will be limited to those rights provided by the franchise agreements and the CBHS Operating Agreement.

The Franchise Fees payable to the Company by CBHS are subordinated in payment to the $41.7 million annual base rent, 5% minimum escalator rent and, in certain circumstances, the additional rent due Crescent under the CBHS Facilities Lease. If CBHS encounters a decline in earnings or financial difficulties, such amounts due Crescent will be paid before any Franchise Fees are paid. The remainder of CBHS' available cash will then be applied in such order of priority as CBHS may determine, in the reasonable discretion of the CBHS board, to all other operating expenses of CBHS, including the current

and accumulated Franchise Fees. The Company will be entitled to pursue all available remedies for breach of the Master Franchise Agreement, except that the Company does not have the right to take any action that could reasonably be expected to force CBHS into bankruptcy or receivership. In addition, if CBHS encounters a decline in earnings or financial difficulties, it is possible that cash flows from CBHS' operations will not be sufficient to pay all or a portion of the Franchise Fees when due.

The Company has used the proceeds of the Crescent Transactions to reduce net interest expense by repaying long-term debt where possible and investing the remaining proceeds in short-term cash equivalents. Although net interest expense will be lower, the Company's reduced earnings as a result of the Crescent Transactions could be even more pronounced until capital resource allocation decisions (e.g., acquisitions) related to the net proceeds from the Crescent

Transactions are implemented.

SALE OF EUROPEAN HOSPITALS. On March 19, 1997, the Company announced that it signed definitive agreements with Priory Hospitals Holdings Limited and Priory Hospitals Europe Limited for the sale of its two psychiatric hospitals in London and its psychiatric hospital in Nyon, Switzerland. The sale of the European Hospitals was subject to regulatory approval. The total purchase price for the European Hospitals and license agreements was $76 million.

On June 17, 1997, the Company announced that the sale of its two United Kingdom hospitals had been referred to the Monopolies and Mergers Commission ("MMC") by the Office of Fair Trade under the provisions of the Fair Trading Act. The MMC is required to make their report by September 15, 1997. The time period for receiving regulatory approval expired and the Company elected not to consummate the sale and has begun exploring other strategic alternatives related to its European hospitals.

NET OPERATING LOSS CARRYFORWARDS The Company incurred a gain for federal income tax purposes of approximately $50 million as a result of the Crescent Transactions. The Company intends to utilize net operating loss carryforwards ("NOLs") to offset such taxable gains to the extent NOLs are available. The expected utilization of NOLs as a result of the Crescent Transactions will accelerate the payment of federal income taxes in future periods, resulting in lower cash flows from operations in future periods.

OPERATIONS-PROVIDER. CBHS management continually assesses events and changes in circumstances that could affect its business strategy and the viability of its operations. During fiscal 1995 and 1996, Magellan consolidated, closed or sold 15 and 9 psychiatric hospitals, respectively. During fiscal 1997, Magellan has consolidated or closed three psychiatric hospitals and its one general hospital. See Note G for further information regarding facility closures in fiscal 1996 and 1997. CBHS may pursue acquisitions during fiscal 1998 in markets where it does not currently have a presence and in markets where it has existing hospital operations. CBHS management may consolidate services in selected markets as a result of acquisitions or overcapacity by closing additional facilities in future periods depending on market conditions and evolving business strategies. If CBHS closes additional psychiatric hospitals in future periods, it could result in additional charges to income for the costs necessary to exit the hospital operations, which would result in lower equity in earnings of CBHS for the Company.

The Company's hospitals and CBHS' hospitals continue to experience a shift in payer mix to managed care payers from other payers, which contributed to a reduction in revenue per equivalent patient day in fiscal 1996 and average length of stay in fiscal 1996 and 1997. Management anticipates continued shifting in CBHS' hospital payer mix towards managed care payers as a result of changes in the healthcare marketplace. Future shifts in CBHS' hospital payer mix to managed care payers could result in lower revenue per equivalent patient day and lower average length of stay in future periods for CBHS' hospital operations. In addition, the recently passed Federal budget will, beginning in fiscal 1998, reduce the amount of reimbursement the Company and CBHS receive for treatment of Medicare patients. Lower revenue per equivalent patient day and declines in average length of stay at CBHS' hospitals could result in lower equity in earnings from CBHS for the Company and the recognition of bad debt expense related to franchise fee receivables in future periods, if any.

During fiscal 1994, 1995 and 1996, the Company recorded revenue of $32.1 million, $35.6 million and $28.3 million, respectively, for settlements and adjustments related to reimbursement issues. During the quarter and the nine months ended June 30, 1997, the Company recorded revenue of $2.5 million and $16.2 million, respectively, for settlements and adjustments related to reimbursement issues compared to $3.3 million and $14.4 million, respectively, for the prior year periods. The settlements in fiscal 1994, 1995 and 1996 related primarily to certain reimbursable costs associated with the Company's financial reorganization in fiscal 1992 and costs related to the early extinguishment of long-term debt in fiscal 1994. Management anticipates that revenue related to such settlements will decline for fiscal 1997, and that the decline will be comparable to the reduction experienced in fiscal 1996. Management also expects revenue related to such settlements to decline in fiscal 1998 from anticipated fiscal 1997 levels comparable to the reduction anticipated in fiscal 1997 as compared to fiscal 1996.

During fiscal 1996, the Company recorded reductions of expenses of

approximately $15.3 million as a result of updated actuarial estimates related to malpractice claim reserves. The Company recorded reductions of expenses of approximately $4.8 million and $12.3 million during the quarter and the nine months ended June 30, 1996 and $2.5 million and $7.5 million in the quarter and the nine months ended June 30, 1997, respectively. These reductions resulted primarily from updates to actuarial assumptions regarding the Company's expected losses for more recent policy years. These revisions are based on changes in expected values of ultimate losses resulting from the Company's claim experience, and increased reliance on such claim experience. While Management and its actuaries believe that the present reserve is reasonable, ultimate settlement of losses may vary from the amount recorded and result in additional fluctuations in income in future periods.

HUMAN AFFAIRS INTERNATIONAL, INC. ACQUISITION

On August 5, 1997, the Company announced that it had signed a definitive agreement for the purchase of Human Affairs International, Inc. ("HAI"), a unit of Aetna U.S. Healthcare for approximately $122.1 million in cash. HAI manages the care of approximately 15 million covered lives through employee assistance programs and managed behavioral health plans. The Company expects to fund the acquisition of HAI with cash on hand. The Company will account for the acquisition of HAI using the purchase method of accounting. The HAI acquisition is subject to federal and state approval and other customary matters and is expected to close in the first quarter of fiscal 1998.

The Company may be required to make additional contingent payments of up to $300 million to Aetna U.S. Healthcare (the "Contingent Payments") over the five-year period subsequent to closing under certain circumstances. The Company expects to fund the Contingent Payments, if any, with a combination of cash on hand, future cash flows from operations and borrowing capacity under the New Revolving Credit Agreement.

PART II--OTHER INFORMATION

ITEM 1.--LEGAL PROCEEDINGS

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

ITEM 4.--SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held an annual meeting of stockholders on May 30, 1997.

The tabulation of votes with respect to each matter voted upon at the meeting is as follows:

	VOTES CAST			
	FOR	AUTHORITY WITHHELD	ABSTAIN	BROKER NON-VOTES
Election of:				
E. Mac Crawford as a Director (term expiring in 2000).....	25,501,517	502,794	N/A	N/A
Raymond H. Kiefer as a Director (term expiring in 2000).....	25,551,055	453,256	N/A	N/A
Gerald L. McManis as a Director (term expiring 2000).....	25,032,534	971,777	N/A	N/A

	FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
Approval of:				
Increasing the number of Directors from 8 to 12.....	25,936,831	42,738	24,742	0
1997 Stock Option Plan.....	21,557,684	496,605	43,393	3,906,629
Crescent Transactions.....	21,413,032	49,460	635,096	3,906,723

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

(a) Exhibits

2(a) Real Estate Purchase and Sale Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership, which was filed as Exhibit 2(a) to the Company's current report on Form 8-K filed on April 23, 1997, and is incorporated herein by reference.

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

2(c) Amendment No. 2, dated May 29, 1997, to the Real Estate Purchase and Sale Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership, which was filed as Exhibit 2(c) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

2(d) Contribution Agreement, dated June 16, 1997 between the Company and Crescent Operating, Inc., which was filed as Exhibit 2(d) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

4(a) Warrant Purchase Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership which was filed as Exhibit 4(a) to the Company's current report on Form 8-K, which was filed on April 23, 1997, and is incorporated herein by reference.

4(b) Amendment No. 1, dated June 17, 1997, to the Warrant Purchase Agreement, dated January 29, 1997, between the Company and Crescent Real Estate Equities Limited Partnership, which was filed as Exhibit 4(b) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

10(a) Master Lease Agreement, dated June 16, 1997, between Crescent Real Estate Funding VII, L.P., as Landlord, and Charter Behavioral Health Systems, LLC, as Tenant, which was filed as Exhibit 99(b) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

10(b) Master Franchise Agreement, dated June 17, 1997, between the Company and Charter Behavioral Health Systems, LLC, which was filed as Exhibit 99(c) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

10(c) Form of Franchise Agreement, dated June 17, 1997, between the Company, as Franchisor, and Franchise Owners, which was filed as Exhibit 99(d) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

10(d) Subordination Agreement, dated June 16, 1997, between the Company, Charter Behavioral Health Systems, LLC and Crescent Real Estate Equities Limited Partnership, which was filed as Exhibit 99(e) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

10(e) Operating Agreement of Charter Behavioral Health systems, LLC, dated June 16, 1997, between the Company and Crescent Operating, Inc., which was filed as Exhibit 99(f) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

10(f) Warrant Purchase Agreement, dated June 16, 1997, between the Company and Crescent Operating, Inc., which was filed as Exhibit 99(g) to the Company's current report on Form 8-K, which was filed on June 30, 1997, and is incorporated herein by reference.

10(g)* Employment Agreement, dated March 1, 1997, between the Company and E. Mac Crawford.

10(h) Amended and Restated Credit Agreement, dated June 16, 1997, among the Company and Chase Manhattan Bank, as Administrative Agent and First Union National Bank of North Carolina as Syndication Agent.

10(i)* 1997 Stock Option Plan of the Company

27 Financial Data Schedule

99 Safe Harbor for Forward-Looking Statements under the Private Litigation Reform Act of 1995: Certain Cautionary Statements.

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* Constitutes a management contract or compensatory plan arrangement.

(b) Reports on Form 8-K

The following current reports on Form 8-K were filed by the Registrant with the Securities and Exchange Commission during the quarter ended June 30, 1997.

DATE OF REPORT	ITEM REPORTED AND DESCRIPTION	FINANCIAL STATEMENTS FILED
April 23, 1997	Other Events--Crescent Transaction Documents	No
June 30, 1997	Disposition of Assets--Crescent Transactions	Yes(1)

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

(1) Unaudited Pro Forma Statements of Operations for the fiscal year ended September 30, 1996 and the six months ended March 31, 1997 and unaudited Pro Forma Balance Sheet as of March 31, 1997.

FORM 10-Q

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

SIGNATURES

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

MAGELLAN HEALTH SERVICES, INC.

(Registrant)

Date: August 12 , 1997

/s/ CRAIG L. MCKNIGHT

Craig L. McKnight
Executive Vice President and
Chief Financial Officer

Date: August 12 , 1997

/s/ HOWARD A. MCLURE

Howard A. McLure
Senior Vice President and Controller
(Principal Accounting Officer)

EXHIBIT 10(g)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of March 1, 1997 by and between Magellan Health Services, Inc., a Delaware Corporation ("Employer"), and E. Mac Crawford ("Officer").

WHEREAS, on October 1, 1995, Employer and Officer entered into an employment agreement having a term expiring on December 31, 1997; and Employer and Officer desire to replace that employment agreement with this Agreement; and

WHEREAS, Employer desires to obtain the continued services of Officer, and Officer desires to continue to render services to Employer; and

WHEREAS, Employer and Officer desire to set forth the terms and conditions of Officer's employment with Employer under this Agreement;

NOW, THEREFORE, in consideration of the foregoing recitals and of the mutual covenants and agreements contained in this Agreement, the parties agree as follows:

1. Term. Employer agrees to employ Officer, and Officer agrees to serve Employer, in accordance with the terms of this Agreement, for a term (the "Term") beginning on the date of this Agreement and ending, unless earlier terminated in accordance with the provisions of this Agreement, on March 1, 2000.

2. Employment of Officer.

(a) Specific Position. Employer and Officer agree that, subject to the provisions of this Agreement, Employer will employ Officer and Officer will serve Employer as Chairman of the Board of Directors, President and Chief Executive Officer. Employer agrees that Officer's duties under this Agreement shall be the usual and customary duties of a Chief Executive Officer and, consistent with the foregoing, as are determined from time to time by the Board of Directors of Employer (the "Board"), and shall not be inconsistent with the provisions of the Certificate of Incorporation of Employer or applicable law.

(b) Promotion of Employer's Business. Subject to the provisions of Section 2(c), during the Term Officer shall devote his full business time and energy to the business, affairs and interests of Employer and related matters, and shall use his best efforts and abilities to promote Employer's interests. Officer agrees that he will diligently endeavor to perform services contemplated by this Agreement in accordance with the policies established by the Board, subject to the provisions of the second sentence of Section 2(a).

(c) Permitted Activities. Officer may serve as an officer, director, agent or employee of any direct or indirect subsidiary or other affiliate of Employer but may not serve as an officer, director, agent or employee of any other business enterprise without the written approval of the Board; provided, that Officer may make and manage personal business investments of his choice (and, in so doing, may serve as an officer, director, agent or employee of entities and business enterprises that are related to such personal business investments) and serve in any capacity with any civic, educational or charitable organization, or any governmental entity or trade association, without seeking or obtaining such written approval of the Board, if such activities and services do not significantly interfere or conflict with the performance of his duties under this Agreement.

(d) Principal Office. Officer's principal office and normal place of work shall be at Employer's principal executive offices.

3. Salary. Employer shall pay Officer a salary in the amount of $825,000 per year (pro-rated for any partial year during the Term) payable in equal semi-monthly installments, less state and federal tax and other legally required and Officer-authorized withholdings. Such salary shall be subject to

review and adjustment by the Board (or a Board Committee) from time to time consistent with past practice; provided, that, during the Term, such salary may not be reduced below any previous level paid during the Term as a result of such review.

4. 1995-1997 Contract Bonus Compensation. In consideration of services provided by Officer to Employer from October 1, 1995, to December 31, 1997, under the employment agreement referred to in the first "WHEREAS" clause of this Agreement and under this Agreement, on January 2, 1998, Employer shall pay in cash to Officer $10 million minus the amount determined under the next two paragraphs, whichever is applicable.

If, on December 31, 1997, Officer has not exercised, between October 1, 1995 and December 31, 1997, any options held by Officer on October 1, 1995 under Employer's 1992 Stock Option Plan, then the amount shall be the result obtained by multiplying (i) 462,990 (the number of options held by Officer as of October 1, 1995 under Employer's 1992 Stock Option Plan) by (ii) the excess of the lesser of (A) $18.00 and (B) the arithmetic average of the closing sale price per share of Employer's Common Stock on the New York Stock Exchange (or if the Common Stock is not then traded on such exchange, on the largest national securities exchange on which the Common Stock is then traded or, if not then traded on a national securities exchange, on the NASD market in or on which the Common Stock is then traded) for the ten trading days immediately preceding the date of payment, over (iii) $4.36.

If, on December 31, 1997, Officer has exercised, between October 1, 1995 and December 31, 1997, any of such options held by him on October 1, 1995, then the amount shall be the sum of (a) and (b), as follows:

(a) the result obtained by multiplying (i) the number of options held by Officer on October 1, 1995 under Employer's 1992 Stock Option Plan, which options have not been

exercised as of December 31, 1997, by (ii) the excess of the lesser of (A) and (B) in the immediately-preceding paragraph, over (iii) $4.36.

(b) the result obtained by multiplying (i) the number of options held by Officer on October 1, 1995 under Employer's 1992 Stock Option Plan, which options are exercised by Officer between October 1, 1995 and December 31, 1997, by (ii) the excess of $18 over $4.36, or $13.64.

If, prior to the date of payment pursuant to this Section 4, Employer effects a change in capitalization, as described in Section 10 of Employer's 1992 Stock Option Plan, then the number and dollar amounts in (i), (ii)(A) and (iii) in the second paragraph of this Section 4 and in (a) and (b) of the third paragraph of this Section 4 shall be adjusted in the manner provided in Section 10 of Employer's 1992 Stock Option Plan (as such plan was worded on October 1, 1995).

A change in the per share exercise price of such options pursuant to Section 3(b) of the Stock Option Agreement, dated as of July 21, 1992, between Employer and Officer shall not affect the amount payable to Officer under this Section 4.

5. Transaction Bonus Compensation. In consideration of Officer's services to Employer in connection with the transaction described in this Section 5, Employer shall pay to Officer $2,475,000 promptly upon the closing of the transactions contemplated by the Real Estate Purchase and Sale Agreement, dated as of January 29, 1997, between Employer and Crescent Real Estate Equities Limited Partnership (the "REPS Agreement"), and the OpCo Contribution Agreement (as defined in the REPS Agreement), and the execution of the Facilities Lease (as defined in the REPS Agreement), the Franchise Agreement (as defined in the REPS Agreement), and the Operating Agreement (as defined in the REPS Agreement), as any or all of the foregoing agreements may be amended, supplemented, restated or substituted for from time to time prior to or upon the closing of the transactions contemplated by the REPS Agreement.

6. Benefits.

(a) Fringe Benefits. In addition to the compensation provided

for in Sections 3, 4 and 5, Officer shall be entitled during the Term to such other benefits of employment with Employer as are now or may after the date of this Agreement be in effect for (i) salaried officers of Employer or (ii) senior executives of Employer, including, without limitation, all bonus, incentive and deferred compensation, pension, stock option, life and other insurance, disability (insured and uninsured), medical and dental and other benefit plans or programs; provided, that bonuses, life insurance and disability insurance for Officer during the Term shall be in amounts and on other terms that are not less and no less favorable than those provided, on average, by comparable healthcare and hospital management companies for a comparable officer position.

(b) Expenses. During the Term, Employer shall reimburse Officer promptly for all reasonable travel, entertainment, parking, business meeting and similar expenditures

in pursuit and furtherance of Employer's business upon receipt of reasonable supporting documentation as required by Employer's policies applicable to its officers generally.

7. Termination.

(a) Termination Due to Resignation and Termination For Cause. (1) Officer's employment under this Agreement shall be terminated and, except as provided in this Section 7, all of his rights to receive salary and other benefits (except for salary, bonus and other benefits accrued through the date of termination) shall terminate upon the occurrence of (i) Officer's resignation other than for "good reason," as defined in Section 7(e), or (ii) termination by Employer for "cause," as defined below, during the Term. Employer shall have the right, exercisable upon 30 days' written notice, to terminate, without liability except as provided in the parenthetical in the preceding sentence, Officer's employment for "cause" if Officer (i) materially breaches any material term of this Agreement, (ii) is convicted by a court of competent jurisdiction of a felony, (iii) refuses, fails or neglects to perform his duties under this Agreement in a manner substantially detrimental to the business of the Employer, (iv) engages in illegal or other wrongful conduct substantially detrimental to the business or reputation of Employer, or (v) develops or pursues interests substantially adverse to Employer; provided that in the case of clauses (i), (iii), (iv), or (v), no such termination shall be effective unless (1) Employer shall have given Officer 30 days' prior written notice of any conduct or deficiency in performance by Officer that Employer believes could, if not discontinued or corrected, lead to Officer's termination under this Section 7(a) in order that Officer shall have had an opportunity to cure such noncomplying conduct or performance, and (2) Officer shall not have cured such noncomplying conduct or performance during such notice period.

(2) If this Agreement is terminated due to Officer's resignation other than for "good reason" as defined in Section 7(e) and if the payment provided for in Section 4 has not been paid and has not been required to be paid pursuant to the terms of Section 4, then Employer shall pay to Officer, in addition to any amounts payable pursuant to Section 7(a)(1), an amount equal to the result obtained by multiplying (i) the number of options held by Officer as of October 1, 1995 under Employer's 1992 Stock Option Plan, which options have not been exercised by Officer between October 1, 1995 and the date of such termination of this Agreement by (ii) the excess, if any, of (A) $18.00 over (B) the arithmetic average of the closing sale price per share of Employer's Common Stock on the New York Stock Exchange (or other exchange or market, as described in the second paragraph of Section 4) for the ten trading days immediately preceding the date of termination.

(b) Termination Due to Death or Disability. Officer's employment and all of his rights to receive salary and other benefits under this Agreement may be terminated by Employer upon Officer's death, or on 30 days' written notice from Employer to Officer if Officer has been unable to perform substantially all of his duties under this Agreement for a period of 180 days, or can reasonably be expected to be unable to do so for such period, as the result of physical or mental impairment; provided that upon any termination pursuant to this Section 7(b), Officer (or in the event of his death, his estate) shall be entitled to receive the Specified Amount (as defined below), and such Specified Amount shall be payable in a lump sum on the date of termination. In addition to the

Specified Amount, if Officer is terminated due to death or disability, Officer (or in the event of his death, his estate) shall be entitled to receive the portion or portions of any bonus or other cash incentive compensation that had been accrued with respect to Officer on the books of Employer through the date of termination pursuant to this Section 7(b) or otherwise.

The term "Specified Amount" shall mean the sum of (x) the greater of (i) the total of all salary payments pursuant to Section 3 that would thereafter have come due during the Term had there been no such termination or resignation or (ii) five years' salary pursuant to Section 3, (in each case as the same may have been extended and assuming a continuation for the remainder of the Term of then current salary levels); (y), unless the amount described in this clause (y) has already been paid to Officer pursuant to the provisions of Section 4, the amount payable to Officer on January 2, 1998, pursuant to Section 4, except that the references in Section 4 to "December 31, 1997" shall be changed to the date of termination of this Agreement; and (z), unless the amount described in this clause (z) has already been paid to Officer pursuant to the provisions of Section 5, the amount payable to Officer pursuant to Section 5 but only if the conditions described in Section 5 to payment of the amount payable to Officer pursuant to Section 5 either (1) have been satisfied as of the date of termination or (2) are satisfied within 180 days after the date of termination. Any provisions of this Agreement to the contrary notwithstanding, if a payment is due to Officer pursuant to subclause (2) of clause (z) of the preceding sentence, the payment of that portion of the Specified Amount shall be made promptly after satisfaction of the conditions described in Section 5 to payment of the amount payable to Officer pursuant to Section 5.

(c) Termination Without Cause. Subject to compliance with the provisions of Section 7(d), Employer shall have the right, exercisable on 30 days' written notice, to terminate Officer's employment under this Agreement without cause at any time during the Term.

(d) Payments Upon Termination Without Cause. If Officer is terminated by Employer without cause pursuant to Section 7(c), Officer (i) shall be entitled to receive the Specified Amount in cash on the date of such termination; (ii) any stock option or other stock-based compensation plan shall be governed by the terms of such plans (and any related stock option or similar agreements); and (iii) the portion or portions of any bonus or other cash incentive compensation that had been accrued with respect to Officer on the books of Employer through the date of termination pursuant to this Section 7(d) or otherwise shall be paid to Officer in cash on the date of such termination.

(e) Termination By Officer For Good Reason. Officer shall be entitled to terminate his employment for "good reason" and in such event shall be entitled to all of the salary, benefits and other rights provided in this Agreement as though the termination was initiated by Employer without "cause". For purposes of this Agreement, "good reason" shall mean any of the following events, which event shall continue for 30 days after notice to the Employer, unless the event occurs with Officer's express prior written consent:

(i) the assignment to Officer of any duties inconsistent with his status as

Chairman of the Board of Directors, President and Chief Executive Officer of Employer or a substantial alteration in the nature or status of his responsibilities from those in effect immediately prior to October 1, 1995;

(ii) a reduction by Employer in Officer's annual base salary as in effect from time to time during the Term;

(iii) the failure by Employer to comply with Section 3, Section 4, Section 5 or Section 6; or

(iv) any other material breach of this Agreement by Employer.

(f) Termination Upon a Change of Control or Failure to Approve Stock Option Plan. Officer shall be entitled to terminate his employment upon a change of control or failure to approve stock option plan as described in clause (c) of this sentence and shall be entitled to (i) all of the salary, benefits and other rights provided in this Agreement (including those payments provided under Section 7(d)) as though the termination has been initiated by Employer without cause, and (ii) a Gross-Up Payment (as defined), to the extent provided by the second paragraph of this Section 7(f), upon the occurrence of any of the following events: (a) the acquisition after the date of this Agreement, in one or more transactions, of beneficial ownership (within the meaning of Rule 13d-3(a)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) by any person or entity (other than Officer) or any group of persons or entities (other than Officer) who constitute a group (within the meaning of Section 13(d)(3) of the Exchange Act) of any securities of Employer such that as a result of such acquisition such person or entity or group beneficially owns (within the meaning of Rule 13d-3(a)(1) under the Exchange Act) more than 50% of Employer's then outstanding voting securities entitled to vote on a regular basis for a majority of the Board; (b) the sale of all or substantially all of the assets of Employer (including, without limitation, by way of merger, consolidation, lease or transfer but not including the transactions contemplated by the REPS Agreement) in a transaction where Employer or the holders of common stock of Employer do not receive (i) voting securities representing a majority of the voting power entitled to vote on a regular basis for the Board of Directors of the acquiring entity or of an affiliate which controls the acquiring entity, or (ii) securities representing a majority of the equity interests in the acquiring entity or of an affiliate that controls the acquiring entity, if other than a corporation; or (c) the failure for any reason of the stockholders of Employer to approve (in the manner required by the New York Stock Exchange) on or before September 1, 1997, a non-qualified stock option plan providing for the granting to officers and employees of Employer and its subsidiaries of options to purchase at least 1,500,000 shares of Employer's Common Stock (as adjusted for stock splits, stock dividends and similar changes in capitalization after the date of this Agreement), which options (i) vest one-third on each of the first three anniversaries of their date of grant and (ii) provide for a per share exercise price that is not in excess of the fair market value of a share of Employer's Common Stock on the date of grant of an option.

A Gross-Up Payment (as defined) shall be payable upon termination of

employment pursuant to this Section 7(f) on and subject to the following terms and conditions:

(1) If any payment or other benefit (a "Termination Payment") to Officer under this Section 7(f) is or will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), Employer shall pay to Officer, at the time the applicable Termination Payment is made, an additional amount (the "Gross-Up Payment") such that the net amount retained by Officer, after deduction of any Excise Tax on such Termination Payment and any federal, state and local income tax and Excise Tax on the Gross-Up Payment, shall be equal to the amount or value of such Termination Payment. For purposes of determining whether any such Termination Payment will be subject to the Excise Tax, any other payments or benefits received or to be received by Officer in connection with an event giving rise to a Termination Payment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with Employer, with any person whose actions result in a change in control or with any person affiliated with Employer or such person) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as being subject to the Excise Tax. The amount of the Termination Payment that shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Termination Payment or (ii) the amount of excess parachute payments within the meaning of Sections 280G(b)(1) and (4) of the Code (after applying the immediately preceding sentence). The full amount of the Gross-Up Payment shall be treated as being subject to the Excise Tax. The value of any non-cash benefits or any deferred payment or benefit shall be determined in

accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

(2) For purposes of determining the amount of any Gross-Up Payment, Officer shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the applicable Termination Payment or Gross-Up Payment is made, and shall be deemed to pay state and local income taxes at the highest marginal rates of taxation in the state and locality of his residence on the date the applicable Termination Payment or Gross-Up Payment is made, net of the maximum reduction in federal income taxes that could be obtained from deduction of such state and local taxes.

(3) If the Excise Tax or income tax payable with respect to a Gross-Up Payment as finally determined exceeds the amount taken into account or paid to Officer at the time the applicable Termination Payment or Gross-Up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the applicable Gross-Up Payment), Employer shall make an additional Gross-Up Payment in respect of such excess (plus any interest payable by Officer with respect to such excess) at the time that the amount of such excess is finally determined.

8. Confidentiality and Noncompetition.

(a) Confidentiality. Officer acknowledges that, by reason of his employment with Employer, he may learn trade secrets and obtain other confidential information concerning the business and policies of Employer and its subsidiaries. Officer agrees that he will not voluntarily divulge or otherwise disclose, directly or indirectly, any such trade secrets or other confidential information concerning the business or policies of Employer or any of its subsidiaries that he may learn as a result of his employment during the Term or may have learned prior to the Term, except to the extent such information is lawfully obtainable from public sources or such use or disclosure is (i) necessary to the performance of this Agreement and in furtherance of Employer's best interests, (ii) required by applicable laws, or (iii) authorized by Employer.

(b) Noncompetition. In order to protect any confidential information that Officer may learn during the Term and in order to protect any goodwill that Employer has earned and may earn during the Term, Officer agrees that, if Officer voluntarily terminates this Agreement without good reason during the Term, he shall not, at any location in the State of Georgia, for a period of 12 months after such termination, provide services, as employee, officer, director, consultant or otherwise, which services are substantially similar to the hospital management company chief executive officer services performed by Officer under this Agreement, for any company, firm or entity that owns and operates (directly or through subsidiaries) more than one hospital and that owns and operates one or more psychiatric hospitals located in Georgia within 25 miles of a similar (psychiatric) hospital owned and operated by Employer and located within the State of Georgia.

9. Miscellaneous.

(a) Succession. This Agreement shall inure to the benefit of and shall be binding upon Employer, its successors and assigns, but Employer shall not have the right to assign this Agreement without the prior written consent of Officer. The obligations and duties of Officer under this Agreement shall be personal and not assignable.

(b) Notices. Any notice, request, instruction or other document to be given under this Agreement by any party to the others shall be in writing and delivered in person or by courier, telegraphed, telexed or sent by facsimile transmission or mailed by certified mail, postage prepaid, return receipt requested (such mailed notice to be effective on the date of such receipt is acknowledged), as follows:

If to Officer:

E. Mac Crawford
275 King Road, N.W.

Atlanta, Georgia 30342

If to Employer:

Magellan Health Services, Inc.
3414 Peachtree Road, N.E.
Suite 1400
Atlanta, Georgia 30326
Attn: Secretary

or to such other place and with such other copies as either party may designate as to itself by written notice to the others.

(c) Entire Agreement. This Agreement contains the entire agreement of the parties relating to the subject matter of this Agreement, and it replaces and supersedes any prior agreements between the parties relating to said subject matter, including the employment agreement referred to in the first "WHEREAS" clause of this Agreement.

(d) Waiver; Amendment. No provision of this Agreement may be waived except by a written agreement signed by the waiving party. The waiver of any term or of any condition of this Agreement shall not be deemed to constitute the waiver of any other term or condition. This Agreement may be amended only by a written agreement signed by the parties.

(e) Governing Law. This Agreement shall be construed under and governed by the internal laws of the State of Georgia.

(f) Arbitration. Except for an action for injunctive relief, any disputes or controversies arising under this Agreement shall be settled by arbitration in Atlanta, Georgia in accordance with the rules of the American Arbitration Association relating to the arbitration of commercial disputes. The determination and findings of such arbitrators shall be final and binding on all parties and may be enforced, if necessary, in the courts of the State of Georgia.

(g) Attorneys' Fees in Action by Employee on Contract. In the event of litigation or arbitration between Officer and Employer arising out of or as a result of this Agreement or the acts of the parties pursuant to this Agreement, or seeking an interpretation of this Agreement, if Officer is the party in such litigation or arbitration, in addition to any other judgment or award, he shall be entitled to receive such sums as the court or panel hearing the matter shall find to be reasonable as and for attorneys' fees.

(h) Remedies of Employer. Officer acknowledges that the services he is obligated to render under the provisions of this Agreement are of a special, unique and intellectual character, which gives this Agreement peculiar value to Employer. The loss of these services cannot be reasonably or adequately compensated in damages in an action at law and it would be difficult (if not impossible) to replace such services. Accordingly, Officer agrees and consents that, if he materially violates any of the material provisions of this Agreement, including, without limitation, Section 8, Employer, in addition to any other rights and remedies available under this Agreement or

under applicable law, shall be entitled during the remainder of the Term (and, in the case of Section 8, after the Term to the extent provided in Section 8) to seek injunctive relief, from a court of competent jurisdiction, restraining Officer from committing or continuing any violation of this Agreement, or from the performance of services to any other business entity, or both.

(i) Captions. Captions have been inserted solely for the convenience of reference and in no way define, limit or describe the scope or substance of any provisions of this Agreement.

(j) Severability. If this Agreement shall be any reason be or

become unenforceable by any party, this Agreement shall thereupon terminate and become unenforceable by the other party as well. In all other respects, if any provision of this Agreement is held invalid or unenforceable, the remainder of this Agreement shall nevertheless remain in full force and effect and, if any provision if held invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances.

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

MAGELLAN HEALTH SERVICES, INC.

BY: _____
Name:_____
Title:_____

/s/ E. Mac Crawford
_____
E. Mac Crawford

Exhibit 10(h)

AMENDED AND RESTATED

CREDIT AGREEMENT

dated as of June 16, 1997

among

MAGELLAN HEALTH SERVICES, INC.,

CHARTER BEHAVIORAL HEALTH SYSTEM OF NEW MEXICO, INC.,

THE LENDERS NAMED HEREIN,

THE CHASE MANHATTAN BANK,
as Administrative Agent,
Collateral Agent and an Issuing Bank,

and

FIRST UNION NATIONAL BANK OF NORTH CAROLINA,
as Syndication Agent and an Issuing Bank

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Schedule 6.06(c)	Green Spring Intercompany Dividend Restrictions and Encumbrances

AMENDED AND RESTATED CREDIT AGREEMENT dated as of June 16, 1997, among MAGELLAN HEALTH SERVICES, INC., a Delaware corporation (the "Parent Borrower"), CHARTER BEHAVIORAL HEALTH SYSTEM OF NEW MEXICO, INC., a New Mexico corporation, and each other subsidiary of the Parent Borrower that becomes a "Subsidiary Borrower" hereunder as provided in Section 2.23 hereof (each, a "Subsidiary Borrower" and collectively, the "Subsidiary Borrowers" (such term is used herein as modified in Article I); the Parent Borrower and the Subsidiary Borrowers are collectively referred to herein as the "Borrowers"); the Lenders (as defined in Article I), THE CHASE MANHATTAN BANK, a New York banking corporation, as administrative agent (in such capacity, the "Administrative Agent") for the Lenders, as collateral agent (in such capacity, the "Collateral Agent") for the Lenders and as an issuing bank (in such capacity, an "Issuing Bank"), and FIRST UNION NATIONAL BANK OF NORTH CAROLINA, a North Carolina banking corporation, as syndication agent (in such capacity, the "Syndication Agent") for the Lenders and as an issuing bank (in such capacity, an "Issuing Bank", and together with The Chase Manhattan Bank in its capacity as an Issuing Bank, the "Issuing Banks").

Pursuant to (a) the REIT Purchase Agreement (such term and each other capitalized term used but not defined herein having the meaning given to it in Article I), the Parent Borrower will cause Charter Behavioral and its subsidiaries to sell to Crescent or Crescent Funding (the "Crescent Transaction") substantially all the real property and related improvements, and certain fixtures, furniture and equipment and certain other tangible and intangible personal property, owned by Charter Behavioral and its subsidiaries and used in the operation of their behavioral health care facilities (the "Purchased Facilities"); (b) the Contribution Agreement, the Parent Borrower and certain Subsidiaries will contribute or sell to CBHS and its subsidiaries (the "Contribution Transaction") certain tangible and intangible personal property used in connection with the operation of the Purchased Facilities, certain leasehold interests and certain other tangible and intangible property used in connection with facilities leased by the Parent Borrower and its subsidiaries (the "Leased Facilities"); and (c) the Warrant Agreements, the Parent Borrower will issue to Crescent and the Crescent Affiliate warrants to purchase up to an aggregate of 2,567,000 shares of the Parent Borrower's common stock. Upon consummation of the Crescent Transaction, the Contribution Transaction and the issuance of the Warrants, the Parent Borrower will receive the aggregate consideration of $400,000,000 in cash (subject to other adjustments in accordance with the Transaction Documents) (the "Transaction Consideration").

In connection with the foregoing, the Parent Borrower will apply, or caused to be applied, the Transaction Consideration (a) to refinance the principal of, and pay all interest, fees and other amounts payable in respect of, the outstanding loans under the Existing Credit Agreement, (b) to repay or defease the Charter IRBs, (c) to pay all transaction costs and expenses of the Parent Borrower and its Subsidiaries in respect of the Transactions, (d) together with the proceeds of Note Repurchase Loans, to repurchase on the Series A Notes Repurchase Date all the Series A Notes that are tendered to the Parent Borrower and not withdrawn in accordance with the Series A Notes Tender Offer and (e) for general corporate purposes.

The parties hereto are party to the Existing Credit Agreement or have purchased assignments in outstanding "Loans" and "Commitments" pursuant to Section 9.04 of the Existing Credit Agreement. The Borrowers have requested that the Existing Credit Agreement be amended in certain respects and restated so as to provide, among other things, that the "Refinancing Revolving Credit Facility" in the Existing Credit Agreement be amended to make available to the

Borrowers the Revolving Loans and Note Repurchase Loans described below and contemplated hereby. In connection with the foregoing, the Borrowers have requested the Lenders to extend credit (pursuant to this Amended and Restated Agreement) in the form of Revolving Loans at any time and from time to time in an aggregate principal amount at any time outstanding not in excess of $200,000,000 (less the Note Repurchase Loan Amount and the L/C Exposure). In addition, if the Note Repurchase Loan Amount is greater than zero, the Parent Borrower has requested the Lenders to extend credit in the form of Note Repurchase Loans on the Series A Notes Repurchase Date, in an aggregate principal amount not to exceed the Note Repurchase Loan Amount. The Borrowers have requested the Issuing Banks to issue letters of credit, in an aggregate face amount at any time outstanding not in excess of $50,000,000, to support payment obligations incurred in the ordinary course of business by the Borrowers and the Subsidiaries, including to support payment obligations for industrial revenue bonds that are permitted hereunder. The proceeds of the Revolving Loans are to be used solely (a) for general corporate purposes, (b) to finance acquisitions, investments, transactions, stock repurchases and debt repayments and repurchases, in each case only to the extent permitted hereunder, and (c) to make advances to CBHS, subject to the restrictions and other conditions set forth hereunder. The proceeds of the Note Repurchase Loans are to be used solely to finance the repurchase of the Series A Notes on the Series A Notes Repurchase Date in accordance with the Series A Notes Tender Offer.

The Lenders are willing (a) to amend and restate the Existing Credit Agreement and (b) to extend such credit to the Borrowers and each Issuing Bank is willing to issue such letters of credit for the account of the Borrowers on the terms and subject to the conditions set forth herein. Accordingly, the parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any ABR Revolving Loan or ABR Note Repurchase Loan.

"ABR Note Repurchase Loan" shall mean any Note Repurchase Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"ABR Note Repurchase Borrowing" shall mean a Borrowing comprised of ABR Note Repurchase Loans.

"ABR Revolving Loan" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"ABR Revolving Borrowing" shall mean a Borrowing comprised of ABR Revolving Loans.

"Acquired Entity" shall mean the assets, in the case of an acquisition of assets, or the capital stock or other equity interests (or, if the context requires, the person that is the issuer of such capital stock or other equity interests), in the case of an acquisition of capital stock or other equity interests, acquired by any Borrower or any Guarantor pursuant to a Permitted Acquisition.

"Acquired Entity EBITDA" shall mean, for purposes of clause (c) of the definition of Consolidated EBITDA, the net income of any Acquired Entity for any period plus to the extent deducted in the determination of such Acquired Entity's net income, the sum of such Acquired Entity's (a) aggregate amount of income tax expense for such period, (b) aggregate amount of interest expense for such period and (c) aggregate amount of amortization, depreciation and other

non-cash charges (including employee stock ownership plan expense, stock option expense, and amortization of goodwill, transaction expenses, excess reorganization expense, covenants not to compete and other intangible assets) for such period, all as determined in accordance with GAAP, provided that (i) all extraordinary gains or losses of such Acquired Entity for such period and (ii) the gain (or loss) for such period attributable to the sale of any assets of such Acquired Entity outside the ordinary course of business shall not be included in such Acquired Entity's net income.

"Adjusted LIBO Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the product of (a) the LIBO Rate in effect for such Interest Period and (b) Statutory Reserves.

"Administrative Agent" shall have the meaning assigned to such term in the preamble to this Agreement or any successor appointed pursuant to Article VIII.

"Administrative Agent Fees" shall have the meaning assigned to such term in Section 2.05(b).

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit A.

"Advance Collateral Assignment" shall mean the Collateral Assignment, substantially in the form of Exhibit B-1, made by the Parent Borrower in favor of the Collateral Agent for the benefit of the Secured Parties.

"Advance Security Agreement" shall mean the Security Agreement, substantially in the form of Exhibit B-2, among the Parent Borrower, CBHS and the subsidiaries of CBHS.

"Affiliate" shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified.

"Aggregate Credit Exposure" shall mean the aggregate amount of the Lenders' Revolving Credit Exposures.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability of the Administrative Agent to obtain sufficient quotations in accordance with the terms of the definition thereof, the Alternate Base Rate shall be determined without regard to clause (b) of the preceding sentence until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively. The term "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective on the date such change is publicly announced as being effective. The term "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Applicable Percentage" shall mean, for any day, with respect to any Eurodollar Loan or any ABR Loan, or with respect to the Commitment Fees, as the case may be, the applicable percentage set forth below under the caption

"Eurodollar Spread", "ABR Spread" or "Fee Percentage", as the case may be, based upon the Leverage Ratio as of the relevant determination date:

Leverage Ratio	Eurodollar Spread	ABR Spread	Fee Percentage
Category 1 Greater than 2.50 to 1.00	1.25%	.25%	.375%
Category 2 Less than or equal to 2.50 to 1.00 but greater than 2.00 to 1.00	1.00%	.00%	.250%
Category 3 Less than or equal to 2.00 to 1.00	.75%	.00%	.250%

Each change in the Applicable Percentage resulting from a change in the Leverage Ratio shall be effective with respect to all Loans, Commitments and Letters of Credit outstanding on and after the date of delivery to the Administrative Agent of the financial statements and certificates

required by Section 5.04(a) or (b) indicating such change until the date immediately preceding the next date of delivery of such financial statements and certificates indicating another such change. Notwithstanding the foregoing, (i) until the Parent Borrower has delivered the financial statements for the first full fiscal quarter ending after the Closing Date, in accordance with Section 5.04(a) or (b), (ii) at any time during which the Parent Borrower has failed to deliver the financial statements and certificates required by Section 5.04(a) or (b), or (iii) at any time after the occurrence and during the continuance of an Event of Default, the Leverage Ratio shall be deemed to be in Category 1 for purposes of determining the Applicable Percentage.

"Asset Sale" shall mean the sale (including any transaction that has the economic effect of a sale), transfer or other disposition (by way of merger or otherwise, including sales in connection with a sale and leaseback transaction permitted pursuant to Section 6.03, or as a result of a Condemnation Event or a Casualty Event) by the Borrowers or any Guarantor to any person, other than the Borrowers or any Guarantor, of (a) any capital stock of the Subsidiary Borrowers or any Guarantor or (b) any other assets of the Borrowers or any Guarantor (other than inventory, obsolete or worn out assets, scrap and Permitted Investments, in each case disposed of in the ordinary course of business), except, (i) sales, transfers or other dispositions of the Real Estate for Sale; (ii) sales, transfers or other dispositions of assets on the Closing Date pursuant to the Transaction Documents, including sales, transfers or other dispositions conducted in accordance with Section 14.1 of the REIT Purchase Agreement, (iii) sales, transfers or other dispositions that are Permitted Non-Control Investments or Permitted Non-Guarantor Transactions, (iv) sales, transfers or other dispositions of Green Spring capital stock pursuant to the Green Spring Stockholders' Agreement, (v) any Permitted Post-Closing Crescent Transaction, (vi) sales, transfers or other dispositions of any assets in one transaction or a series of related transactions having a value not in excess of $200,000 and (vii) sales of the capital stock of Charter Medical of England Limited and Societe Anonyme de Metairie, or all or a substantial portion of the assets of such Foreign Subsidiaries, in each case for consideration not less than the fair market value thereof (as determined in good faith by the Board of Directors or a Financial Officer of the Parent Borrower), of which amount not less than 60% is paid in cash.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an assignee, and accepted by the Administrative Agent, in the form of Exhibit C or such other form as shall be approved by the Administrative Agent.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States of America.

"Borrowers" shall have the meaning assigned to such term in the pre-amble to this Agreement.

"Borrowing" shall mean a group of Loans of a single Type made by the Lenders on a single date and as to which a single Interest Period is in effect.

"Borrowing Request" shall mean a request by a Borrower in accordance with the terms of Section 2.03 and substantially in the form of Exhibit D-1.

"Business Day" shall mean any day other than a Saturday, Sunday or day on which banks in New York City are authorized or required by law to close; provided, however, that when

used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Lease Obligations" of any person shall mean the obligations of such person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such person in accordance with GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Casualty Event" shall mean an event pursuant to which any Borrower or any Guarantor has the right to collect and receive insurance proceeds (other than business interruption proceeds) under any insurance policies with respect to any insured casualty to any property of any Borrower or any Guarantor.

"CBHS" shall mean Charter Behavioral Health Systems, LLC, a Delaware limited liability company, 50% of which is initially owned by the Parent Borrower and 50% of which is initially owned by the Crescent Affiliate.

"CBHS Borrowing Base" shall have the meaning assigned to the term "Borrowing Base" in the CBHS Credit Agreement.

"CBHS Commitments" shall have the meaning assigned to the term "Commitments" in the CBHS Credit Agreement.

"CBHS Credit Agreement" shall mean the Credit Agreement dated as of June 16, 1997, among CBHS, the subsidiaries of CBHS named therein, the financial institutions named therein as lenders, The Chase Manhattan Bank, as administrative agent, collateral agent and an issuing bank thereunder, and First Union National Bank of North Carolina, as syndication agent and an issuing bank thereunder.

"CBHS L/C Exposure" shall have the meaning assigned to the term "L/C Exposure" in the CBHS Credit Agreement.

"CBHS Loan Documents" shall have the meaning assigned to the term "Loan Documents" in the CBHS Credit Agreement.

"CBHS Loans" shall have the meaning assigned to the term "Loans" in the CBHS Credit Agreement.

A "Change in Control" shall be deemed to have occurred if (a) any person or group (within the meaning of Rule 13d-5 of the Securities Exchange Act of 1934 as in effect on the date hereof) shall own directly or indirectly, beneficially or of record, shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Parent Borrower, other than any person or group that owns at least 5% of the capital stock of the Parent Borrower on the Closing Date; (b) a majority of the seats (other than vacant seats) on the board of directors of the Parent Borrower shall at any time be occupied by persons who were neither

(i) nominated by the board of directors of the Parent Borrower nor (ii) appointed by directors so nominated; or (c) any change in control (or similar event, however denominated) with respect to the Parent Borrower shall occur under and as defined in any indenture or agreement (other than the Series A Notes Indenture and Series A Notes as may be applicable as a result of the Transactions) in respect of Indebtedness for borrowed money in excess of the aggregate principal amount of $10,000,000 to which the Parent Borrower or any Guarantor is a party.

"Charter Behavioral" shall mean Charter Behavioral Health Systems, Inc., a Delaware corporation and a wholly owned subsidiary of the Parent Borrower.

"Charter IRBs" shall mean the industrial revenue bonds set forth on Schedule 1.01(a).

"Closing Date" shall mean the date of the first Credit Event.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall mean all the "Collateral" as defined in any Security Document.

"Collateral Agent" shall have the meaning assigned to such term in the preamble to this Agreement or any successor appointed pursuant to Article VIII.

"Collateral Assignment" shall mean the Collateral Assignment, substantially in the form of Exhibit E, made by the Parent Borrower in favor of the Collateral Agent for the benefit of the Secured Parties.

"Commitment" shall mean, with respect to each Lender, such Lender's Revolving Credit Commitment and Note Repurchase Loan Commitment.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.05(a).

"Condemnation Event" shall mean an event pursuant to which any Borrower or any Guarantor has the right to collect and receive proceeds as a result of any action or proceeding for the taking of any property of any Borrower or any Guarantor, or any part thereof or interest therein, for public or quasi-public use under the power of eminent domain, by reason of any public improvement or condemnation proceeding or in any other manner.

"Confidential Information Memorandum" shall mean the Confidential Information Memorandum of the Parent Borrower and CBHS dated May , 1997.

"Consolidated Current Assets" shall mean, at any date of determination, all assets (other than cash and cash-equivalents) that would, in accordance with GAAP, be classified on a consolidated balance sheet of the Parent Borrower and the Guarantors as current assets at such date of determination.

"Consolidated Current Liabilities" shall mean, at any date of determination, all liabilities (other than, without duplication, (x) the current portion of long-term Indebtedness and

(y) Revolving Loans) that would, inaccordance with GAAP, be classified on a consolidated balance sheet of the Parent Borrower and the Guarantors as current liabilities at such date of determination.

"Consolidated EBITDA" shall mean, for any period, (a) Consolidated Net Income for such period plus (b) to the extent deducted in the determination of Consolidated Net Income, the sum of (i) the aggregate amount of income tax

expense for such period, (ii) the aggregate amount of Consolidated Interest Expense for such period and (iii) the aggregate amount of amortization, depreciation and other non-cash charges (including employee stock ownership plan expense, stock option expense and amortization of goodwill, expenses related to the consummation of the Transactions and other transaction expenses, excess reorganization expense, covenants not to compete and other intangible assets) for such period, as determined in accordance with GAAP, and plus, without duplication, (c) any Acquired Entity EBITDA during such period, calculated on a pro forma basis as of the first day of such period, and minus, without duplication, (d) the sum of extraordinary cash charges paid during such period by the Parent Borrower and the Subsidiaries, excluding any such extraordinary cash charges paid in respect of (x) the Transactions up to an amount that is not materially inconsistent with amounts previously disclosed to the Administrative Agent and the Syndication Agent or (y) any refinancing of Indebtedness permitted by Section 6.01(n) and Section 6.04(d).

"Consolidated Interest Expense" shall mean, with respect to the Parent Borrower and the Subsidiaries for any period, the gross interest expense (including interest expense attributable to Capital Lease Obligations and Interest Rate Protection Agreements but excluding any non-cash interest expense, including amortization of deferred loan costs) accrued or paid by the Parent Borrower and the Subsidiaries for such period, as determined on a consolidated basis in accordance with GAAP, plus (without duplication) gross interest expense (including interest expense attributable to Capital Lease Obligations and interest rate protection agreements but excluding any non-cash interest expense such as amortization of deferred loan costs) relating to Indebtedness incurred or assumed by the Parent Borrower or any Subsidiary with respect to the acquisition of any Acquired Entity during such period, calculated on a pro forma basis as of the first day of such period.

"Consolidated Net Income" shall mean, for any period, the net income (or loss) of the Parent Borrower and the Subsidiaries for such period as determined on a consolidated basis in accordance with GAAP, provided that (a) there shall be included in the determination of Consolidated Net Income the net income (or loss) attributable to each Controlled Venture (it being understood that such net income (or loss) will be proportionate to the Parent Borrower's equity interest, direct or indirect, in such Controlled Venture) and (b) there shall be excluded from the determination of Consolidated Net Income (i) the net income (or loss) attributable to all Non-Controlled Ventures to the extent that cash has not been distributed to the Parent Borrower or any of the Subsidiaries, (ii) all extraordinary gains or losses and (iii) the gain (or loss) attributable to the sale of any assets of the Parent Borrower or the Subsidiaries permitted under Section 6.05 or pursuant to the Transactions.

"Consolidated Working Capital" shall mean, at any date of determination, Consolidated Current Assets at such date of determination minus Consolidated Current Liabilities at such date of determination.

"Contribution Agreement" shall mean the Contribution Agreement dated as of June 16, 1997, among the Parent Borrower, Crescent Affiliate and CBHS.

"Contribution Transaction" shall have the meaning given such term in the preamble to this Agreement.

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and the terms "Controlling" and "Controlled" shall have meanings correlative thereto. For purposes of this Agreement, "Control" shall be deemed to exist if, for financial reporting purposes, the Controlled person's financial statements are consolidated with the financial statements of the Controlling person.

"Controlled Non-Guarantor Entities" shall mean partnerships, joint ventures or Subsidiary Non-Guarantors in which the Parent Borrower or any of the Subsidiaries have an ownership interest of 50% or greater of the equity interests therein and that are Controlled by the Parent Borrower.

"Controlled Ventures" shall mean the healthcare partnerships and joint

ventures (i) that are Controlled by the Parent Borrower or any of the Subsidiaries, (ii) of which the Parent Borrower or any of the Subsidiaries has an ownership interest of 50% or greater of the equity interests therein and (iii) of which the partnership documents and any other applicable governing documents contain no restriction or prohibition of any kind on cash distributions, other than Permitted Restrictions.

"Credit Event" shall have the meaning assigned to such term in Section 4.01.

"Crescent" shall mean Crescent Real Estate Equities Limited Partnership, a Delaware limited partnership.

"Crescent Affiliate" shall mean Crescent Operating Inc., a Delaware corporation, its successors and assigns.

"Crescent Funding" shall mean Crescent Real Estate Funding VII, L.P., a Delaware limited partnership, its successors and assigns.

"Crescent Transaction" shall have the meaning assigned to such term in the preamble to this Agreement.

"Deemed Borrowing Base Cut-Off Date" shall have the meaning assigned to such term in the CBHS Credit Agreement.

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"dollars" or "$" shall mean lawful money of the United States of America.

"Domestic Subsidiaries" shall mean all Subsidiaries incorporated or organized under the laws of the United States of America, any State thereof or the District of Columbia.

"environment" shall mean ambient air, surface water and groundwater (including potable water, navigable water and wetlands), the land surface or subsurface strata, the workplace or as otherwise defined in any Environmental Law.

"Environmental Claim" shall mean any written accusation, allegation, notice of violation, claim, demand, order, directive, cost recovery action or other cause of action by, or on behalf of, any Governmental Authority or any person for damages, injunctive or equitable relief, personal injury (including sickness, disease or death), Remedial Action costs, tangible or intangible property damage, natural resource damages, nuisance, pollution, any adverse effect on the environment caused by any Hazardous Material, or for fines, penalties or restrictions, resulting from or based upon (a) the existence, or the continuation of the existence, of a Release (including sudden or non-sudden, accidental or non-accidental Releases), (b) exposure to any Hazardous Material, (c) the presence, use, handling, transportation, storage, treatment or disposal of any Hazardous Material or (d) the violation or alleged violation of any Environmental Law or Environmental Permit.

"Environmental Law" shall mean any and all applicable present and future treaties, laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, Release or threatened Release of any Hazardous Material or to health and safety matters, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. Sections 9601 et seq. (collectively "CERCLA"), the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. Sections 6901 et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. Sections 1251 et seq., the Clean Air Act of 1970, as amended 42 U.S.C. Sections 7401 et seq., the Toxic Substances Control Act of 1976, 15 U.S.C. Sections 2601 et seq., the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. Sections 651 et seq., the Emergency Planning and

Community Right-to-Know Act of 1986, 42 U.S.C. Sections 11001 et seq., the Safe Drinking Water Act of 1974, as amended, 42 U.S.C. Sections 300(f) et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Sections 5101 et seq., and any similar or implementing state or local law, and all amendments or regulations promulgated under any of the foregoing.

"Environmental Permit" shall mean any permit, approval, authorization, certificate, license, variance, filing or permission required by or from any Governmental Authority pursuant to any Environmental Law.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that, together with any Loan Party, is treated as a single employer under Section 414(b) or (c) of the Code, or solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" shall mean (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Plan; (b) the adoption of any

amendment to a Plan that would require the provision of security pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA; (c) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (d) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (e) the incurrence of any liability under Title IV of ERISA with respect to the termination of any Plan or the withdrawal or partial withdrawal of any Loan Party or any of its ERISA Affiliates from any Plan or Multiemployer Plan; (f) the receipt by any Loan Party or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to the intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (g) the receipt by any Loan Party or any ERISA Affiliate of any notice concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; (h) the occurrence of a "prohibited transaction" with respect to which any Loan Party or any of its Subsidiaries is a "disqualified person" (within the meaning of Section 4975 of the Code) or with respect to which any Loan Party or any such Subsidiary could otherwise be liable; and (i) any other event or condition with respect to a Plan or Multiemployer Plan that could reasonably be expected to result in liability of any Loan Party.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan" shall mean any Eurodollar Revolving Loan or Eurodollar Note Repurchase Loan.

"Eurodollar Note Repurchase Borrowing" shall mean a Borrowing comprised of Eurodollar Note Repurchase Loans.

"Eurodollar Note Repurchase Loan" shall mean any Note Repurchase Loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate in accordance with the provisions of Article II.

"Eurodollar Revolving Borrowing" shall mean a Borrowing comprised of Eurodollar Revolving Loans.

"Eurodollar Revolving Loan" shall mean any Revolving Loan bearing interest at a rate determined by reference to the Adjusted LIBO Rate in accordance with the provisions of Article II.

"Event of Default" shall have the meaning assigned to such term in Article VII.

"Excess Cash Flow" shall mean, for any fiscal year, the excess of (a) the sum, without duplication, of (i) Consolidated EBITDA, (ii)

extraordinary cash income, if any, not included in Consolidated EBITDA and (iii) an amount equal to any decrease in Consolidated Working Capital during such fiscal year minus (b) the sum, without duplication, of (i) taxes paid or payable in cash by the Parent Borrower and the Subsidiaries on a consolidated basis during such fiscal year, (ii) Consolidated Interest Expense paid in cash during such fiscal year, (iii) cash payments made during such fiscal year in respect of Permitted Acquisitions, Permitted Non-Control Investments, Permitted Non-Guarantor Transactions, Permitted Stock Repurchases and maintenance capital

expenditures in the ordinary course of business, (iv) scheduled and mandatory principal repayments of Indebtedness (other than the Loans) made by the Borrowers and the Subsidiaries during such fiscal year (excluding (A) payments of intercompany Indebtedness between or among the Parent Borrower and the Subsidiaries, (B) principal repayments made in connection with the refinancing of the Existing Credit Agreement or the Charter IRBs and (C) any principal repayments to the extent financed by incurring other Indebtedness, other than Revolving Loans), (v) scheduled principal repayments of Note Repurchase Loans made during such fiscal year pursuant to Section 2.12, (vi) optional prepayments of principal of Note Repurchase Loans made during such fiscal year pursuant to Section 2.11, (vii) an amount equal to any increase in Consolidated Working Capital during such fiscal year and (viii) extraordinary cash expenses, if any, paid by the Parent Borrower and the Subsidiaries and not reflected in the calculation of Consolidated EBITDA; provided that Excess Cash Flow shall be adjusted to exclude the effect of any gains, losses, income or expenses attributable to any Prepayment Event.

"Existing Credit Agreement" shall mean the Credit Agreement, dated as of October 16, 1996, as amended by Amendment No. 1 dated as of March 14, 1997, among the Parent Borrower, the Subsidiaries party thereto, the lenders party thereto, The Chase Manhattan Bank, as administrative agent, collateral agent and an issuing bank, and First Union National Bank of North Carolina, as syndication agent and an issuing bank.

"Existing Letter of Credit" shall mean each letter of credit that (a) was issued under the Existing Credit Agreement, (b) is outstanding on the Closing Date and (c) is listed on Schedule 1.01(b).

"Fee Letter" shall mean the letter agreement dated January 30, 1997, between the Parent Borrower and the Administrative Agent.

"Fees" shall mean the Commitment Fees, the Administrative Agent's Fees, the L/C Participation Fees and the Issuing Bank Fees.

"Financial Officer" of any corporation shall mean any of the chief financial officer, principal accounting officer, Treasurer and Controller of such corporation.

"Foreign Subsidiary" shall mean any Subsidiary that is not a Domestic Subsidiary.

"Franchise Agreement" shall mean the Master Franchise Agreement dated as of June 16, 1997, among the Parent Borrower, Charter Franchise Services, LLC and CBHS, each Franchise Agreement dated as of June 16, 1997, among the Parent Borrower, Charter Franchise Services, LLC and each subsidiary of CBHS party thereto and any Franchise Agreement entered into among Parent Borrower, Charter Franchise Services, LLC and any subsidiary of CBHS that is acquired or organized after the date of this Agreement.

"Franchise Payment Default" shall mean the failure by CBHS or any subsidiary of CBHS to pay any fee or other amount that it is obligated to pay under the Franchise Agreement to the Parent Borrower at the time payment of such fee or other amount is due in accordance with the terms of the Franchise Agreement, whether due to the subordination of such payments or other causes.

"GAAP" shall mean generally accepted accounting principles applied on a consistent basis.

"Governance Remedies" shall mean remedies that are specifically enumerated in Section 5.9 of the Franchise Agreement.

"Governmental Authority" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Green Spring" shall mean Green Spring Health Services, Inc., a Delaware corporation.

"Green Spring Exchange Agreement" shall mean the agreement dated as of December 13, 1995, as amended, among Blue Cross and Blue Shield of New Jersey, Inc., Health Care Service Corporation, Independence Blue Cross, Pierce County Medical Bureau, Inc. and the Parent Borrower.

"Green Spring Stockholders' Agreement" shall mean the stockholders' agreement dated as of December 13, 1995, among Green Spring, Blue Cross and Blue Shield of New Jersey, Inc., Health Care Service Corporation, Independence Blue Cross, Pierce County Medical Bureau, Inc. and the Parent Borrower.

"Guarantee" of or by any person shall mean any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee Agreement" shall mean the Amended and Restated Guarantee Agreement, substantially in the form of Exhibit F, made by the Guarantors in favor of the Collateral Agent for the benefit of the Secured Parties.

"Guarantors" shall mean each person listed on Schedule 1.01(c) and each other person that becomes party to a Guarantee Agreement as a Guarantor, and the permitted successors and assigns of each such person.

"Hazardous Materials" shall mean all explosive or radioactive substances or wastes, hazardous or toxic substances or wastes, pollutants, solid, liquid or gaseous wastes, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls ("PCBs") or PCB-containing materials or equipment, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Health Care Law" shall mean any and all applicable current and future laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions or binding agreements issued, promulgated or entered into by the Food and Drug Administration, the Health Care Financing Administration, the Department of Health and Human Services ("HHS"), the Office of Inspector General of HHS, the Drug Enforcement Administration or any other Governmental Authority, including any state and/or local professional licensing laws, certificate of need laws and state reimbursement laws, relating in any way to the conduct of the business of the Parent Borrower or any Subsidiary and the provision of health care services generally.

"Inactive Subsidiary" shall have the meaning assigned to such term in Section 5.11.

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid, (d) all obligations of such person under conditional sale or other title retention agreements relating to property or assets purchased by such person, (e) all obligations of such person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and accrued obligations incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed, (g) all Guarantees by such person of Indebtedness of others, (h) all Capital Lease Obligations of such person, (i) all obligations (determined on the basis of actual, not notional, obligations) of such person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (j) all obligations of such person as an account party in respect of letters of credit and bankers' acceptances issued in support of obligations that constitute Indebtedness under any other clause of this definition (unless such obligations are fully cash collateralized), provided that all obligations in respect of letters of credit shall be deemed Indebtedness to the extent drawings thereunder are unreimbursed (after any applicable grace period) regardless of the purpose for which such letter of credit was issued. The Indebtedness of any person shall include the recourse Indebtedness of any partnership in which such person is a general partner.

"Indemnity, Subrogation and Contribution Agreement" shall mean the Amended and Restated Indemnity, Subrogation and Contribution Agreement, substantially in the form of Exhibit G, among the Borrowers, the Guarantors and the Collateral Agent.

"Insurance Subsidiaries" shall mean (a) Golden Isle Assurance Company and (b) Plymouth Insurance Company, Ltd., each a corporation organized under the laws of Bermuda, and their respective successors and assigns.

"Interest Expense Coverage Ratio" shall mean, as of the last day of any fiscal quarter, the ratio of (a) Consolidated EBITDA for the period of four consecutive fiscal quarters ended on such day to (b) Consolidated Interest Expense for such period (provided that, for purposes of calculating Consolidated EBITDA and Consolidated Interest Expense for each of the four-fiscal quarter periods ending September 30, 1997, December 31, 1997, and March 31, 1998, Consolidated EBITDA and Consolidated Interest Expense, as the case may be, for such four-fiscal quarter periods shall equal Consolidated EBITDA and Consolidated Interest Expense, as the case may be, for the period

commencing on July 1, 1997, and ending on (A) September 30, 1997, multiplied by 4, (B) December 31, 1997, multiplied by 2 and (C) March 31, 1998, multiplied by 4/3, respectively).

"Interest Payment Date" shall mean, with respect to any Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part (and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day that would have been an Interest Payment Date had successive Interest Periods of three months' duration been applicable to such Borrowing), and the date of any prepayment of such Borrowing or conversion of such Borrowing to a Borrowing of a different Type.

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the applicable Borrower may elect, and (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing and ending on the earliest of (i) the last Business Day of March, June, September or December, (ii) the

Maturity Date and (iii) the date such Borrowing is converted to a Borrowing of a different Type in accordance with Section 2.10 or repaid or prepaid in accordance with Section 2.11 or 2.12; provided, however, that, in the case of a Eurodollar Borrowing, if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Interest Rate Protection Agreement" shall mean any interest rate swap, cap or other agreement or arrangement entered into by any Borrower designed to protect such Borrower against fluctuations in interest rates and not for speculation, provided that any such swap, cap agreement or other arrangement entered into after the Closing Date shall be satisfactory to the Administrative Agent.

"Issuing Banks" shall have the meaning assigned to such term in the preamble to this Agreement, except as amended in Section 2.22(i).

"Issuing Bank Fees" shall have the meaning assigned to such term in Section 2.05(c).

"L/C Commitment" shall mean, with respect to each Issuing Bank, the commitment of such Issuing Bank to issue Letters of Credit pursuant to Section 2.22.

"L/C Disbursement" shall mean a payment or disbursement made by an Issuing Bank pursuant to a Letter of Credit.

"L/C Exposure" shall mean at any time the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate principal amount of all L/C Disbursements that have not yet been reimbursed at such time. The L/C Exposure of any Revolving Credit Lender at any time shall mean its Pro Rata Percentage of the L/C Exposure at such time.

"L/C Participation Fee" shall have the meaning assigned to such term in Section 2.05(c).

"Lease" shall mean the Master Lease Agreement dated as of June 16, 1997, and all supplements thereto, among Crescent Funding (as landlord), CBHS and each facility subsidiary listed therein (as tenant).

"Leased Facilities" shall have the meaning assigned to such term in the preamble to this Agreement.

"Lenders" shall mean (a) the financial institutions listed on Schedule 2.01 (other than any such financial institution that has ceased to be a party hereto pursuant to an Assignment and Acceptance) and (b) any financial institution that has become a party hereto pursuant to an Assignment and Acceptance.

"Letter of Credit" shall mean (a) any letter of credit issued pursuant to Section 2.22 and (b) any Existing Letter of Credit.

"Leverage Ratio" shall mean, as of the last day of any fiscal quarter, the ratio of (a) Total Debt as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters ended on such date; (provided that, for purposes of determining Consolidated EBITDA for each of the four-fiscal-quarter periods ending September 30, 1997, December 31, 1997, and March 31, 1998, Consolidated EBITDA for such four-fiscal-quarter periods shall equal Consolidated EBITDA for the period commencing on July 1, 1997, and ending on (A) September 30, 1997, multiplied by 4, (B) December 31, 1997, multiplied by 2 and (C) March 31, 1998, multiplied by 4/3, respectively).

"LIBO Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Telerate Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those

currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" shall mean this Agreement, the Letters of Credit, the Guarantee Agreement, the Security Documents and the Indemnity, Subrogation and Contribution Agreement.

"Loan Parties" shall mean the Borrowers and the Guarantors.

"Loans" shall mean the Revolving Loans and the Note Repurchase Loans.

"Magellan Guarantee Agreement" shall have the meaning assigned to such term in the CBHS Credit Agreement.

"Margin Stock" shall have the meaning assigned to such term in Regulation U.

"Material Franchise Payment Default" shall mean any Franchise Payment Default that could reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing sentence, the failure by CBHS or any of its subsidiaries to pay franchise fees and other amounts due under the Franchise Agreement to the Parent Borrower in an aggregate amount greater than $30,000,000 for more than 30 days after such payment is due in accordance with the terms of the Franchise Agreement (whether due to subordination of such payments or other causes) shall be deemed a "Material Franchise Payment Default".

"Material Adverse Effect" shall mean (a) a materially adverse effect on the business, assets, operations, prospects or condition, financial or otherwise, of the Parent Borrower and the Subsidiaries taken as a whole, (b) material impairment of the ability of the Parent Borrower and the other Loan Parties taken as a whole to perform any of their respective obligations under any Loan Document to which it is or will be a party or (c) material impairment of the rights of or benefits available to the Lenders under any Loan Document (including as a result of any material impairment of the Parent Borrower's rights or benefits under the Franchise Agreement).

"Maturity Date" shall mean the fifth anniversary of the date of this Agreement.

"Multiemployer Plan" shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds" shall mean (a) with respect to any Asset Sale or any transaction described in Section 6.05(g), the cash proceeds thereof (including cash and cash equivalents and cash payments received by way of deferred payment or principal pursuant to a note or installment receivable or otherwise, but only as and when received), net of (i) costs of sale (including fees, expenses and payment of the outstanding principal amount of,

premium or penalty, if any, interest and other amounts on any Indebtedness (other than Loans) repaid under the terms thereof as a result of such Asset Sale or such transaction), (ii) taxes paid or payable as a result thereof and (iii) amounts provided as a reserve, in accordance with GAAP, against any liabilities under any indemnification obligations associated with such Asset Sale or such transaction (except that, to the extent and at the time any such amounts are released from such reserve, such amounts shall constitute Net Cash Proceeds); provided, however, that if the Asset Sale is a result of a Casualty Event or Condemnation Event, the cash proceeds thereof for purposes of this definition shall not include proceeds used to replace or repair the damaged or condemned property, as applicable, within 180 days of receipt of such proceeds or, if replacement or repair cannot reasonably be completed within such period, within

360 days of receipt of such proceeds and (b) with respect to any issuance of Indebtedness for borrowed money, the cash proceeds thereof net of underwriting commissions, placement fees and other costs and expenses directly incurred in connection therewith.

"New Borrower Agreement" shall mean any agreement entered into by a new Subsidiary Borrower, the Administrative Agent and the Collateral Agent in accordance with Section 2.23 and substantially in the form of Exhibit D-2.

"Non-Controlled Ventures" shall mean all partnerships and joint ventures (a) in which the Parent Borrower and/or any of the Subsidiaries have an ownership interest and (b) that are not Controlled Ventures.

"Note Repurchase Borrowing" shall mean a Borrowing comprised of Note Repurchase Loans.

"Note Repurchase Loan Amount" shall mean the aggregate principal amount of Note Repurchase Loans that shall be made on the Series A Notes Repurchase Date, which amount shall be determined by the Parent Borrower on the Series A Notes Repurchase Date.

"Note Repurchase Loan Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Note Repurchase Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Note Repurchase Loan Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"Note Repurchase Loan Payment Date" shall have the meaning assigned to such term in Section 2.12(a).

"Note Repurchase Loans" shall mean the term loans made by the Lenders to the Parent Borrower pursuant to clause (b) of Section 2.01 on the Series A Notes Repurchase Date. Each Note Repurchase Loan shall be a Eurodollar Note Repurchase Loan or an ABR Note Repurchase Loan.

"Obligations" shall mean all obligations defined as "Obligations" in the Guarantee Agreement and the Security Documents.

"Operating Agreement" shall mean the Operating Agreement for CBHS dated as of June 16, 1997, among the Parent Borrower, Charter Behavioral Health Systems, Inc. and the Crescent Affiliate.

"Parent Borrower" shall have the meaning assigned to such term in the preamble to this Agreement.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"Perfection Certificate" shall mean the Perfection Certificate substantially in the form of Annex 1 to the Security Agreement.

"Permitted Acquisition" shall mean any acquisition of an Acquired Entity that was not preceded by an unsolicited tender offer for such Acquired Entity by the Parent Borrower or any Guarantor in which the Parent Borrower or any Guarantor is (x) in the case of an asset or stock purchase, the purchaser of assets or stock, or (y) in the case of a merger or consolidation, the surviving entity or the owner of all the capital stock of the surviving or resulting entity, so long as (a) after giving effect to such acquisition, (i) the Parent Borrower shall be in compliance, on a pro forma basis, with all covenants set forth in this Agreement, including then effective covenants contained in Sections 6.10, 6.11, 6.12 and 6.13, which shall be recomputed as at the last day of the most recently ended fiscal quarter (for which financial information has been delivered pursuant to Section 5.04) of the Parent Borrower as if such acquisition had occurred on the first day of each relevant period for testing such compliance, and the Parent Borrower shall have delivered to the Administrative Agent an officers' certificate to such effect for any acquisition in excess of $7,500,000, (ii) any Indebtedness of the Acquired Entity that is acquired or assumed in connection with such acquisition shall be in compliance with Section 6.01 and (iii) on the date of such acquisition and immediately after giving effect thereto (including the effect of any Indebtedness incurred or assumed thereby), no Default or Event of Default shall have occurred and be continuing, (b) in the case of an asset acquisition, such assets are to be used, and in the case of an acquisition of capital stock or other equity interests, the person so acquired is engaged in, a healthcare business or healthcare businesses or in a reasonably related (ancillary or complementary) line of business or lines of business and (c) in the case of an acquisition of capital stock or other equity interests, (i) the Parent Borrower or the acquiring Guarantor shall acquire at least 50% of the outstanding equity securities of the Acquired Entity and otherwise Control such Acquired Entity, (ii) in the case of an Acquired Entity in which no person other than the Parent Borrower, any Affiliate of the Parent Borrower or any member of management of the Parent Borrower owns any equity interest, such Acquired Entity shall become a Guarantor in accordance with Section 5.11 and (iii) all the capital stock of or other equity interests in such Acquired Entity and any of the subsidiaries of the Acquired Entity owned by the Parent Borrower or any Guarantor shall be pledged to the Collateral Agent in accordance with Section 5.11.

"Permitted CBHS Advances" shall mean any loan or advance by the Parent Borrower to CBHS, other than any loans and advances made and outstanding as a "Permitted Non-Control Investment" hereunder, provided that (a) the aggregate principal amount of such loans or advances outstanding at any time shall not exceed $65,000,000, (b) no such loans or advances shall be made or remain outstanding at any time if at such time any CBHS Loans or any CBHS L/C Exposure shall be outstanding, (c) no such loans or advances may be made or remain outstanding after the Deemed Borrowing Base Cut-Off Date, (d) all such loans or advances shall be evidenced by a note from CBHS to the Parent Borrower, which note shall be pledged by the Parent Borrower to the Collateral Agent for the benefit of the Secured Parties in accordance with the Pledge Agreement, (e) all such advances shall be secured by a security interest in the accounts receivable of CBHS and its wholly owned subsidiaries, pursuant to the Advance Security Agreement, which security interest and Agreement shall be assigned to the Collateral Agent for the benefit of the Secured Parties pursuant to the Advance Collateral Assignment and (f)(i) no Event of Default and (ii) no event of default under the CBHS Credit Agreement shall have occurred and be continuing.

"Permitted CBHS Guarantee" shall mean the Guarantee by the Parent Borrower of CBHS Loans not to exceed an aggregate principal sum of $65,000,000 at any time up to but excluding the later of (a) the Deemed Borrowing Base Cut-Off Date and (b) the first date on which the CBHS Borrowing Base is equal to or greater than the amount of CBHS Loans then outstanding, provided that on the date such Guarantee is made and immediately after giving effect thereto, no Event of Default shall have occurred and be continuing.

"Permitted Debt Repurchase" shall mean any repurchase of Permitted Subordinated Indebtedness by the Parent Borrower so long as (a) after giving effect to such repurchase, (i) the Parent Borrower shall be in compliance, on a pro forma basis, with all covenants set forth in this Agreement, including then effective covenants contained in Sections 6.10, 6.11, 6.12 and 6.13, which shall be recomputed as at the last day of the most recently ended fiscal quarter (for which financial information has been delivered pursuant to Section 5.04) of the Parent Borrower as if such repurchase had occurred on the first day of each relevant period for testing such compliance, and the Parent Borrower shall have delivered to the Administrative Agent an officers' certificate to such effect for any repurchase in excess of $10,000,000 and (ii) on the date of such repurchase and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing and (b) after giving effect to such repurchase, the aggregate amount of cash and cash equivalents on the Parent Borrower's consolidated balance sheet plus the remaining available balance of the Total Revolving Credit Commitment shall be at least equal to $50,000,000. The term "Permitted Debt Repurchase" shall also include, without giving effect to and notwithstanding the restrictions set forth above, the repurchases of the Series A Notes on the Series A Notes Repurchase Date, pursuant to the Series A Notes Tender Offer.

"Permitted Investments" shall mean:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America or by any agency, instrumentality or sponsored corporation thereof to the extent such obligations are rated at least A or the equivalent thereof by Standard & Poor's Ratings Group or at least A-2 or the equivalent thereof by Moody's Investors Service, Inc., in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within 360 days from the date of acquisition thereof and having, at such date of acquisition, a rating from Standard & Poor's Ratings Service of A-1 or from Moody's Investors Service, Inc. of P-1;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than $250,000,000;

(d) repurchase obligations with a term of not more than 90 days for, and secured by, underlying securities of the types described in clauses (a) through (c) above entered into with a bank meeting the qualifications described in clause (c) above;

(e) other investment instruments offered by financial institutions which have a combined capital and surplus and undivided profits of not less than $250,000,000; and

(f) deposits made prior to 1992 and interest and income earned thereon with respect to the Parent Borrower's obligations under its Public Issue of 7.5% Dual Currency Swiss Franc Bonds dated 1986 and due 1998/2001.

"Permitted Non-Control Investment" shall mean any investment by the Parent Borrower or any Guarantor in another corporation or other business entity so long as (a) after giving effect to such Permitted Non-Control Investment, (i) the Parent Borrower shall be in compliance, on a pro forma basis, with all covenants set forth in this Agreement, including then effective covenants contained in Sections 6.10, 6.11, 6.12 and 6.13, which shall be recomputed as at the last day of the most recently ended fiscal quarter (for which financial information has been delivered pursuant to Section 5.04) of the Parent Borrower as if such investment had occurred on the first day of each relevant period for testing such compliance, and the

Parent Borrower shall have delivered to the Administrative Agent an officers' certificate to such effect for any investment in excess of $7,500,000 and (ii) on the date of such investment and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing, (b) such investment shall constitute either (i) an investment in less than 50% of the equity interests of such corporation or other business entity or (ii) an investment in which, notwithstanding the ownership by the Parent Borrower or any wholly owned Subsidiary of 50% or more of the equity interests of such corporation or business entity, neither the Parent Borrower nor any wholly owned Subsidiary Controls such corporation or other business entity, (c) all the capital stock of such corporation or other business entity owned by the Parent Borrower or any Guarantor shall be pledged to the Collateral Agent in accordance with Section 5.11 and (d) the aggregate amount of Permitted Non-Control Investments made after the Closing Date and outstanding at any time shall not exceed $35,000,000 less the amount, if any, by which the amount of Permitted Non-Guarantor Transactions made after the Closing Date and outstanding at such time exceeds $35,000,000. Subject to satisfaction of the foregoing criteria, the term "Permitted Non-Control Investment" shall include (a) any investment arising as a result of sales or other dispositions of common stock of a Guarantor permitted pursuant to this Agreement, (b) transfers of assets to or other investments in entities that are neither Controlled Non-Guarantor Entities nor Guarantors and (c) the granting of any Guarantee of any Indebtedness of any such entity. In addition, "Permitted Non-Control Investment" shall include, without giving effect to and notwithstanding the restrictions set forth above, (x) investments made as part of the Transactions or as otherwise existing on the Closing Date, (y) Permitted CBHS Guarantee and (z) up to $10,000,000 in the aggregate of additional contributions and/or loans to CBHS in accordance with the Operating Agreement (as in effect on the date hereof). Notwithstanding anything to the contrary, Permitted CBHS Advances shall not be deemed investments in CBHS or its subsidiaries for purposes of this definition of "Permitted Non-Control Investment".

"Permitted Non-Guarantor Transactions" shall mean any (a) transfer of assets by the Parent Borrower or any Guarantor to a Controlled Non-Guarantor Entity, (b) investments by the Parent Borrower or any Guarantor in Controlled Non-Guarantor Entities, (c) Guarantees by the Parent Borrower or any Guarantor of any Indebtedness of Controlled Non-Guarantor Entities or (d) any transaction that causes any Guarantor to become a Controlled Non-Guarantor Entity, in each case so long as, after giving effect to any such transaction, the sum of (i) the fair market value of all assets transferred to Controlled Non-Guarantor Entities (such value to be determined with respect to each

asset as of the time such asset was transferred), (ii) the amount of then-outstanding investments in Controlled Non-Guarantor Entities, (iii) the then-outstanding principal amount of Indebtedness of the Controlled Non-Guarantor Entities Guaranteed by the Parent Borrower or any Guarantor and (iv) the value of the equity interests retained by the Parent Borrower or any Guarantor in all Controlled Non-Guarantor Entities that became Controlled Non-Guarantor Entities as the result of a Permitted Non-Guarantor Transaction effected after the Closing Date (such value to be determined with respect to each Controlled Non-Guarantor Entity as of the time the relevant Permitted Non-Guarantor Transaction occurred), shall not exceed $35,000,000 plus the amount, if any, by which $35,000,000 exceeds the amount of Permitted Non-Control Investments made after the Closing Date and outstanding (without giving effect to the transactions described in the last sentence of the definition of "Permitted Non-Control Investment") at the time of such transaction; provided, further, that after giving effect to any such Permitted Non-Guarantor Transaction, (i) the Parent Borrower shall be in compliance, on a pro forma basis, with all covenants set forth in this Agreement, including then effective covenants contained in Sections 6.10, 6.11, 6.12 and 6.13, which shall be recomputed as at the last day of the most recently ended fiscal quarter (for which financial information has been delivered pursuant to Section 5.04) of the Parent Borrower as if such transaction had occurred on the first day of each relevant period for testing such compliance, and the Parent Borrower shall have delivered to the Administrative Agent an officers' certificate to such effect for any investment in excess of $7,500,000 and (ii) on the date of such transaction and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing. The term "Permitted Non-Guarantor

Transactions" shall also include, without giving effect to and notwithstanding the restrictions set forth above, exchanges under the Green Spring Exchange Agreement and the purchases pursuant to the Green Spring Stockholders' Agreement.

"Permitted Post-Closing Crescent Transaction" shall mean a sale, transfer or other disposition of assets or property related to the behavioral healthcare businesses that are acquired by the Parent Borrower or any Subsidiary after the Closing Date to Crescent, CBHS or any of their respective subsidiaries in accordance with the REIT Purchase Agreement, provided that (a) each such sale, transfer or other disposition shall be consummated within 90 days of the acquisition thereof by the Parent Borrower or any Subsidiary, (b) such sale, transfer or other disposition is for consideration not less than the fair market value of such assets or property sold, transferred or disposed of (as determined in good faith by a Financial Officer of the Parent Borrower) and the purchase price paid therefor by the Parent Borrower or such Subsidiary; provided, however, that in the event that the assets or property sold, transferred or otherwise disposed of to Crescent are a part of a larger group of assets or property acquired by the Parent Borrower or any Subsidiary, then the Parent Borrower shall deliver a certificate of a Financial Officer that (i) sets forth in reasonable detail the derivation of the value allocated to such assets or property sold, transferred or otherwise disposed of to Crescent and (ii) certifies that such allocated value and the consideration paid by Crescent for such assets or property is not less than the fair market value of such assets or property and not less than the purchase price paid therefor by the Parent or such Subsidiary, (c) the Parent Borrower shall be in compliance, on a pro forma basis, with all covenants set forth in this Agreement, including then effective covenants contained in Sections 6.10, 6.11, 6.12 and 6.13, which shall be recomputed as at the last day of the most recently ended fiscal quarter (for which financial information has been delivered pursuant to Section 5.04) of the Parent Borrower as if such sale, transfer or other disposition had occurred on the first day of each relevant period for testing such compliance, and the Parent Borrower shall have delivered to the Administrative Agent an officers' certificate to such effect for any sale, transfer or other disposition in excess of $10,000,000 and (d) on the date of such sale, transfer or other

disposition and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing.

"Permitted Restrictions" shall mean, with respect to any Controlled Venture, provisions contained in the governing documents of such Controlled Venture, that prohibit or otherwise restrict the making of distributions by such Controlled Venture (a) at any time such Controlled Venture has outstanding Indebtedness to any owner of equity interests thereof, (b) in the case of Controlled Ventures that are subject to taxation as a partnership under the Code, to the extent that such distributions would cause any owner of equity interests thereof to have a negative balance in its capital account, (c) without the approval of at least a majority of the (i) directors, (ii) managers, managing members or members, (iii) general partners or (iv) the persons or governing body performing a similar function as any of the foregoing, (d) to the extent such distribution would be prohibited by any applicable law, rule or regulation, (e) out of or through the use of funds of such Controlled Venture that the directors, managers, managing members, members, general partners (or persons or governing body performing similar functions) have reasonably determined are necessary to pay such Controlled Venture's current and anticipated cash obligations, including operating expenses, debt service, acquisitions, capital expenditures and reasonable reserves, or (f) under other circumstances that are consented to in writing by the Administrative Agent with respect to such Controlled Venture.

"Permitted Stock Repurchase" shall mean any repurchase by the Parent Borrower of shares of its common stock so long as (a) after giving effect to such repurchase, (i) the Parent Borrower shall be in compliance, on a pro forma basis, with all covenants set forth in this Agreement, including then effective covenants contained in Sections 6.10, 6.11, 6.12 and 6.13, which shall be recomputed as at the last day of the most recently ended fiscal quarter (for which financial information has been delivered pursuant to

Section 5.04) of the Parent Borrower as if such repurchase had occurred on the first day of each relevant period for testing such compliance, and the Parent Borrower shall have delivered to the Administrative Agent an officers' certificate to such effect for any repurchase that exceeds $10,000,000 and (ii) on the date of such repurchase and immediately after giving effect thereto, no Default or Event of Default shall exist, (b) the aggregate amount expended by the Parent Borrower in connection with all Permitted Stock Repurchases shall not exceed during the term of this Agreement $27,207,346 and (c) after giving effect to any such repurchase, the aggregate amount of cash and cash equivalents on the Parent Borrower's consolidated balance sheet plus the remaining available balance of the Total Revolving Credit Commitment shall be at least equal to $50,000,000.

"Permitted Subordinated Indebtedness" shall mean (a)(i) prior to the Series A Notes Repurchase Date, the Series A Notes (including the Guarantees thereof) and (ii) after the Series A Notes Repurchase Date, the Series A Notes (including the Guarantees thereof) not required to be repurchased pursuant to the Series A Notes Indenture or the Series A Notes Tender Offer; (b) any Indebtedness of the Parent Borrower (including any Guarantees thereof) that refinances the Series A Notes, provided that (i) such refinancing Indebtedness is in an aggregate principal amount not greater than the aggregate principal amount of the Series A Notes as of the Closing Date plus the amount of any premiums required to be paid thereon and fees and expenses associated with such refinancing; (ii) such refinancing Indebtedness has a final maturity later than or equal to and a weighted average life longer than or equal to the remaining life of the Series A Notes determined as of the date of the refinancing; (iii) such refinancing Indebtedness bears interest at a fixed rate, which rate shall be, in the good faith judgment of the Parent Borrower's board of directors, consistent with the market at the

time of issuance for similar Indebtedness; (iv) such refinancing Indebtedness shall contain subordination and intercreditor provisions that are no more favorable in any material respect to the holders thereof than the subordination and intercreditor provisions contained in the indenture governing the Series A Notes; (v) the negative and financial covenants (if any) of such refinancing Indebtedness shall not require the Parent Borrower to maintain any specified financial condition except as a condition to the taking of certain actions; (vi) each of the covenants, events of default and other provisions thereof (including any Guarantees thereof) shall be no less favorable to the Lenders in any material respect than those contained in the indenture governing the Series A Notes and (vii) on the date that such refinancing Indebtedness is incurred and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing; (c) Indebtedness issued pursuant to the Green Spring Exchange Agreement; and (d) any other Indebtedness of the Parent Borrower that is subordinated to the Obligations, provided that (i) such Indebtedness has a maturity that is after the Maturity Date, (ii) such Indebtedness bears interest at a rate consistent with the market at the time of issuance for similar Indebtedness; (iii) such Indebtedness shall contain subordination and intercreditor provisions that are no more favorable in any material respect to the holders thereof than the subordination and intercreditor provisions contained in the indenture governing the Series A Notes; (iv) the negative financial covenants (if any) of such Indebtedness shall not require the Parent Borrower to maintain any specified financial condition except as a condition to the taking of certain actions; and (v) each of the covenants, events of default and other provisions thereof (including any Guarantees thereof) shall be no less favorable to the Lenders in any material respect than those contained in the indenture governing the Series A Notes.

"person" shall mean any natural person, corporation, business trust, joint venture, association, company, partnership or government, or any agency or political subdivision thereof.

"Plan" shall mean any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 307 of ERISA, and in respect of which any Loan Party or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledge Agreement" shall mean the Amended and Restated Pledge Agreement, substantially in the form of Exhibit H, among the Parent Borrower, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties.

"Prepayment Event" shall mean any event requiring a mandatory prepayment of Note Repurchase Loans described in Section 2.13(a) or 2.13(c) or a prepayment of Revolving Loans required pursuant to Section 2.13(f) as a result of a mandatory commitment reduction pursuant to Section 2.13(e).

"Properties" shall have the meaning assigned to such term in Section 3.17(a).

"Pro Rata Percentage" of any Revolving Credit Lender at any time shall mean the percentage of the Total Revolving Credit Commitment represented by such Revolving Credit Lender's Revolving Credit Commitment.

"Public Solutions" shall mean Magellan Public Solutions, Inc., a Delaware corporation.

"Purchased Facilities" shall have the meaning assigned to such term in the preamble to this Agreement.

"Real Estate for Sale" shall mean the real property and improvements having a book value of $[26,195,547] set aside by the Parent Borrower for sale as set forth in the Parent Borrower's consolidated balance sheet as of March 31, 1997, and described on Schedule 1.01(d).

"Refinancing Indebtedness" shall have the meaning assigned to such term in Section 6.01(n).

"Register" shall have the meaning given such term in Section 9.04(d).

"Regulation G" shall mean Regulation G of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation T" shall mean Regulation T of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"REIT Purchase Agreement" shall mean the Real Estate Purchase and Sale Agreement dated as of January 29, 1997, as amended, between the Parent Borrower and Crescent.

"Release" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, emanating or migrating of any Hazardous Material in, into, onto or through the environment.

"Remedial Action" shall mean (a) "remedial action" as such term is defined in CERCLA, 42 U.S.C. Section 9601(24), and (b) all other actions required by any Governmental Authority or voluntarily undertaken to: (i) cleanup, remove, treat, abate or in any other way address any Hazardous Material in the environment; (ii) prevent the Release or threat of Release, or minimize the further Release, of any Hazardous Material so it does not migrate or endanger or threaten to endanger public health, welfare or the environment; or (iii) perform studies and investigations in connection with, or as a precondition to, (i) or (ii) above.

"Required Lenders" shall mean, at any time, Lenders having Revolving Loans, Note Repurchase Loans, L/C Exposure and unused Revolving Credit and Note Repurchase Commitments representing at least a majority of the sum of all Revolving Loans, Note Repurchase Loans outstanding, L/C Exposure and unused Revolving Credit and Note Repurchase Commitments at such time.

"Responsible Officer" of any corporation shall mean any executive officer or Financial Officer of such corporation and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

"Revolving Credit Borrowing" shall mean a Borrowing comprised of Revolving Loans.

"Revolving Credit Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Revolving Loans hereunder as set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender assumed its Revolving Credit Commitment, as applicable, as the same may be (a) reduced from time to time pursuant to Sections 2.09, 2.13 or 2.21 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04.

"Revolving Credit Exposure" shall mean, with respect to any Lender at any time, the aggregate principal amount at such time of all outstanding Revolving Loans of such Lender, plus the aggregate amount at such time of such Lender's L/C Exposure.

"Revolving Credit Lender" shall mean a Lender with a Revolving Credit Commitment.

"Revolving Loans" shall mean the revolving loans made by the Lenders to the Borrowers pursuant to clause (a) of Section 2.01. Each Revolving Loan shall be a Eurodollar Revolving Loan or an ABR Revolving Loan.

"Rights Plan" shall mean the Rights Agreement dated as of July 21, 1992, between the Parent Borrower and First Union Bank of North Carolina, as Rights Agent (as defined therein).

"Secured Parties" shall have the meaning assigned to such term in the Security Agreement.

"Security Agreement" shall mean the Amended and Restated Security Agreement, substantially in the form of Exhibit I, among the Parent Borrower, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties.

"Security Documents" shall mean the Security Agreement, the Pledge Agreement, the Collateral Assignment, the Advance Collateral Assignment and each of the security agreements and other instruments and documents executed and delivered pursuant to any of the foregoing or pursuant to Section 5.11.

"Senior Debt" shall mean Total Debt but excluding all Permitted Subordinated Indebtedness.

"Senior Debt Ratio" shall mean, as of the last day of any fiscal quarter, the ratio of (a) Senior Debt as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters ended on such date (provided that, for purposes of calculating Consolidated EBITDA for each of the four-fiscal-quarter periods ending September 30, 1997, December 31, 1997, and March 31,

1998, Consolidated EBITDA for such four-fiscal-quarter periods shall equal Consolidated EBITDA for the period commencing on July 1, 1997, and ending on

(A) September 30, 1997, multiplied by 4, (B) December 31, 1997, multiplied by 2 and (C) March 31, 1998, multiplied by 4/3, respectively).

"Series A Notes" shall mean the 11-1/4% Series A Senior Subordinated Notes due 2004 of the Parent Borrower.

"Series A Notes Indenture" shall mean the Indenture governing the Series A Notes as in effect on the date hereof and as amended from time to time in accordance with the provisions hereof.

"Series A Notes Repurchase Date" shall mean the date on which the Parent Borrower is required to repurchase any Series A Notes tendered to it, in accordance with the Series A Notes Indenture and the Series A Notes Tender Offer, which date shall be no later than 70 days after the closing and sale of the Purchased Facilities under the REIT Purchase Agreement.

"Series A Notes Tender Offer" shall mean the tender offer made by the Parent Borrower, in accordance with the Series A Notes Indenture, for the purchase of all issued and outstanding Series A Notes at a purchase price equal to 101% of the principal amount thereof (plus accrued interest) on the Series A Notes Repurchase Date.

"Statutory Reserves" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board and any other banking authority, domestic or foreign, to which the Administrative Agent or any Lender (including any branch, Affiliate or other fronting office making or holding a Loan) is subject with respect to the Adjusted LIBO Rate, for Eurocurrency Liabilities (as defined in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute Eurocurrency Liabilities and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Subordination Agreement" shall mean the Subordination Agreement dated as of June 16, 1997, among CBHS, Crescent Funding, Charter Franchise Services, LLC and the Parent Borrower.

"subsidiary" shall mean, with respect to any person (herein referred to as the "parent"), any corporation, partnership, association or other business entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, owned, controlled or held by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" shall mean any subsidiary of the Parent Borrower.

"Subsidiary Borrower" shall mean Charter Behavioral Health System of New Mexico, Inc. and each wholly owned Subsidiary that executes a New Borrower Agreement in accordance with Section 2.23 and that has not ceased to be a Subsidiary Borrower in accordance with such Section.

"Subsidiary Borrower Termination" shall mean any termination executed by the Parent Borrower in accordance with Section 2.23 and substantially in the form of Exhibit D-3.

"Subsidiary Non-Guarantors" shall mean any Subsidiary that is not a Guarantor.

"Syndication Agent" shall have the meaning assigned to such term in the preamble to this Agreement.

"Total Debt" shall mean, with respect to the Parent Borrower and the Subsidiaries on a consolidated basis at any time, all Indebtedness of the Parent Borrower and the Subsidiaries which at such time would be required to be reflected as a liability for borrowed money on a consolidated balance sheet of the Parent Borrower and its consolidated Subsidiaries prepared in accordance with GAAP, plus (without duplication) the maximum undrawn amount of any outstanding letters of credit issued pursuant to this Agreement (it being understood that such letters of credit shall not be included in "Total Debt" to the extent such letters of credit are issued to support Indebtedness and the amount of such Indebtedness has been included in "Total Debt").

"Total Revolving Credit Commitment" shall mean, at any time, the aggregate amount of the Revolving Credit Commitments, as in effect at such time.

"Transaction Consideration" shall have the meaning assigned to such term in the preamble to this Agreement.

"Transaction Documents" shall mean the REIT Purchase Agreement, the Contribution Agreement, the Operating Agreement, the Franchise Agreement, the Lease, the Subordination Agreement and the Warrant Agreements and all other agreements to be entered into by the Parent Borrower or any Subsidiary pursuant thereto or in connection therewith.

"Transactions" shall mean all transactions contemplated by the Transaction Documents, the Loan Documents and the CBHS Loan Documents.

"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, the term "Rate" shall include the Adjusted LIBO Rate and the Alternate Base Rate.

"Warrant Agreements" shall mean (i) the Warrant Purchase Agreement dated as of January 29, 1997, between the Parent Borrower and Crescent, and (ii) the Warrant Purchase Agreement to be executed on the closing of the Contribution Transaction between the Parent Borrower and the Crescent Affiliate.

"wholly owned subsidiary" of any person shall mean a subsidiary of such person of which securities (except for directors' qualifying shares) or other ownership interests representing 100% of the equity or 100% of the ordinary voting power or 100% of the general partnership interests are, at the time any determination is being made, owned, controlled or held by such person or one or more wholly owned subsidiaries of such person or by such person and one or more wholly owned subsidiaries of such person.

"Withdrawal Liability" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context shall require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, (a) any reference in this Agreement to any Loan Document shall mean such document as amended, restated, supplemented or otherwise modified from time to time and (b) all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that for purposes of determining compliance with the covenants contained in Article VI, all accounting terms herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with GAAP as in effect on the date of this Agreement and applied on a basis consistent with the application used in the financial statements referred to in Section 3.05(a).

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender agrees, severally and not jointly, (a) to make Revolving Loans to the Borrowers, at any time and from time to time on or after the date hereof, and until the earlier of the Maturity Date and the termination of the Revolving Credit Commitment of such Lender in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (i) such Lender's Revolving Credit Exposure exceeding (ii) such Lender's Revolving Credit Commitment at such time and (b) to make Note Repurchase Loans to the Parent Borrower on the Series A Notes Repurchase Date in a principal amount not to exceed such Lender's Note Repurchase Loan Commitment. Within the limits set forth in clause (a) of the preceding sentence and subject to the terms, conditions and limitations set forth herein, the Borrowers may borrow, pay or prepay and reborrow Revolving Loans. Amounts paid or prepaid in respect of Note Repurchase Loans may not be reborrowed.

SECTION 2.02. Loans. (a) Each Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their respective Revolving Credit Commitments or Note Repurchase Loan Commitments, as applicable; provided, however, that the

failure of any Lender to make any Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). Except for Loans deemed made pursuant to Section 2.02(f), the Loans comprising any Borrowing shall be in an aggregate principal amount that is (i) an integral multiple of $1,000,000 and not less than $5,000,000 or (ii) equal to the remaining available balance of the applicable Commitments.

(b) Subject to Sections 2.08 and 2.15, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the applicable Borrower may request pursuant to Section 2.03. Each Lender may at its option make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the applicable Borrower to repay such Loan in accord-ance with the terms of this Agreement. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrowers shall not be entitled to request any Borrowing that, if made, would result in more than five Eurodollar Borrowings outstanding hereunder at any time. For purposes of the foregoing, only Borrowings having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Borrowings.

(c) Except with respect to Loans deemed made pursuant to Section 2.02(f), each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to such account in New York City as the Administrative Agent may designate not later than 11:00 a.m., New York City time, and the Administrative Agent shall by 12:00 (noon), New York City time, credit the amounts so received to a domestic account designated in the applicable Borrowing Request (provided that such designated account shall be an account of a Borrower or a Guarantor) or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Lenders.

(d) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's portion of such Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with paragraph (c) above, and the Administrative Agent may, in reliance upon such assumption, make available to the applicable Borrower on such date a corresponding amount. If the Administrative Agent shall have so made funds available then, to the extent that such Lender shall not have made

such portion available to the Administrative Agent, such Lender and the applicable Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of any Borrower, the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Lender, a rate determined by the Administrative Agent to represent its cost of overnight or short-term funds (which determination shall be conclusive absent manifest error). If such Lender shall repay to the Administrative Agent such corresponding amount, such amount shall constitute such Lender's Loan as part of such Borrowing for purposes of this Agreement.

(e) Notwithstanding any other provision of this Agreement, the Borrowers shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

(f) If an Issuing Bank shall not have received from the applicable Borrower any payment required to be made to such Issuing Bank by Section 2.22(e) within the time specified in such Section, such Issuing Bank will promptly notify the Administrative Agent of the L/C Disbursement and the Administrative Agent will promptly notify each Revolving Credit Lender of such L/C Disbursement and its Pro Rata Percentage thereof. Each Revolving Credit Lender shall pay by wire transfer of immediately available funds to the Administrative Agent not later than 2:00 p.m., New York City time, on such date (or, if such Revolving Credit Lender shall have received such notice later than 12:00 (noon), New York City time, on any day, not later than 10:00 a.m., New York City time, on the immediately following Business Day), an amount equal to such Revolving Credit Lender's Pro Rata Percentage of such L/C Disbursement (it being understood that such amount shall be deemed to constitute an ABR Revolving Loan of such Revolving Credit Lender and such payment shall be deemed to have reduced the L/C Exposure), and the Administrative Agent will promptly pay to such Issuing Bank amounts so received by it from the Revolving Credit Lenders. The Administrative Agent will promptly pay to such Issuing Bank any amounts received by it from the applicable Borrower pursuant to Section 2.22(e) prior to the time that any Revolving Credit Lender makes any payment pursuant to this paragraph (f); any such amounts received by the Administrative Agent thereafter will be promptly remitted by the Administrative Agent to the Revolving Credit Lenders that shall have made such payments and to such Issuing Bank, as their interests may appear. If any Revolving Credit Lender shall not have made its Pro Rata Percentage of such L/C Disbursement available to the Administrative Agent as provided above, such Revolving Credit Lender and the applicable Borrower severally agree to pay interest on such amount, for each day from and including the date such amount is required to be paid in accordance with this paragraph to but excluding the date such amount is paid, to the Administrative Agent for the account of such Issuing Bank at (i) in the case of such Borrower, a rate per annum equal to the interest rate applicable to Revolving Loans pursuant to Section 2.06(a), and (ii) in the case of such Revolving Credit Lender, for the first such day, the Federal Funds Effective Rate, and for each day thereafter, the Alternate Base Rate.

SECTION 2.03. Borrowing Procedure. In order to request a Borrowing (other than a deemed Borrowing pursuant to Section 2.02(f), as to which this Section 2.03 shall not apply), a Borrower shall hand deliver or telecopy to the Administrative Agent a duly completed Borrowing Request (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before a proposed Borrowing, (b) in the case of an ABR Borrowing made as part of the Note Repurchase Loans on the Series A Notes Repurchase Date, not later than 11:00 a.m., New York City time on such date, and (c) in the case of any other ABR Borrowing, not later than 12:00 noon, New York City time, one Business Day before a proposed Borrowing. Each Borrowing Request shall be irrevocable, shall be signed by or on behalf of the applicable Borrower and shall specify the following information: (i) whether the Borrowing then being requested is to be a Revolving Credit Borrowing or a Note Repurchase Borrowing and whether such Borrowing is to be a Eurodollar Borrowing or an ABR Borrowing, provided that any Borrowing on the Closing Date, and any Borrowing on the Series A Notes Repurchase Date consisting of Note Repurchase Loans made pursuant to clause (b) above shall

be an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day); (iii) the number and location of the account to which funds are to be disbursed

(which shall be an account that complies with the requirements of Section 2.02(c)); (iv) the amount of such Borrowing; and (v) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto; provided, however, that, notwithstanding any contrary specification in any Borrowing Request, each requested Borrowing shall comply with the requirements set forth in Section 2.02. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the applicable Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall promptly advise the Lenders of any notice given pursuant to this Section 2.03 (and the contents thereof), and of each Lender's portion of the requested Borrowing.

SECTION 2.04. Evidence of Debt; Repayment of Loans. (a) The Borrowers, jointly and severally, unconditionally promise to pay to the Administrative Agent for the account of each Lender (i) the principal amount of each Note Repurchase Loan of such Lender as provided in Section 2.12 and (ii) the then unpaid principal amount of each Revolving Loan of such Lender on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrowers to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Agreement.

(c) The Administrative Agent shall maintain accounts in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrowers to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from any Borrower or any Guarantor and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraphs (b) and (c) above shall be prima facie evidence of the existence and amounts of the obligations therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligations of the Borrowers to repay the Loans in accordance with their terms.

(e) Notwithstanding any other provision of this Agreement, in the event any Lender shall request and receive a promissory note payable to such Lender and its registered assigns, the interests represented by such note shall at all times (including after any assignment of all or part of such interests pursuant to Section 9.04) be represented by one or more promissory notes payable to the payee named therein or its registered assigns.

SECTION 2.05. Fees. (a) The Borrowers agree to pay to each Lender, through the Administrative Agent, on the last Business Day of March, June, September and December in each year (calculated to such last Business Day, as applicable, of March, June, September and December) and on the date on which the applicable Commitment of such Lender shall expire or be terminated as provided herein, a commitment fee (a "Commitment Fee") equal to the Applicable Percentage per annum in effect from time to time on the average daily unused amount of the Commitment of such Lender during the preceding quarter (or other period commencing with the date of acceptance by

the Borrowers of the Commitment of such Lender or ending with the Maturity Date or the date on which the applicable Commitments of such Lender shall expire or be terminated), provided that the aggregate fees payable on any such day shall not exceed the amount that would have been payable if no assignment of any Lender's interest had occurred during the applicable three month period. All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days. The Commitment Fee due to each Lender shall commence to accrue on the later of the date of this Agreement and the date of acceptance by the Borrowers of the applicable Commitment of such Lender and shall cease to accrue on the date on which the applicable Commitment of such Lender shall expire or be terminated as provided herein. Notwithstanding anything to the contrary in this Section 2.05(a), no fees shall be payable upon the expiration or termination of any Note Repurchase Loan Commitment if (i) such expiration or termination is the result of the making of a Note Repurchase Loan on the Series A Notes Repurchase Date or (ii) the applicable Lender's aggregate amount of Commitments does not decrease as a result of such termination or expiration.

(b) The Borrowers agree to pay to the Administrative Agent, for its own account, the administrative fees set forth in the Fee Letter at the times and in the amounts specified therein (the "Administrative Agent Fees").

(c) The Borrowers agree to pay (i) to each Revolving Credit Lender, through the Administrative Agent, on the last Business Day of March, June, September and December of each year (calculated to such last Business Day, as applicable, of March, June, September and December) and on the date on which the Revolving Credit Commitment of such Revolving Credit Lender shall be terminated as provided herein, a fee (an "L/C Participation Fee") calculated on such Revolving Credit Lender's Pro Rata Percentage of the average daily aggregate L/C Exposure (excluding the portion thereof attributable to unreimbursed L/C Disbursements) during the preceding quarter (or shorter period commencing with the date hereof or ending with the Maturity Date or the date on which all Letters of Credit have been canceled or have expired and the Revolving Credit Commitments of all Lenders shall have been terminated) at a rate equal to the Applicable Percentage from time to time used to determine the interest rate on Revolving Credit Borrowings comprised of Eurodollar Loans pursuant to Section 2.06; provided that the aggregate fees payable on any such day shall not exceed the amount that would have been payable if no assignment of any Revolving Credit Lender's interest had occurred during the applicable three month period, and (ii) to each Issuing Bank with respect to each Letter of Credit issued by it, (x) a fee equal to 0.125% per annum of the face amount of such Letter of Credit, payable quarterly in arrears on the last Business Day of each quarter (calculated to such last Business Day, as applicable, of March, June, September and December) and (y) the standard issuance and administration fees specified from time to time by such Issuing Bank (the "Issuing Bank Fees"). All L/C Participation Fees and Issuing Bank Fees shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

(d) All Fees shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, if and as appropriate, among the Lenders, except that the Issuing Bank Fees shall be paid directly to the respective Issuing Banks. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.06. Interest on Loans. (a) Subject to the provisions of Section 2.07, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when the Alternate Base

Rate is determined by reference to the Prime Rate and over a year of 360 days at all other times) at a rate per annum equal to the Alternate Base Rate plus the Applicable Percentage in effect from time to time.

(b) Subject to the provisions of Section 2.07, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum

equal to the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Percentage in effect from time to time.

(c) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Adjusted LIBO Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.07. Default Interest. If the Borrowers shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, or under any other Loan Document, the Borrowers shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount to, but excluding, the date of actual payment (after as well as before judgment) (a) in the case of overdue principal, at the rate otherwise applicable to such Loan pursuant to Section 2.06 plus 2.00% per annum and (b) in all other cases, at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, when determined by reference to the Prime Rate and over a year of 360 days at all other times) equal to the sum of the Alternate Base Rate plus 2.00%.

SECTION 2.08. Alternate Rate of Interest. If, and on each occasion that, on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Administrative Agent shall have determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to any Lender of making or maintaining its Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the Adjusted LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrowers and the Lenders. In the event of any such determination, until the Administrative Agent shall have advised the Borrowers and the Lenders that the circumstances giving rise to such notice no longer exist, any request by the Borrowers for a Eurodollar Borrowing pursuant to Section 2.03 shall be deemed to be a request for an ABR Borrowing. Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

SECTION 2.09. Termination and Reduction of Commitments. (a) The Note Repurchase Loan Commitments shall automatically terminate at 5:00 p.m., New York City time, on the Series A Notes Repurchase Date. The Revolving Credit Commitments and the L/C Commitments shall automatically terminate on the Maturity Date. Notwithstanding the foregoing, all the Commitments and L/C Commitments shall automatically terminate at 5:00 p.m., New York City time, on June 30, 1997, if the initial Credit Event shall not have occurred by such time.

(b) Upon at least two Business Days' prior irrevocable written or telecopy notice to the Administrative Agent, the Borrowers may at any time after the Series A Notes Repurchase Date in whole permanently terminate, or from time to time in part permanently reduce, the Revolving Credit Commitments; provided, however, that (i) each partial reduction of the Revolving Credit Commitments shall be in an integral multiple of $1,000,000 and in a minimum amount of $5,000,000 and (ii) the Total Revolving Credit Commitment shall not be reduced to an amount that is less than the Aggregate Credit Exposure at the time.

(c) Each reduction in the Revolving Credit Commitments or the Note Repurchase Loan Commitments hereunder shall be made ratably among the Lenders in accordance with their respective applicable Commitments. The Borrowers shall pay to the Administrative Agent for the account of the Lenders, on the date of each termination or reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued to but excluding the date of such termination or reduction.

(d) The Total Revolving Credit Commitment shall be automatically

reduced on the Series A Notes Repurchase Date by an amount equal to the Note Repurchase Loan Amount; provided, however, that in the event the outstanding Notes Repurchase Loans are repaid in full within 12 months after the Series A Notes Repurchase Date from the net proceeds of the issuance of Permitted Subordinated Indebtedness or equity capital of the Parent Borrower, then if requested by the Parent Borrower in writing not less than 20 days prior to such repayment, subject to the consent of each Lender affected thereby in accordance with Section 9.08(b), the Total Revolving Credit Commitment shall be increased by the amount that the Notes Repurchase Loans are so repaid. In the event that no Note Repurchase Loans are made on the Series A Notes Repurchase Date, the Note Repurchase Commitment shall automatically terminate and the Total Revolving Credit Commitment shall not be reduced.

SECTION 2.10. Conversion and Continuation of Borrowings. The applicable Borrower shall have the right at any time upon prior irrevocable notice to the Administrative Agent (a) not later than 12:00 (noon), New York City time, one Business Day prior to conversion, to convert any Eurodollar Borrowing into an ABR Borrowing, (b) not later than 10:00 a.m., New York City time, three Business Days prior to conversion or continuation, to convert any ABR Borrowing into a Eurodollar Borrowing or to continue any Eurodollar Borrowing as a Eurodollar Borrowing for an additional Interest Period, and (c) not later than 10:00 a.m., New York City time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Borrowing to another permissible Interest Period, subject in each case to the following:

(i) subject to Section 2.15, each conversion or continuation shall be made pro rata among the Lenders in accordance with the respective principal amounts of the Loans comprising the converted or continued Borrowing;

(ii) if less than all the outstanding principal amount of any Borrowing shall be converted or continued, then each resulting Borrowing shall satisfy the limitations specified in Sections 2.02(a) and 2.02(b) regarding the principal amount and maximum number of Borrowings of the relevant Type;

(iii) each conversion shall be effected by each Lender and the Administrative Agent by recording for the account of such Lender the new Loan of such Lender resulting from such conversion and reducing the Loan (or portion thereof) of such Lender being converted by an equivalent principal amount; accrued interest on any Eurodollar Loan (or portion thereof) being converted shall be paid by the Borrowers at the time of conversion;

(iv) if any Eurodollar Borrowing is converted at a time other than the end of the Interest Period applicable thereto, the Borrowers shall pay, upon demand, any amounts due to the Lenders pursuant to Section 2.16;

(v) any portion of a Borrowing maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Borrowing;

(vi) any portion of a Eurodollar Borrowing that cannot be converted into or continued as a Eurodollar Borrowing by reason of the immediately preceding clause shall be automatically converted at the end of the Interest Period in effect for such Borrowing into an ABR Borrowing;

(vii) no Interest Period may be selected for any Eurodollar Note Repurchase Borrowing that would end later than a repayment date occurring on or after the first day of such Interest Period if, after giving effect to such selection, the aggregate outstanding amount of (A) the Eurodollar Note Repurchase Borrowings with Interest Periods ending on or prior to such repayment date and (B) the ABR Note Repurchase Borrowings would not be at least equal to the principal amount of Note Repurchase Borrowings to be paid on such repayment date; and

(viii) upon notice to the Borrowers from the Administrative Agent given at the request of the Required Lenders, after the occurrence and

during the continuance of a Default or Event of Default, no outstanding Loan may be converted into, or continued as, a Eurodollar Loan.

Each notice pursuant to this Section 2.10 shall refer to this Agreement and specify (i) the identity and amount of the Borrowing that the applicable Borrower requests be converted or continued, (ii) whether such Borrowing is to be converted to or continued as a Eurodollar Borrowing or an ABR Borrowing, (iii) if such notice requests a conversion, the date of such conversion (which shall be a Business Day) and (iv) if such Borrowing is to be converted to or continued as a Eurodollar Borrowing, the Interest Period with respect thereto. If no Interest Period is specified in any such notice with respect to any conversion to or continuation as a Eurodollar Borrowing, the applicable Borrower shall be deemed to have selected an Interest Period of one month's duration. The Administrative Agent shall advise the Lenders of any notice given pursuant to this Section 2.10 and of each Lender's portion of any converted or continued Borrowing. If the applicable Borrower shall not have given notice in accordance with this Section 2.10 to continue any Borrowing into a subsequent Interest Period (and shall not otherwise have given notice in accordance with this Section 2.10 to convert such Borrowing), such Borrowing shall, at the end of the Interest Period applicable thereto (unless repaid pursuant to the terms hereof), automatically be continued into a new Interest Period as an ABR Borrowing.

SECTION 2.11. Prepayment. (a) The Borrowers shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least two Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Administrative Agent before 11:00 a.m., New York City time; provided, however, that each partial prepayment shall be in an amount that is an integral multiple of $1,000,000 and not less than $5,000,000.

(b) Optional prepayments of Note Repurchase Loans shall be applied as directed by the Parent Borrower against the remaining principal due in respect of the Note Repurchase Loans.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrowers to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.11 shall be subject to Section 2.16 but otherwise without premium or penalty. All prepayments under this Section 2.11 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.12. Repayment of Note Repurchase Borrowings. (a) The Borrowers shall pay to the Administrative Agent, for the account of the Lenders, on the dates set forth below or, if any such date is not a Business Day, on the next preceding Business Day (each such date being a "Note Repurchase Loan Repayment Date"), a principal amount of the Note Repurchase Loans (such amount, as adjusted from time to time pursuant to this Section 2.12 and Sections 2.11 and 2.13, being called the "Note Repurchase Loan Repayment Amount") equal to the percentage set forth below for

such date of the principal amount of the Note Repurchase Loans outstanding as of the Series A Notes Repurchase Date, together in each case with accrued and unpaid interest on the principal amount to be paid to but excluding the date of such payment:

Date	Amount
September 30, 1998	5%
December 31, 1998	5%
March 31, 1999	5%
June 30, 1999	5%

September 30, 1999	5%
December 31, 1999	5%
March 31, 2000	5%
June 30, 2000	5%
September 30, 2000	5%
December 31, 2000	5%
March 31, 2001	5%
June 30, 2001	5%
September 30, 2001	10%
December 31, 2001	10%
March 31, 2002	10%
Maturity Date	10%

(b) To the extent not previously paid, all Note Repurchase Loans shall be due and payable on the Maturity Date.

(c) All repayments pursuant to this Section 2.12 shall be subject to Section 2.16, but shall otherwise be without premium or penalty.

SECTION 2.13. Mandatory Prepayments and Commitment Reductions. (a) Not later than the third Business Day following the completion of any Asset Sale or any transaction described in Section 6.05(g), the Borrowers shall apply 100% of the Net Cash Proceeds received with respect thereto to prepay out-standing Note Repurchase Loans in accordance with Section 2.13(d); provided, however, that no such prepayment shall be required until the September 30 that is immediately after the completion of any such Asset Sale if the applicable Net Cash Proceeds plus all other Net Cash Proceeds that have yet to be applied in accordance with this Section 2.13(a) are less than $5,000,000.

(b) No later than the earlier of (i) 120 days after the end of each fiscal year of the Parent Borrower, commencing with the fiscal year ending on September 30, 1998, and (ii) the date on which the financial statements with respect to such period are delivered pursuant to Section 5.04(a), the Parent Borrower shall prepay outstanding Note Repurchase Loans in accordance with Sec-tion 2.13(d) in an aggregate principal

amount equal to 75% (or, if at such time the aggregate principal amount of outstanding Note Repurchase Loans is less than $100,000,000, 50%) of Excess Cash Flow for the fiscal year then ended.

(c) In the event that any Borrower or any Guarantor shall receive Net Cash Proceeds from the issuance of Indebtedness for money borrowed of any Borrower or any Subsidiary (other than Indebtedness for money borrowed permitted pursuant to Section 6.01(i) or Section 6.01(n)), the Borrowers shall, substantially simultaneously with (and in any event not later than the third Business Day next following) the receipt of such Net Cash Proceeds, apply an amount equal to 100% of such Net Cash Proceeds to prepay outstanding Note Repurchase Loans in accordance with Section 2.13(d); provided, however, that no such prepayment shall be required until the September 30 that is immediately after such issuance if the applicable Net Cash Proceeds plus all other Net Cash Proceeds that have yet to be applied in accordance with this Section 2.13(c) are less than $5,000,000.

(d) Mandatory prepayments of outstanding Note Repurchase Loans under this Agreement shall be applied pro rata against the remaining scheduled installments of principal due in respect of the Note Repurchase Loans under Sections 2.12(a).

(e) In the event that, upon the occurrence of any event described in Section 2.13(a), no Note Repurchase Loans are outstanding (or the amount required to be applied pursuant to such Section exceeds the aggregate principal amount of outstanding Note Repurchase Loans), Revolving Credit Commitments shall be reduced pro rata by the amount of the prepayment that would have been required in respect of Note Repurchase Loans had there been Note Repurchase Loans outstanding (after giving effect to any prepayment thereof); provided, however, that no such reduction shall be required until the September 30 that is immediately after such event if the applicable Net

Cash Proceeds plus all other Net Cash Proceeds that have yet to be applied in accordance with this Section 2.13(e) are less than $5,000,000. The Borrowers shall pay to the Administrative Agent for the account of the Revolving Credit Lenders, on the date of each termination or reduction pursuant to this Section 2.13(e), the Commitment Fees on the amount of the Revolving Credit Commitments so terminated or reduced accrued to but excluding the date of such termination or reduction.

(f) In the event of any termination of all the Revolving Credit Commitments, the Borrowers shall repay or prepay all outstanding Revolving Credit Borrowings on the date of such termination. In the event of any partial reduction of the Revolving Credit Commitments, then (i) at or prior to the effective date of such reduction, the Administrative Agent shall notify the Borrowers and the Revolving Credit Lenders of the Aggregate Credit Exposure after giving effect thereto and (ii) if the Aggregate Credit Exposure would exceed the Total Revolving Credit Commitment after giving effect to such reduction, then the Borrowers shall, on the date of such reduction, repay or prepay Revolving Credit Borrowings in an amount sufficient to eliminate such excess.

(g) If following any reduction of the Total Revolving Credit Commitment pursuant to Section 2.13(e) and any payments required pursuant to Section 2.13(f), the Total Revolving Credit Commitment is less than the L/C Exposure, the Borrowers shall, on the date of such reduction, replace out-standing Letters of Credit or deposit an amount in cash in a collateral account established with the Collateral Agent in accordance with Section 2.22(j), in an amount equal to the amount that the L/C Exposure exceeds the Total Revolving Credit Commitment upon such date of reduction.

(h) Amounts to be applied pursuant to this Section 2.13 to the pre-payment of Loans shall be applied, as applicable, first to reduce outstanding ABR Loans. Any amounts remaining after each such application shall, at the option of the Parent Borrower, be applied to prepay Eurodollar Loans immediately and/or shall be deposited in the Prepayment Account (as defined below). The Administrative Agent shall apply any cash deposited in the Prepayment Account (i) allocable to Note Repurchase Loans to prepay Eurodollar Note Repurchase Loans and (ii) allocable to Revolving Loans to prepay Eurodollar Revolving Loans, in each case on the last day of their respective Interest Periods (or, at the direction of the Parent Borrower, on any earlier date) until all outstanding Note Repurchase Loans or Revolving Loans, as the case may be, have been prepaid or until all the allocable cash on deposit with respect to such Loans has been exhausted. For purposes of this Agreement, the term "Prepayment Account" shall mean an account established by the Parent Borrower with the Administrative Agent and over which the Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal for application in accordance with this paragraph (h). The Administrative Agent will, at the request of the Parent Borrower, invest amounts on deposit in the Prepayment Account in Permitted Investments that mature prior to the last day of the applicable Interest Periods of the Eurodollar Note Repurchase Borrowings or Eurodollar Revolving Borrowings to be prepaid, as the case may be; provided, however, that (i) the Administrative Agent shall not be required to make any investment that, in its sole judgment, would require or cause the Administrative Agent to be in, or would result in any, violation of any law, statute, rule or regulation and (ii) the Administrative Agent shall have no obligation to invest amounts on deposit in the Prepayment Account if a Default or Event of Default shall have occurred and be continuing. The Parent Borrower shall indemnify the Administrative Agent for any losses relating to the investments so that the amount available to prepay Eurodollar Borrowings on the last day of the applicable Interest Period is not less than the amount that would have been available had no investments been made pursuant thereto. Any interest earned on such investments shall be deposited in the Prepayment Account and reinvested and disbursed as specified above. If the maturity of the Loans has been accelerated pursuant to Article VII, the Administrative Agent may, in its sole discretion, apply all amounts on deposit in the Prepayment Account to satisfy any of the Obligations. The Parent Borrower hereby grants to the Administrative Agent, for its benefit and the benefit of the Issuing Banks and the Lenders, a security interest in the Prepayment Account to secure the Obligations.

SECTION 2.14. Reserve Requirements; Change in Circumstances. (a) Notwithstanding any other provision of this Agreement, if after the date of this Agreement any change in applicable law or regulation or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Lender or an Issuing Bank of the principal of or interest on any Eurodollar Loan made by such Lender or any Fees or other amounts payable hereunder (other than changes in respect of taxes imposed on the overall net income of such Lender or Issuing Bank by the jurisdiction in which such Lender or Issuing Bank has its principal office or by any political subdivision or taxing authority therein), or shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by any Lender or an Issuing Bank (except any such reserve requirement which is reflected in the Adjusted LIBO Rate) or shall impose on such Lender or Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein, and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar

Loan or increase the cost to any Lender or Issuing Bank of issuing or maintaining any Letter of Credit or purchasing or maintaining a participation therein or to reduce the amount of any sum received or receivable by such Lender or Issuing Bank hereunder (whether of principal, interest or otherwise) by an amount deemed by such Lender or Issuing Bank to be material, then the Borrowers will pay to such Lender or Issuing Bank, as the case may be, upon demand such additional amount or amounts as will compensate such Lender or Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or an Issuing Bank shall have determined that the adoption after the date hereof of any law, rule, regulation, agreement or guideline regarding capital adequacy, or any change after the date hereof in any such law, rule, regulation, agreement or guideline (whether such law, rule, regulation, agreement or guideline has been adopted) or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by any Lender (or any lending office of such Lender) or an Issuing Bank or any Lender's or Issuing Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any Governmental Authority has or would have the effect of reducing the rate of return on such Lender's or Issuing Bank's capital or on the capital of such Lender's or Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made or participations in Letters of Credit purchased by such Lender pursuant hereto or the Letters of Credit issued by such Issuing Bank pursuant hereto to a level below that which such Lender or Issuing Bank or such Lender's or Issuing Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Lender's or Issuing Bank's policies and the policies of such Lender's or Issuing Bank's holding company with respect to capital adequacy) by an amount deemed by such Lender or Issuing Bank to be material, then from time to time the Borrowers shall pay to such Lender or Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or Issuing Bank or such Lender's or Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or an Issuing Bank or its holding company, as applicable, as specified in paragraph (a) or (b) above shall be delivered to the Borrowers and shall be conclusive absent manifest error. Such certificate (i) shall set forth in reasonable detail the conditions giving rise to a circumstance or situation under Section 2.14(a) or (b), and (ii) shall set forth the calculations of the amounts to be paid by the applicable Borrower (which calculations shall be made in the same manner as for similar outstanding loans made by such Lender of a similar type and amount as Loans by such Lender under this Agreement to persons of creditworthiness similar to that of the Parent Borrower), and, if made in

accordance with this sentence, shall be conclusive absent manifest error. The Borrowers shall pay such Lender or Issuing Bank the amount shown as due on any such certificate delivered by it within 10 days after its receipt of the same.

(d) Failure or delay on the part of any Lender or any Issuing Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital shall not constitute a waiver of such Lender's or Issuing Bank's right to demand such compensation. The protection of this Section shall be available to each Lender and Issuing Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, agreement, guideline or other change or condition that shall have occurred or been imposed.

SECTION 2.15. Change in Legality. (a) Notwithstanding any other provision of this Agreement, if, after the date hereof, any change in any law or regulation or in the interpretation thereof by any Governmental Authority charged with the administration or interpretation thereof shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrowers and to the Administrative Agent:

(i) such Lender may declare that Eurodollar Loans will not thereafter (for the duration of such unlawfulness) be made by such Lender hereunder (or be continued for additional Interest Periods and ABR Loans will not thereafter (for such duration) be converted into Eurodollar Loans), where-upon any request for a Eurodollar Borrowing (or to convert an ABR Borrowing to a Eurodollar Borrowing or to continue a Eurodollar Borrowing for an additional Interest Period) shall, as to such Lender only, be deemed a request for an ABR Loan (or a request to continue an ABR Loan as such for an additional Interest Period or to convert a Eurodollar Loan into an ABR Loan, as the case may be), unless such declaration shall be subsequently withdrawn; and

(ii) such Lender may require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

If any Lender shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Lender or the converted Eurodollar Loans of such Lender shall instead be applied to repay the ABR Loans made by such Lender in lieu of, or resulting from the conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.15, a notice to the Borrowers by any Lender shall be effective as to each Eurodollar Loan made by such Lender, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan; in all other cases such notice shall be effective on the date of receipt by the Borrowers.

SECTION 2.16. Indemnity. The Borrowers, jointly and severally, shall indemnify each Lender against any loss (but excluding lost profits) or expense that such Lender may sustain or incur as a consequence of (a) any event, other than a default by such Lender in the performance of its obligations hereunder, which results in (i) such Lender receiving or being deemed to receive any amount on account of the principal of any Eurodollar Loan prior to the end of the Interest Period in effect therefor, (ii) the conversion of any Eurodollar Loan to an ABR Loan, or the conversion of the Interest Period with respect to any Eurodollar Loan, in each case other than on the last day of the Interest Period in effect therefor, or (iii) any Eurodollar Loan to be made by such Lender (including any Eurodollar Loan to be made pursuant to a conversion or continuation under Section 2.10) not being made after notice of such Loan shall have been given by the Borrowers hereunder (any of the events referred to in this clause (a) being called a "Breakage Event") or (b) any default in the making of any payment or

prepayment required to be made hereunder. In the case of any Breakage Event, such loss shall include an amount equal to the excess, as reasonably determined by such Lender, of (i) its cost of obtaining funds for the Eurodollar Loan that is the subject of such Breakage Event for

the period from the date of such Breakage Event to the last day of the Interest Period in effect (or that would have been in effect) for such Loan over (ii) the amount of interest likely to be realized by such Lender in redeploying the funds released or not utilized by reason of such Breakage Event for such period. A certificate of any Lender setting forth any amount or amounts which such Lender is entitled to receive pursuant to this Section 2.16 shall be delivered to the Borrowers and shall be conclusive absent manifest error.

SECTION 2.17. Pro Rata Treatment. Except as required under Section 2.15, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Revolving Credit Commitments or the Note Repurchase Loan Commitments and each conversion of any Borrowing to or continuation of any Borrowing as a Borrowing of any Type shall be allocated pro rata among the Lenders in accordance with their respective applicable Commitments (or, if such applicable Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each Lender agrees that in computing such Lender's portion of any Borrowing to be made hereunder, the Administrative Agent may, in its discretion, round each Lender's percentage of such Borrowing to the next higher or lower whole dollar amount.

SECTION 2.18. Sharing of Setoffs. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrowers or any other Loan Party, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Loan or Loans or L/C Disbursement as a result of which the unpaid principal portion of its Revolving Loans and Note Repurchase Loans and participations in L/C Disbursements shall be proportionately less than the unpaid principal portion of the Revolving Loans and Note Repurchase Loans and participations in L/C Disbursements of any other Lender, it shall be deemed simultaneously to have purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Revolving Loans and Note Repurchase Loans and L/C Exposure, as the case may be, of such other Lender, so that the aggregate unpaid principal amount of the Revolving Loans and Note Repurchase Loans and L/C Exposure and participations in Revolving Loans and Note Repurchase Loans and L/C Exposure held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Revolving Loans and Note Repurchase Loans and L/C Exposure then outstanding as the principal amount of its Revolving Loans and Note Repurchase Loans and L/C Exposure prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Revolving Loans and Note Repurchase Loans and L/C Exposure outstanding prior to such exercise of banker's lien, setoff or counterclaim or other event; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.18 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrowers expressly consent to the foregoing arrangements and agree that any Lender holding a participation in a Revolving Loan and Note Repurchase Loan or L/C Disbursement deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrowers to such Lender by reason thereof as fully as if such Lender had made a Loan directly to the Borrowers in the amount of such participation.

SECTION 2.19. Payments. (a) The Borrowers shall make each payment (including principal of or interest on any Borrowing or any L/C Disbursement or any Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 (noon), New York City time, on the date when due in immediately available dollars, without setoff, defense or counterclaim. Each such payment (other than Issuing Bank Fees, which shall be paid directly to the respective Issuing Banks, and other than payments pursuant to Sections 2.14, 2.16, 2.20 and 9.05, which shall be made to the persons entitled thereto) shall be made to the Administrative Agent at its offices at One Chase Manhattan Plaza, 8th Floor, New York, New York 10081.

(b) Whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

SECTION 2.20. Taxes. (a) Any and all payments by or on behalf of the Borrowers or any Loan Party hereunder and under any other Loan Document shall be made, in accordance with Section 2.19, free and clear of and without deduction for any and all current or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding (i) income taxes imposed on the net income of the Administrative Agent, any Lender or either Issuing Bank (or any permitted assignee thereof, (any such entity a "Transferee")) and (ii) franchise taxes imposed on the net income of the Administrative Agent, any Lender or an Issuing Bank (or Transferee), in each case by the jurisdiction under the laws of which the Administrative Agent, such Lender or an Issuing Bank (or Transferee) is organized or any political sub-division thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities, collectively or individually, being called "Taxes"). If the Borrowers or any Loan Party shall be required to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to the Administrative Agent, any Lender or an Issuing Bank (or any Transferee), (i) the sum payable shall be increased by the amount (an "additional amount") necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.20) the Administrative Agent, such Lender or an Issuing Bank (or Transferee), as the case may be, shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrowers or such Loan Party shall make such deductions and (iii) the Borrowers or such Loan Party shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrowers agree to pay to the relevant Governmental Authority in accordance with applicable law any current or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under any other Loan Document or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document ("Other Taxes").

(c) The Borrowers shall indemnify the Administrative Agent, each Lender and each Issuing Bank (or Transferee) for the full amount of Taxes and Other Taxes paid by the Administrative Agent, such Lender or such Issuing Bank (or Transferee), as the case may be, and any liability (including penalties, interest and expenses (including reasonable attorney's fees and expenses)) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally

asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability prepared by the Administrative Agent, a Lender or an Issuing Bank (or Transferee), or the Administrative Agent on its behalf and accompanied by a copy of any relevant notices received from a Governmental Authority and any return or form prepared or filed by the

Administrative Agent, a Lender or an Issuing Bank (or Transferee) in connection with such payment or liability, absent manifest error, shall be conclusive for all purposes. Such indemnification shall be made within 30 days after the date the Administrative Agent, any Lender or any Issuing Bank (or Transferee), as the case may be, makes written demand therefor.

(d) As soon as practicable after the date of any payment of Taxes or Other Taxes by the Borrowers or any other Loan Party to the relevant Governmental Authority, the Borrowers or such other Loan Party will deliver to the Administrative Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt issued by such Governmental Authority evidencing payment thereof.

(e) Each Lender (or Transferee) that is organized under the laws of a jurisdiction other than the United States, any State thereof or the District of Columbia (a "Non-U.S. Lender") shall deliver to the Parent Borrower and the Administrative Agent two copies of either United States Internal Revenue Service Form 1001 or Form 4224, or, in the case of a Non-U.S. Lender claiming exemption from U.S. Federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a Form W-8, or any subsequent versions thereof or successors thereto (and, if such Non-U.S. Lender delivers a Form W-8, a certificate representing that such Non-U.S. Lender is not a bank for purposes of Section 881(c) of the Code, is not a 10-percent shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of the Borrowers and is not a controlled foreign corporation related to the Borrowers (within the meaning of Section 864(d)(4) of the Code)), properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or reduced rate of, U.S. Federal withholding tax on payments by the Borrowers under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement and on or before the date, if any, such Non-U.S. Lender changes its applicable lending office by designating a different lending office (a "New Lending Office"). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Notwithstanding any other provision of this Section 2.20(e), a Non-U.S. Lender shall not be required to deliver any form pursuant to this Section 2.20(e) that such Non-U.S. Lender is not legally able to deliver.

(f) The Borrowers shall not be required to indemnify any Non-U.S. Lender or to pay any additional amounts to any Non-U.S. Lender, in respect of United States Federal withholding tax pursuant to paragraph (a) or (c) above to the extent that (i) the obligation to withhold amounts with respect to United States Federal withholding tax existed on the date such Non-U.S. Lender became a party to this Agreement or, with respect to payments to a New Lending Office, the date such Non-U.S. Lender designated such New Lending Office with respect to a Loan or a Letter of Credit; provided, however, that this paragraph (f) shall not apply (x) to any Transferee or New Lending Office that becomes a Transferee or New Lending Office as a result of an assignment, transfer or designation made at the request of the Borrowers and (y) to the extent the indemnity payment or additional amounts any Transferee, or any Lender (or Transferee), acting through a New Lending Office, would be entitled to receive (without regard to this paragraph (f)) do not exceed the indemnity

payment or additional amounts that the person making the assignment, or transfer to such Transferee, or Lender (or Transferee) making the designation of such New Lending Office, would have been entitled to receive in the absence of such assignment, transfer or designation or (ii) the obligation to pay such additional amounts would not have arisen but for a failure by such Non-U.S. Lender to comply with the provisions of paragraph (e) above.

(g) Nothing contained in this Section 2.20 shall require any Lender or Issuing Bank (or any Transferee) or the Administrative Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

SECTION 2.21. Assignment of Commitments Under Certain Circumstances; Duty to Mitigate. (a) If (i) any Lender delivers a

certificate requesting compensation pursuant to Section 2.14, (ii) any Lender delivers a notice described in Section 2.15 or (iii) the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority on account of any Lender pursuant to Section 2.20, the Borrowers may, at their sole expense and effort (including with respect to the processing and recordation fee referred to in Section 9.04(b)), upon notice to such Lender and the Administrative Agent, require such Lender or Issuing Bank to transfer and assign, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all of its interests, rights and obligations under this Agreement to an assignee that shall assume such assigned obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (x) such assignment shall not conflict with any law, rule or regulation or order of any court or other Governmental Authority having jurisdiction, (y) the Borrowers shall have received the prior written consent of the Administrative Agent (and, if a Revolving Credit Commitment is being assigned, of each Issuing Bank), which consent shall not unreasonably be withheld, and (z) the Borrowers or such assignee shall have paid to the affected Lender in immediately available funds an amount equal to the sum of the principal of and interest accrued to the date of such payment on the outstanding Loans or L/C Disbursements of such Lender, respectively, plus all Fees and other amounts accrued for the account of such Lender hereunder (including any amounts under Section 2.14 and Section 2.16); provided further that, if prior to any such transfer and assignment the circum-stances or event that resulted in such Lender's claim for compensation under Section 2.14 or notice under Section 2.15 or the amounts paid pursuant to Section 2.20, as the case may be, cease to cause such Lender to suffer increased costs or reductions in amounts received or receivable or reduction in return on capital, or cease to have the consequences specified in Section 2.15, or cease to result in amounts being payable under Section 2.20, as the case may be (including as a result of any action taken by such Lender pursuant to paragraph (b) below), or if such Lender shall waive its right to claim further compensation under Section 2.14 in respect of such circumstances or event or shall withdraw its notice under Section 2.15 or shall waive its right to further payments under Section 2.20 in respect of such circumstances or event, as the case may be, then such Lender shall not thereafter be required to make any such transfer and assignment hereunder.

(b) If (i) any Lender shall request compensation under Section 2.14, (ii) any Lender delivers a notice described in Section 2.15 or (iii) the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority on account of any Lender, pursuant to Section 2.20, then such Lender shall use reasonable efforts (which shall not require such Lender to incur an unreimbursed loss or unreimbursed cost or expense or otherwise take any action inconsistent with its internal policies or legal or regulatory restrictions or suffer any disadvantage or burden deemed by it to be significant) (x) to file any certificate or document (including any document

contesting the imposition of any such amount or requesting a refund of such amount by any relevant Governmental Authority) reasonably requested in writing by the Borrowers or (y) to assign its rights and delegate and transfer its obligations hereunder to another of its offices, branches or affiliates, if such filing or assignment would reduce its claims for compensation under Section 2.14 or enable it to withdraw its notice pursuant to Section 2.15 or would reduce amounts payable pursuant to Section 2.20, as the case may be, in the future. The Borrowers hereby agree to pay all reasonable costs and expenses incurred by any Lender in connection with any such filing or assignment, delegation and transfer. Any Lender receiving any refund or rebate of any amounts paid by a Borrower pursuant to Section 2.20 shall promptly pay the same to the applicable Borrower.

SECTION 2.22. Letters of Credit. (a) General. Any Borrower may request the issuance by either Issuing Bank of a Letter of Credit for such Borrower's own account, in a form reasonably acceptable to the Administrative Agent and such Issuing Bank, at any time and from time to time while the Revolving Credit Commitments remain in effect. This Section shall not be construed to impose an obligation upon either Issuing Bank to issue any Letter of Credit that is inconsistent with the terms and conditions of this

Agreement.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. In order to request the issuance of a Letter of Credit (or to amend, renew or extend an existing Letter of Credit), any Borrower or any Guarantor shall hand deliver or telecopy to an Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, the date of issuance, amendment, renewal or extension, the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) below), the face amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare such Letter of Credit. Following receipt of such notice and prior to the issuance of the requested Letter of Credit or the applicable amendment, renewal or extension, the Administrative Agent shall notify the Borrowers and the applicable Issuing Bank of the amount of the Aggregate Credit Exposure after giving effect to (i) the issuance, amendment, renewal or extension of such Letter of Credit, (ii) the issuance or expiration of each other Letter of Credit that is to be issued or will expire on or prior to the requested date of issuance of such Letter of Credit and (iii) the borrowing or repayment of any Revolving Loans that (based upon notices delivered to the Administrative Agent by the Borrowers) are to be borrowed or repaid on or prior to the requested date of issuance of such Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if, and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrowers shall be deemed to represent and warrant that, after giving effect to such issuance, amendment, renewal or extension (A) the L/C Exposure shall not exceed $50,000,000 and (B) the Aggregate Credit Exposure shall not exceed the Total Revolving Credit Commitment.

(c) Expiration Date. Each Letter of Credit shall expire at the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit and (ii) the date that is five Business Days prior to the Maturity Date, unless such Letter of Credit expires by its terms on an earlier date.

(d) Participations. By the issuance of a Letter of Credit and without any further action on the part of the applicable Issuing Bank or the Revolving Credit Lenders, the Issuing Bank in respect of such Letter of Credit hereby grants to each Revolving Credit Lender, and each such

Lender hereby acquires from such Issuing Bank, a participation in such Letter of Credit equal to such Lender's Pro Rata Percentage of the aggregate amount available to be drawn under such Letter of Credit, effective upon the issuance of such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Credit Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of such Issuing Bank, such Lender's Pro Rata Percentage of each L/C Disbursement made by such Issuing Bank and not reimbursed by the Borrowers (or, if applicable, another party pursuant to its obligations under any other Loan Document) forthwith on the date due as provided in Section 2.02(f). Each Revolving Credit Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If an Issuing Bank shall make any L/C Disbursement in respect of a Letter of Credit, the Borrowers shall pay to the Administrative Agent an amount equal to such L/C Disbursement not later than 2:00 p.m. on the day the Borrowers shall have received notice from such Issuing Bank that payment of such draft will be made, or, if the Borrowers shall have received such notice later than 10:00 a.m., New York City time, on any Business Day, not later than 10:00 a.m., New York City time, on the immediately following Business Day.

(f) Obligations Absolute. The Borrowers' obligations to reimburse

L/C Disbursements as provided in paragraph (e) above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under any and all circumstances whatsoever, and irrespective of:

(i) any lack of validity or enforceability of any Letter of Credit or any Loan Document, or any term or provision therein;

(ii) any amendment or waiver of or any consent to departure from all or any of the provisions of any Letter of Credit or any Loan Document;

(iii) the existence of any claim, setoff, defense or other right that the Borrowers, any other party guaranteeing, or otherwise obligated with, the Borrowers, any Subsidiary or other Affiliate thereof or any other person may at any time have against the beneficiary under any Letter of Credit, either Issuing Bank, the Administrative Agent or any Lender or any other person, whether in connection with this Agreement, any other Loan Document or any other related or unrelated agreement or transaction;

(iv) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by an Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit; and

(vi) any other act or omission to act or delay of any kind of either Issuing Bank, the Lenders, the Administrative Agent or any other person or any other event or circumstance

whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrowers' obligations hereunder.

Without limiting the generality of the foregoing, it is expressly understood and agreed that the absolute and unconditional obligation of the Borrowers hereunder to reimburse L/C Disbursements will not be excused by the gross negligence or willful misconduct of either Issuing Bank. However, the foregoing shall not be construed to excuse an Issuing Bank from liability to the Borrowers to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrowers to the extent permitted by applicable law) suffered by the Borrowers that are caused by such Issuing Bank's gross negligence or willful misconduct in determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof; it is understood that an Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary and, in making any payment under any Letter of Credit (i) an Issuing Bank's exclusive reliance on the documents presented to it under such Letter of Credit as to any and all matters set forth therein, including reliance on the amount of any draft presented under such Letter of Credit, whether or not the amount due to the beneficiary thereunder equals the amount of such draft and whether or not any document presented pursuant to such Letter of Credit proves to be insufficient in any respect, if such document on its face appears to be in order, and whether or not any other statement or any other document presented pursuant to such Letter of Credit proves to be forged or invalid or any statement therein proves to be inaccurate or untrue in any respect whatsoever and (ii) any noncompliance in any immaterial respect of the documents presented under such Letter of Credit with the terms thereof shall, in each case, be deemed not to constitute willful misconduct or gross negligence of such Issuing Bank.

(g) Disbursement Procedures. An Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. Such Issuing Bank shall as promptly as possible give telephonic notification, confirmed by telecopy, to the Administrative Agent and the Borrowers of such demand for payment and

whether such Issuing Bank has made or will make an L/C Disbursement thereunder (it being understood that such notice shall not be required if prior to any L/C Disbursement the Borrowers have made available to the applicable Issuing Bank funds sufficient to reimburse such Issuing Bank for such L/C Disbursement), provided that any failure to give or delay in giving such notice shall not relieve the Borrowers of their obligation to reimburse such Issuing Bank and the Revolving Credit Lenders with respect to any such L/C Disbursement. The Administrative Agent shall promptly give each Revolving Credit Lender notice thereof.

(h) Interim Interest. If on any date an Issuing Bank shall make any L/C Disbursement in respect of a Letter of Credit, then, unless the Borrowers shall reimburse such L/C Disbursement in full on such date, the unpaid amount thereof shall bear interest for the account of such Issuing Bank, for each day from and including the date of such L/C Disbursement, to but excluding the earlier of the date of payment by the Borrowers or the date on which interest shall commence to accrue thereon as provided in Section 2.02(f), at the rate per annum that would apply to such amount if such amount were an ABR Loan.

(i) Resignation or Removal of an Issuing Bank. An Issuing Bank may resign at any time by giving 180 days' prior written notice to the Administrative Agent, the Lenders and the Borrowers, and may be removed at any time by the Borrowers by notice to such Issuing Bank, the Administrative Agent and the Lenders. Subject to the last sentence of this paragraph (i), upon the acceptance of any appointment as an Issuing Bank hereunder by a Lender that shall agree to serve as a successor Issuing Bank, such successor shall succeed to and become vested with all the interests, rights and obligations of the retiring Issuing Bank and the retiring Issuing Bank shall be discharged from its obligations to issue additional Letters of Credit hereunder. At the time such removal or resignation shall become effective, the Borrowers shall pay all accrued and unpaid fees due to the retiring Issuing Bank pursuant to Section 2.05(c)(ii). The acceptance of any appointment as an Issuing Bank here-under by a successor Lender shall be subject to approval, unless an Event of Default has occurred and is continuing, by the Parent Borrower (which approval shall not be unreasonably withheld) and shall be evidenced by an agreement entered into by such successor, in a form satisfactory to the Borrowers and the Administrative Agent, and, from and after the effective date of such agreement, (i) such successor Lender shall have all the rights and obligations of the previous Issuing Bank under this Agreement and the other Loan Documents and (ii) references herein and in the other Loan Documents to the term "Issuing Bank" shall be deemed to include such successor or any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the resignation or removal of an Issuing Bank hereunder, the retiring Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement and the other Loan Documents with respect to Letters of Credit issued by it prior to such resignation or removal, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If (i) any Event of Default shall occur and be continuing or (ii) the Total Revolving Credit Commitment is less than the L/C Exposure, the Borrowers shall, on the Business Day they receive notice from the Administrative Agent or the Required Lenders thereof and of the amount to be deposited, deposit in an account with the Collateral Agent, for the benefit of the Revolving Credit Lenders, an amount in cash equal to the L/C Exposure as of such date. Such deposit shall be held by the Collateral Agent as collateral for the payment and performance of the Obligations. The Collateral Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits in Permitted Investments, which investments shall be made by the Collateral Agent and selected in its sole discretion, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall (i) automatically be applied by the Administrative Agent to reimburse the Issuing Banks for L/C Disbursements for which they have not been reimbursed, (ii) be held for the satisfaction of the reimbursement obligations of the Borrowers for the L/C Exposure at such time

and (iii) if the maturity of the Loans has been accelerated (but, if there are Note Repurchase Loans outstanding, subject to the consent of Revolving Credit Lenders holding participations in outstanding Letters of Credit representing greater than 50% of the aggregate undrawn amount of all outstanding Letters of Credit), be applied to satisfy the Obligations. If the Borrowers are required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrowers within three Business Days after all Events of Default have been cured or waived. If the Borrowers are required to provide an amount of cash collateral hereunder pursuant to Section 2.13(g), such amount shall be returned to the Borrowers from time to time to the extent that the amount of such cash collateral held by the Collateral Agent exceeds the excess, if any,

of the aggregate L/C Exposure over the Total Revolving Credit Commitment; provided, that such return shall not be required at any time that an Event of Default has occurred and is continuing.

SECTION 2.23. Additional Borrowers. The parties hereto agree that wholly owned Domestic Subsidiaries that are not Borrowers as of the Closing Date may enter into and become a party to this Agreement by executing a New Borrower Agreement. Upon execution and delivery after the date hereof by the Administrative Agent, the Collateral Agent and such a wholly owned Subsidiary of a New Borrower Agreement, such Subsidiary shall become a Borrower hereunder with the same force and effect as if originally named as a Borrower herein. The Parent Borrower may terminate any Subsidiary Borrower's interests, rights and obligations under this Agreement by executing and delivering to the Administrative Agent a Subsidiary Borrower Termination with respect to such Subsidiary, whereupon such Subsidiary shall cease to be a Subsidiary Borrower and a party to this Agreement. Notwithstanding the preceding sentence, no Subsidiary Borrower Termination will become effective as to any Subsidiary Borrower at a time when any principal of or interest on any Revolving Loan to such Subsidiary Borrower shall be outstanding hereunder, provided that such Subsidiary Borrower Termination shall be effective to terminate such Subsidiary Borrower's right to make further Borrowings under this Agreement unless and until such Subsidiary executes subsequent to such termination a New Borrower Agreement. The execution and delivery of a New Borrower Agreement or a Subsidiary Borrower Termination shall not require the consent of any other Borrower hereunder. The rights and obligations of each Borrower hereunder shall remain in full force and effect notwithstanding the addition of any new Borrower or termination of any Borrower as a party to this Agreement.

ARTICLE III

Representations and Warranties

Each of the Borrowers represents and warrants to the Administrative Agent, the Syndication Agent, the Collateral Agent, the Issuing Banks and each of the Lenders that:

SECTION 3.01. Organization; Powers. Each of the Borrowers, the Subsidiaries and CBHS (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, including after giving effect to the Transaction Documents, (c) is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, except where the failure so to qualify could not reasonably be expected to result in a Material Adverse Effect, and (d) has the organizational power and authority to execute, deliver and perform its obligations under each of the Loan Documents and Transaction Documents and each other agreement or instrument contemplated hereby to which it is or will be a party and, in the case of the Borrowers, to borrow hereunder.

SECTION 3.02. Authorization. The execution, delivery and performance by each Loan Party and CBHS of each of the Loan Documents and Transaction Documents to which it is a party, the borrowings hereunder and the Transactions (a) have been duly authorized by all requisite

organizational and, if required, stockholder action and (b) will not (i) violate (A) in any material respect any provision of law, statute, rule or regulation (including any Health Care Law), or any

provision of the certificate or articles of incorporation or other constitutive documents or by-laws of the Borrowers or any Subsidiary, (B) any order of any Governmental Authority or (C) any provision of any indenture, agreement or other instrument to which the Borrowers or any Subsidiary is a party or by which any of them or any of their property is or may be bound, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under, or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any such indenture, agreement or other instrument, other than (x) the Series A Notes Indenture (but only with respect to the requirement to make an offer to repurchase the Series A Notes as a result of the Transactions) and (y) the Charter IRBs being paid or defeased in connection with the Transactions, or (iii) result in the creation or imposition of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Borrowers or any Subsidiary (other than any Lien created hereunder or under the Security Documents).

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrowers and constitutes, and each other Loan Document when executed and delivered by each Loan Party thereto will constitute, a legal, valid and binding obligation of such Loan Party enforceable against such Loan Party in accordance with its terms.

SECTION 3.04. Governmental Approvals. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the Transactions, except for (a) the filing of Uniform Commercial Code financing statements and filings with the United States Patent and Trademark Office and the United States Copyright Office, (b) such as have been made or obtained and are in full force and effect and (c) such other filings as are set forth on Schedule 3.04 that the Borrowers reasonably expect to be made within six months following the Closing Date.

SECTION 3.05. Financial Statements. (a) The Parent Borrower has heretofore furnished to the Lenders its consolidated balance sheets and statements of operations and cash flows and changes in stockholders' equity (i) as of and for the fiscal year ended September 30, 1996, audited by and accompanied by the opinion of Arthur Anderson LLP, independent public accountants, and (ii) except for a statement of changes in stockholders' equity, as of and for the fiscal quarter and the portion of the fiscal year ended March 31, 1997, certified by its chief financial officer. Such financial state-ments present fairly in all material respects the financial condition and results of operations and cash flows of the Parent Borrower and its consolidated Subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto disclose all material liabilities, direct or contingent, of the Parent Borrower and its consolidated Subsidiaries as of the dates thereof. Such financial statements were prepared in accordance with GAAP applied on a consistent basis, except that the financial statements described in clause (ii) are condensed and comply as to form and presentation with the requirements of Form 10-Q of the forms promulgated under the Securities Exchange Act of 1934.

(b) The Parent Borrower has heretofore delivered to the Lenders its unaudited pro forma consolidated balance sheet as of March 31, 1997, prepared giving effect to the Transactions as if they had occurred on such date. Such pro forma balance sheet has been prepared in good faith by the Parent Borrower, based on the assumptions used to prepare the pro forma financial information contained in the Confidential Information Memorandum (which assumptions are believed by the Parent Borrower on the date hereof and on the Closing Date to be reasonable), is based on the best information available to the Parent Borrower as of the date of delivery thereof, accurately reflects in

all material respects all adjustments required on a pro forma basis to be made to give effect to the Transactions and presents fairly in all material respects on a pro forma basis the estimated consolidated financial position of the Parent Borrower and its consolidated Subsidiaries as of March 31, 1997, assuming that the Transactions had actually occurred at March 31, 1997.

SECTION 3.06. No Material Adverse Change. Except for the Transaction Documents and the effect of the Transactions, there has been no material adverse change in the business, assets, operations, prospects, condition, financial or otherwise, or material agreements of (a) the Parent Borrower and the Subsidiaries, taken as a whole, since September 30, 1996, and (b) CBHS and its subsidiaries, taken as a whole, since March 31, 1997.

SECTION 3.07. Title to Properties; Possession Under Leases. (a) Each of the Borrowers and the Subsidiaries has good and marketable title to, or valid leasehold interests in, all its material properties and assets, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes. All such material properties and assets are free and clear of Liens, other than Liens expressly permitted by Section 6.02.

(b) Each of the Borrowers and the Subsidiaries has complied with all material obligations under all leases to which it is a party and that are material to the Borrowers and the Subsidiaries taken as a whole and all such leases are in full force and effect. Each of the Borrowers and the Subsidiaries enjoys peaceful and undisturbed possession under all such material leases in which a Borrower or a Subsidiary is a lessee.

SECTION 3.08. Subsidiaries. Schedule 3.08 sets forth as of the Closing Date a list of all Subsidiaries and the percentage ownership interest, direct or indirect, of the Parent Borrower therein. The shares of capital stock or other ownership interests so indicated on Schedule 3.08 are fully paid and non-assessable and are owned by the Parent Borrower, directly or indirectly, free and clear of all Liens, except Liens under the Loan Documents.

SECTION 3.09. Litigation; Compliance with Laws. (a) Except as set forth on Schedule 3.09, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Parent Borrower, threatened against or affecting any Borrower or any Subsidiary or any business, property or rights of any such person (i) that involve any Loan Document or the Transactions or (ii) as to which there is a reasonable probability of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

(b) None of the Borrowers or any of the Subsidiaries or any of their respective material properties or assets is in violation of, nor will the continued operation of their material properties and assets as currently conducted (or as proposed to be conducted pursuant to the Transaction Documents) violate, any law, rule or regulation (including any Health Care Law or Environmental Law), or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where such violation or default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. Agreements. (a) Except for the effect of the Transactions, none of the Borrowers or any of the Subsidiaries is a party to any agreement or instrument or subject to any organizational restriction that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(b) None of the Borrowers or any of the Subsidiaries is in default in any manner under any provision of any indenture or other agreement or instrument evidencing Indebtedness, or any other material agreement or

instrument (including any Transaction Document) to which it is a party or by which it or any of its properties or assets are or may be bound, where such default could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. Federal Reserve Regulations. (a) None of the Borrowers or any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying Margin Stock.

(b) No part of the proceeds of any Loan or any Letter of Credit will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsis-tent with, the provisions of the Regulations of the Board, including Regulation G, T, U or X.

SECTION 3.12. Investment Company Act; Public Utility Holding Company Act. Neither any Borrower nor any Subsidiary is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.13. Use of Proceeds. The Borrowers will use the proceeds of the Loans and will request the issuance of Letters of Credit only for the purposes specified in the preamble to this Agreement.

SECTION 3.14. Tax Returns. Each of the Borrowers and the Subsidiaries has filed or caused to be filed all Federal and state income tax returns and all other material tax returns or materials required to have been filed by it and has paid or caused to be paid all material taxes due and payable by it and all assessments received by it, except taxes that are being contested in good faith by appropriate proceedings and for which such Borrower or such Subsidiary, as applicable, shall have set aside on its books adequate reserves.

SECTION 3.15. No Material Misstatements. None of (a) the Confidential Information Memorandum or (b) any other information, report, financial statement, exhibit or schedule furnished by or on behalf of the Parent Borrower to the Administrative Agent or any Lender in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading; provided that to the extent any such information, report, financial statement, exhibit or schedule was based upon or constitutes a forecast or projection, the Parent Borrower represents only that it acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, report, financial statement, exhibit or schedule.

SECTION 3.16. Employee Benefit Plans. Each of the Borrowers and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events, could reasonably be expected to result in material liability of the Borrowers or any of its ERISA Affiliates. The present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than $2,000,000 the fair market value of the assets of such Plan, and the present value of all benefit liabilities of all underfunded Plans (based on those assumptions used to fund each such Plan) did not, as of the last annual valuation dates applicable thereto, exceed by more than $7,500,000 the fair market value of the assets of all such underfunded Plans.

SECTION 3.17. Environmental Matters. Except as set forth in Schedule 3.17:

(a) The properties owned or operated by the Borrowers and the Subsidiaries (the "Properties") do not contain any Hazardous Materials in amounts or concentrations which (i) constitute, or constituted a violation of, (ii) require Remedial Action under, or (iii) could give rise to liability

under, Environmental Laws, which violations, Remedial Actions and liabilities, in the aggregate, could result in a Material Adverse Effect;

(b) The Properties and all operations of the Borrowers and the Subsidiaries are in compliance, and in the last three years have been in compliance, with all Environmental Laws and all necessary Environmental Permits have been obtained and are in effect, except to the extent that such non-compliance or failure to obtain any necessary permits, in the aggregate, could not result in a Material Adverse Effect;

(c) There have been no Releases or threatened Releases at, from, under or proximate to the Properties or otherwise in connection with the operations of the Borrowers or the Subsidiaries, which Releases or threatened Releases, in the aggregate, could result in a Material Adverse Effect;

(d) Neither the Borrowers nor any of the Subsidiaries has received any notice of an Environmental Claim in connection with the Properties or the operations of the Borrowers or the Subsidiaries or with regard to any person whose liabilities for environmental matters any of the Borrowers or the Subsidiaries has retained or assumed, in whole or in part, contractually, by operation of law or otherwise, which, in the aggregate, could result in a Material Adverse Effect, nor do the Borrowers or the Subsidiaries have reason to believe that any such notice will be received or is being threatened; and

(e) Hazardous Materials have not been transported from the Properties, nor have Hazardous Materials been generated, treated, stored or disposed of at, on or under any of the Properties in a manner that could give rise to liability under any Environmental Law, nor have the Borrowers or the Subsidiaries retained or assumed any liability, contractually, by operation of law or otherwise, with respect to the generation, treatment, storage or disposal of Hazardous Materials, which transportation, generation, treatment, storage or disposal, or retained or assumed liabilities, in the aggregate, could result in a Material Adverse Effect.

SECTION 3.18. Insurance. Schedule 3.18 sets forth a true, complete and correct description of all insurance maintained by the Borrowers or by the Borrowers for their Subsidiaries as of the date hereof and the Closing Date. As of each such date, such insurance is in full force and effect and all premiums have been duly paid. The Parent Borrower and the Subsidiaries have insurance in such amounts and covering such risks and liabilities as are in accordance with normal industry practice.

SECTION 3.19. Security Documents. (a) The Pledge Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement) and, when the Collateral is delivered to the Collateral Agent, the Pledge Agreement shall constitute a fully perfected first priority Lien on, and security interest in, all right, title and interest of the pledgors thereunder in such Collateral, in each case prior and superior in right to any other person.

(b) The Security Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement) and, when financing statements in appropriate form are filed in the offices specified on Schedule 6 to the Perfection Certificate, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in such Collateral in which a security interest may be perfected by filing such financing statements (other than the Intellectual Property, as defined in the Security Agreement), in each case prior and superior in right to any other person, other than with respect to Liens expressly permitted by Section 6.02.

(c) When the Security Agreement is filed in the United States Patent and Trademark Office and the United States Copyright Office, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in the Intellectual Property (as defined in the Security Agreement), in each case prior and superior in right to any other person (it being understood that

subsequent recordings in the United States Patent and Trademark Office and the United States Copyright Office may be necessary to perfect a lien on registered trademarks, trademark applications and copyrights acquired by the grantors after the date hereof).

(d) Each of the Collateral Assignment and Advance Collateral Assignment (upon its execution) is effective to create in favor of the Collateral Agent for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Collateral Assignment or the Advance Collateral Assignment, as applicable) and, when financing statements in appropriate form are filed in appropriate filing offices, each of the Collateral Assignment and the Advance Collateral Assignment shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Parent Borrower in such Collateral in which a security interest may be perfected by filing such financing statements, in each case prior and superior in right to any other person, other than with respect to Liens expressly permitted by Section 6.02.

SECTION 3.20. Labor Matters. As of the date hereof and the Closing Date, there are no strikes, lockouts or slowdowns against any Borrower or any Subsidiary pending or, to the knowledge of any Borrower, threatened. The hours worked by and payments made to employees of the Borrowers and the Subsidiaries have not been in violation in any material respect of the Fair Labor

Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters. All payments due from any Borrower or any Subsidiary, or for which any claim may be made against any Borrower or any Subsidiary, on account of wages and employee health and welfare insurance and other benefits, have in all material respects been paid or accrued as a liability on the books of such Borrower or such Subsidiary. The consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which any Borrower or any Subsidiary is bound.

SECTION 3.21. Solvency. Immediately after the consummation of the Transactions to occur on the Closing Date and the making of each Loan on the Closing Date and after giving effect to the application of the proceeds of such Loans and the rights of indemnity, contribution and subrogation of the Loan Parties, (i) the fair value of the assets of each Loan Party will exceed its debts and liabilities, subordinated, contingent or otherwise; (ii) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (iii) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (iv) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Closing Date.

ARTICLE IV

Conditions

The obligations of the Lenders to make Loans and of the Issuing Banks to issue Letters of Credit hereunder are subject to the satisfaction of the following conditions:

SECTION 4.01. Effectiveness. The effectiveness of this Amended and Restated Credit Agreement shall be subject to the satisfaction of each of the following conditions:

(a) The Administrative Agent and the Syndication Agent shall have received, on behalf of themselves, the Lenders and the Issuing Banks, a favorable written opinion of (i) King & Spalding, counsel for the Borrowers, substantially to the effect set forth in Exhibit J-1 and (ii) each foreign counsel listed on Schedule 4.02(a), substantially to the effect set forth in Exhibit J-2, in each case (A) dated the Closing Date,

(B) addressed to the Issuing Banks, the Administrative Agent, the Syndication Agent and the Lenders, and (C) covering such other matters relating to the Loan Documents, the Transaction Documents and the Transactions as the Administrative Agent or the Syndication Agent shall reasonably request, and the Borrowers hereby request such counsel to deliver such opinions.

(b) All legal matters incident to this Agreement, the Borrowings and extensions of credit hereunder and the other Loan Documents and the Transaction Documents shall be satisfactory to the Lenders, to the Issuing Banks and to Cravath, Swaine & Moore, counsel for the Administrative Agent and the Syndication Agent.

(c) The Administrative Agent and the Syndication Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of each Loan Party, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of each Loan Party as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of each Loan Party dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of such Loan Party as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of such Loan Party authorizing the execution, delivery and performance of the Loan Documents and the Transaction Documents to which such person is a party and, in the case of the Borrowers, the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of such Loan Party have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or Transaction Document or any other document delivered in connection herewith on behalf of such Loan Party; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Lenders, the Issuing Banks or Cravath, Swaine & Moore, counsel for the Administrative Agent and the Syndication Agent, may reasonably request.

(d) The Administrative Agent and the Syndication Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Parent Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b), (c), (d) and (e) of Section 4.02.

(e) The Administrative Agent and the Syndication Agent shall have received all Fees and other amounts due and payable on or prior to the Closing Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrowers hereunder or under any other Loan Document.

(f) The Pledge Agreement shall have been duly executed by the parties thereto and delivered to the Collateral Agent and shall be in full force and effect, and each of the Borrowers and the Guarantors shall have duly and validly pledged thereunder all the Pledged Securities (as defined in the Pledge Agreement) to the Collateral Agent for the ratable benefit of the Secured Parties and certificates representing such Pledged Securities, accompanied by instruments of transfer and stock powers endorsed in blank, shall be in the actual possession of the Collateral Agent; provided that (i) neither the Parent Borrower nor any Guarantor that is a Domestic Subsidiary shall be required to pledge any capital stock of Societe Anonyme De La Metairie or more than 65% of the capital stock of any Foreign Subsidiary and (ii) no Foreign Subsidiary shall be required to pledge the capital stock of any of its Foreign Subsidiaries.

(g) The Security Agreement shall have been duly executed by the Loan Parties thereto and shall have been delivered to the Collateral

Agent and shall be in full force and

effect on such date and each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Administrative Agent or the Syndication Agent to be filed, registered or recorded in order to create in favor of the Collateral Agent for the benefit of the Secured Parties a valid, legal and perfected first-priority security interest in and lien on the Collateral (subject to any Lien expressly permitted by Section 6.02) described in such agreement shall have been delivered to the Collateral Agent.

(h) The Collateral Assignment shall have been duly executed by the Parent Borrower and shall have been delivered to the Collateral Agent and shall be in full force and effect on such date and each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Administrative Agent or the Syndication Agent to be filed, registered or recorded in order to create in favor of the Collateral Agent for the benefit of the Secured Parties a valid, legal and perfected first-priority security interest in and lien on the Collateral (subject to any Lien expressly permitted by Section 6.02) described in such agreement shall have been delivered to the Collateral Agent.

(i) The Collateral Agent shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Loan Parties in the states (or other jurisdictions) in which the chief executive office of each such person is located and the other jurisdictions in which Uniform Commercial Code filings (or equivalent filings) are to be made pursuant to the preceding paragraph, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Collateral Agent that the Liens indicated in any such financing statement (or similar document) would be permitted under Section 6.02 or have been released or documents providing for the release of such financing statements (or similar documents) have been delivered to the Collateral Agent.

(j) The Guarantee Agreement shall have been duly executed by each Guarantor, shall have been delivered to the Collateral Agent and shall be in full force and effect.

(k) The Indemnity, Subrogation and Contribution Agreement shall have been duly executed by each Loan Party, shall have been delivered to the Collateral Agent and shall be in full force and effect.

(l) The Collateral Agent shall have received a Perfection Certificate with respect to the Loan Parties dated the Closing Date and duly executed by a Responsible Officer of the Parent Borrower.

(m) Except for the Transaction Documents and the effect of the Transactions, there has been no material adverse change in the business, assets, operations, prospects, condition, financial or otherwise, or material agreements of (i) the Parent Borrower and the Subsidiaries, taken as a whole, since December 31, 1996, (ii) Crescent since December 31, 1996 or (iii) CBHS and its subsidiaries, taken as a whole, since March 31, 1997, and there shall not have occurred any event, or none of the Administrative Agent, the Syndication Agent or the Lenders shall have discovered or other-wise become aware of information not previously known by the Administrative Agent, the Syndication Agent or any such Lender that, in each case, in the

reasonable judgment of the Administrative Agent, the Syndication Agent or the Required Lenders, could reasonably be expected to have a Material Adverse Effect.

(n) Prior to or substantially contemporaneously with the first

Credit Event, the Parent Borrower and the Subsidiaries shall have received in cash an aggregate amount equal to the Transaction Consideration, pursuant to the Transaction Documents.

(o) The Transactions shall have been consummated or shall be consummated simultaneously with the first Credit Event in accordance with applicable law, in accordance with the Transaction Documents (without giving effect to any amendment or waiver of any condition set forth in the Transaction Documents not approved by the Lenders).

(p) Substantially contemporaneously with the first Credit Event, all the Charter IRBs shall have been repaid in full or defeased and all obligations thereunder shall have been discharged or provided for, as the case may be.

(q) The Borrowers shall have repaid in full the principal of all loans outstanding, interest thereon and other amounts due and payable under the Existing Credit Agreement, and the Aggregate Credit Exposure under the Existing Credit Agreement shall be zero, except for the Existing Letters of Credit.

(r) After giving effect to the Transactions, the Borrowers and the Subsidiaries shall have outstanding no Indebtedness or preferred stock other than (i) the Loans hereunder, (ii) the Series A Notes, (iii) the Charter IRBs that have been fully defeased by the Parent Borrower and (iv) the Indebtedness set forth on Schedule 6.01 or otherwise permitted pursuant to Section 6.01.

(s) Each of the Transaction Documents shall have been executed and delivered by the parties thereto and shall be in full force and effect, in each case, in form and substance satisfactory to the Lenders.

(t) The Lenders shall be satisfied that (i) the consummation of the Transactions will not (A) violate any applicable law (including any Health Care Law), statute, rule or regulation or (B) conflict with, or result in a default or event of default under, (x) any indenture relating to any existing Indebtedness of any Loan Party or any subsidiary of any Loan Party that is not being repaid, repurchased or redeemed in full on or prior to the Closing Date in connection with the Transactions or any other indenture of any Loan Party or any subsidiary of any Loan Party to be in effect after the Closing Date or (y) any other material agreement of any Loan Party or any subsidiary of any Loan Party and (ii) following the consummation of the Transactions, the Parent Borrower, CBHS and their respective subsidiaries, through the conduct of their business, will not violate in any material respect any applicable law (including any Health Care Law), statute, rule or regulation.

(u) The Lenders shall have received an unaudited pro forma consolidated balance sheet of the Parent Borrower as of March 31, 1997, after giving effect to the Transactions as if they had occurred on such

date, which balance sheet shall be consistent in all material respects with the forecasts previously provided to the Lenders.

(v) All governmental consents and approvals and all material third party consents required to be obtained for the consummation of the Transactions shall have been obtained and all applicable waiting and appeal periods (including waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976) shall have expired or been terminated.

(w) The Administrative Agent and the Syndication Agent shall have had the opportunity to review existing environmental reports in form, scope and substance reasonably satisfactory to them, as to any environmental hazards, liabilities or Remedial Action to which any Borrower or any of the Subsidiaries may be subject and shall be reasonably satisfied with the nature and cost of any such hazards, liabilities or Remedial Action and with the applicable Borrower's or applicable Subsidiary's plans with respect thereto.

(x) The Administrative Agent and the Syndication Agent shall be reasonably satisfied with the organizational structure and equity ownership of (i) the Parent Borrower and the Subsidiaries and (ii) CBHS and its subsidiaries, in each case after giving effect to the Transactions.

(y) There shall be no litigation or administrative proceeding or other legal or regulatory developments, actual or threatened, that in the reasonable judgment of the Lenders (i) would be reasonably likely to result in a Material Adverse Effect, (ii) would be reasonably likely to result in any material restriction or limitation or impose any burdensome conditions on the Transactions or (iii) would be materially inconsistent with the assumptions underlying the projections previously furnished to the Lenders.

(z) The Lenders shall be reasonably satisfied with the amount and nature of any pension benefit plan exposure and liability to which the Parent Borrower and the Subsidiaries may be subject, and their plans with respect thereto.

(aa) The Lenders shall be reasonably satisfied in all respects with the tax position and the contingent tax and other liabilities of the Parent Borrower and the Subsidiaries, after giving effect to the Transactions, and with the plans of the Parent Borrower with respect thereto.

(ab) The Administrative Agent and the Syndication Agent shall be reasonably satisfied with the sufficiency of the available Revolving Loans to meet the ongoing working capital requirements of the Parent Borrower and the Subsidiaries following the consummation of the Transactions.

(ac) The Lenders shall have received financial projections for (i) the Parent Borrower and the Subsidiaries and (ii) CBHS and its subsidiaries, in each case for fiscal years 1997 through 2002, in form and substance reasonably satisfactory to the Administrative Agent and the Syndication Agent, which projections shall not be materially inconsistent with the projections previously provided to the Lenders.

(ad) The minority stockholders of Green Spring shall have executed a waiver, or other written agreement or legally binding acknowledgement, relinquishing all rights available to them as a result of the consummation of the Transactions to require the Parent Borrower or any Subsidiary to purchase shares of common stock of Green Spring held by such stockholders.

(ae) The Lenders shall be reasonably satisfied with (i) the Parent Borrower's and the Subsidiaries' arrangements for the retention of management and other key employees and (ii) the amounts of cash payments to be made to the executives of the Parent Borrower and the Subsidiaries in connection with any "change of control" event that may be deemed to have occurred as a result of the Transactions.

(af) The Lenders shall be reasonably satisfied with the management and employees of CBHS (or, if applicable, with CBHS's plans for hiring management and employees), after giving effect to the Transactions, and with the arrangements for the retention of such management and employees.

(ag) The Administrative Agent and the Syndication Agent shall be reasonably satisfied with the sufficiency of the available Revolving Loans to meet the ongoing working capital requirements of the Parent Borrower and its Subsidiaries.

(ah) The CBHS Credit Agreement shall have been duly executed and delivered by the parties thereto and shall be in full force and effect, and each of the conditions precedent set forth in Section 4.01 and Section 4.02 of the CBHS Credit Agreement shall have been satisfied or waived as provided therein.

SECTION 4.02. All Credit Events. On the date of each Borrowing, including on the date of each issuance of a Letter of Credit (each such event being called a "Credit Event"):

(a) The Administrative Agent shall have received a Borrowing Request as required by Section 2.03 (or such notice shall have been deemed given in accordance with Section 2.03) or, in the case of the issuance of a Letter of Credit, the applicable Issuing Bank and the Administrative Agent shall have received a notice requesting the issuance of such Letter of Credit as required by Section 2.22(b).

(b) Except in the case of a Borrowing that does not increase the aggregate principal amount of Loans outstanding of any Lender, the representations and warranties set forth in Article III shall be true and correct in all material respects on and as of the date of such Credit Event with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) Each Borrower and each other Loan Party shall be in compliance with all the terms and provisions set forth herein and in each other Loan Document on its part to be observed or performed, and at the time of and immediately after such Credit Event, no Event of Default or Default shall have occurred and be continuing.

(d) Each of the Franchise Agreement and the Lease shall be in full force and effect in accordance with their respective terms.

(e) There shall not have occurred and be continuing any Material Franchise Payment Default.

Each Credit Event shall be deemed to constitute a representation and warranty by each Borrower on the date of such Credit Event as to the matters specified in paragraphs (b) (except as aforesaid), (c), (d) and (e) of this Section 4.02.

SECTION 4.03. Note Repurchase Loans Credit Event. On or prior to the Series A Notes Repurchase Date:

(a) The Parent Borrower shall have delivered a certificate signed by a Financial Officer (i) setting forth the Note Repurchase Loan Amount and (ii) acknowledging the reduction of the Total Revolving Credit Commitment by the Note Repurchase Loan Amount.

(b) Substantially contemporaneously with the making of the Note Repurchase Loans, each of the Series A Notes tendered (and not withdrawn) pursuant to the Series A Notes Tender Offer shall have been purchased by the Parent Borrower.

SECTION 4.04. New Subsidiary Borrower Credit Event. On the date of the first Borrowing by any Subsidiary Borrower that was not a Subsidiary Borrower on the Closing Date:

(a) The Administrative Agent (or its counsel) shall have received (either at such time or in connection with the initial borrowing hereunder) from each party thereto either (i) a counterpart of the applicable New Borrower Agreement or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page thereof) that such party has signed a counterpart of such New Borrower Agreement.

(b) The Administrative Agent shall have received such documents (including legal opinions) and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of such Subsidiary Borrower and the authorization of the transactions relating to such Subsidiary Borrower and any other legal matters relating to such Subsidiary Borrower and the applicable New Borrower Agreement, all in form and substance satisfactory to the Administrative Agent and its counsel.

ARTICLE V

Affirmative Covenants

Each Borrower covenants and agrees with each Lender that so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all other expenses or amounts payable under any Loan Document shall have been paid in full and all Letters of Credit have been canceled or have expired and all

amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, the Borrowers will, and will cause each of the Subsidiaries (unless otherwise set forth below) to:

SECTION 5.01. Existence; Businesses and Properties. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.05.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business; comply in all material respects with all applicable laws, rules, regulations (including any Health Care Law or Environmental Law) and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times.

SECTION 5.02. Insurance. (a) Keep its insurable properties adequately insured at all times by financially sound and reputable insurers; maintain such other insurance, to such extent and against such risks, including fire and other risks insured against by extended coverage, as is customary with companies in the same or similar businesses operating in the same or similar locations, including public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by it; and maintain such other insurance as may be required by law.

(b) Cause all policies of casualty insurance to be endorsed or otherwise amended to include a "standard" or "New York" lender's loss payable endorsement, in form and substance satisfactory to the Administrative Agent and the Collateral Agent, which endorsement shall provide that, from and after the Closing Date, if the insurance carrier shall have received written notice from the Administrative Agent or the Collateral Agent of the occurrence of an Event of Default, the insurance carrier shall pay all proceeds otherwise payable to the Borrowers or the Loan Parties under such policies directly to the Collateral Agent; cause all such policies to provide that none of the Borrowers, the Administrative Agent, the Syndication Agent, the Collateral Agent or any other party shall be a coinsurer thereunder and to contain a "Replacement Cost Endorsement" (for at least 85% of replacement cost), without any deduction for depreciation, and such other provisions as the Administrative Agent or the Collateral Agent may reasonably require from time to time to protect their interests; deliver original or certified copies of all such policies to the Collateral Agent; cause each such policy to provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium upon less than 10 days' prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent (giving the Administrative Agent and the Collateral Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason upon less than 30 days' prior written notice thereof by the insurer to the Administrative Agent and the Collateral Agent; deliver to the Administrative Agent and the Collateral Agent, prior to the cancelation, modification or nonrenewal of any

such policy of insurance, a copy of a renewal or replacement policy (or other evidence of renewal of a policy previously delivered to the Administrative Agent and the Collateral Agent)

together with evidence satisfactory to the Administrative Agent and the Collateral Agent of payment of the premium therefor.

SECTION 5.03. Obligations and Taxes. Pay its Indebtedness and other obligations promptly and in accordance with their terms and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien upon such properties or any part thereof (other than where failure to so do could not be reasonably expected to have a Material Adverse Effect); provided, however, that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropri-ate proceedings and such Borrower or such Subsidiary shall have set aside on its books adequate reserves with respect thereto in accordance with GAAP and such contest operates to suspend collection of the contested obligation, tax, assessment or charge and enforcement of a Lien.

SECTION 5.04. Financial Statements, Reports, etc. In the case of the Parent Borrower, furnish to the Administrative Agent, the Syndication Agent and each Lender:

(a) within five Business Days after any filing of its annual report on Form 10-K with the Securities and Exchange Commission (but in no event later than 120 days after the end of each fiscal year), (i) its consolidated balance sheet and related statements of operations, changes in stockholders' equity and cash flows, all audited by Arthur Andersen LLP or any other "Big 6" accounting firm and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present in all material respects the financial condition, results of operations, changes in stockholders' equity and cash flows of the Parent Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied; and (ii) an unaudited consolidated balance sheet and statement of operations for each of Green Spring and Public Solutions.

(b) within five Business Days after any filing of its quarterly report on Form 10-Q with the Securities and Exchange Commission (but in no event later than 60 days after the end of each of the first three fiscal quarters of each fiscal year), commencing with the report for the fiscal quarter ending September 30, 1997, (i) its consolidated balance sheet and related statements of operations and cash flows showing the financial condition of the Parent Borrower and its consolidated Subsidiaries, all certified by one of its Financial Officers as fairly presenting in all material respects the financial condition and results of operations of the Parent Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP, applied on a basis consistent with the application of GAAP to the Parent Borrower's most recent financial statements delivered pursuant to Section 5.04(a), subject to normal year-end audit adjustments, the absence of notes that are not required by GAAP and the condensed presentation permitted by Form 10-Q of the forms promulgated under the Securities Exchange Act of 1934 and (ii) consolidated balance sheets and statements of operations of each of Green Spring and Public Solutions, showing the financial condition of Green Spring and Public Solutions, in the cases of (i) and (ii) of this paragraph as of the close of such fiscal

quarter and the results of its operations and the operations of such Subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year.

(c) within 30 days after the end of each month (other than the last month of any fiscal quarter), commencing with the month ending July 31, 1997, its unaudited consolidated balance sheet and related statements of income and cash flows, showing the consolidated financial condition of the Parent Borrower and its consolidated subsidiaries, in all cases as of the close of such month and the consolidated results of its operations and cash flows during such month and the then-elapsed portion of the fiscal year;

(d) concurrently with any delivery of financial statements under paragraph (a) or (b) above, a certificate of the accounting firm or Financial Officer opining on or certifying such statements (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) (i) certifying that no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto and (ii) setting forth computations in reasonable detail satisfactory to the Administrative Agent demonstrating compliance with the covenants contained in Sections 6.10, 6.11, 6.12 and 6.13 (it being under-stood that nothing herein requires such computation to be prepared by an accounting firm), provided that if the accounting firm and other independent certified public accountants of recognized national standing are prohibited by applicable industry guidelines from delivering such certificates, the Parent Borrower shall no longer be required to cause the delivery of such certificate;

(e) not later than the date financial statements are delivered pursuant to Section 5.04(a) and (b), a report in form and substance satisfactory to the Administrative Agent, of (i) all Permitted Acquisitions consummated during such quarter, which shall include the total consideration for each such Permitted Acquisition (including a breakdown of any Indebtedness permitted under Section 6.01(d)) from the Closing Date through the end of such quarter; (ii) the aggregate sales price of assets sold or disposed of pursuant to each transaction that constitutes an Asset Sale permitted hereunder from the Closing Date through the end of such fiscal quarter and a schedule that identifies each such sale or disposition; (iii) all Permitted Debt Repurchases and all Permitted Stock Repurchases, which shall include the amount of securities purchased pursuant thereto, from the Closing Date through the end of such quarter, segregated by type of security; and (iv) all Permitted Non-Guarantor Transactions and all Permitted Non-Control Investments, which shall (A) include the value of such Transactions and Investments completed during the period from the Closing Date through the end of such quarter and (B) in the case of Permitted Non-Control Investments, describe the management structure of the entity into which such investment is made;

(f) promptly after the same become publicly available, copies of all periodic and other reports (including the Parent Borrower's quarterly report on Form 10-Q for the fiscal quarter ending June 30, 1997), proxy statements and other materials (except for registration statements on Form S-8) filed by any Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed to its stockholders, as the case may be;

(g) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of any Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request; and

(h) within five Business Days after their availability (but in no event later than the beginning of the third month of each fiscal year), a copy of the budget for its consolidated statements of income and cash

flows for each fiscal year, with a certificate signed by a Financial Officer certifying that such budget has been prepared in good faith.

SECTION 5.05. Litigation and Other Notices. Furnish to the Administrative Agent prompt written notice of the following:

(a) any (i) Event of Default or Default or (ii) Franchise Payment Default, that in the case of subclause (ii), continues uncured for a period of three Business Days, in each case specifying the nature and extent thereof and the corrective action (if any) taken or proposed to be taken with respect thereto;

(b) the termination of the Lease or the Franchise Agreement;

(c) the failure of CBHS to pay any scheduled rent under the Lease within three Business Days after the same has become due;

(d) the filing or commencement of, or any threat or notice of intention of any person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against any Borrower or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect; and

(e) any development (including any developments related to any Health Care Law) that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect.

SECTION 5.06. Employee Benefits. (a) Comply in all material respects with the applicable provisions of ERISA and the Code relating to employee benefits and (b) furnish to the Administrative Agent (i) as soon as possible after, and in any event within 10 days after any Responsible Officer of any Borrower or any ERISA Affiliate knows or has reason to know that, any ERISA Event has occurred that, alone or together with any other ERISA Event, could reasonably be expected to have a Material Adverse Effect.

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Keep proper books of record and account in which in all material respects full, true and correct entries in conformity with GAAP and all requirements of law are made of all dealings and transactions in relation to its business and activities. Each Loan Party will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent, the Syndication Agent or any Lender to visit and inspect the financial records and the properties of any Borrower or any Subsidiary at reasonable times and as often as reasonably requested of the Parent Borrower and to make extracts from and copies of such financial records, and permit any representatives designated by the Administrative Agent or any Lender to discuss after reasonable

notice to the Parent Borrower the affairs, finances and condition of any Borrower or any Subsidiary with the officers thereof and independent accountants therefor; provided, that all such visits and inspections shall be subject to health, safety and patient confidentiality procedures regularly enforced by the Subsidiaries that provide patient care.

SECTION 5.08. Use of Proceeds. Use the proceeds of the Loans and request the issuance of Letters of Credit only for the purposes set forth in the preamble to this Agreement.

SECTION 5.09. Compliance with Environmental Laws. Comply, and cause all lessees and other persons occupying its Properties to comply, in all material respects with all Environmental Laws and Environmental Permits applicable to its operations and Properties; obtain and renew all material Environmental Permits necessary for its operations and Properties; and conduct any Remedial Action in accordance with Environmental Laws.

SECTION 5.10. Preparation of Environmental Reports. If a Default caused by reason of a breach of Section 3.17 or 5.09 shall have occurred and be continuing, at the request of the Required Lenders through the Administrative Agent, provide to the Lenders within 45 days after such

request, at the expense of the Borrowers, an environmental site assessment report for the Properties which are the subject of such Default prepared by an environmental consulting firm acceptable to the Administrative Agent and indicating the presence or absence of Hazardous Materials and the estimated cost of any compliance or Remedial Action in connection with such Properties.

SECTION 5.11. Further Assurances. Execute any and all further documents, financing statements, agreements and instruments, and take all further action (including filing Uniform Commercial Code and other financing statements) that may be required under applicable law, or that the Required Lenders, the Administrative Agent or the Collateral Agent may reasonably request, in order to effectuate the transactions contemplated by the Loan Documents and in order to grant, preserve, protect and perfect the validity and first priority of the security interests created or intended to be created by the Security Documents. The Borrowers will cause any subsequently acquired or organized wholly owned Domestic Subsidiary (other than any wholly owned Subsidiary that has total assets not in excess of $500,000 and has no Indebtedness other than to any Borrower or any Guarantor (an "Inactive Subsidiary")) or any wholly owned Domestic Subsidiary upon ceasing to be an Inactive Subsidiary to become a party to the Guarantee Agreement, Indemnity Subrogation and Contribution Agreement and each applicable Security Document in the manner provided therein. In addition, from time to time, the Borrowers and the Guarantors will, at their cost and expense, promptly secure the Obligations by pledging or creating, or causing to be pledged or created, perfected security interests with respect to assets acquired subsequent to the Closing Date as required by any Security Document. Such security interests and Liens will be created under the Security Documents and other security agreements and other instruments and documents in form and substance satisfactory to the Collateral Agent, and the Borrowers shall deliver or cause to be delivered to the Lenders all such instruments and documents (including legal opinions and lien searches) as the Collateral Agent shall reasonably request to evidence compliance with this Section. Each Borrower agrees to provide such evidence as the Collateral Agent shall reasonably request as to the perfection and priority status of each such security interest and Lien.

SECTION 5.12. Concentration and Disbursement Accounts. The Parent Borrower shall maintain with a financial institution that is a Lender one or more accounts to be used by the Parent Borrower as its principal concentration

and disbursement accounts in a manner and following procedures consistent with past business practices.

SECTION 5.13. Remedies Under Franchise Agreement. In the event that a Franchise Payment Default shall have occurred and be continuing, the Parent Borrower shall, upon the request of the Administrative Agent, the Syndication Agent and the Required Lenders, exercise all remedies under the Franchise Agreement (including Governance Remedies) that are so requested and are available to the Parent Borrower under the Franchise Agreement, provided, that the Parent Borrower shall not be required to comply with this Section 5.13 if at the time of such request (a) no Event of Default (other than any Event of Default described in paragraphs (a), (e) or (m) of Article VII hereof or any Event of Default described in paragraph (d) of Article VII relating to provisions other than those contained in Article VI hereof) shall have occurred and be continuing or (b) no Loans are outstanding and there is no Aggregate Credit Exposure outstanding.

SECTION 5.14. Series A Notes Repurchase. On the Series A Notes Repurchase Date, the Parent Borrower shall repurchase all Series A Notes tendered (and not withdrawn) in accordance with applicable law, the Series A Notes Tender Offer and the Series A Notes Indenture.

ARTICLE VI

Negative Covenants

Each Borrower covenants and agrees with each Lender that, so long as this Agreement shall remain in effect and until the Commitments have been terminated and the principal of and interest on each Loan, all Fees and all

other expenses or amounts payable under any Loan Document have been paid in full and all Letters of Credit have been canceled or have expired and all amounts drawn thereunder have been reimbursed in full, unless the Required Lenders shall otherwise consent in writing, the Borrowers will not, and will not cause or permit any of the Subsidiaries (other than the Subsidiary Non-Guarantors, except with respect to Sections 6.01, 6.06(c) and 6.09) to:

SECTION 6.01. Indebtedness. Incur, create, assume or permit to exist any Indebtedness, except for Indebtedness satisfying one of the following paragraphs:

(a) Indebtedness existing on the date hereof and set forth on Schedule 6.01(a);

(b) Indebtedness created hereunder and under the other Loan Documents;

(c) unsecured Indebtedness of the Parent Borrower, provided that (i) the aggregate amount of scheduled principal payments in respect of such Indebtedness that can be due on a date that is on or prior to the Maturity Date cannot exceed $25,000,000; (ii) such Indebtedness contains covenants (including financial and negative covenants) and events of default that are no more restrictive in any material respect than the analogous covenants and events of default contained in this Agreement; and (iii) on the date that any such Indebtedness is incurred and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing;

(d) unsecured Indebtedness (i) assumed by the Parent Borrower or any Subsidiary in connection with a Permitted Acquisition made after the date hereof or (ii) of any Subsidiary acquired after the date hereof pursuant to a Permitted Acquisition, which Indebtedness, in each case, exists at the time of such Permitted Acquisition and is not created in contemplation of such Permitted Acquisition, provided that the aggregate principal amount of such Indebtedness (for all Subsidiaries) shall not exceed $25,000,000 at any time outstanding;

(e) unsecured Indebtedness of any Subsidiary in an aggregate principal amount (for all the Subsidiaries) not to exceed $10,000,000 at any time outstanding, provided that (i) the aggregate amount of scheduled principal payments in respect of such Indebtedness that can be due on a date that is on or prior to the Maturity Date cannot exceed $5,000,000, (ii) such Indebtedness contains covenants (including financial and negative covenants) and events of default that are no more restrictive in any material respect than the analogous covenants and events of default contained in this Agreement; and (iii) on the date that any such Indebtedness is incurred and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing; provided, further, that the aggregate principal amount of such Indebtedness plus the aggregate principal amount of Indebtedness of the Subsidiaries permitted under clause (d)(ii) above shall not exceed $25,000,000 at any time outstanding;

(f) secured Indebtedness of the Parent Borrower or any Subsidiary (including purchase money Indebtedness) in an aggregate principal amount (for the Parent Borrower and all the Subsidiaries) not to exceed $10,000,000 at any time outstanding, provided that (i) such Indebtedness contains covenants (including financial and negative covenants) and events of default that are no more restrictive in any material respect than the analogous covenants and events of default contained in this Agreement; (ii) on the date that any such Indebtedness is incurred and immediately after giving effect thereto, no Default or Event of Default shall exist and be continuing; and (iii) the aggregate principal amount of such Indebtedness shall not exceed 80% of the fair market value of the assets and property securing such Indebtedness (as determined in good faith by a Financial Officer of the Parent Borrower at the time of incurrence);

(g) Guarantees in respect of Indebtedness permitted pursuant to this

Section 6.01 (except that Guarantees by the Parent Borrower and the Guarantors of Indebtedness of Controlled Non-Guarantor Entities shall be limited to Permitted Non-Guarantor Transactions);

(h) Indebtedness of the Parent Borrower, any wholly owned Subsidiary or any Guarantor to any other wholly owned Subsidiary, any other Guarantor or the Parent Borrower, so long as such Indebtedness is subordinated to all Indebtedness incurred pursuant hereto and pursuant to the Guarantee Agreement and evidenced by a note pledged to the Collateral Agent for the benefit of the Lenders to the extent required by the Pledge Agreement;

(i) Indebtedness incurred pursuant to any sale and leaseback transaction permitted by Section 6.03;

(j) Indebtedness incurred under any Interest Rate Protection Agreement;

(k) Permitted Subordinated Indebtedness;

(l) the Permitted CBHS Guarantee;

(m) Indebtedness incurred in connection with any Permitted Non-Guarantor Transaction; and

(n) extensions, renewals or refinancings of Indebtedness under paragraphs (a), (c) and (d) so long as (i) such Indebtedness ("Refinancing Indebtedness") is in an aggregate principal amount not greater than the aggregate principal amount of the Indebtedness being extended, renewed or refinanced plus the amount of any premiums required to be paid thereon and fees and expenses associated therewith, (ii) such Refinancing Indebtedness has a later or equal final maturity and a longer or equal weighted average life than the Indebtedness being extended, renewed or refinanced, (iii) the interest rate applicable to such Refinancing Indebtedness shall be a market interest rate (as determined in good faith by a Financial Officer of the Parent Borrower) as of the time of such extension, renewal or refinancing, (iv) if the Indebtedness being extended, renewed or refinanced is subordinated to the Obligations, such Refinancing Indebtedness is subordinated to the Obligations to the same extent as the Indebtedness being extended, renewed or refinanced, (v) each of the covenants, events of default or other provisions thereof (including any Guarantees thereof) shall be substantially no less favorable to the Lenders than those contained in the Indebtedness being refinanced and (vi) at the time and after giving effect to such extension, renewal or refinancing, no Default or Event of Default shall have occurred and be continuing.

SECTION 6.02. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Parent Borrower and the Subsidiaries existing on the date hereof and set forth in Schedule 6.02(a); provided that such Liens shall secure only those obligations which they secure on the date hereof;

(b) any Lien created under the Loan Documents;

(c) any Lien existing on any property or asset prior to the acquisition thereof by any Borrower or any Subsidiary pursuant to a Permitted Acquisition, provided that (i) such Lien is not created in contemplation of or in connection with such acquisition and (ii) such Lien does not apply or extend to any other property or assets of any Borrower or any Subsidiary;

(d) Liens for taxes not yet due or which are being contested in compliance with Section 5.03 or Liens for unpaid local or state taxes that are not in the aggregate material;

(e) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not in the aggregate material;

(f) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(g) deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Lease Obligations), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(h) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrowers and the Subsidiaries taken as a whole;

(i) purchase money security interests in real property, improvements thereto or equipment hereafter acquired (or, in the case of improvements, constructed) by any Borrower or any Subsidiary; provided that (i) such security interests secure Indebtedness permitted by Section 6.01, (ii) such security interests are incurred, and the Indebtedness secured thereby is created, within 180 days after such acquisition (or construction), (iii) the Indebtedness secured thereby does not exceed the lesser of the cost and the fair market value of such real property, improvements or equipment at the time of such acquisition (or construction) and (iv) such security interests do not apply to any other property or assets of any Borrower or any Subsidiary;

(j) any Lien securing Indebtedness permitted by Section 6.01(f), provided that such Lien does not apply or extend to any other assets or property of any Borrower or any Subsidiary;

(k) any Lien on an asset sold pursuant to a sale and leaseback transaction permitted by Section 6.03, provided that such Lien does not apply or extend to any other assets or property of any Borrower or any Subsidiary;

(l) any Lien securing Indebtedness permitted by 6.01(h), provided that such Indebtedness is subordinated and evidenced by a note pledged in accordance with Section 6.01(h);

(m) Liens securing Refinancing Indebtedness, to the extent that the Indebtedness being refinanced was originally permitted to be secured pursuant to this Section 6.02, provided that any such Lien does not apply or extend to any property or assets of any Borrower or any Subsidiary other than property or assets subject to the Liens securing the Indebtedness being refinanced;

(n) bankers' liens and Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business consistent with past practices in connection with title insurance, purchase agreements, judgment liens (if released, bonded or stayed within 60 days) and leases and subleases;

(o) prejudgment liens in respect of property of a Foreign Subsidiary that are incurred in connection with a claim or action against such Foreign Subsidiary before a court or tribunal outside of the United

States, provided that such liens do not, individually or in the aggregate, have a Material Adverse Effect;

(p) Liens on the assets of the Insurance Subsidiaries securing self insurance and reinsurance obligations and letters of credit or bonds issued in support of such self insurance and reinsurance obligations, provided that the assets subject to such Liens shall only be assets of the Insurance Subsidiaries; and

(q) deposits made prior to 1992 plus interest and income earned thereon to secure the Parent Borrower's obligations in respect of its Public Issue of 7.5% Dual Currency Swiss Franc Bonds dated 1986 and due 1998/2001.

SECTION 6.03. Sale and Leaseback Transactions. Enter into any arrangement, directly or indirectly, with any person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred, provided that the Parent Borrower and the Subsidiaries may enter into any such transaction so long as (i) the aggregate fair market value of assets subject to all such transactions (as determined in good faith by the board of directors of the Parent Borrower at the time of the applicable transaction) shall not exceed on a cumulative basis during the term of this Agreement $10,000,000 (less the aggregate principal amount of Indebtedness permitted under Section 6.01(f) outstanding at any time), (ii) all the proceeds of any such transaction shall be in cash (except for obligations assumed by the purchaser thereof) and the Net Cash Proceeds shall be applied to prepay Note Repurchase Loans or reduce Revolving Credit Commitments as required by Section 2.13 and (iii) on the date that any such transaction is consummated and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing.

SECTION 6.04. Investments, Loans, Advances and Certain Other Transactions. Purchase, hold or acquire any capital stock, evidences of indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment or any other interest in, any other person, or transfer any assets to any Controlled Non-Guarantor Entity, or engage in any transaction that causes any Guarantor to become a Controlled Non-Guarantor Entity, except:

(a) investments made by the Parent Borrower or any Subsidiary (i) prior to the date hereof in the capital stock of the Subsidiaries that are existing on the date hereof and (ii) after the date hereof in the capital stock of the Borrowers, the Guarantors and the Inactive Subsidiaries;

(b) Permitted Investments;

(c) Permitted Acquisitions;

(d) Permitted Debt Repurchases;

(e) Permitted Non-Guarantor Transactions;

(f) Permitted Non-Control Investments;

(g) Permitted Stock Repurchases;

(h) Permitted CBHS Advances;

(i) loans and advances to (i) directors, officers and employees not in excess of $5,000,000 at any time outstanding and (ii) physicians and other health care professionals not in excess of $5,000,000, in each case in the ordinary course of business and consistent with past practices;

(j) investments in real property in the ordinary course of business

and consistent with past practices not in excess of $5,000,000 at any time outstanding so long as such property is being used or will be used by an officer or employee of any Borrower or Guarantor primarily as a residence;

(k) investments consisting of non-cash consideration from a sale of assets that is permitted pursuant to Section 6.05;

(l) loans or advances by the Parent Borrower, any wholly owned Subsidiary or any Guarantor to the Parent Borrower, any wholly owned Subsidiary or any Guarantor that are permitted under Section 6.01(h), provided that such loans or advances are subordinated and evidenced by a note pledged in accordance with Section 6.01(h);

(m) investments, loans or advances existing on the date hereof and set forth on Schedule 6.04(m);

(n) investments in the ordinary course of business and consistent with past practices in property (including debt and equity securities) issued by debtors as part of the reorganization of such debtors, provided that such property is issued in exchange for property originally issued when such debtors were solvent and was obtained in the ordinary course of business;

(o) investments by any Foreign Subsidiary in instruments or securities of the highest grade investment available in local currencies or in certificates of deposit (or comparable instruments) of any bank with which such Subsidiary regularly transacts business;

(p) any Interest Rate Protection Agreement permitted under Section 6.01(j); and

(q) acquisitions by the Parent Borrower of shares of the capital stock of Green Spring pursuant to the Green Spring Exchange Agreement or the Green Spring Stockholders' Agreement; provided, that no such acquisition shall be permitted as a result of the consummation of the Transactions.

SECTION 6.05. Mergers, Consolidations, Sales of Assets and Acquisitions. Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or conduct any Asset Sale or

sell any equity interests in Green Spring or CBHS or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or any substantial part of the assets of any other person, except:

(a) if at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing (i) any wholly owned Subsidiary or any Guarantor may merge or consolidate into any Borrower or Guarantor in a transaction in which such Borrower or Guarantor is the surviving corporation and no person other than the Borrower, the Parent Borrower, a Guarantor or any wholly owned Domestic Subsidiary receives any consideration, (ii) any Borrower (other than the Parent Borrower) may merge into or consolidate with any wholly owned Subsidiary or Guarantor in a transaction in which no person other than a Borrower, Guarantor or wholly owned Domestic Subsidiary receives any consideration and the surviving or resulting corporation upon the consummation of such merger or consolidation is or becomes a Borrower and (iii) any wholly owned Subsidiary or any Guarantor may merge into or consolidate with any other wholly owned Subsidiary in a transaction in which the surviving entity is a wholly owned Domestic Subsidiary and no person other than any Borrower or a wholly owned Domestic Subsidiary receives any consideration and so long as the surviving entity is a Guarantor or becomes a Guarantor to the extent required by Section 5.11;

(b) the Parent Borrower and the Subsidiaries may conduct any Asset Sale, provided that the fair market value of all the assets sold, transferred or otherwise disposed of pursuant to this Section 6.05(b)

(excluding any Casualty Event or Condemnation Event) shall not exceed $10,000,000 on a cumulative basis during the term of this Agreement (as determined in good faith by a Financial Officer of the Parent Borrower), provided, that the Net Cash Proceeds from any such sale shall be applied to the extent required by Section 2.13 and provided, further, that any Asset Sale otherwise permitted by this Section 6.05(b) shall not be permitted unless (A) such sale, transfer or other disposition is for consideration at least (x) 85% of which is cash, if there are any Note Repurchase Loans out-standing at the time of such sale, transfer or other disposition, or (y) 70% of which is cash, if there are no outstanding Note Repurchase Loans at the time of such sale, transfer or other disposition, and (B) such consideration is at least equal to the fair market value of the assets sold, transferred or disposed of (as determined in good faith by a Financial Officer of the Parent Borrower);

(c) the Parent Borrower may sell equity interests in Green Spring, provided that at no time shall the Parent Borrower cease to own a majority of the equity interests in Green Spring;

(d) the Parent Borrower may sell equity interests in CBHS, provided that at no time shall (i) the Parent Borrower cease to own at least 25% of the equity interests in CBHS and (ii) the equity interests in CBHS owned by the Parent Borrower be less than the equity interests in CBHS owned by any other person or group, unless in the case of clause (ii), the Parent Borrower has, at such time, the right or ability by contract or otherwise to elect or designate for election more than 20% of the governing board of CBHS;

(e) the Parent Borrower or any Subsidiary may make Permitted Acquisitions;

(f) any sale and leaseback transaction permitted by Section 6.03 may be effected, provided that the Net Cash Proceeds from such sale shall be applied as required by Section 2.13;

(g) any transfer of assets made in connection with any Permitted Non-Control Investment or any Permitted Non-Guarantor Transaction may be effected, provided that any Net Cash Proceeds from such transfer shall be applied as required by Section 2.13;

(h) any Subsidiary may liquidate and distribute assets to any other Subsidiary, a Guarantor or the Parent Borrower, provided that if the Subsidiary that is being liquidated is a Guarantor or a Borrower, the Subsidiary that receives the assets pursuant to following such liquidation shall be a Guarantor or a Borrower; and

(i) any Loan Party or any Subsidiary may lease or sublease (whether as lessor or lessee) properties in the ordinary course of business and consistent with past practice;

SECTION 6.06. Dividends and Distributions; Restrictions on Ability of Subsidiaries to Pay Dividends. (a) Declare or pay, directly or indirectly, any dividend or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any shares of its capital stock or directly or indirectly redeem, purchase, retire or otherwise acquire for value (or permit any Subsidiary to purchase or acquire) any shares of any class of its capital stock or set aside any amount for any such purpose; provided, however, that:

(i) any Subsidiary may declare and pay dividends or make other istributions to any Borrower or any wholly owned Subsidiary;

(ii) Permitted Stock Repurchases may be effected;

(iii) the Parent Borrower may repurchase common stock distributed in the ordinary course of business consistent with past practices to trusts pursuant to any employee-related benefit plan (including any employee stock ownership plan);

(iv) the Parent Borrower may acquire warrants and options for the purchase of capital stock acquired upon the exercise of such warrants or options, including pursuant to the Warrant Agreements, provided that the sole consideration for any such warrants or options shall be the Parent Borrower's common stock;

(v) the Parent Borrower may purchase, redeem or otherwise acquire for nominal consideration rights in connection with the Rights Plan;

(vi) any Guarantor may declare and pay dividends pro rata to its shareholders, partners or other equity holders, as the case may be; and

(vii) so long as no Default or Event of Default shall have occurred and be continuing, the Parent Borrower may declare and pay in each fiscal year pro rata cash dividends on its capital stock in a cumulative amount for such fiscal year not to exceed 6% of (x) the cash proceeds received by

the Parent Borrower, net of underwriter's and broker's fees and commissions and costs and expenses incurred in connection therewith, from issuances of its common stock after the Closing Date pursuant to public or private offerings less (y) all amounts spent by the Parent Borrower to repurchase any shares of its common stock pursuant to a Permitted Stock Repurchase.

(b) Permit any of its subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective, any encumbrance or restriction on the ability of any such subsidiary to (i) pay any dividends or make any other distributions on its capital stock or any other interest or (ii) make or repay any loans or advances to the Parent Borrower or the parent of such subsidiary (dividends, distributions and other payments described in sub-clauses (i) and (ii) are collectively referred to herein as "Upstream Payments"), other than encumbrances and restrictions:

(A) pursuant to the Loan Documents;

(B) existing under, or by reason of, applicable law;

(C) contained in any debt instrument governing (x) Indebtedness of a Subsidiary that becomes a Borrower or (y) Indebtedness of a Guarantor acquired or assumed pursuant to a Permitted Acquisition if such Indebtedness was permitted by Section 6.01(d) or constitutes a refinancing thereof permitted by Section 6.01(n), provided that (x) such instrument was in existence at the time of such acquisition and was not created in contemplation of or in connection with the applicable Permitted Acquisition, (y) a Financial Officer of the Parent Borrower reasonably believes at the time such Indebtedness is acquired that the terms of such instrument will not encumber or restrict the ability of such acquired Subsidiary to make an Upstream Payment, except upon a default or an event of default under such Indebtedness and (z) such instrument contains no express encumbrances, or restrictions on the ability of such acquired Subsidiary to make an Upstream Payment, except upon a default or an event of default under such Indebtedness;

(D) existing on the date hereof and set forth on Schedule 6.06(b);

(E) contained in sale and leaseback agreements permitted by Section 6.03 and any debt instrument governing any Indebtedness permitted by Section 6.01(f); and

(F) that are Permitted Restrictions in the case of a Controlled Venture.

(c) Permit Green Spring, directly or indirectly, to create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of Green Spring to pay or make any Upstream Payments, other than encumbrances and restrictions:

(A) pursuant to the Loans Documents;

(B) existing under, or by reason of, applicable law;

(C) contained in any debt instrument governing Indebtedness of Green Spring acquired or assumed pursuant to an acquisition if such Indebtedness or the refinancing thereof was permitted by Section 6.01, provided that (x) such instrument was in existence at the time of such acquisition and was not created in contemplation of or in connection with the applicable acquisition, (y) a Financial Officer of the Parent Borrower reasonably believes at the time such Indebtedness is acquired or assumed that the terms of such instrument will not encumber or restrict the ability of Green Spring to make an Upstream Payment, except upon a default or an event of default under such Indebtedness and (z) such instrument contains no express encumbrances or restrictions on the ability of Green Spring to make an Upstream Payment, except upon a default or an event of default under such Indebtedness.

(D) existing on the date hereof and set forth on Schedule 6.06(c);

(E) contained in any sale and leaseback agreement or any debt instrument governing any Indebtedness permitted by Section 6.01(f); and

(F) that are Permitted Restrictions.

SECTION 6.07. Transactions with Affiliates. Sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except that any Borrower or any Subsidiary may engage in any of the foregoing transactions in the ordinary course of business at prices and on terms and conditions substantially not less favorable to such Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, provided that the foregoing restriction shall not apply to any Permitted Non-Guarantor Transaction.

SECTION 6.08. Other Indebtedness and Agreements. (a) Permit any waiver, supplement, modification, amendment, termination or release of any indenture, instrument or agreement governing any Indebtedness or preferred stock of any Borrower or any Subsidiary, or modify its charter or by-laws, in each case to the extent that any such waiver, supplement, modification, amendment, termination or release would be adverse to the Lenders in any material respect.

(b) Permit any waiver, supplement, modification, amendment, termination or release of any Transaction Document to which it is a party after the Closing Date, to the extent that any such waiver, supplement, modification, amendment, termination or release would be adverse to the interest of the Lenders in any material respect, without the consent of the Required Lenders.

(c) Make any distribution, whether in cash, property, securities or a combination thereof, other than scheduled payments of principal and interest as and when due (to the extent not prohibited by applicable subordination provisions), in respect of, or pay, or offer or commit to pay, or directly or indirectly redeem, repurchase, retire or otherwise acquire for consideration, or set apart any sum for the aforesaid purposes, any subordinated Indebtedness for borrowed money of any Loan Party or any Subsidiary, except for (i) the refinancing of Indebtedness in connection with the consummation of the Transactions, (ii) Permitted Debt Repurchases, (iii) the refinancings of Indebtedness permitted by Section 6.01 and (iv) Indebtedness permitted pursuant to Section 6.01(h).

SECTION 6.09. Business of the Borrowers and Subsidiaries. Engage at any time in any business or business activity that is not a health care business

or activity and business activities reasonably related (ancillary or complementary) to such business or business activity.

SECTION 6.10. Interest Expense Coverage Ratio. Permit the Interest Expense Coverage Ratio as of the end of any fiscal quarter, beginning with the fiscal quarter ending on September 30, 1997, to be less than 2.00 to 1.00.

SECTION 6.11. Leverage Ratio. Permit the Leverage Ratio as of the end of any fiscal quarter, beginning with the fiscal quarter ending on September 30, 1997, to be in excess of 4.00 to 1.00.

SECTION 6.12. Senior Debt Ratio. Permit the Senior Debt Ratio as of the end of any fiscal quarter, beginning with the fiscal quarter ending on September 30, 1997, to be in excess of 2.00 to 1.00.

SECTION 6.13. Maintenance of Consolidated EBITDA. Permit for any period of four consecutive fiscal quarters ending on the last day of any fiscal quarter, commencing September 30, 1997, the Consolidated EBITDA for the Parent Borrower to be less than $80,000,000; provided: that, for purposes of determining Consolidated EBITDA for each of the four-fiscal-quarters ending September 30, 1997, December 31, 1997, and March 31, 1998, Consolidated EBITDA shall equal Consolidated EBITDA for the period commencing July 1, 1997, and ending on (A) September 30, 1997, multiplied by 4, (B) December 31, 1997, multiplied by 2 and (C) March 31, 1998, multiplied by 4/3, respectively.

SECTION 6.14. Fiscal Year. Change the end of its fiscal year from September 30 to any other date.

ARTICLE VII

Events of Default

In case of the happening of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings or issuances of Letters of Credit hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any Fee, any L/C Disbursement that is not satisfied by a deemed Loan pursuant to the second sentence of Section 2.02(f) or interest on any Loan or L/C Disbursement or any other amount (other than an amount referred to in (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of three Business Days;

(d) default shall be made in the due observance or performance by any Borrower or any Subsidiary of any covenant, condition or agreement contained in Section 5.01(a), 5.05, 5.08, 5.12 or 5.14 or in Article VI;

(e) default shall be made in the due observance or performance by any Borrower or any Subsidiary of any covenant, condition or agreement contained in any Loan Document (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied for a period of 15 days after notice thereof from the Administrative Agent or any Lender to the Borrowers;

(f) any Borrower or any Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness

(other than any Indebtedness evidenced by any Loan Document) in a principal amount in excess of $10,000,000, when and as the same shall become due and payable (subject to any grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf to cause, such Indebtedness to become due prior to its stated maturity;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of any Borrower or any Subsidiary, or of a substantial part of the property or assets of any Borrower or a Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Borrower or any Subsidiary or for a substantial part of the property or assets of any Borrower or a Subsidiary or (iii) the winding-up or liquidation of any Borrower or any Subsidiary; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) any Borrower or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal, state or foreign bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Borrower or any Subsidiary or for a substantial part of the property or assets of any Borrower or any Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any proceeding relating to the above, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in

writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) one or more judgments for the payment of money in an aggregate amount in excess of $5,000,000 shall be rendered against any Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 60 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of any Borrower or any Subsidiary to enforce any such judgment;

(j) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other such ERISA Events, could reasonably be expected to have a Material Adverse Effect;

(k) the Lease shall cease to be in full force and effect in accordance with the respective terms thereof;

(l) there shall have occurred and be continuing a Material Franchise Payment Default;

(m) any security interest purported to be created by any Security Document shall cease to be, or shall be asserted by any Borrower or any other Loan Party not to be, a valid, perfected, first priority (except as otherwise expressly provided in this Agreement or such Security Document) security interest in the securities, assets or properties covered thereby, except to the extent that any such loss of perfection or priority results from the failure of the Collateral Agent to maintain possession of certificates representing securities pledged under the Pledge Agreement;

(n) any Loan Document or the Franchise Agreement shall not be for any reason, or shall be asserted by any Loan Party not to be, in full force and effect and enforceable in accordance with its terms; or

(o) there shall have occurred a Change in Control;

then, and in every such event (other than an event with respect to any Borrower or any Subsidiary described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrowers, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrowers accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any other Loan Document to the contrary notwithstanding; and in any event with respect to any Borrower or any Subsidiary described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued

Fees and all other liabilities of the Borrowers accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any other Loan Document to the contrary notwithstanding. If any Event of Default has occurred and is continuing, the Collateral Agent may exercise rights and remedies as provided in the Collateral Assignment and the Advance Collateral Assignment.

ARTICLE VIII

The Administrative Agent, the Syndication Agent and the Collateral Agent

In order to expedite the transactions contemplated by this Agreement, The Chase Manhattan Bank is hereby appointed to act as Administrative Agent and Collateral Agent and First Union National Bank of North Carolina is hereby appointed to act as Syndication Agent, in each case on behalf of the Lenders and the Issuing Banks (for purposes of this Article VIII, the Administrative Agent, the Syndication Agent and the Collateral Agent are referred to collectively as the "Agents"). Each of the Lenders and each assignee of any such Lender and each Issuing Bank, hereby irrevocably authorizes the Agents to take such actions on behalf of such Lender or assignee or Issuing Bank and to exercise such powers as are specifically delegated to the Agents by the terms and provisions hereof and of the other Loan Documents, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders and the Issuing Banks, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders and the Issuing Banks all payments of principal of and interest on the Loans, all payments in respect of L/C Disbursements and all other amounts due to the Lenders hereunder, and promptly to distribute to each Lender or the applicable Issuing Bank its proper share of each payment so received; (b) to give notice on behalf of each of the Lenders to the Borrowers of any Event of Default specified in this Agreement of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; (c) pursuant to Section 5.13, request the Parent Borrower to exercise all remedies under the Franchise Agreement (including Governance Remedies); and (d) to distribute to each Lender copies of all notices, financial statements and other materials delivered by the Borrowers or any other Loan Party pursuant to this Agreement or the other Loan Documents as received by the Administrative Agent. Without limiting the generality of the foregoing, the Administrative Agent and the Collateral Agent are hereby expressly authorized to execute any and all documents (including releases) with respect to the Collateral and the rights of the Secured Parties with respect thereto, as contemplated by and in accordance with the provisions of this Agreement and the Security Documents. The Borrowers agree that the Administrative Agent may designate prior to the Closing Date any other Lender with the title co-agent and

that any such co-agent shall not be obligated to perform any duties in such capacity as a co-agent.

Neither the Agents nor any of their respective directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them except for its or his own gross negligence or willful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrowers or any other Loan Party of any of the terms, conditions, covenants or agreements contained in any Loan Document. The Agents shall not be responsible to the Lenders for the due execution, genuineness,

validity, enforceability or effectiveness of this Agreement or any other Loan Documents, instruments or agreements. The Agents shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders. Each Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agents nor any of their respective directors, officers, employees or agents shall have any responsibility to the Borrowers or any other Loan Party on account of the failure of or delay in performance or breach by any Lender or any Issuing Bank of any of its obligations hereunder or to any Lender or any Issuing Bank on account of the failure of or delay in performance or breach by any other Lender or Issuing Bank or the Borrowers or any other Loan Party of any of their respective obligations hereunder or under any other Loan Document or in connection herewith or therewith. Each of the Agents may execute any and all duties hereunder by or through agents or employees and shall be entitled to rely upon the advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Lenders hereby acknowledge that none of the Agents shall be under any duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement unless it shall be requested in writing to do so by the Required Lenders.

Subject to the appointment and acceptance of a successor Agent as provided below, any of the Agents may resign at any time by notifying the Lenders and the Borrowers. Upon any such resignation, the Required Lenders, with the consent of the Parent Borrower (which consent shall not be unreasonably withheld), shall have the right to appoint a successor, provided the consent of the Parent Borrower shall not be required if an Event of Default has occurred and is continuing. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, with the consent of the Parent Borrower (which consent shall not be unreasonably withheld), which shall be a bank that is a Lender and has a combined capital and surplus of at least $500,000,000 or an Affiliate of any such bank, provided the consent of the Parent Borrower shall not be required if an Event of Default has occurred and is continuing. Upon the acceptance of any appointment as Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and the retiring Agent shall be discharged from its duties and obligations hereunder. After the Agent's resignation hereunder, the provisions of this Article and Section 9.05 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

With respect to the Loans made by it hereunder, each Agent in its individual capacity and not as Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not an Agent, and the Agents and their Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrowers or any Subsidiary or other Affiliate thereof as if it were not an Agent.

Each Lender agrees (a) to reimburse the Agents, on demand, in the amount of its pro rata share (based on its Commitments hereunder) of any expenses incurred for the benefit of the Lenders by the Agents, including counsel fees and compensation of agents and employees paid for services rendered on behalf of the Lenders, that shall not have been reimbursed by the Borrowers or any other Loan Party and (b) to indemnify and hold harmless each Agent and any of its directors, officers, employees or agents, on demand, in the amount of such pro rata share, from and against any and all liabilities, taxes, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against it in its capacity as Agent or any of them in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted by it or any of them under this Agreement or any other Loan Document, to the extent the same shall not have been reimbursed by the Borrowers or any other Loan Party, provided that no Lender shall be liable to an Agent or any such other indemnified person for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent or any of its directors, officers, employees or agents.

Each Lender acknowledges that it has, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agents or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Loan Document, any related agreement or any document furnished hereunder or thereunder.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to any Borrower, to it in care of the Parent Borrower at 3414 Peachtree Road, NE, Suite 1400, Atlanta, GA 30326, Attention of Treasurer (Telecopy No. (404) 814-5823);

(b) if to the Administrative Agent or the Collateral Agent, to Chase Manhattan Bank Agency Services Corporation, One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention of Sandra Miklave (Telecopy No. (212) 552-7500), with a copy to The Chase Manhattan Bank, at 270 Park Avenue, New York, New York 10017, Attention of Dawn Lee Lum (Telecopy No. (212) 270-3279);

(c) if to the Syndication Agent, to First Union National Bank of North Carolina, 301 South College Street, Charlotte, North Carolina 28288, Attention of Sue Patterson (Telecopy No. 704-383-9144); and

(d) if to a Lender, to it at its address (or telecopy number) set forth on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have become a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the

date of receipt if delivered by hand or overnight courier service or sent by telecopy or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 9.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 9.01.

SECTION 9.02. Survival of Agreement. All covenants, agreements, representations and warranties made by the Loan Parties herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Lenders and the Issuing Banks and shall survive the making by the Lenders of the Loans and the issuance of Letters of Credit by the Issuing Banks, regardless of any investigation made by the Lenders or the Issuing Banks or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not been terminated. The provisions of Sections 2.14, 2.16, 2.20 and 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Syndication Agent, the Collateral Agent, any Lender or any Issuing Bank.

SECTION 9.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrowers, the Administrative Agent and the Syndication Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrowers, the Administrative Agent and the Syndication Agent, the Issuing Banks or the Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective permitted successors and assigns.

(b) Each Lender may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided, however, that (i) except in the case of an assignment to a Lender or an Affiliate of such Lender, (x) the Parent Borrower (unless an Event of Default shall have occurred and is continuing), the Administrative Agent and the Syndication Agent (and, in the case of any assignment of a Revolving Credit Commitment, the Issuing Banks) must give their prior written

consent to such assignment (which consent shall not be unreasonably withheld) and (y) the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 (or, if less, the entire remaining amount of such Lender's Commitment), (ii) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of $3,500, (iii) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire and (iv) the assignment by any Lender of any portion of its Commitments or any portion of the Loans owing to such Lender must include (A) a ratable portion of its Commitments and its CBHS Commitments and a ratable portion of Loans and CBHS Loans owing to such Lender and (B) a ratable portion of its Revolving Credit Commitments and Note Repurchase Loan Commitments and Revolving Loans and Note Repurchase Loans

owing to such Lender. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.14, 2.16, 2.20 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Revolving Credit Commitment and its Note Repurchase Loan Commitment, and the outstanding balance of its Revolving Loans and Note Repurchase Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of any Borrower or any Subsidiary or the performance or observance by any Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 3.05(a) or delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Administrative Agent, the Syndication Agent, the Collateral Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Administrative Agent and the Collateral Agent to take such action as agent

on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent and the Collateral Agent, respectively, by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Administrative Agent, acting for this purpose as an agent of the Borrowers, shall maintain at one of its offices a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive and the Borrowers, the Administrative Agent, the Issuing Banks, the Collateral Agent and the Lenders may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrowers, the Issuing Banks, the Collateral Agent and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance

executed by an assigning Lender and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Parent Borrower, the Issuing Banks, the Administrative Agent and the Syndication Agent to such assignment, the Administrative Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Lenders and the Issuing Banks. No assignment shall be effective unless it has been recorded in the Register as provided in this paragraph (e).

(f) Each Lender may without the consent of the Borrowers, the Issuing Banks or the Administrative Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.14, 2.16 and 2.20 to the same extent as if they were Lenders and (iv) the Borrowers, the Administrative Agent, the Syndication Agent, the Issuing Banks and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrowers relating to the Loans or L/C Disbursements and to approve any amendment, modification or waiver of any provision of this Agreement and the other Loan Documents (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans or increasing or extending the Commitments or releasing from any Lien granted under any Security Document all or any substantial part of the Collateral (except with respect to sales or transfers of, and other transactions relating to, Collateral permitted pursuant to any Loan Document)).

(g) Any Lender or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrowers furnished to such Lender by or on behalf of the Borrowers; provided that, prior to any such disclosure of information designated by the Borrowers as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information on terms no less restrictive than those applicable to the Lenders pursuant to Section 9.16.

(h) Any Lender may at any time assign all or any portion of its rights under this Agreement to a Federal Reserve Bank to secure extensions of credit by such Federal Reserve Bank to such Lender; provided that no such assignment shall release a Lender from any of its obligations hereunder or substitute any such Bank for such Lender as a party hereto. In order to facilitate such an assignment to a Federal Reserve Bank, the Borrowers shall, at the request of the assigning Lender, duly execute and deliver to the assigning Lender a promissory note or notes evidencing the Loans made to the Borrowers by the assigning Lender hereunder.

(i) The Borrowers shall not assign or delegate any of their respective rights or duties hereunder without the prior written consent of the Administrative Agent, the Syndication Agent, the Issuing Banks and each Lender, and any attempted assignment without such consent shall be null and void.

SECTION 9.05. Expenses; Indemnity. (a) The Borrowers agree to pay all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Syndication Agent, the Collateral Agent and the Issuing Banks in connection with the syndication of the credit facilities provided for herein and the preparation and administration of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby or thereby

contemplated shall be consummated) or incurred by the Administrative Agent, the Syndication Agent, the Collateral Agent, an Issuing Bank or any Lender in connection with the enforcement or protection of its rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or Letters of Credit issued hereunder, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Administrative Agent, the Syndication Agent and the Collateral Agent, and, in connection with any such enforcement or protection, the reasonable fees, charges and disbursements of any other counsel for the Administrative Agent, the Syndication Agent, the Collateral Agent, an Issuing Bank or any Lender.

(b) The Borrowers agree, jointly and severally, to indemnify the Administrative Agent, the Syndication Agent, the Collateral Agent, each co-agent, each Lender and each Issuing Bank, each Affiliate of any of the foregoing persons and each of their respective directors, officers, employees and agents (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the

Loans or issuance of Letters of Credit, (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto, or (iv) any actual or alleged presence or Release of Hazardous Materials on any property owned or operated by the Borrowers or any of the Subsidiaries, or any Environmental Claim related in any way to the Borrowers or the Subsidiaries; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) The provisions of this Section 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the expiration of the Commitments, the expiration of any Letter of Credit, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Syndication Agent, the Collateral Agent, any Lender or either Issuing Bank. All amounts due under this Section 9.05 shall be payable on written demand therefor.

SECTION 9.06. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and Issuing Bank is hereby authorized at any time and from time to time, except to the extent prohibited by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or Issuing Bank to or for the credit or the account of any Borrower against any of and all the obligations of any Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Lender or Issuing Bank, irrespective of whether or not such Lender or Issuing Bank shall have made any demand under this Agreement or such other Loan Document and although such obligations may be unmatured. The rights of each Lender and Issuing Bank under this Section 9.06 are in addition to other rights and remedies (including other rights of setoff) which such Lender or Issuing Bank may have.

SECTION 9.07. APPLICABLE LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (OTHER THAN LETTERS OF CREDIT AND AS EXPRESSLY SET FORTH IN OTHER LOAN DOCUMENTS) SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. EACH LETTER OF CREDIT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OR RULES DESIGNATED IN SUCH LETTER OF CREDIT, OR IF NO SUCH LAWS OR RULES ARE DESIGNATED, THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500 (THE "UNIFORM CUSTOMS") AND, AS TO MATTERS NOT

GOVERNED BY THE UNIFORM CUSTOMS, THE LAWS OF THE STATE OF NEW YORK.

SECTION 9.08. Waivers; Amendment. (a) No failure or delay of the Administrative Agent, the Syndication Agent, the Collateral Agent, any Lender or either Issuing Bank in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative

Agent, the Syndication Agent, the Collateral Agent, the Issuing Banks and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrowers or any other Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrowers in any case shall entitle the Borrowers to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any other Loan Document (excluding Letters of Credit) nor any provision hereof or thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrowers and the Required Lenders (or, in the case of any other such Loan Document, the parties thereto with the prior written consent of the Required Lenders); provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan or any date for reimbursement of an L/C Disbursement, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan or L/C Disbursement, without the prior written consent of each Lender affected thereby, (ii) change or extend the Commitment or decrease or extend the date for payment of the Commitment Fees of any Lender without the prior written consent of such Lender, (iii) amend or modify the provisions of Section 2.17 or 9.04(i), the provisions of this Section, the definition of the term "Required Lenders" or release any Guarantor from its obligations under the Guarantee Agreement (other than in accordance with the Guarantee Agreement) or release from any Lien granted under any Security Document all or any substantial part of the Collateral (except with respect to sales or transfers of, and other transactions relating to, Collateral permitted pursuant to the Security Documents), without the prior consent of each Lender or (iv) change (A) the allocation of any prepayment, to be allocated between the Note Repurchase Loans and Revolving Loans pursuant to Section 2.13 or (B) the application of any prepayment or repayment of Note Repurchase Loans pursuant to Sections 2.11(b), 2.12(b) or 2.13(d), in each case without the prior written consent of Lenders holding a majority of the aggregate outstanding principal amount of the Note Repurchase Loans; provided, further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Syndication Agent, the Collateral Agent or either Issuing Bank hereunder or under any other Loan Document without the prior written consent of the Administrative Agent, the Syndication Agent, the Collateral Agent or such Issuing Bank, as the case may be.

SECTION 9.09. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan or participation in any L/C Disbursement, together with all fees, charges and other amounts which are treated as interest on such Loan or participation in such L/C Disbursement under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan or participation in accordance with applicable law, the rate of interest payable in respect of such Loan or participation hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan or participation but were not payable as a result of the operation of this Section 9.09 shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or participations or periods shall be increased (but not above the Maximum Rate therefor) until such

cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.10. Entire Agreement. This Agreement, the Fee Letter and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any other previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

SECTION 9.11. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED TO SUCH PARTY, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.11.

SECTION 9.12. Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9.13. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract, and shall become effective as provided in Section 9.03. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 9.14. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 9.15. Jurisdiction; Consent to Service of Process. (a) Each Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting

in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other

jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the Syndication Agent, the Collateral Agent, either Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Borrowers or its properties in the courts of any jurisdiction.

(b) Each Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.16. Confidentiality. The Administrative Agent, the Syndication Agent, the Collateral Agent, each Issuing Bank and each of the Lenders agrees to keep confidential (and to use its best efforts to cause its respective agents and representatives to keep confidential) the Information (as defined below) and all copies thereof, extracts therefrom and analyses or other materials based thereon, except that the Administrative Agent, the Syndication Agent, the Collateral Agent, either Issuing Bank or any Lender shall be permitted to disclose Information (a) to such of its respective officers, directors, employees, agents, auditors, affiliates and representatives as need to know such Information, (b) to the extent requested by any regulatory authority, (c) to the extent otherwise required by applicable laws and regulations or by any subpoena or similar legal process, (d) in connection with any suit, action or proceeding relating to the enforcement of its rights hereunder or under the other Loan Documents or (e) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 9.16 or (ii) becomes available to the Administrative Agent, the Syndication Agent, either Issuing Bank, any Lender or the Collateral Agent on a nonconfidential basis from a source other than the Borrowers. For the purposes of this Section, "Information" shall mean all financial statements, certificates, reports, agreements and information (including all analyses, compilations and studies prepared by the Administrative Agent, the Syndication Agent, the Collateral Agent, either Issuing Bank or any Lender based on any of the foregoing) that (i) are received from the Borrowers and related to the Borrowers, any shareholder of any of the Borrowers or any employee, customer or supplier of the Borrowers, other than any of the foregoing that were available to the Administrative Agent, the Syndication Agent, the Collateral Agent, either Issuing Bank or any Lender on a nonconfidential basis prior to its disclosure thereto by the Borrowers, and (ii) are in the case of Information provided after the date hereof, clearly identified at the time of delivery as confidential. The provisions of this Section 9.16 shall remain operative and in full force and effect regardless of the expiration and term of this Agreement.

SECTION 9.17. Obligations Joint and Several. (a) Each Borrower agrees that it shall, jointly with the other Borrowers and severally, be liable for all the Obligations. Each Borrower further agrees that the Obligations of the other Borrowers may be extended and renewed, in whole or in part, without notice to or further assent from it, and that it will remain bound upon its agreement hereunder notwithstanding any extension or renewal of any Obligation of the other Borrowers.

(b) Each Borrower waives presentment to, demand of payment from and protest to the other Borrowers of any of the Obligations, and also waives notice of acceptance of its obligations and notice of protest for nonpayment. The Obligations of a Borrower hereunder shall not be affected by (i) the failure of any Lender or Issuing Bank or the Administrative Agent or Collateral Agent to assert any claim or demand or to enforce any right or remedy against the other Borrowers under the provisions of this Agreement or any of the other Loan Documents or otherwise; (ii) any rescission, waiver, amendment or modification

of any of the terms or provisions of this Agreement, any of the other Loan Documents or any other agreement; or (iii) the failure of any Lender or Issuing Bank to exercise any right or remedy against any other Borrower.

(c) Each Borrower further agrees that its agreement hereunder constitutes a promise of payment when due and not of collection, and waives any right to require that any resort be had by any Lender or Issuing Bank to any balance of any deposit account or credit on the books of any Lender or Issuing Bank in favor of any other Borrower or any other person.

(d) The Obligations of each Borrower hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including compromise, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations of the other Borrowers or otherwise. Without limiting the generality of the foregoing, the Obligations of each Borrower hereunder shall not be discharged or impaired or otherwise affected by the failure of the Administrative Agent, the Collateral Agent or any Lender or Issuing Bank to assert any claim or demand or to enforce any remedy under this Agreement or under any other Loan Document or any other agreement, by any waiver or modification in respect of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations of the other Borrowers, or by any other act or omission which may or might in any manner or to any extent vary the risk of such Borrower or otherwise operate as a discharge of such Borrower as a matter of law or equity.

(e) Each Borrower further agrees that its obligations hereunder shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any Obligation of the other Borrowers is rescinded or must otherwise be restored by the Administrative Agent, the Collateral Agent or any Lender or Issuing Bank upon the bankruptcy or reorganization of any of the other Borrowers or otherwise.

(f) In furtherance of the foregoing and not in limitation of any other right which the Administrative Agent, the Collateral Agent or any Lender or Issuing Bank may have at law or in equity against any Borrower by virtue hereof, upon the failure of a Borrower to pay any Obligation when and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, each other Borrower hereby promises to and will, upon receipt of written demand by the Administrative Agent, forthwith pay, or cause to be paid, in cash the amount of such unpaid Obligations, and thereupon each Lender shall, in a reasonable manner, assign the amount of

the Obligations of the other Borrowers owed to it and paid by such Borrower pursuant to this guarantee to such Borrower, such assignment to be pro tanto to the extent to which the Obligations in question were discharged by such Borrower, or make such disposition thereof as such Borrower shall direct (all without recourse to any Lender and without any representation or warranty by any Lender).

(g) Upon payment by a Borrower of any sums as provided above, all rights of such Borrower against another Borrower, as the case may be, arising as a result thereof by way of right of subrogation or otherwise shall in all respects be subordinated and junior in right of payment to the prior indefeasible payment in full of all the Obligations to the Lenders and Issuing Banks.

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

MAGELLAN HEALTH SERVICES, INC.,

by /s/ James R. Bedenbough

Name: James R. Bedenbough
Title: Vice President and Treasurer

CHARTER BEHAVIORAL HEALTH SYSTEM OF NEW MEXICO, INC. as a Subsidiary Borrower,

by /s/ Charlotte A. Sanford

Name: Charlotte A. Sanford
Title: Treasurer

THE CHASE MANHATTAN BANK, individually and as Administrative Agent, Collateral Agent and an Issuing Bank,

by /s/ Thomas H. Korlark

Name: Thomas H. Korlark
Title: Vice President

FIRST UNION NATIONAL BANK OF NORTH CAROLINA, individually and as Syndication Agent and an Issuing Bank,

by /s/ Joseph H. Towell

Name: Joseph H. Towell
Title: Sr V.P.

BANK POLSKA KASA OPIEKI S.A.
PEKAD S.A. GROUP
NEW YORK BRANCH

by /s/ William A. Shea

Name: William A. Shea
Title: Vice President
Senior Lending Officer

CREDIT LYONNAIS NEW YORK BRANCH,
as Co-Agent,

by /s/ Farboud Tavangar

Name: Farboud Tavangar
Title: First Vice President

FIRST AMERICAN NATIONAL BANK,

by /s/ Sandy Hamrick

Name: Sandy Hamrick
Title: Vice President

GENERAL ELECTRIC CAPITAL CORPORATION
as Co-Agent,

by /s/ Janet L. Williams

Name: Janet L. Williams
Title: Duly Authorized Co Agent

THE BANK OF NEW YORK,
as Co-Agent,

by /s/ Gregory L. Batson

Name: Gregory L. Batson
Title: Vice President

THE BANK OF NOVA SCOTIA,
as Co-Agent,

by /s/ W.J. Brown

Name: W.J. Brown
Title: Vice President

VAN KAMPEN AMERICAN CAPITAL PRIME RATE INCOME TRUST,

by /s/ Jeffrey W. Maillet

Name: Jeffrey W. Maillet
Title: Sr. Vice Pres.-Portfolio Mgr.

EXHIBIT 10(i)

MAGELLAN HEALTH SERVICES, INC.
1997 STOCK OPTION PLAN

1. Purpose. The purpose of the Magellan Health Services, Inc. 1997 Stock Option Plan is to motivate and retain officers and other key employees of Magellan Health Services, Inc. and its Subsidiaries who have major responsibility for the attainment of the primary long-term performance goals of Magellan Health Services, Inc.

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

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

"Change in Control" means the effective date of the occurrence, at any time after March 18, 1997, of one or more of the following events: (i) the sale, lease, transfer or other disposition, in one or more related transactions, of all or 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, the merger of another corporation into the Corporation or any other transaction, to the extent that the stockholders of the Corporation immediately prior to any such transaction hold less than 50 percent of the total voting power or of the voting stock of the surviving corporation resulting from any such transaction, (iii) any person or related group of persons, including a "group" as such term is used in Section 13(d)(3) of the Exchange Act, whether such person or group of persons is a stockholder of the Corporation as of March 18, 1997, holds 30 percent or more of the voting power or of the voting stock of the Corporation, or (iv) the liquidation or dissolution of the Corporation. Notwithstanding any provisions hereof to the contrary, the term Change in Control shall not be construed to apply to the transactions contemplated by the Real Estate Purchase and Sale Agreement, dated as of January 29, 1997, by and between the Corporation and Crescent Real Estate Equities Limited Partnership, as amended, modified, supplemented or restated.

"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 Magellan Health Services, Inc., 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 a Subsidiary that employs such Participant.

"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 award or other 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 date (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); (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 Magellan Health Services, Inc. 1997 Stock Option Plan, as amended.

"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, 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 "non-employee director" 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 with respect to any person who, with respect to the last completed fiscal year of the Corporation, has been designated by the Corporation as a named executive officer of the Corporation, as that term is defined in Item 402(a)(3) of Regulation S-K, issued by the Securities and Exchange Commission), subject to any review, approval or notification required by the Committee or as otherwise may be required by law.

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 1,500,000 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 are not purchased after the cancellation, expiration, exchange or forfeiture of such Option 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, that the maximum number of shares of Stock issuable upon exercise of Options shall not exceed 1,500,000, subject to adjustment as provided in Section 9. No Option shall be granted after December 31, 2000. The maximum number of shares of Stock that may be covered by Options granted to any Participant under the Plan shall not exceed 1,000,000, 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, including any 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, 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 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.

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 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 of the option exercise price, in accordance with the foregoing subsection (d), 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, 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.

(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 not later than February 28, 2007.

(g) Exercise of Options. Options are exercisable only to the extent they are vested as provided in the Stock Option Agreement. After Options have vested in accordance with the terms of the Stock Option Agreement, 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 six (6) months 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 (12) 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, by 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. 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 by 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 331/3 percent 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 Corporation is merged or consolidated with another corporation or other legal entity and the Corporation is not the surviving corporation or legal entity, or in the event all or substantially all of the assets or common stock of the Corporation is acquired by another

corporation or legal entity, or in the case of a dissolution, reorganization or liquidation of the Corporation, the Board, or the board of directors or governing body of any corporation or other legal entity assuming the obligations of the Corporation 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. Change in Control. Notwithstanding any provisions in the Plan to the contrary, in the event of a Change in Control, any unvested and outstanding Options awarded to Participants under the Plan automatically shall become fully vested and exercisable in accordance with the terms thereof.

13. Non-Alienation of Benefits. Except insofar as applicable law otherwise may 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 or 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; provided, 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 to furnish such information as it may consider appropriate in connection with the issuance or delivery of the shares in compliance with applicable law, 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 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).

17. 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 Corporation shall indemnify and hold harmless each employee, officer and Director, 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 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, 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, 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.

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 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.

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND ON
PAGES 1 AND 2 OF THE COMPANY'S FORM 10-Q FOR THE YEAR-TO-DATE, AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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EXHIBIT 99

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

Magellan Health Services, Inc. (the "Company") and its representatives may make forward looking statements (as such term is defined in the Private Securities Litigation Reform Act) from time-to-time. The Company wants to invoke to the fullest extent possible the protection of the Private Securities Litigating Reform Act and the judicially created "bespeaks caution" doctrine with respect to such statements. Accordingly, the Company is filing this Exhibit 99, which lists certain factors that may cause actual results to differ materially from those in such forward looking statements.

This list is not necessarily exhaustive. The Company operates in a rapidly changing business, and new risk factors emerge periodically. There can be no assurance that this Exhibit lists all material risks to the Company at any specific point in time.

Impact of the Crescent Transactions

The Company relinquished control of Charter Behavioral Health Systems ("CBHS") upon consummation of the Cresent Transactions. Magellan's operational input in CBHS will be limited to those rights provided by the franchise agreements and the CBHS Operating Agreement.

The Franchise Fees payable to the Company by CBHS are subordinated in payment to the $41.7 million annual base rent, 5% minimum escalator rent and, in certain circumstances, the additional rent due Crescent under the CBHS Facilities Lease. If CBHS encounters a decline in earnings or financial difficulties, such amounts due Crescent will be paid before any Franchise Fees are paid. The remainder of CBHS' available cash will then be applied in such order of priority as CBHS may determine, in the reasonable discretion of the CBHS board, to all other operating expenses of CBHS, including the current and accumulated Franchise Fees. The Company will be entitled to pursue all available remedies for breach of the Master Franchise Agreement, except that the Company does not have the right to take any action that could reasonably be expected to force CBHS into bankruptcy or receivership. In addition, if CBHS' encounters a decline in earnings or financial difficulties, it is possible that cash flow from CBHS' operations will not be sufficient to pay all or a portion of the Franchise Fees when due, which could have a material adverse effect on Magellan's financial position, earnings and cash flows.

The Company has used the proceeds of the Crescent Transactions to reduce net interest expense by repaying long-term debt where possible and investing the remaining proceeds in short-term cash equivalents. Although net interest expense will be lower, the Company's reduced earnings as a result of the Crescent Transactions could be even more pronounced until capital resource allocation decisions (e.g., acquisitions) related to the net proceeds from the Crescent Transactions are implemented.

Limitations Imposed by the New Revolving Credit Agreement and Senior Note Indenture

In May 1994, the Company entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") with certain financial institutions and issued $375 million of Senior Subordinated Notes (the "Senior Notes") to institutional investors. The Credit Agreement was terminated in October 1996 and the Company entered into

a new Credit Agreement (the "Revolving Credit Agreement"). The Revolving Credit Agreement was terminated in June 1997 as a result of the Crescent Transactions and the Company entered into a New Revolving Credit Agreement (the"New Revolving

Credit Agreement"). The New Revolving Credit Agreement and the indenture for the Senior 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, enter into certain joint venture transactions, incur liens, make certain restricted payments and investments, enter into certain business combination and asset sale transactions, make capital expenditures and repurchase outstanding common stock. These restrictions could adversely affect the Company's ability to conduct its operations, finance its capital needs or to pursue attractive business combinations and joint ventures if such opportunities arise. Under the New Revolving Credit Agreement, the Company also is required to maintain certain specified financial ratios. Failure by the Company to maintain such financial ratios or to comply with the restrictions contained in the New Revolving Credit Agreement and the indenture for the Senior Notes could cause such indebtedness (and by reason of cross-acceleration provisions, other indebtedness) to become immediately due and payable and/or could cause the cessation of funding under the New Revolving Credit Agreement.

Acquisition Growth Strategy

The Company has historically grown through acquisitions. There can be no assurance that the Company will be able to make successful acquisitions in the future or that any such acquisitions will be successfully integrated into its operations. In addition, future acquisitions could have an adverse effect upon the Company's operating results, particularly in the fiscal quarters immediately following the consummation of such transactions while the acquired operations are being integrated into its operations.

Human Affairs International, Inc. Acquisition and Potential Adverse Reaction

On August 5, 1997, the Company announced that it had signed a definitive agreement for the purchase of the Human Affairs International, Inc. ("HAI") for approximately $122.1 million in cash. HAI manages the care of approximately 15 million covered lives through employee assistance programs and managed behavioral health plans. The Company expects to fund the acquisition of HAI with cash on hand. The Company will account for the acquisition of HAI using the purchase method of accounting. The HAI acquisition is subject to federal and state approval and other customary matters and is expected to close in the first quarter of fiscal 1998.

The Company may be required to make additional contingent payments of up to $300 million to Aetna U.S. Healthcare (the "Contingent Payments") over the five-year period subsequent to closing under certain circumstances. The Company expects to fund the Contingent Payments, if any, with a combination of cash on hand, future cash flows from operations and borrowing capacity under the New Revolving Credit Agreement.

Magellan and CBHS' hospitals have contracts with behavioral managed care companies other than Green Spring and HAI. Such other companies could decide to terminate their contracts with Magellan and CBHS' hospitals in reaction to the Company's announcement of acquiring one of their major competitors. In addition, many of Green Spring and HAI's customers are competitors in various local markets. The announcement of the HAI acquisition could adversely impact the ability of Green Spring and HAI to attract and retain customers or to effectively negotiate contractual arrangements with new or existing customers. Also, there can be no assurance that HAI will be successfully integrated into Company's operations.

Historical Operating Losses

The Company experienced losses from continuing operations before reorganization items, extraordinary items and the cumulative effect of a change in accounting principle during each fiscal year since the completion of a management buyout in 1988 through fiscal 1995. Such losses amounted to $81.7 million for the ten-month period ended July 31, 1992, $8.1 million for the two-month period ended September 30, 1992 and $39.6 million, $47.0 million and $43.0 million for the fiscal years ended September 30, 1993, 1994 and 1995, respectively. The Company reported net revenue and income from continuing

operations of approximately $1.35 billion and $32.4 million, respectively, for the year ended September 30, 1996. The Company also reported net revenue and income from continuing operations before extraordinary items of approximately $997.0 million and $24.1 million for the nine months ended June 30, 1996, respectively, compared to net revenue and loss from continuing operations before extraordinary items of $1.0 billion and $5.4 million, respectively, for the nine months ended June 30, 1997. There can be no assurance that the Company's profitability for the year ended September 30, 1996 will continue in future periods. The Company's history of losses could have an adverse effect on its operations.

Potential Hospital Closures

CBHS' management continually assesses events and changes in circumstances that could effect its business strategy and the viability of its operations. During fiscal 1995 and 1996, Magellan consolidated, closed or sold 15 and 9 psychiatric hospitals, respectively. During fiscal 1997, Magellan consolidated, closed or sold three psychiatric hospitals and its one general hospital. Magellan recorded charges against income, as a result of these consolidations, closures and sales. CBHS may pursue acquisitions in markets where it does not currently have a presence and in markets where it has existing hospital operations. CBHS' management may elect to consolidate services in selected markets by closing additional facilities in future periods depending on market conditions and evolving business strategies. If CBHS closes additional psychiatric hospitals in future periods, it could result in charges to income for the cost necessary to exit the hospital operations, which would result in lower equity in earnings of CBHS for the Company.

Potential Reductions in Reimbursement by Third-Party Payers and Changes in Hospital Payer Mix

Magellan and CBHS hospitals have been adversely affected by factors influencing the entire psychiatric hospital industry. Factors which have affected psychiatric hospitals include (i) the imposition of more stringent length of stay and admission criteria and other cost containment measures by payers; (ii) the failure of reimbursement rate increases from certain payers 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 payers that reimburse on a per diem or other discounted basis; (iv) a trend toward higher deductibles and co-insurance for individual patients; (v) pricing pressure related to increasing rate of claims denials by third party payers; and (vi) a trend toward limiting employee health benefits, such as reductions in annual and lifetime limits on mental health coverage. Any of these factors could result in reductions in the amounts that Magellan and CBHS hospitals can expect to collect per patient day for services provided.

For the fiscal year ended September 30, 1996, the Company derived approximately 21% of its gross psychiatric patient service revenue from managed care organizations (primarily HMOs and PPOs, as hereinafter defined), 25% from other private payers (primarily commercial insurance and Blue Cross), 28% from Medicare, 17% from Medicaid, 3% from the Civilian Health and Medical Program for the Uniformed Services ("CHAMPUS") and 6% from other government programs. Changes in the mix of Magellan and CBHS's patients among the managed care organizations, Medicare and Medicaid categories, and among different types of private-pay sources, can significantly affect the profitability of Magellan and CBHS's hospital operations. Therefore, there can be no assurance that payments under governmental and private third-party payer programs will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs of providing care to patients covered by such programs.

Dependence on Healthcare Professionals

Physicians traditionally have been the source of a significant portion of the patients treated at Magellan and CBHS' hospitals. Therefore, the success of Magellan and CBHS's hospitals is dependent in part on the number and quality of the physicians on the medical staffs of its hospitals and their admission practices. A small number of physicians account for a significant portion of patient admissions at some of Magellan and CBHS's hospitals. There can be no assurance that Magellan and CBHS can retain its current physicians on staff or that additional physician relationships will be developed in the future. Furthermore, hospital physicians generally are not employees of Magellan and CBHS and in general, Magellan and CBHS do not have contractual arrangements with hospital physicians restricting the ability of such physicians to practice

elsewhere.

Potential General and Professional Liability

Effective June 1, 1995, Plymouth Insurance Company, Ltd. ("Plymouth"), a wholly-owned Bermuda subsidiary of the Company, provides general and hospital professional liability insurance up to $25 million per occurrence for the Company's hospitals. All of the risk of losses from $1.5 million to $25 million per occurrence has been reinsured with unaffiliated insurers. The Company also insures with an unaffiliated insurer 100% of the risk of losses between $25 million and $100 million per occurrence, subject to an annual aggregate limit of $75 million. The Company's general and professional liability coverage is written on a "claims made or circumstances reported" basis. For reinsured claims between $10 and $25 million per occurrence, the Company has an annual aggregate limit of coverage of $30 million. For reinsured claims between $1.5 million and $10 million per occurrence, the Company has no significant limitations on the aggregate dollar amounts of coverage.

For the six years from June 1, 1989 through May 31, 1995, 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 years ended May 31, 1994 and 1995. In December 1994, the per occurrence deductible for the years ended May 31, 1989 and 1990 was eliminated. Plymouth provides coverage with no per occurrence deductible for hospital system claims which had not been paid prior to December 31, 1994. Plymouth does not underwrite any insurance policies with any parties other than the Company or its affiliates and subsidiaries.

The liability recorded relating to Magellan's general and professional liability may materially increase or decrease from year to year depending, among other things, on the nature and number of new reported claims against Magellan and amounts of settlements of previously reported claims. To date, Magellan has not experienced a loss in excess of policy limits. Management believes that its coverage limits are adequate. However, losses in excess of the limits described above or for which insurance is otherwise unavailable could have a material adverse effect upon the Company.

Potential Expiration and Realization Uncertainties Related to Estimated Tax Net Operating Loss Carryforwards

As of September 30, 1996, the Company had estimated tax net operating loss ("NOL") carryforwards of approximately $250 million available to reduce future federal taxable income. These NOL carryforwards expire in 2006 through 2010 and are subject to adjustment upon 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 effective date of the Reorganization is limited. Based on this limitation and certain other factors, the Company has recorded a valuation allowance of approximately $102.2 million against the amount of the NOL deferred tax asset at September 30, 1996 that in Management's opinion, is not likely to be recovered. There can be no assurance that these NOL carryforwards will not expire, be reduced or be made subject to further limitations prior to their potential utilization in future periods.

The Company incurred a gain for federal income tax purposes of approximately $50 million as a result of the Crescent Transactions. The Company intends to utilize net operating loss carryforward ("NOL") to offset such taxable gains to the extent NOLs are available. The expected utilization of NOLs as a result of the Crescent Transactions will accelerate the payment of federal income taxes in future periods, resulting in lower cash flows from operations in future periods.

Governmental Budgetary Constraints and Healthcare Reform

In the 1995 and 1996 sessions of the United States Congress, the focus of healthcare legislation has been on budgetary and related funding mechanism issues. Both the Congress and the Clinton Administration have made proposals to

reduce the rate of increase in projected Medicare and Medicaid expenditures and to change funding mechanisms and other aspects of both programs. If enacted, these proposals would generally reduce Medicare and

Medicaid expenditures. The Company cannot predict the effect of any such legislation, if adopted, on its operations or CBHS operations; but the Company anticipates that, although overall Medicare and Medicaid funding may be reduced from projected levels, the changes in such programs may provide opportunities to the Company to obtain increased Medicare and Medicaid business through risk-sharing or partial risk-sharing contracts with managed care plans and state Medicaid programs.

A number of states in which the Company and CBHS have operations have either adopted or are considering the adoption of healthcare reform proposals of general applicability or Medicaid reform proposals, partly in response to possible changes in Medicaid law. Where adopted, these state reform laws have often not yet been fully implemented. The Company cannot predict the effect of these state healthcare reform and Medicaid reform laws on its operations or CBHS operations.

Provider Business-Competition

Each of Magellan and CBHS'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, Magellan and CBHS's hospitals compete not only with other psychiatric hospitals, but also with psychiatric units in general hospitals, and outpatient services provided by Magellan and CBHS may compete with private practicing mental health professionals and publicly funded mental health centers. 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. The Company has entered into joint venture arrangements with other healthcare providers in certain markets to promote more efficiency in the local delivery system. The Company believes that its provider business and CBHS compete effectively with respect to the aforementioned factors. However, there can be no assurance that Magellan or CBHS will be able to compete successfully in the provider business in the future.

Competition among hospitals and other healthcare providers for patients has intensified in recent years. During this period, hospital occupancy rates for inpatient behavioral care patients in the United States have declined as a result of cost containment pressures, changing technology, changes in reimbursement, changes in practice patterns from inpatient to outpatient treatment and other factors. 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. State certificate of need laws regulate the Company and its competitors' ability to build new hospitals and to expand existing hospital facilities and services. These laws do provide some protection from competition, as their interest is to prevent duplication of services. In most cases, these laws do not restrict the ability of the Company or its competitors to offer new outpatient services. As of June 30, 1997, the Company operated three hospitals in two states (Louisiana, New Mexico) and CBHS operated 35 hospitals in 10 states (Arizona, Arkansas, California, Colorado, Indiana, Kansas, Nevada, South Dakota, Texas and Utah) which do not have certificate of need laws applicable to hospitals.

Managed Care Business - Competition

The managed healthcare industry is being affected by various external

factors including rising healthcare costs, intense price competition, and market consolidation by major managed care companies. Magellan faces competition from a number of sources including other behavioral health managed care companies and traditional full service managed care companies that contract to provide behavioral healthcare benefits. Also, to a lesser extent, competition exists from fully capitated multi-specialty medical groups and individual practice associations that directly contract with managed care companies and other customers to provide and manage all components of healthcare for the members including the behavioral healthcare component. The Company believes that the most significant factors in a customer's selection of

a managed behavioral healthcare company include price, the extent and depth of provider networks and quality of services. The Company also believes that the acquisition of Green Spring and potential acquisition of HAI creates opportunities to enhance its revenues through managed care contracts utilizing the continuum of care and through information systems that support care management and at-risk pricing mechanisms, although no such assurance can be given. Management believes that its managed care business competes effectively with respect to these factors. However, there can be no assurance that Magellan will be able to compete successfully in the managed care business in the future.

Regulatory Environment

The federal government and all states in which the Company and CBHS' operate regulate various aspects of the Company's and CBHS' businesses. Such regulations provide for periodic inspections or other reviews of the Company's and CBHS' provider operations by, among others, state agencies, the United States Department of Health and Human Services (the "Department") and CHAMPUS to determine compliance with their respective standards of care and other applicable conditions of participation which is necessary for continued licensure or participation in identified healthcare programs, including, but not limited to, Medicare, Medicaid and CHAMPUS. The Company and CBHS' are also subject to state regulation regarding the admission and treatment of patients and federal regulations regarding confidentiality of medical records of substance abuse patients. Although the Company and CBHS endeavor to comply with such regulatory requirements, there can be no assurance that the Company and CBHS will always be in full compliance. The failure to obtain or renew any required regulatory approvals or licenses or to qualify for continued participation in identified healthcare programs could adversely affect the Company's and CBHS operations.

The Company is also subject to federal and state laws that govern financial and other arrangements between healthcare providers. These laws often prohibit certain direct and indirect payments between healthcare providers that are designed to induce overutilization of services paid for by Medicare or Medicaid. Such laws include the anti-kickback provisions of the federal Medicare and Medicaid Patients and Program Protection Act of 1987. These provisions prohibit, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for the referral of Medicare and Medicaid patients. GPA, the Green Springs subsidiary that owns or manages professional group practices, is subject to the federal and the state illegal remuneration, practice of medicine and certain other laws which prohibit the subsidiary from owning, but not managing, professional practices. In addition, some states prohibit business corporations from providing, or holding themselves out as a provider of, medical care. The Company endeavors to comply with all federal and state laws applicable to its business. However, a violation of these federal and state laws may result in civil or criminal penalties for individuals or entities or exclusion from participation in identified healthcare programs.

Magellan's managed care business operations, in some states, are subject to utilization review, licensure and related state regulation procedures. Green Spring provides managed behavioral healthcare services to various Blue Cross/Blue Shield plans that operate Medicare and Medicaid health maintenance organizations or other at-risk managed care programs and that participate in the Blue Cross Federal Employees health program. As a contractor to these Blue Cross/Blue Shield plans, Green Spring is indirectly subject to federal and, with respect to the Medicaid program, state monitoring and regulation of performance and financial reporting requirements. Although Magellan believes that it is in compliance with all current state and federal regulatory requirements applicable to the managed care business it conducts, failure to do so could adversely

affect its operations.

Physician ownership of or investment in healthcare entities to which they refer patients has come under increasing scrutiny at both state and federal levels. Congress passed legislation (commonly referred to as "Stark I") which prohibits physicians from referring Medicare patients for clinical laboratory services to an entity with which the physician has a financial relationship. The Department recently published final Stark I regulations on August 14, 1995. Such regulations will govern how the Department views and reviews these financial relationships. Additionally, Congress passed legislation (commonly referred to as "Stark II") which prohibits physicians from referring Medicare or Medicaid patients for certain designated health services, including inpatient and outpatient hospital services, to entities in which they have an ownership or investment interest or with which they have a compensation arrangement. The entity is also prohibited from billing the Medicare or Medicaid programs for such services rendered pursuant to a prohibited referral. To the extent designated services are provided by the Company's and CBHS' provider and managed care operations, physicians who have a financial relationship with the Company and CBHS' will be subject to the provisions of Stark II. Some states have passed similar legislation which prohibits the referral of private pay patients. To date, the

Department has not published Stark II regulations. However, the Department indicated that it will review referrals involving any of the designated services under the language and interpretations set forth in the Stark I rule.

The Company's acquisitions and joint venture activities are also subject to federal antitrust laws. The healthcare industry has recently been an active area of antitrust enforcement action by the United States Federal Trade Commission (the "FTC") and the Department of Justice ("DOJ"). The Company's acquisitions and joint venture arrangements could be the subject of a DOJ or an FTC enforcement action which, if determined adversely to the Company, could have a material adverse effect upon the Company's operations.

The Company receives from CBHS fixed franchise fees of $78.3 million, which may increase in certain circumstances. The Company provides CBHS with an array of services, including advertising and marketing assistance, risk management services, outcomes monitoring, consultation with respect to matters relating to CBHS: business in which the Company has expertise and the Company's operation of a telephone call ceter utilizing the "1-800-CHARTER" telephone number. The Company believes that the franchise fee arrangements described above are consistent with the Medicare Law Amendments because such arrangements do not involve the Company's referral of patients to CBHS. However, there can be no assurance that regulatory agencies or private parties will not challenge the Company based on alleged violations of the Medicare Law Amendments.

Changes in laws or regulations or new interpretations of existing laws or regulations can have an adverse effect on the Company's operating methods, costs, reimbursement amounts and acquisition and joint venture activities. In addition, the healthcare industry is subject to increasing governmental scrutiny, and additional laws and regulations may be enacted which could require changes in the Company's operations. A federal or state agency charged with enforcement of such laws and regulations might assert an interpretation of such laws and resolutions or may increase scrutiny of a previously ignored area, which may require changes in the Company's operations.

Capitation Arrangements

The Company's managed care business contracts with companies holding state HMO or insurance company licenses on a capitated or "at-risk" basis where the risk of patient care is assumed by the Company in exchange for a monthly fee per member regardless of utilization level. As of June 30, 1997, approximately 40% of Green Spring's managed care members were under capitated arrangements. During fiscal 1996, approximately 70% of Green Spring's revenues were from at-risk contracts. Increases in utilization levels under capitated contractual arrangements could adversely effect the operations of the managed care business.

Some jurisdictions are taking the position that capitated agreements in which the provider bears the risk should be regulated by insurance laws. In this regard, Green Spring's primary customers are comprised of Blue Cross/Blue

Shield Plans and other insurance entities which are licensed insurance organizations in their respective states. Green Spring offers "carved out" managed mental health benefits, on a wholesale basis, as a vendor to the regulated insurance organizations. Most current employer group relationships are also contracted through the respective regulated insurance organizations. However, as Magellan and Green Spring develop more direct risk arrangements on a retail basis directly with employer groups or other non-insurance entity customers, the Company may be required to obtain insurance licenses in the respective states where the direct risk arrangements are to be pursued. There can be no assurance that the Company can obtain the insurance licenses required by the respective states in a timely or cost effective manner to respond to market demand.

Mental Health Parity Legislation

In October 1996, President Clinton signed a bill submitted by the U.S. Congress that prohibits health plans from setting annual or lifetime caps on mental health coverage ("parity") at levels below those set for general medical/surgical healthcare services. The bill does not require a health plan to offer or provide mental health services and does not affect other terms and conditions of health plans, such as inpatient day or outpatient visit limits or scope of benefits, nor does this bill prohibit health plans from utilizing other forms of cost containment. The definition of mental health services in the bill excludes substance abuse and chemical dependency. The effective date for the parity legislation is January 1, 1998. Other key components of the parity legislation are as follows:

1) Employers with 50 or fewer employees are exempt from the parity legislation.

2) Health plans that incur increased costs of 1% or more as a result of the parity legislation will be exempt.

3) The parity legislation expires on September 30, 2001 unless extended by Congress.

The Company views the parity legislation as an acknowledgment by the Federal government of the importance of effective treatment of mental health disorders for society in general. The parity legislation could result in cost containment mechanisms by third party payers such as the elimination of mental health benefit plans or encouraging the utilization of managed care organizations to administer mental health benefit plans, which could both result in lower demand and lower revenue per equivalent patient day in the Company's provider business. However, this bill is subject to administrative and judicial interpretation, neither of which the Company is able to predict. There can be no assurance that such interpretations will not adversely effect the Company's businesses.

Possible Volatility of Stock Price

The Company believes factors such as announcements with respect to healthcare reform measures, reductions in government healthcare program projected expenditures, acquisitions and quarter-to-quarter and year-to-year variations in financial results could cause the market price of Magellan Common Stock to fluctuate substantially. Any such adverse announcement with respect to healthcare reform measures or program expenditures, acquisitions or any shortfall in revenue or earnings from levels expected by securities analysts could have an immediate and significant adverse effect on the trading price of Magellan Common Stock in any given period. As a result, the market for Magellan Common Stock may experience price and volume fluctuations unrelated to the operating performance of Magellan.