FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[ ] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1995

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)

(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 January
31, 1996, was 32,747,523.
<table>
<thead>
<tr>
<th>Exact name of registrant as specified in its charter</th>
<th>Jurisdiction of incorporation or organization</th>
<th>I.R.S. Employer Identification Number</th>
<th>Address including zip code, State or other and telephone number</th>
<th>Address including zip code, and telephone number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beltway Community Hospital, Inc.</td>
<td>Texas</td>
<td>58-1324281</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>C.A.C.O. Services, Inc.</td>
<td>Ohio</td>
<td>58-1751511</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>CCM, Inc.</td>
<td>Nevada</td>
<td>58-1662418</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>CMCI, Inc.</td>
<td>Nevada</td>
<td>88-0224620</td>
<td>1061 East Flamingo Road Suite One Las Vegas, NV 89119</td>
<td>1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282</td>
</tr>
<tr>
<td>CMFC, Inc.</td>
<td>Nevada</td>
<td>88-0215629</td>
<td>1061 East Flamingo Road Suite One Las Vegas, NV 89119</td>
<td>1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282</td>
</tr>
<tr>
<td>CMSEF, Inc.</td>
<td>Nevada</td>
<td>58-1324269</td>
<td>3550 Colonial Boulevard Fort Myers, FL 33912</td>
<td>3550 Colonial Boulevard Fort Myers, FL 33912 (813) 938-0403</td>
</tr>
<tr>
<td>Charter Alvarado Behavioral Health System, Inc.</td>
<td>California</td>
<td>58-1394935</td>
<td>7050 Parkway Drive La Mesa, CA 91942-2352</td>
<td>7050 Parkway Drive La Mesa, CA 91942-2352 (619) 455-4411</td>
</tr>
<tr>
<td>Charter Appalachian Hall Behavioral Health System, Inc.</td>
<td>North Carolina</td>
<td>58-2097827</td>
<td>60 Caledonia Road Asheville, NC 28803</td>
<td>60 Caledonia Road Asheville, NC 28803 (704) 253-3681</td>
</tr>
<tr>
<td>Charter Arbor Indy Behavioral Health System, Inc.</td>
<td>Indiana</td>
<td>35-1916340</td>
<td>11075 N. Pennsylvania Indianapolis, IN 46280</td>
<td>11075 N. Pennsylvania Indianapolis, IN 46280 (317) 579-1000</td>
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<tr>
<td>Charter Augusta Behavioral Health System, Inc.</td>
<td>Georgia</td>
<td>58-1615076</td>
<td>3100 Perimeter Parkway P.O. Box 14939 Augusta, GA 30909</td>
<td>3100 Perimeter Parkway P.O. Box 14939 Augusta, GA 30909 (404) 868-4625</td>
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</tbody>
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**ADDITIONAL REGISTRANTS**

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<tr>
<th>Exact name of registrant as specified in its charter</th>
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<tr>
<td>Charter Bay Harbor Behavioral Health System, Inc.</td>
<td>Florida</td>
<td>58-1640244</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Beacon Behavioral Health System, Inc.</td>
<td>Indiana</td>
<td>58-1524996</td>
<td>1720 Beacon Street Fort Wayne, IN 46805 (219) 423-3651</td>
</tr>
<tr>
<td>Charter Behavioral Health System at Fair Oaks, Inc.</td>
<td>New Jersey</td>
<td>58-2097832</td>
<td>10 Prospect Street Summit, NJ 07901 (908) 277-9102</td>
</tr>
<tr>
<td>Charter Behavioral Health System at Hidden Brook, Inc.</td>
<td>Maryland</td>
<td>52-1866212</td>
<td>522 Thomas Run Road Bel Air, MD 21014 (410) 879-1919</td>
</tr>
<tr>
<td>Charter Behavioral Health System at Los Altos, Inc.</td>
<td>California</td>
<td>33-0606642</td>
<td>3340 Los Coyotes Diagonal Long Beach, CA 90808</td>
</tr>
<tr>
<td>Registrant Name</td>
<td>State or other jurisdiction of incorporation or organization</td>
<td>I.R.S. Employer Identification Number</td>
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<tr>
<td>Charter Behavioral Health System at Manatee Adolescent Treatment Services, Inc.</td>
<td>Florida</td>
<td>65-0519663</td>
<td>1324 37th Avenue, East Bradenton, FL 4208 (813) 746-1388</td>
</tr>
<tr>
<td>Charter Behavioral Health System at Potomac Ridge, Inc.</td>
<td>Maryland</td>
<td>52-1866221</td>
<td>14901 Broschart Road Rockville, MD 20850 (301) 251-4500</td>
</tr>
<tr>
<td>Charter Behavioral Health Systems, Inc.</td>
<td>Delaware</td>
<td>58-2213642</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Behavioral Health System of Athens, Inc.</td>
<td>Georgia</td>
<td>58-1513304</td>
<td>240 Mitchell Bridge Road Athens, GA 30606 (404) 546-7277</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Austin, Inc.</td>
<td>Texas</td>
<td>58-1440665</td>
<td>8402 Cross Park Drive Austin, TX 78754 (512) 837-1800</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Baywood, Inc.</td>
<td>Texas</td>
<td>76-0430571</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Behavioral Health System of Bradenton, Inc.</td>
<td>Florida</td>
<td>58-1527678</td>
<td>4480 51st Street, West Bradenton, FL 34210 (813) 746-1388</td>
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<tr>
<td>Charter Behavioral Health System of Central Georgia, Inc.</td>
<td>Georgia</td>
<td>58-1408670</td>
<td>3500 Riverside Drive Macon, GA 31210 (912) 474-6200</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Central Virginia, Inc.</td>
<td>Virginia</td>
<td>54-1765921</td>
<td>1500 Westbrook Avenue Richmond, VA 23227 (804) 266-9671</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Charleston, Inc.</td>
<td>South Carolina</td>
<td>58-1761157</td>
<td>2777 Speissegger Drive Charleston, SC 29405-8299 (803) 747-5830</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Charlottesville, Inc.</td>
<td>Virginia</td>
<td>58-1616917</td>
<td>2101 Arlington Boulevard Charlottesville, VA 22903-1593 (804) 977-1120</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Chicago, Inc.</td>
<td>Illinois</td>
<td>58-1315760</td>
<td>4700 North Clarendon Avenue Chicago, IL 60640 (312) 728-7100</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Chula Vista, Inc.</td>
<td>California</td>
<td>58-1473063</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Behavioral Health System of Columbia, Inc.</td>
<td>Missouri</td>
<td>61-1009977</td>
<td>200 Portland Street Columbia, MO 65201</td>
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<tr>
<td>Charter Behavioral Health System of Dallas, Inc.</td>
<td>Texas</td>
<td>58-1466906</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Dallas, TX 75214 (214) 928-5555</td>
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<tr>
<td>Charter Behavioral Health System of Fort Lauderdale, Inc.</td>
<td>Florida</td>
<td>65-0519663</td>
<td>1324 37th Avenue, East Bradenton, FL 4208 (813) 746-1388</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Houston, Inc.</td>
<td>Texas</td>
<td>58-1440665</td>
<td>8402 Cross Park Drive Austin, TX 78754 (512) 837-1800</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Jacksonville, Inc.</td>
<td>Florida</td>
<td>65-0519663</td>
<td>1324 37th Avenue, East Bradenton, FL 4208 (813) 746-1388</td>
</tr>
<tr>
<td>Charter Behavioral Health System of San Antonio, Inc.</td>
<td>Texas</td>
<td>58-1440665</td>
<td>8402 Cross Park Drive Austin, TX 78754 (512) 837-1800</td>
</tr>
<tr>
<td>Charter Behavioral Health System of St. Louis, Inc.</td>
<td>Missouri</td>
<td>61-1009977</td>
<td>200 Portland Street Columbia, MO 65201</td>
</tr>
</tbody>
</table>
Charter Behavioral Health System of Corpus Christi, Inc.       Texas                 58-1513305          3126 Rodd Field Road
                                          Corpus Christi, TX    78414
                                          (512) 993-8893
Charter Behavioral Health System of Dallas, Inc.            Texas                 58-1513306          6800 Preston Road
                                          Plano, TX 75024        (214) 964-3939
Charter Behavioral Health System of Delmarva, Inc.         Maryland               52-1866214          3680 Warwick Road, Route 1
                                          East New Market, MD   21631
                                          (410) 943-8108
Charter Behavioral Health System of Evansville, Inc.       Indiana               35-1916338          7200 East Indiana
                                          Evansville, IN 47715    (812) 476-7200
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          3531 Lakeland Drive
                                          Jackson, MS 39208       (601) 939-9030
Charter Behavioral Health System of Jacksonville, Inc.     Florida               58-1483015          3947 Salisbury Road
                                          Jacksonville, FL 32216    (904) 296-2447
Charter Behavioral Health System of Jefferson, Inc.        Indiana               35-1916342          2700 River City Park Drive
                                          Jeffersonville, IN 47130    (812) 284-3400
Charter Behavioral Health System of Kansas City, Inc.      Kansas                58-1603154          8000 West 127th Street
                                          Overland Park, KS 66213    (913) 897-4999
Charter Behavioral Health System of Lafayette, Inc.        Louisiana             72-0686492          302 Dulles Drive
                                          Lafayette, LA 70506       (318) 233-9024
Charter Behavioral Health System of Lake Charles, Inc.     Louisiana             62-1152811          4250 Fifth Avenue, South
                                          Lake Charles, LA 70605    (318) 474-6133
Charter Behavioral Health System of Michigan City, Inc.    Indiana               35-1916343          3714 S. Franklin Street
                                          Michigan City, IN 46360    (219) 872-0531
Charter Behavioral Health System of Mobile, Inc.           Alabama               58-1569921          3414 Peachtree Rd., N.E.
                                          Suite 1400 Atlanta, GA 30326    (404) 841-9200
Charter Behavioral Health System of Nashua, Inc.           New Hampshire          02-0470752          29 Northwest Boulevard
                                          Nashua, NH 03063       (603) 886-5000

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<td>2700 River City Park Drive Jeffersonville, IN 47130 (812) 284-3400</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Kansas City, Inc.</td>
<td>Kansas</td>
<td>58-1603154</td>
<td>8000 West 127th Street Overland Park, KS 66213 (913) 897-4999</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Lafayette, Inc.</td>
<td>Louisiana</td>
<td>72-0686492</td>
<td>302 Dulles Drive Lafayette, LA 70506 (318) 233-9024</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Lake Charles, Inc.</td>
<td>Louisiana</td>
<td>62-1152811</td>
<td>4250 Fifth Avenue, South Lake Charles, LA 70605 (318) 474-6133</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Michigan City, Inc.</td>
<td>Indiana</td>
<td>35-1916343</td>
<td>3714 S. Franklin Street Michigan City, IN 46360 (219) 872-0531</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Mobile, Inc.</td>
<td>Alabama</td>
<td>58-1569921</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Nashua, Inc.</td>
<td>New Hampshire</td>
<td>02-0470752</td>
<td>29 Northwest Boulevard Nashua, NH 03063 (603) 886-5000</td>
</tr>
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<tr>
<td>Charter Behavioral Health System of Puerto Rico, Inc.</td>
<td>Georgia</td>
<td>66-0523678</td>
<td>Caso Bldg., Suite 1504 1225 Ponce de Leon Avenue Santurce, PR 00907 (912) 354-3911</td>
</tr>
<tr>
<td>Charter Behavioral Health System of San Jose, Inc.</td>
<td>California</td>
<td>58-1747020</td>
<td>455 Silicon Valley Boulevard San Jose, CA 95138 (408) 224-2020</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Savannah, Inc.</td>
<td>Georgia</td>
<td>58-1750583</td>
<td>1150 Cornell Avenue Savannah, GA 31406 (912) 354-3911</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Texarkana, Inc.</td>
<td>Arkansas</td>
<td>71-0752815</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Behavioral Health System of the Inland Empire, Inc.</td>
<td>California</td>
<td>95-2685883</td>
<td>2055 Kellogg Drive Corona, CA 91719 (714) 735-2910</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Toledo, Inc.</td>
<td>Ohio</td>
<td>58-1731068</td>
<td>1725 Timberline Road Maumee, Ohio 43537 (419) 891-9333</td>
</tr>
<tr>
<td>Charter Behavioral Health System of Tucson, Inc.</td>
<td>Arizona</td>
<td>86-0757462</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<td>Charter Behavioral Health System of Visalia, Inc.</td>
<td>California</td>
<td>33-0606644</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<td>Charter Brawner Behavioral Health System, Inc.</td>
<td>Georgia</td>
<td>58-0979827</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter By-The-Sea Behavioral Health System, Inc.</td>
<td>Georgia</td>
<td>58-1351301</td>
<td>2927 Demere Road St. Simons Island, GA 31522 (912) 638-1999</td>
</tr>
<tr>
<td>Charter Canyon Behavioral Health System, Inc.</td>
<td>Utah</td>
<td>58-1557925</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Canyon Springs Behavioral Health System, Inc.</td>
<td>California</td>
<td>33-0606640</td>
<td>69696 Ramon Road Cathedral City, CA 92234 (619) 321-2000</td>
</tr>
<tr>
<td>Charter Centennial Peaks Behavioral Health System, Inc.</td>
<td>Colorado</td>
<td>58-1761037</td>
<td>2255 South 88th Street Louisville, CO 80027 (303) 673-9990</td>
</tr>
<tr>
<td>Charter Community Hospital, Inc.</td>
<td>California</td>
<td>58-1398708</td>
<td>21530 South Pioneer Boulevard Hawaiian Gardens, CA 90716 (310) 860-0401</td>
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<tr>
<td>Charter Contract Services, Inc.</td>
<td>Georgia</td>
<td>58-2100699</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Cove Forge Behavioral Health System, Inc.</td>
<td>Pennsylvania</td>
<td>25-1730464</td>
<td>New Beginnings Road Williamsburg, PA 16693 (814) 832-2121</td>
</tr>
<tr>
<td>Charter Fenwick Hall Behavioral Health System,</td>
<td>South Carolina</td>
<td>57-0995766</td>
<td>3414 Peachtree Rd., N.E. Suite 1400</td>
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<tr>
<td>Charter Forest Behavioral Health System, Inc.</td>
<td>Louisiana</td>
<td>58-1508454</td>
<td>9320 Linwood Avenue Shreveport, LA 71106 (318) 688-3930</td>
</tr>
<tr>
<td>Charter Grapevine Behavioral Health System, Inc.</td>
<td>Texas</td>
<td>58-1818492</td>
<td>2300 William D. Tate Ave. Grapevine, TX 76051 (817) 481-1900</td>
</tr>
<tr>
<td>Charter Greensboro Behavioral Health System, Inc.</td>
<td>North Carolina</td>
<td>58-1335184</td>
<td>700 Walter Reed Drive Greensboro, NC 27403 (919) 852-4821</td>
</tr>
<tr>
<td>Charter Hospital of Columbus, Inc.</td>
<td>Ohio</td>
<td>58-1598899</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Hospital of Denver, Inc</td>
<td>Colorado</td>
<td>58-1662413</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
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<td>Charter Hospital of Ft. Collins, Inc.</td>
<td>Colorado</td>
<td>58-1768534</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Hospital of Laredo, Inc.</td>
<td>Texas</td>
<td>58-1491620</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Hospital of Miami, Inc.</td>
<td>Florida</td>
<td>61-1061599</td>
<td>11100 N.W. 27th Street Miami, FL 33172 (305) 591-3230</td>
</tr>
<tr>
<td>Charter Hospital of Mobile, Inc.</td>
<td>Alabama</td>
<td>58-1318870</td>
<td>5800 Southland Drive Mobile, AL 36693 (334) 661-5001</td>
</tr>
<tr>
<td>Charter Hospital of Santa Teresa, Inc.</td>
<td>New Mexico</td>
<td>58-1594861</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Hospital of St. Louis, Missouri</td>
<td>New Mexico</td>
<td>58-1583760</td>
<td>3414 Peachtree Rd., N.E.</td>
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<tr>
<td>Charter Hospital of Torrance, Inc.</td>
<td>California</td>
<td>58-1402481</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Indianapolis Behavioral Health System, Inc.</td>
<td>Indiana</td>
<td>58-1674291</td>
<td>5602 Caito Drive Indianapolis, IN 46226 (317) 545-2111</td>
</tr>
<tr>
<td>Charter Lafayette Behavioral Health System, Inc.</td>
<td>Indiana</td>
<td>58-1603158</td>
<td>3700 Rome Drive Lafayette, IN 47905 (317) 448-6999</td>
</tr>
<tr>
<td>Charter Lakehurst Behavioral Health System, Inc.</td>
<td>New Jersey</td>
<td>22-3286879</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Lakeside Behavioral Health System, Inc.</td>
<td>Tennessee</td>
<td>62-0892645</td>
<td>2911 Brunswick Road Memphis, TN 38134 (901) 377-4700</td>
</tr>
<tr>
<td>Charter Laurel Heights Behavioral Health System, Inc.</td>
<td>Georgia</td>
<td>58-1558212</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Linden Oaks Behavioral Health System, Inc.</td>
<td>Illinois</td>
<td>36-3943776</td>
<td>852 West Street Naperville, IL 60540 (708) 305-5500</td>
</tr>
<tr>
<td>Charter Little Rock Behavioral Health System, Inc.</td>
<td>Arkansas</td>
<td>58-1747019</td>
<td>1601 Murphy Drive Maumelle, AR 72113 (501) 851-6700</td>
</tr>
<tr>
<td>Charter Louisville Behavioral Health System, Inc.</td>
<td>Kentucky</td>
<td>58-1517503</td>
<td>1405 Browns Lane Louisville, KY 40207 (502) 896-0495</td>
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<tr>
<td>Charter Meadows Behavioral Health System, Inc.</td>
<td>Maryland</td>
<td>52-1866216</td>
<td>730 Maryland, Route 3 Gambrills, MD 21054 (410) 923-6022</td>
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<tr>
<td>Charter Medical - California, Inc.</td>
<td>Georgia</td>
<td>58-1357345</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Exact name of registrant as specified in its charter</td>
<td>State or other jurisdiction of incorporation or organization</td>
<td>I.R.S. Employer Identification Number</td>
<td>Address including zip code, and telephone number</td>
</tr>
<tr>
<td>------------------------------------------------------</td>
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<td>--------------------------------------</td>
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<tr>
<td>Charter Medical - Clayton County, Inc.</td>
<td>Georgia</td>
<td>58-1579404</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Medical - Cleveland, Inc.</td>
<td>Texas</td>
<td>58-1448733</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Medical - Dallas, Inc.</td>
<td>Texas</td>
<td>58-1379846</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Medical - Long Beach, Inc.</td>
<td>California</td>
<td>58-1366604</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Medical (Cayman Islands) Ltd.</td>
<td>Cayman Islands, BWI</td>
<td>58-1841857</td>
<td>Caledonian Bank &amp; Trust Swiss Bank Building, Caledonian House, Georgetown-Grand Cayman, Cayman Islands (809) 949-0050</td>
</tr>
<tr>
<td>Charter Medical Executive Corporation</td>
<td>Georgia</td>
<td>58-1538092</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Medical Information Services, Inc.</td>
<td>Georgia</td>
<td>58-1530236</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Medical International, Inc</td>
<td>Cayman Islands, BWI</td>
<td>N/A</td>
<td>Caledonian Bank &amp; Trust Swiss Bank Building, Caledonian House, Georgetown-Grand Cayman, Cayman Islands (809) 949-0050</td>
</tr>
<tr>
<td>Exact name of registrant as specified in its charter</td>
<td>Jurisdiction of incorporation or organization</td>
<td>I.R.S. Employer Identification Number</td>
<td>Address including area code, and telephone number of registrant’s principal executive offices</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
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<td>---------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Charter Medical Management Company</td>
<td>Georgia</td>
<td>58-1195352</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Medical of East Valley, Inc.</td>
<td>Arizona</td>
<td>58-1643158</td>
<td>2190 N. Grace Boulevard, Chandler, AZ 85224 (602) 899-8999</td>
</tr>
<tr>
<td>Charter Medical of England, Ltd.</td>
<td>United Kingdom</td>
<td>N/A</td>
<td>111 Kings Road, Box 323, London SW3 4PB, London, England 44-71-351-1272</td>
</tr>
<tr>
<td>Charter Medical of Florida, Inc.</td>
<td>Florida</td>
<td>58-2100703</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
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<tr>
<td>Charter Medical of North Phoenix, Inc.</td>
<td>Arizona</td>
<td>58-1643154</td>
<td>6015 W. Peoria Avenue, Glendale, AZ 85302 (602) 878-7878</td>
</tr>
<tr>
<td>Charter Medical of Puerto Rico, Inc.</td>
<td>Commonwealth of Puerto Rico</td>
<td>58-1208667</td>
<td>Caso Building, Suite 1504, 1225 Ponce De Leon Avenue, Santurce, P.R. 00907 (809) 723-6666</td>
</tr>
<tr>
<td>Charter Mental Health Options, Inc.</td>
<td>Florida</td>
<td>58-2100704</td>
<td>3414 Peachtree Rd., N.E. Suite 1400, Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Charter Milwaukee Behavioral Health System, Inc.</td>
<td>Wisconsin</td>
<td>58-1790135</td>
<td>11101 West Lincoln Avenue, West Allis, WI 53227 (414) 327-3000</td>
</tr>
<tr>
<td>Charter MOB of Charlottesville, Inc.</td>
<td>Virginia</td>
<td>58-1761158</td>
<td>1023 Millmont Avenue, Charlottesville, VA 22901 (804) 977-1120</td>
</tr>
<tr>
<td>Charter North Behavioral Health System, Inc.</td>
<td>Alaska</td>
<td>58-1474550</td>
<td>2530 DeBarr Road, Anchorage, AK 99508-2996 (907) 258-7575</td>
</tr>
<tr>
<td>Charter Northbrooke Behavioral Health System, Inc.</td>
<td>Wisconsin</td>
<td>39-1784461</td>
<td>46000 W. Shroeder Drive, Brown Deer, WI 53223 (414) 355-2273</td>
</tr>
</tbody>
</table>

ADDITIONAL REGISTRANTS(1)

<table>
<thead>
<tr>
<th>Exact name of registrant as specified in its charter</th>
<th>Jurisdiction of incorporation or organization</th>
<th>I.R.S. Employer Identification Number</th>
<th>Address including area code, and telephone number of registrant’s principal executive offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>State or other jurisdiction of incorporation</td>
<td>I.R.S. Employer Identification Number</td>
<td>Address including zip code, and telephone number of registrant's principal executive offices</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-------------------------------------------</td>
<td>---------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Charter North Counseling Center, Inc.      | Alaska                                    | 58-2067832                            | 2530 DeBarr Road
Anchorage, AL 99508-2996 (907) 258-7575                                              |
| Charter Northridge Behavioral Health System, Inc. | North Carolina                            | 58-1463919                           | 400 Newton Road
Raleigh, NC 27615 (919) 847-0008                                                       |
| Charter Oak Behavioral Health System, Inc.  | California                                 | 58-1334120                           | 1161 East Covina Boulevard
Covina, CA 91724 (818) 966-1632                                                         |
| Charter of Alabama, Inc.                   | Alabama                                    | 63-0649546                           | 3414 Peachtree Rd., N.E. Suite 1400
Atlanta, GA 30326 (404) 841-9200                                                        |
| Charter Palms Behavioral Health System, Inc. | Texas                                     | 58-1416537                           | 1421 E. Jackson Avenue
McAllen, TX 78502 (512) 631-5421                                                        |
| Charter Peachford Behavioral Health System, Inc. | Georgia                                   | 58-1086165                           | 2151 Peachford Road
Atlanta, GA 30338 (404) 455-3200                                                       |
Atlanta, GA 30326 (404) 841-9200                                                       |
| Charter Pines Behavioral Health System, Inc. | North Carolina                            | 58-1462214                           | 3621 Randolph Road
Charlotte, NC 28211 (704) 365-5368                                                   |
| Charter Plains Behavioral Health System, Inc. | Texas                                     | 58-1462211                           | 801 N. Quaker Avenue
Lubbock, TX 79408 (806) 744-5505                                                       |
Provo, UT 84604 (801) 227-2000                                                        |
| Charter Real Behavioral Health System, Inc. | Texas                                     | 58-1485897                           | 8550 Huebner Road
San Antonio, TX 78240 (512) 699-8585                                                  |
| Charter Regional Medical Center, Inc.       | Texas                                     | 74-1299623                           | 3414 Peachtree Rd., N.E.
Suite 1400
Atlanta, GA 30326 (404) 841-9200                                                       |
| Charter Ridge Behavioral Health System, Inc. | Kentucky                                  | 58-1393063                           | 3050 Rio Dosa Drive
Lexington, KY 40509 (606) 269-2325                                                   |

**ADDITIONAL REGISTRANTS(1)**

<table>
<thead>
<tr>
<th>Name</th>
<th>State or other jurisdiction of incorporation</th>
<th>I.R.S. Employer Identification Number</th>
<th>Address including zip code, and telephone number of registrant's principal executive offices</th>
</tr>
</thead>
</table>
| Charter Rivers Behavioral Health System, Inc. | South Carolina                           | 58-1408623                           | 2900 Sunset Boulevard
West Columbia, SC 29169 (803) 796-9911                                                |
<p>| Charter San Diego Behavioral Health System, Inc. | California                             | 58-1669160                           | 11878 Avenue of Industry                                                                |</p>
<table>
<thead>
<tr>
<th>Name</th>
<th>State</th>
<th>I.R.S. Employer Identification Number</th>
<th>Address including zip code, and telephone number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charter Sioux Falls Behavioral Health System, Inc.</td>
<td>South Dakota</td>
<td>58-1674278</td>
<td>2812 South Louise Avenue, Sioux Falls, SD 57106</td>
</tr>
<tr>
<td>Charter South Bend Behavioral Health System, Inc.</td>
<td>Indiana</td>
<td>58-1674287</td>
<td>6704 N. Gumwood Drive, Granger, IN 46530</td>
</tr>
<tr>
<td>Charter Springs Behavioral Health System, Inc.</td>
<td>Florida</td>
<td>58-1517461</td>
<td>3130 S.W. 27th Avenue, Ocala, FL 32674</td>
</tr>
<tr>
<td>Charter Springwood Behavioral Health System, Inc.</td>
<td>Virginia</td>
<td>58-2097829</td>
<td>Route 4, Box 50, Leesburg, VA 22075</td>
</tr>
<tr>
<td>Charter Suburban Hospital of Mesquite, Inc.</td>
<td>Texas</td>
<td>75-1161721</td>
<td>3414 Peachtree Rd., N.E. Suite 1400</td>
</tr>
<tr>
<td>Charter Terre Haute Behavioral Health System, Inc.</td>
<td>Indiana</td>
<td>58-1674293</td>
<td>1400 Crossing Boulevard, Terre Haute, IN 47802</td>
</tr>
<tr>
<td>Charter Treatment Center of Michigan, Inc.</td>
<td>Michigan</td>
<td>58-2025057</td>
<td>3414 Peachtree Rd., N.E. Suite 1400</td>
</tr>
<tr>
<td>Charter Westbrook Behavioral Health System, Inc.</td>
<td>Virginia</td>
<td>54-0858777</td>
<td>1500 Westbrook Avenue, Richmond, VA 23227</td>
</tr>
<tr>
<td>Charter White Oak Behavioral Health System, Inc.</td>
<td>Maryland</td>
<td>52-1866223</td>
<td>1441 Taylors Island Road, Woolford, MD 21677</td>
</tr>
</tbody>
</table>

**ADDITIONAL REGISTRANTS (1)**

<table>
<thead>
<tr>
<th>Name</th>
<th>State</th>
<th>I.R.S. Employer Identification Number</th>
<th>Address including zip code, and telephone number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charter Woods Behavioral Health System, Inc.</td>
<td>Alabama</td>
<td>58-1330526</td>
<td>700 Cottonwood Road, Dothan, AL 36301</td>
</tr>
<tr>
<td>Desert Springs Hospital, Inc.</td>
<td>Nevada</td>
<td>88-0117696</td>
<td>414 Peachtree Rd., N.E. Suite 1400</td>
</tr>
<tr>
<td>Employee Assistance Services, Inc.</td>
<td>Georgia</td>
<td>58-1501282</td>
<td>3414 Peachtree Rd., N.E. Suite 1400</td>
</tr>
<tr>
<td>Exact name of registrant as specified in its charter</td>
<td>State or other jurisdiction of incorporation or organization</td>
<td>I.R.S. Employer Identification Number</td>
<td>Address including zip code, and telephone number including area code, of registrant's principal executive offices</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>---------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Florida Health Facilities, Inc.</td>
<td>Florida</td>
<td>58-1860493</td>
<td>21808 State Road 54 Lutz, FL 33549 (813) 948-2441</td>
</tr>
<tr>
<td>Gulf Coast EAP Services, Inc.</td>
<td>Alabama</td>
<td>58-2101394</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Hospital Investors, Inc.</td>
<td>Georgia</td>
<td>58-1182191</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Illinois Mentor, Inc.</td>
<td>Illinois</td>
<td>36-3643670</td>
<td>45 Milk Street Boston, MA 02109 (617) 654-0500</td>
</tr>
<tr>
<td>Magellan Public Solutions, Inc.</td>
<td>Delaware</td>
<td>04-3250732</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Mandarin Meadows, Inc.</td>
<td>Florida</td>
<td>58-1761155</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
<tr>
<td>Massachusetts Mentor, Inc.</td>
<td>Massachusetts</td>
<td>04-2799071</td>
<td>45 Milk Street Boston, MA 02109 (617) 654-0500</td>
</tr>
<tr>
<td>National Mentor, Inc.</td>
<td>Delaware</td>
<td>04-2794857</td>
<td>45 Milk Street Boston, MA 02109 (617) 654-0500</td>
</tr>
<tr>
<td>National Mentor Healthcare, Inc.</td>
<td>Massachusetts</td>
<td>04-2893910</td>
<td>45 Milk Street Boston, MA 02109 (617) 654-0500</td>
</tr>
<tr>
<td>NEPA - Massachusetts, Inc.</td>
<td>Massachusetts</td>
<td>58-2116751</td>
<td>#6 Courthouse Lane Chelmsford, MA 01863 (508) 441-2332</td>
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<tr>
<td>NEPA - New Hampshire, Inc.</td>
<td>New Hampshire</td>
<td>58-2116398</td>
<td>29 Northwest Boulevard Nashua, NH 03063 (603) 886-5000</td>
</tr>
<tr>
<td>Ohio Mentor, Inc.</td>
<td>Ohio</td>
<td>31-1098345</td>
<td>45 Milk Street Boston, MA 02109 (617) 654-0500</td>
</tr>
<tr>
<td>Pacific-Charter Medical, Inc.</td>
<td>California</td>
<td>58-1336537</td>
<td>3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200</td>
</tr>
</tbody>
</table>
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.

xiv
## PART I - FINANCIAL INFORMATION

### MAGELLAN HEALTH SERVICES, INC.

#### QUARTERLY REPORT UNDER SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

#### CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>September 30 1995</th>
<th>December 31 1995</th>
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</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
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<tr>
<td>Current Assets</td>
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<td>Cash and cash equivalents</td>
<td>$105,514</td>
<td>$103,483</td>
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<tr>
<td>Accounts receivable, net</td>
<td>181,163</td>
<td>210,738</td>
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<tr>
<td>Supplies</td>
<td>5,768</td>
<td>5,962</td>
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<td>Other current assets</td>
<td>13,130</td>
<td>15,079</td>
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<td>Total Current Assets</td>
<td>305,575</td>
<td>335,262</td>
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<tr>
<td>Property and Equipment</td>
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<tr>
<td>Land</td>
<td>88,019</td>
<td>88,000</td>
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<tr>
<td>Buildings and improvements</td>
<td>377,169</td>
<td>387,133</td>
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<tr>
<td>Equipment</td>
<td>111,554</td>
<td>123,962</td>
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<tr>
<td>Accumulated depreciation</td>
<td>(90,877)</td>
<td>(100,240)</td>
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<tr>
<td>Construction in progress</td>
<td>2,902</td>
<td>5,181</td>
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<tr>
<td>Assets Restricted for Settlement of Unpaid Claims</td>
<td>94,138</td>
<td>97,752</td>
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<td>Other Long-Term Assets</td>
<td>33,249</td>
<td>32,956</td>
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<tr>
<td>Intangible Assets, net</td>
<td>61,829</td>
<td>176,209</td>
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<tr>
<td>Total Assets</td>
<td>$983,558</td>
<td>$1,146,215</td>
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<tr>
<td></td>
<td>September 30</td>
<td>December 31</td>
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<tr>
<td></td>
<td>1995</td>
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<tr>
<td><strong>LIABILITIES AND STOCKHOLDERS' EQUITY</strong></td>
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<td>Current Liabilities</td>
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<tr>
<td>Accounts payable</td>
<td>$71,020</td>
<td>$76,084</td>
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<td>Accrued liabilities</td>
<td>$140,343</td>
<td>$164,468</td>
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<tr>
<td>Current maturities of long-term debt and capital lease obligations</td>
<td>$2,799</td>
<td>$5,827</td>
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<tr>
<td>Total Current Liabilities</td>
<td>$214,162</td>
<td>$246,379</td>
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<tr>
<td>Long-Term Debt and Capital Lease Obligations</td>
<td>$538,770</td>
<td>$615,294</td>
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<tr>
<td>Reserve for Unpaid Claims</td>
<td>$100,125</td>
<td>$98,435</td>
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<tr>
<td>Deferred Credits and Other Long-Term Liabilities</td>
<td>$34,455</td>
<td>$33,144</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>$7,486</td>
<td>$48,783</td>
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<tr>
<td>Stockholders' Equity</td>
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<tr>
<td>Common Stock, par value $0.25 per share</td>
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<td></td>
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<tr>
<td>Authorized - 80,000 shares</td>
<td></td>
<td></td>
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<tr>
<td>Issued and outstanding - 28,405 shares at September 30, 1995 and 28,664 shares at December 31, 1995</td>
<td>$7,101</td>
<td>$7,166</td>
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<tr>
<td>Other Stockholders' Equity</td>
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<tr>
<td>Additional paid-in capital</td>
<td>$253,295</td>
<td>$253,370</td>
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<tr>
<td>Accumulated deficit</td>
<td>$(161,840)</td>
<td>$(152,092)</td>
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<tr>
<td>Warrants outstanding</td>
<td>64</td>
<td>64</td>
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<tr>
<td>Common Stock in Treasury, 462 at September 30, 1995 and December 31, 1995</td>
<td>$(9,238)</td>
<td>$(9,238)</td>
</tr>
<tr>
<td>Cumulative foreign currency adjustments</td>
<td>$(822)</td>
<td>$(1,090)</td>
</tr>
<tr>
<td>Stockholders' Equity</td>
<td>$88,560</td>
<td>$104,180</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$983,558</td>
<td>$1,146,215</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flows from Operating Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>349</td>
<td>9,748</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For the Three Months ended</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ended December 31</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>1995</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Adjustments to reconcile net income to net cash provided by operating activities:

<table>
<thead>
<tr>
<th>Item</th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortization</td>
<td>16,157</td>
<td>10,180</td>
</tr>
<tr>
<td>ESOP expense</td>
<td>12,500</td>
<td>--</td>
</tr>
<tr>
<td>Stock option expense (credit)</td>
<td>(2,361)</td>
<td>1,823</td>
</tr>
<tr>
<td>Non-cash interest expense</td>
<td></td>
<td>600</td>
</tr>
<tr>
<td>Gain on sale of assets</td>
<td>(2,960)</td>
<td>(139)</td>
</tr>
</tbody>
</table>

Cash flows from changes in assets and liabilities, net of effects from sales and acquisitions of businesses:

<table>
<thead>
<tr>
<th>Item</th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable, net</td>
<td>(5,373)</td>
<td>(5,595)</td>
</tr>
<tr>
<td>Other assets</td>
<td>(14,748)</td>
<td>(2,443)</td>
</tr>
<tr>
<td>Reserve for unpaid claims</td>
<td>2,767</td>
<td>(1,690)</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>4,719</td>
<td>6,196</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(15,338)</td>
<td>(1,311)</td>
</tr>
<tr>
<td>Minority interest, net of dividends paid</td>
<td>(91)</td>
<td>1,163</td>
</tr>
<tr>
<td>Other</td>
<td>(91)</td>
<td>168</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>(18,268)</td>
<td>(24,650)</td>
</tr>
</tbody>
</table>

Net cash used in operating activities...

<table>
<thead>
<tr>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>(17,919)</td>
<td>(14,902)</td>
</tr>
</tbody>
</table>

Cash Flows From Investing Activities:

<table>
<thead>
<tr>
<th>Item</th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures</td>
<td>(4,304)</td>
<td>(4,368)</td>
</tr>
<tr>
<td>Acquisitions of businesses, net of cash acquired</td>
<td>(44,836)</td>
<td>(47,327)</td>
</tr>
<tr>
<td>Increase in assets restricted for settlement of unpaid claims</td>
<td>(9,908)</td>
<td>(3,614)</td>
</tr>
<tr>
<td>Proceeds from sale of assets</td>
<td>5,586</td>
<td>503</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>(53,353)</td>
<td>(54,806)</td>
</tr>
</tbody>
</table>

Net cash used in investing activities...

<table>
<thead>
<tr>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>(53,353)</td>
<td>(54,806)</td>
</tr>
</tbody>
</table>

Cash Flows From Financing Activities:

<table>
<thead>
<tr>
<th>Item</th>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from issuance of debt</td>
<td>28,009</td>
<td>68,125</td>
</tr>
<tr>
<td>Payments on debt and capital lease obligations</td>
<td>(433)</td>
<td>(448)</td>
</tr>
<tr>
<td>Proceeds from exercise of stock options and warrants</td>
<td>129</td>
<td>--</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>27,705</td>
<td>67,677</td>
</tr>
</tbody>
</table>

Net decrease in cash and cash equivalents...

<table>
<thead>
<tr>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>(43,567)</td>
<td>(2,031)</td>
</tr>
</tbody>
</table>

Cash and cash equivalents at beginning of period...

<table>
<thead>
<tr>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>129,603</td>
<td>105,514</td>
</tr>
</tbody>
</table>

Cash and cash equivalents at end of period...

<table>
<thead>
<tr>
<th>1995</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>86,036</td>
<td>103,483</td>
</tr>
</tbody>
</table>

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

5

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1995
(Unaudited)

NOTE A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required...
by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 1995, included in the Company's Annual Report on Form 10-K. Certain reclassifications have been made to fiscal 1995 amounts to conform to fiscal 1996 presentation.

NOTE B - Nature of Business

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

NOTE C - Supplemental Cash Flow Information

Below is supplemental cash flow information related to the three months ended December 31, 1994 and 1995:

<table>
<thead>
<tr>
<th>For the Three Months ended</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(In thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes paid, net of refunds received</td>
<td>$698</td>
<td>$700</td>
</tr>
<tr>
<td>Interest paid, net of amounts capitalized</td>
<td>22,601</td>
<td>23,498</td>
</tr>
<tr>
<td>Notes payable assumed in connection with acquisitions of businesses</td>
<td>947</td>
<td>12,000</td>
</tr>
</tbody>
</table>

NOTE D - Long-Term Debt and Leases

Information with regard to the Company's long-term debt and capital lease obligations at September 30, 1995 and December 31, 1995 follows:

<table>
<thead>
<tr>
<th>September 30, 1995</th>
<th>December 31, 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In thousands)</td>
<td></td>
</tr>
<tr>
<td>Revolving Credit Agreement due through 1999</td>
<td>$80,593</td>
</tr>
<tr>
<td>11.25% Senior Subordinated Notes due 2004</td>
<td>375,000</td>
</tr>
<tr>
<td>6.813% to 10.75% Mortgage and other notes payable through 1999</td>
<td>5,268</td>
</tr>
<tr>
<td>Variable rate secured notes due through 2013 (5.0% to 5.5% at December 31, 1995)</td>
<td>62,025</td>
</tr>
<tr>
<td>7.5% Swiss Bonds</td>
<td>6,443</td>
</tr>
<tr>
<td>5.3% to 12.5% Capital lease obligations due through 2014</td>
<td>12,617</td>
</tr>
<tr>
<td>Less amounts due within one year</td>
<td>$541,846</td>
</tr>
<tr>
<td>Less debt service funds</td>
<td>2,799</td>
</tr>
<tr>
<td></td>
<td>377</td>
</tr>
<tr>
<td></td>
<td>$538,770</td>
</tr>
</tbody>
</table>

NOTE E - Accrued Liabilities

Accrued liabilities consist of the following (in thousands):
NOTE F - Acquisition

On December 13, 1995, the Company acquired a 51% ownership interest in Green Spring Health Services, Inc. ("Green Spring") for approximately $73.2 million in cash and Common Stock and the contribution of Group Practice Affiliates, Inc. ("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, which is defined as hereinafter defined, for a portion of the stockholder's interest in Green Spring. The Company had a 61% ownership interest in Green Spring as of December 31, 1995. Green Spring provides managed behavioral healthcare services, which includes utilization management, care management and employee assistance programs through a 50-state provider network for approximately 12 million people nationwide.

The minority shareholders 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 will continue as customers of Green Spring. As of December 31, 1995, the minority stockholders of Green Spring have the option, under certain circumstances, to exchange their ownership interests ("Exchange Option") in Green Spring for approximately 2.8 million 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.

The Company recorded the investments in Green Spring using the purchase method of accounting. Green Spring's results of operations have been included in the condensed consolidated financial statements since the acquisition date, less minority interest.

The cost of the investments in Green Spring have been preliminarily allocated to the estimated fair value of assets acquired and liabilities assumed to the extent acquired by the Company. The remaining portion of Green Spring's assets and liabilities were recorded at the historical cost basis of the minority stockholders. The preliminary purchase price allocation for the investments in Green Spring and the historical cost basis of the minority stockholders of Green Spring, in aggregate, resulted in goodwill and identifiable intangible assets of approximately $111 million. This amount will be allocated among goodwill and identifiable intangible assets when the necessary appraisals have been completed.

NOTE G - Facility Closures

Severance and related benefits paid and charged against the liability recorded at September 30, 1995 for the cost of facility closures was approximately $656,000 for the quarter ended December 31, 1995. Other exit costs paid and charged against the resulting liability were approximately $305,000 for
the quarter ended December 31, 1995.

NOTE H - Unusual Item

In December 1994, the Company recorded an unusual item of approximately $3.0 million which represented the pre-tax gain on the sale of three psychiatric hospitals.

NOTE I - Contingencies

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

In addition to general and professional liability claims, the Company is subject to other claims, suits, surveys and investigations. In the opinion of management, the ultimate resolution of such other pending legal proceedings will not have a material adverse effect on the Company's financial position or results of operations.

In January 1996, the Company settled an ongoing dispute with the Resolution Trust Corporation ("RTC"), for itself or in its capacity as conservator or receiver for 12 financial institutions, which formerly held certain debt securities that were issued by the Company in 1988. In connection with the settlement, the Company, denying any liability or fault, paid $2.7 million to the RTC in exchange for a release of all claims.

NOTE H - Guarantor Condensed Consolidating Financial Statements

MAGELLAN HEALTH SERVICES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(In thousands, except per share amounts)

December 31, 1995

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Guarantor Subsidiaries</th>
<th>Nonguarantor Subsidiaries</th>
<th>Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$40,989</td>
<td>$53,086</td>
<td>$9,428</td>
</tr>
<tr>
<td>Accounts receivable net</td>
<td>171,337</td>
<td>39,553</td>
<td>(152)</td>
</tr>
<tr>
<td>Supplies</td>
<td>5,148</td>
<td>407</td>
<td>407</td>
</tr>
<tr>
<td>Other current assets</td>
<td>9,730</td>
<td>36</td>
<td>13,917</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>226,204</td>
<td>93,062</td>
<td>23,600</td>
</tr>
<tr>
<td>Property and Equipment</td>
<td>79,012</td>
<td>7,974</td>
<td>1,014</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>366,990</td>
<td>35,071</td>
<td>5,072</td>
</tr>
<tr>
<td>Equipment</td>
<td>102,984</td>
<td>17,672</td>
<td>5,706</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(92,650)</td>
<td>(4,400)</td>
<td>(3,190)</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>3,736</td>
<td>1,430</td>
<td>15</td>
</tr>
<tr>
<td>Total Property and Equipment</td>
<td>439,672</td>
<td>57,747</td>
<td>19,299</td>
</tr>
<tr>
<td>Assets restricted for settlement of unpaid claims</td>
<td>49,950</td>
<td>9,274</td>
<td>15,299</td>
</tr>
<tr>
<td>Other Long-Term Assets [1]</td>
<td>161,008</td>
<td>9,274</td>
<td>1,185,501</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$826,884</td>
<td>$242,536</td>
<td>$1,231,017</td>
</tr>
</tbody>
</table>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities | $46,335 | $23,600 | $8,130 |
| Accounts payable | 54,887 | 47,438 | 60,456 |
| Current maturities of long-term debt and capital lease obligations | 2,699 | 3,128 | |
| Total Current Liabilities | 101,925 | 74,181 | 68,586 |
| Reserve for Unpaid Claims | -- | 84,153 | 21,886 |
| Deferred Credits and Other Long-Term Liabilities [3] | 481,194 | 8,925 | 68,746 |
| Minority Interest | -- | -- | |
| Commitments and Contingencies | |
| Stockholders' Equity | |
| Common Stock, par value $0.25 per share; Authorized - 80,000 shares | 2,765 | 836 | 7,166 |
| Issued and outstanding - 28,046 shares | |
| Other Stockholders' Equity | 612,131 | 30,455 | 259,370 |
| Additional paid-in capital | (4,351) | 33,490 | (152,092) |
| Retained earnings (Accumulated deficit) | |

---

[1] Including the Corporation's share of the Reserve for Unpaid Claims of $21,886.
The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these statements.
### Construction in progress

<table>
<thead>
<tr>
<th></th>
<th>2,650</th>
<th>251</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>449,160</td>
<td>30,651</td>
<td>8,956</td>
</tr>
</tbody>
</table>

### Assets restricted for settlement of unpaid claims

<table>
<thead>
<tr>
<th></th>
<th>78,188</th>
<th>15,950</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>152,898</td>
<td>16,398</td>
</tr>
<tr>
<td>Other Intangible Assets, net</td>
<td>29,498</td>
<td>11,811</td>
</tr>
</tbody>
</table>

### Cumulative foreign currency adjustments

<table>
<thead>
<tr>
<th></th>
<th>$ (1,140,256)</th>
<th>$ 983,558</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 855,215</td>
<td>$ 158,561</td>
</tr>
</tbody>
</table>

### LIABILITIES AND STOCKHOLDERS’ EQUITY

#### Current Liabilities

<table>
<thead>
<tr>
<th>Accounts payable</th>
<th>$ 50,510</th>
<th>$ 8,424</th>
<th>$ 12,086</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued liabilities and income tax payable</td>
<td>67,646</td>
<td>4,156</td>
<td>68,541</td>
</tr>
<tr>
<td>Current maturities of long-term debt and capital lease obligations</td>
<td>2,650</td>
<td>126</td>
<td>--</td>
</tr>
</tbody>
</table>

**Total Current Liabilities** | $120,829 | $12,706 | $80,627 |

#### Long-Term Debt and Capital Lease Obligations

|                     | (564,312) | 5,271 | 877,811 |

#### Reserve for Unpaid Claims

|                     | -- | 89,207 | 25,702 |

#### Deferred Credits and Other Long-Term Liabilities

|                     | 512,426 | 476 | 37,338 |

#### Minority Interest

|                     | -- | -- | -- |

#### Commitments and Contingencies

| Stockholders’ Equity |                     |                     |                     |

#### Common Stock, par value $0.25 per share; Authorized - 80,000 shares

|                     | 2,765 | 837 | 7,101 |

#### Other Stockholders’ Equity

<table>
<thead>
<tr>
<th>Additional paid-in capital</th>
<th>612,131</th>
<th>30,945</th>
<th>255,293</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warrants outstanding</td>
<td>--</td>
<td>--</td>
<td>64</td>
</tr>
</tbody>
</table>

**Common stock in Treasury** | -- | -- | -- |

**462 shares** | -- | (4,736) | (9,238) |

### Cumulative foreign currency adjustments

|                     | (833) | 1,744 | -- |

#### Cost of Construction

|                     | 566,272 | 50,901 | 88,560 |

**Total** | $855,215 | $158,561 | $1,110,038 |

---

### ASSETS

#### Current Assets

<table>
<thead>
<tr>
<th>Cash and cash equivalents</th>
<th>$ --</th>
<th>$ 105,514</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable, net</td>
<td>--</td>
<td>181,163</td>
</tr>
<tr>
<td>Supplies, net</td>
<td>--</td>
<td>5,768</td>
</tr>
<tr>
<td>Other current assets, net</td>
<td>(14,784)</td>
<td>13,130</td>
</tr>
</tbody>
</table>

**Total Current Assets** | (14,784) | 305,575 |

#### Property and Equipment

| Land, net | -- | 88,019 |
| Buildings and improvements | -- | 377,169 |
| Equipment, net | -- | 111,554 |
| Accumulated depreciation | -- | 111,554 |
| Construction in progress | -- | 2,902 |

**Assets restricted for settlement of unpaid claims** | -- | 488,742 |

### Other Intangible Assets

<table>
<thead>
<tr>
<th>Other Intangible Assets, net</th>
<th>(1,125,472)</th>
<th>33,249</th>
</tr>
</thead>
</table>

**Total** | $ (1,140,256) | $ 983,558 |

### LIABILITIES AND STOCKHOLDERS’ EQUITY

#### Current Liabilities

<table>
<thead>
<tr>
<th>Accounts payable</th>
<th>$ --</th>
<th>$ 71,020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued liabilities and income tax payable</td>
<td>--</td>
<td>140,363</td>
</tr>
<tr>
<td>Current maturities of long-term debt and capital lease obligations</td>
<td>--</td>
<td>2,799</td>
</tr>
</tbody>
</table>

**Total Current Liabilities** | -- | 214,162 |

#### Long-Term Debt and Capital Lease Obligations

| Reserve for Unpaid Claims | (14,784) | 101,125 |

#### Deferred Credits and Other Long-Term Liabilities

| Deferred Credits and Other Long-Term Liabilities (1) | (515,785) | 34,455 |
| Minority Interest | 7,486 | 7,486 |

#### Commitments and Contingencies

| Stockholders’ Equity |                     |                     |                     |

#### Common Stock, par value $0.25 per share; Authorized - 80,000 shares

|                     | (3,602) | 7,101 |

#### Other Stockholders’ Equity

<table>
<thead>
<tr>
<th>Additional paid-in capital</th>
<th>(642,586)</th>
<th>253,295</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warrants outstanding</td>
<td>--</td>
<td>64</td>
</tr>
</tbody>
</table>

**Common stock in Treasury** | -- | 2,765 |

**462 shares** | -- | (4,736) | (9,238) |

---

(1) Elimination entry related to intercompany receivables and payables and investment in consolidated subsidiaries.
MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)
For the Three Months Ended December 31, 1994

Parent

<table>
<thead>
<tr>
<th>Guarantor Subsidiaries</th>
<th>Nonguarantor Subsidiaries</th>
<th>Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net revenue.</td>
<td>$ 255,986</td>
<td>$ 14,044</td>
</tr>
<tr>
<td>Costs and expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries, general and administrative expenses</td>
<td>189,520</td>
<td>13,994</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>23,210</td>
<td>9</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>8,671</td>
<td>327</td>
</tr>
<tr>
<td>Amortization of reorganization value in excess of amounts allocable to identifiable assets</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Interest, net.</td>
<td>(7,350)</td>
<td>8</td>
</tr>
<tr>
<td>ESOP expense</td>
<td>13,538</td>
<td>--</td>
</tr>
<tr>
<td>Stock option expense (credit)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Unusual item</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income (loss) from continuing operations before income taxes and equity in earnings (loss) of subsidiaries</td>
<td>28,977</td>
<td>(274)</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Income (Loss) before equity in earnings (loss) of subsidiaries</td>
<td>28,977</td>
<td>(274)</td>
</tr>
<tr>
<td>Equity in earnings (loss) of subsidiaries</td>
<td>587</td>
<td>--</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>$ 29,164</td>
<td>(274)</td>
</tr>
</tbody>
</table>

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities | $ (4,416) | $ 7,082 | $ (20,585) |

Cash flows from investing activities | (3,499) | (241) | (562) |

Acquisitions of businesses | (41,936) | (2,840) | -- |

Increase in assets restricted for the settlement of unpaid claims | -- | (5,556) | (4,352) |

Proceeds from the sale of assets | -- | 5,695 | -- |

Cash provided by (used in) investing activities | (45,455) | (8,639) | 781 |

Cash used in financing activities | (27,582) | (644) | 167 |

Net increase (decrease) in cash and cash equivalents | (22,239) | (1,601) | (19,637) |

Cash and cash equivalents at beginning of period | 71,850 | 8,666 | 49,147 |

Cash and cash equivalents at end of period | $ 49,521 | $ 14,338 | $ 29,510 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

Consolidated Elimination Total

Net revenue | (5,230) | 263,841 |

Costs and expenses | (5,484) | 199,527 | 21,219 |

Salaries, general and administrative expenses | 8,357 |

Depreciation and amortization | (9) | 13,644 | 7,800 |

Amortization of reorganization value in excess of amounts allocable to identifiable assets | -- |

Interest, net | (5) | 12,500 | 2,361 |

ESOP expense | -- | (2,361) |

Stock option expense (credit) | -- |

Unusual item | -- |

Income (loss) from continuing operations before income taxes and equity in earnings (loss) of subsidiaries | 268 |

Provision for income taxes | 5,478 | 5,478 |

Income (Loss) before equity in earnings (loss) of subsidiaries | 5,710 |

Equity in earnings (loss) of subsidiaries | 23,025 |

Net income (loss) | $ 28,890 | $ 349 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities | -- | -- | (13,859) |

Cash flows from investing activities | -- | (4,304) |

Acquisitions of businesses | (44,856) | (9,928) |

Increase in assets restricted for the settlement of unpaid claims | -- | 5,695 |

Proceeds from the sale of assets | -- |

Cash provided by (used in) investing activities | -- | (53,353) |

Cash flows from financing activities | -- | 28,005 |

Proceeds from the issuance of debt | -- | -- | -- |
The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these statements.
| Equity in earnings (loss) of subsidiaries | 19,082 | 1,019 |
| Net income (loss) | $ (25,487) | $ 9,748 |

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

| Cash provided by (used in) operating activities | $ -- | $ (14,902) |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | -- | (4,366) |
| Acquisitions of businesses, net of cash acquired | -- | (47,327) |
| Proceeds from sale of assets | -- | 503 |
| Increase in assets restricted for the settlement of unpaid claims | -- | (3,614) |
| Cash provided by (used in) investing activities | -- | (54,806) |
| Cash Flows from Financing Activities: | | |
| Proceeds from the issuance of debt | -- | 68,125 |
| Payments on debt and capital obligations | -- | (448) |
| Cash provided by (used in) financing activities | -- | 67,677 |
| Net increase (decrease) in cash and cash equivalents | -- | (2,031) |
| Cash and cash equivalents at beginning of period | -- | 105,514 |
| Cash and cash equivalents at end of period | $ -- | $ 103,483 |

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**

**Acquisition**

On December 13, 1995, the Company acquired a 51% ownership interest in Green Spring for approximately $73.2 million in cash and Common Stock 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 for a portion of the stockholder's interest in Green Spring. The Company has a 61% ownership interest in Green Spring as of December 31, 1995. Green Spring provides managed behavioral healthcare services, which includes utilization management, care management and employee assistance programs through a 50-state provider network for approximately 12 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 $111 million.

The minority shareholders 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 will continue as customers of Green Spring. As of December 31, 1995, the minority stockholders of Green Spring have the option, under certain circumstances, to exchange their ownership interests in Green Spring for approximately 2.8 million 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.

**Psychiatric Hospital Results**

Selected statistics (from the date of acquisition for acquired facilities) for the psychiatric hospitals in operation by quarter for fiscal 1995 and fiscal 1996 are as follows:
Average licensed beds at:
Quarter:
First.......................... 9,198
Second......................... 9,567
Third.......................... 9,585
Fourth......................... 9,130
Year............................ 9,368

Net revenue (in thousands):
Quarter:
First.......................... $249,105
Second......................... 269,854
Third.......................... 272,510
Fourth......................... 250,881
Year............................ 1,042,360

Equivalent patient days:
Quarter:
First.......................... 462,663
Second......................... 509,222
Third.......................... 509,354
Fourth......................... 476,270
Year............................ 1,957,509

Net revenue per equivalent patient day:
Quarter:
First.......................... $538
Second......................... 530
Third.......................... 535
Fourth......................... 527
Year............................ 532

Admissions:
Quarter:
First.......................... 30,626
Second......................... 34,772
Third.......................... 33,790
Fourth......................... 32,977
Year............................ 132,165

Average length of stay (days):
Results of Operations

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

<table>
<thead>
<tr>
<th>Percentage of Net Revenue</th>
<th>For the Three Months Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1994</td>
</tr>
<tr>
<td>Net revenue</td>
<td>100.0%</td>
</tr>
<tr>
<td>Salaries, supplies and other operating expenses</td>
<td>75.6</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>8.0</td>
</tr>
<tr>
<td>Total expenses</td>
<td>83.6</td>
</tr>
<tr>
<td>Operating margin</td>
<td>16.4</td>
</tr>
</tbody>
</table>

Patient days at the Company's hospitals increased 4% for the quarter ended December 31, 1995, as compared to the same period of fiscal 1995. The increase resulted primarily from patient days attributable to the hospitals acquired during fiscal 1995 offset by reductions in patient days resulting from hospitals closed in fiscal 1995. Total admissions increased 7% for the quarter ended December 31, 1995, as compared to the prior year period. The increase resulted from continued admissions growth at the Company's hospitals and admissions attributable to hospitals acquired during fiscal 1995 offset by reductions resulting from hospitals closed in fiscal 1995.

The Company's net revenue for the quarter ended December 31, 1995 increased 12.1% compared to the same period in fiscal 1995. The increases resulted primarily from acquisitions less the effect of hospitals closed during fiscal 1995. National Mentor, Inc. ("Mentor"), which was acquired in January 1995, and Green Spring (excluding GPA), which was acquired on December 13, 1995, had revenues of approximately $16.9 million and $10.7 million, respectively, for the quarter ended December 31, 1995. Net revenue for the quarters ended December 31, 1994 and 1995 included $8.2 million and $7.8 million, respectively, for the normal settlement and adjustments related to reimbursement issues related to earlier fiscal periods. Net revenue per equivalent patient day at the Company's psychiatric hospitals decreased in the quarter ending December 31, 1995 by 1.5% compared to the same period in the prior year. The decreases were primarily due to a continued shift in payor mix from private payor sources to managed care payors and governmental payors. Services to Medicare and Medicaid patients have increased due to increased recognition and treatment of behavioral illnesses of the elderly and disabled and, in some states, improved coverage of behavioral services in psychiatric hospitals for Medicaid beneficiaries. The Company believes that, at the same time, revenue from Blue Cross and commercial insurance payors has declined because of a shift by purchasers of health coverage to HMOs, PPOs, and other managed care plans that generally authorize shorter lengths of stay than traditional insurance plans.
The Company's salaries, supplies and other operating expenses increased 15.9% in the quarter ended December 31, 1995 compared to the same period in fiscal 1995. The increase resulted primarily from acquisitions. Expenses incurred by Mentor and Green Spring (excluding GPA) were approximately $14.4 million and $9.1 million, respectively, in the quarter ended December 31, 1995.

The Company's bad debt expense decreased 6.7% in the quarter ended December 31, 1995 compared to the same period in fiscal 1995. The decrease was primarily due to the shift in the provider business to managed care payors, which reduces the Company's credit risk associated with individual patients. The decrease in bad debt expense as a result of the shift to managed care payors were partially offset by the increase in bad debt expense related to acquisitions. The Company could experience future increases in bad debt expense in its provider business due to increased deductibles and co-insurance and reduced annual and lifetime psychiatric maximum payment limits for individual patients, which could result in the Company not collecting full charges on an increasing number of patients.

Depreciation and amortization increased 21.8% in the first quarter of fiscal 1996 compared to the same period in fiscal 1995. The increase resulted primarily from depreciation and amortization related to acquired businesses. Mentor and Green Spring (excluding GPA) had depreciation and amortization of approximately $592,000 and $508,000, respectively in the quarter ended December 31, 1995.

Reorganization value in excess of amounts allocable to identifiable assets was fully amortized effective July 31, 1995. Accordingly, no such amortization expense was recorded in the first quarter of fiscal 1996.

ESOP expense for the first quarter of fiscal 1996 was $0 as compared to $12.5 million in the first quarter of fiscal 1995. The decrease resulted from the Company's commitment to allocate all existing shares held by the ESOP to the participants as of September 30, 1995.

Stock option expense for the first quarter of fiscal 1996 increased $4.2 million from the previous year primarily due to fluctuations in the market price of the Company's common stock.

During the first quarter of fiscal 1995, the Company recorded an unusual item of approximately $3.0 million which represented the pre-tax gain on the sale of three psychiatric hospitals.

The Company's effective tax rate declined from 92.9% in the first quarter of fiscal 1995 to 42.5% in the first quarter of fiscal 1996. The decrease in the effective tax rate is primarily attributable to the elimination of non-deductible amortization of reorganization value in excess of amounts allocable to identifiable assets in fiscal 1996 offset by increased non-deductible intangible amortization in the first quarter of fiscal 1996 as a result of the Mentor and Green Spring acquisitions.

Minority interest increased $1.0 million in the first quarter of fiscal 1996 as compared to the prior year. The increase is primarily due to the Company acquiring a controlling interest in Green Spring in December 1995 and obtaining a controlling interest in other businesses since December 31, 1994. The Company expects minority interest to increase in future quarterly periods that include a full quarter of Green Spring's operating results.

Recent Accounting Pronouncements

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123 ("FAS 123") "Accounting for Stock-Based Compensation," which becomes effective for fiscal years beginning after December 15, 1995. FAS 123 establishes 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 in the process of evaluating FAS 123. The potential impact on the Company of adopting the new standard has not been quantified at this time. The
Company must adopt FAS 123 no later than October 1, 1996.

Liquidity and Sources of Capital

Operating Activities. The Company's net cash used in operating activities was approximately $17.9 million and $14.9 million for the quarters ended December 31, 1994 and 1995, respectively. The Company had negative cash flows from operations during the first quarter of fiscal 1995 and fiscal 1996 primarily as a result of insurance settlement payments ($11.3 million and $14.0 million for the quarters ended December 31, 1994 and December 31, 1995, respectively) and the $21.1 million semi-annual interest payment paid in October each year for the 11.25% Senior Subordinated Notes. Management believes that the Company will have positive cash flows from operations in fiscal 1996, which will be adequate to fund operations, capital expenditures and debt service obligations.

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 $86.1 million compared to approximately $44.8 million in acquisition expenditures in the first quarter of fiscal 1995.

Management believes that its cash on hand, future cash flows from operations, borrowing capacity under the 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 $28.0 million and $68.1 million, respectively, during the quarters ended December 31, 1994 and 1995, primarily to fund the acquisition of 13 hospitals in fiscal 1995 and to fund the acquisition of Green Spring in fiscal 1996. The Company believes that its businesses will generate sufficient cash flows from operations to meet its future debt service requirements.

On December 22, 1995, the Company entered into a definitive agreement to issue approximately four million shares of Common Stock and two million warrants in a private placement transaction. On January 25, 1996, the Company completed the private placement transaction and received proceeds of approximately $68.7 million, net of issuance costs.

As of December 31, 1995, the Company had approximately $59.0 million of availability under the Revolving Credit Agreement. In January 1996, $68.0 million of the outstanding borrowings under the Revolving Credit Agreement were repaid from the proceeds of the private placement. The availability under the Revolving Credit Agreement increased to approximately $110 million as a result of the debt repayment after the commitment reduction required under the Revolving Credit Agreement. The Company was in compliance with all debt covenants at December 31, 1995.

Outlook

Management continually assesses events and changes in circumstances that could effect its business strategy and the viability of its operating facilities. During fiscal 1995, the Company consolidated, closed or sold fifteen psychiatric hospitals. Management may elect to consolidate services in selected markets and to close or sell additional facilities in future periods depending on market conditions and evolving business strategies. If the Company closes additional psychiatric hospitals in future periods, it could result in charges to income for the costs necessary to exit the hospital operations.

The Company expects the Green Spring acquisition to result in increased revenue and operating income (net revenue less salaries, supplies and other operating expenses and bad debt expense) during fiscal 1996. However, increases in amortization expense, interest expense and minority interest resulting from the acquisition of Green Spring may exceed the expected increase in operating income in fiscal 1996. In addition, the Exchange Option is potentially dilutive to earnings per share, on a fully diluted basis, in future quarterly periods.
During fiscal 1996.

The private placement transaction consummated in January 1996 resulted in the Company reducing its long term debt and future interest obligations, increasing its stockholders' equity and increasing its borrowing capacity. However, the additional Common Stock outstanding as a result of the private placement transaction will have a dilutive effect on earnings per share during future quarterly periods.

PART II - OTHER INFORMATION

Item 5. - Other Information

Acquisition

On December 13, 1995, the Company acquired a 51% ownership interest in Green Spring for approximately $73.2 million in cash and Common Stock 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 for a portion of the stockholder's interest in Green Spring. The Company has 61% ownership interest in Green Spring as of December 31, 1995. The Company has accounted for the acquisition of Green Spring using the purchase method of accounting.

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 will continue as customers of Green Spring. As of December 31, 1995, the minority stockholders of Green Spring have the option, under certain circumstances, to exchange their ownership interests in Green Spring for approximately 2.8 million shares of Magellan 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.

Description of Green Spring’s Business

Green Spring is the nation’s third largest managed behavioral healthcare organization specializing in mental health and substance abuse/dependency services through a network of more than 30,000 providers nationwide, serving approximately 12 million members at December 31, 1995.

Green Spring was founded in 1991 by a group of clinicians who utilized a clinical model that emphasizes the treatment needs of individuals. Green Spring attempts to match each patient with an appropriate provider, focusing on the quality of care and cost effectiveness from both the clinical and service aspects.

Green Spring’s services include:

Enhanced Utilization Management, a utilization review process that employs clinical criteria designed to provide each patient with accessible, appropriate and affordable treatment across the entire continuum of care and services;

Care Management, a fully integrated healthcare model that offers utilization review services and provides care to patients through the management of a national network of providers and Green Spring-owned staff model clinics;

Employee Assistance Plans, employer-paid assessment, counseling and referral programs that help employees address personal and workplace problems; and

Comprehensive Administrative Services, including member assistance, management reporting, claims processing, clinical management information and provider referral systems that are adaptable to customer circumstances and
Green Spring has several contractual funding arrangements with its customers ranging from full risk capitated contracts to non-risk administrative services only (ASO) arrangements. The primary funding arrangements for risk business include full capitation and partial capitation. Under full capitation arrangements, Green Spring assumes full risk for care under the contract and is paid a monthly fee for each at-risk member regardless of the actual utilization of services by the member. Partial capitation arrangements are similar to full capitation arrangements except that the underwriting gain or loss is split between the customer and Green Spring based on a pre-determined formula. Non-risk funding arrangements include administrative service fees, and incentive based administrative service fees. ASO funding arrangements call for the payment of a fee to Green Spring for providing varying levels of administrative support and management. Incentive-based administrative service fees are similar to incentive-based ASO arrangements except the ASO fee is subject to adjustment based on the level of performance achieved by Green Spring compared to a mutually agreed target level of performance.

At December 31, 1995, Green Spring's risk and non-risk membership was approximately 3.6 million and 8.8 million, respectively. During 1995, risk and non-risk business comprised approximately 70% and 30%, respectively, of Green Spring revenues.

Green Spring's customers include Fortune 1000 companies, Blue Cross/Blue Shield organizations, major HMO's/PPO's, several State employee programs, labor unions and several State Medicaid programs. During 1995, approximately 70% of Green Spring's historical revenues have been generated from the Blues organizations.

Marketing

Green Spring conducts marketing activities utilizing an internal marketing staff. The marketing efforts are primarily focused on developing new customer relationships in existing markets as well as exploring opportunities in states where Green Spring currently does not have local operating units.

Information Systems

Green Spring owns the data processing systems that are used for conducting its business including the systems used for utilization management, provider profiling and credentialing, benefit authorization and eligibility processing, care management, billing processing and corporate accounting. Green Spring's systems operate on server based local area and wide area networks.

Government Regulation

Green Spring operations, in some states, are subject to utilization review licensure and related state regulatory procedures. However, Green Spring must comply with all reporting and monitoring requirements of the Health Care Financing Administration ("HCFA") communicated to it from the prime contractor, Blue Cross/Blue Shield plans, for the behavioral health portion care for the Medicare risk business. The Office of Inspector General of the United States monitors and reviews financial reporting and performance of the Blue Cross Federal Employees Program for which Green Spring provides the behavioral healthcare benefit through several Blue Cross plans. Medicaid business is also subject to the financial reporting and performance monitoring requirements of the applicable state governments as well as HCFA as noted above.

The management of Green Spring believe that it is in compliance, in all material respects, with all current state and federal regulatory requirements applicable to the business it conducts.
Trademarks

Green Spring owns and uses several registered service marks including Green Spring Health Services, Inc., Green Spring and Managed With Care in the operation of its business.

Competition

The managed healthcare industry is being affected by various external factors including rising healthcare costs, intense price competition, market consolidation by major managed care companies and proposed healthcare reform legislation.

Green Spring 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.

Green Spring 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, flexibility and scope of benefits, quality of services, market presence, reputation and financial stability. The management of Green Spring believes that Green Spring competes effectively with respect to these factors.

Employees

At December 31, 1995, Green Spring employed 979 full-time employees and 70 part-time employees. None of the Green Spring employees are covered by collective bargaining agreements. Green Spring believes that it has satisfactory relations with its employees.

Properties

As of December 31, 1995, Green Spring leased office space for its headquarters and administrative offices in Columbia, Maryland. Green Spring also leases office space in 19 other facilities in 14 states housing the local state operating units and staff model clinics. The annual payments under these lease arrangements during 1995 amounted to approximately $2.9 million.

Item 6. - Exhibits and Reports on Form 8-K

(a) Exhibits

4(a) Amendment No. 6, dated as of October 17, 1995, to Second Amended and Restated Credit Agreement, dated as of May 2, 1994, among the Company, Bankers Trust Company, as Agent, First Union National Bank of North Carolina, as Co-Agent.

4(b) Amendment No. 7, dated as of November 30, 1995, to Second Amended and Restated Credit Agreement, dated as of May 2, 1994, among the Company, Bankers Trust Company, as Agent, First Union National Bank of North Carolina, as Co-Agent.

4(c) Amendment No. 8, dated as of January 24, 1996, to
Second Amended and Restated Credit Agreement, dated as of May 2, 1994, among the Company, Bankers Trust Company, as Agent, First Union National Bank, as Co-Agent.

4(d) Stockholders' Agreement, dated December 13, 1995, among Green Spring Health Services, Inc., Blue Cross and Blue Shield of New Jersey, Inc., Health Care Service Corporation, Independence Blue Cross, Pierce County Medical Bureau, Inc. and the Company.

4(e) Exchange Agreement, dated December 13, 1995, among Blue Cross and Blue Shield of New Jersey, Inc., Health Care Service Corporation, Independence Blue Cross, Pierce County Medical Bureau, Inc. and the Company.


*10(a) Written description of Corporate Annual Incentive Plan for the year ended September 30, 1996.

*10(b) Employment Agreement, dated March 18, 1993, between Green Spring Health Services, Inc. and Henry T. Harbin, M.D., Executive Vice President of the Company and President and Chief Executive Officer of Green Spring Health Services, Inc.

*10(c) Letter Agreement, dated November 9, 1993, between Green Spring Health Services, Inc. and Henry T. Harbin, M.D., Executive Vice President of the Company and President and Chief Executive Officer of Green Spring Health Services, Inc.

*10(d) Letter Agreement, dated September 19, 1994 between Green Spring Health Services, Inc. and Henry T. Harbin, M.D., Executive Vice President of the Company and President and Chief Executive Officer of Green Spring Health Services, Inc.

10(e) Stock Purchase Agreement, dated November 14, 1995, among Blue Cross and Blue Shield of New Jersey, Inc., Health Care Service Corporation, Independence Blue Cross, Medical Service Association of Pennsylvania, Pierce County Medical Bureau, Inc., Veritus, Inc., Green Spring Health Services, Inc. and the Company.

10(f) GPA Stock Exchange Agreement, dated November 14, 1995, between Green Spring Health Services, Inc. and the Company.

27 Financial Data Schedule

*Constitutes a management contract or compensatory plan arrangement.

(b) Report on Form 8-K

There were no current reports on Form 8-K filed by the Registrant with the Securities and Exchange Commission during the quarter ended December 31, 1995.
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: February 12, 1996  
/s/ Craig L. McKnight  
------------------------  
Craig L. McKnight  
Executive Vice President and  
Chief Financial Officer

Date: February 12, 1996  
/s/ Howard A. McLure  
------------------------  
Howard A. McLure  
Vice President and Controller  
(Principal Accounting Officer)
AMENDMENT NO. 6
to
SECOND AMENDED AND RESTATED CREDIT AGREEMENT

AMENDMENT NO. 6 dated as of October 17, 1995 (this "Amendment") to the SECOND AMENDED AND RESTATED CREDIT AGREEMENT dated as of May 2, 1994 (as amended by Amendment No. 1 thereto dated as of June 9, 1994, Amendment No. 2 thereto dated as of September 30, 1994, Amendment No. 3 thereto dated as of December 12, 1994, Amendment No. 4 thereto dated as of January 11, 1995 and Amendment No. 5 thereto dated as of March 17, 1995, the "Credit Agreement"), each among CHARTER MEDICAL CORPORATION, a Delaware corporation (the "Company"), the banking and other financial institutions from time to time party thereto (the "Lenders"), BANKERS TRUST COMPANY, as agent for the Lenders, and FIRST UNION NATIONAL BANK OF NORTH CAROLINA, as Co-Agent. Capitalized terms used herein and not defined herein shall have the respective meanings set forth in the Credit Agreement after giving effect to the amendments thereto set forth herein.

W I T N E S S E T H :

WHEREAS, subject to and upon the terms and conditions set forth in the term sheet attached hereto as Exhibit A (the "Term Sheet"), (a) the Company will purchase from the Green Spring Minority Shareholders outstanding common stock (the "Acquired Green Spring Stock") of Green Spring Health Services, Inc., a Delaware corporation, and (b) substantially concurrent with such purchase, (i) the Company will contribute the Acquired Green Spring Stock and certain other assets to a newly formed corporation in exchange for 51% of the common stock of such newly formed corporation (the "Acquired Green Spring Holdings Stock"), and (ii) the Green Spring Minority Shareholders will contribute outstanding common stock of Green Spring to such newly formed corporation in exchange for 49% of the common stock and 100% of the preferred stock of such newly formed corporation;

WHEREAS, the Company has requested that the Credit Agreement be amended to, among other things, (a) permit the Green Spring Acquisition, and (b) exclude the Green Spring Acquisition from the investment baskets currently provided the Company by the Credit Agreement;

WHEREAS, the Company, the Lenders, the Agent and the Co-Agent have agreed that Sections 8.4(a)(i)(A), 8.2(i)(iii), 8.8(n)(iii), 8.2(j)(v), 8.2(k)(v), and 8.5(e)(v) of the Credit Agreement do not, and were not intended to, prohibit provisions relating to declaration or payment of dividends and distributions by Permitted Joint Ventures which are described in the definition of Permitted JV Distribution Provisions in this Amendment; and the Company, the Lenders, the Agent and the Co-Agent have agreed to document the same by adding such definition to the Credit Agreement and appropriate references to such definition to such Sections of the Credit Agreement;

WHEREAS, the Credit Parties have requested that each of the Credit Documents be amended to change the designated agent for service of process from CT Corporation to Corporation Service Company; and

WHEREAS, subject to and upon the terms and conditions hereinafter set forth and in the Credit Agreement as amended hereby, the Lenders party hereto are willing to agree to the foregoing;

NOW, THEREFORE, the parties hereto hereby agree as follows:

Section 1. Initial Amendments to Credit Agreement. Effective as of the Initial Effective Date (as defined in Section 5 hereof), the Credit Agreement is amended as of the date hereof as follows:

(a) The last sentence of Section 7.8 of the Credit Agreement is amended by inserting the following before the period ending such sentence:

"; provided that an Unrestricted Subsidiary that becomes a Subsidiary
of the Company on or after the Amendment No. 6 Initial Effective Date
shall not be required to become a party to a Tax Sharing Agreement
unless and until such Unrestricted Subsidiary is or is required to be
(as a result of an election by the Company or otherwise) consolidated
with the Company for federal, state, local or foreign income tax
purposes".

(b) Section 8.3 of the Credit Agreement is hereby amended by
(i) inserting the phrase "and pursuant to clauses (xi) and (xii) below" after
the phrase "pursuant to clauses (i) and (ii) above" in clause (v) thereof; (ii)
inserting the phrase "and pursuant to clauses (xi) and (xii) below" after the
phrase "pursuant to clauses (i), (ii) and (v) above" in clause (x) thereof;
(iii) deleting the "and" at the end of clause (ix) thereof; (iv) replacing the
period at the end of clause (x) thereof with a semi-colon; and (v) inserting the
following at the end of such Section as clauses (xi) and (xii) thereof:

"(xi) from time to time after the Amendment No. 6 Initial Effective Date and prior to the earlier to occur of (1) December 31, 1995 and (2) the closing date of the Green Spring Initial Acquisition, the Company may repurchase shares of Company Common Stock for a price not to exceed the then fair market value thereof; provided that (A) the aggregate purchase price paid by the Company in connection with such repurchases shall not exceed $18,290,000; (B) the Minimum Income Tests and the Debt Service Coverage Tests are satisfied with respect to each such repurchase; (C) if the Company repurchases Company Common Stock after the Amendment No. 6 Initial Effective Date and prior to the earlier to occur of (1) December 31, 1995 and (2) the closing date of the Green Spring Initial Acquisition, and such repurchases are also permitted pursuant to clause (v) above, then, to the extent so permitted, such repurchases shall be considered repurchases pursuant to such clause (v) above for all purposes other than for purposes of clause (A) above; (D) within 120 days following the earlier to occur of (1) December 31, 1995 and (2) the closing date of the Green Spring Initial Acquisition, the Company shall consummate a public offering of Company Common Stock which results in the receipt by the Company of Net Proceeds in an aggregate amount at least equal to the positive excess, if any, of the aggregate purchase price paid or payable by the Company in connection with all shares of Company Common Stock repurchased pursuant to this clause (xi) over the product of (x) the shares of Company Common Stock (i) issued or sold to the Green Spring Minority Shareholders on or prior to the closing date of the Green Spring Initial Acquisition in connection with the consummation thereof or (ii) contributed to Green Spring Holdings pursuant to Section 8.8(o)(ii), it being understood that such shares of Company Common Stock shall not be considered contributed for purposes of this clause (ii) if the Company or Green Spring Holdings could be adversely affected in any way as a result of any future decline in value of such Company Common Stock or as a result of any negative tax consequences upon the sale or other disposition of such Company Common Stock and (y) the second highest of $20.00, $22.00 and the market value per share (as determined in accordance with the applicable provisions of the Green Spring Acquisition Documents) of the Company Common Stock on the Amendment No. 6 Green Spring Effective Date, it being understood that such product shall be zero if the Green Spring Acquisition is not consummated on or prior to December 31, 1995 or if Company Common Stock is not issued or sold to such Green Spring Minority Shareholders or contributed to Green Spring Holdings in connection with the consummation of such Green Spring Acquisition; provided that, if the Company does not so consummate such public offering, then the amount "60,000,000" in the third line of Section 8.8(r) and the amount
"80,000,000" in the second proviso to such Section 8.8(r) shall each be reduced automatically by an amount equal to the least amount of Net Proceeds that the Company would have received if it had consummated such public offering in compliance with this clause (D); provided further that, if the Company does not so consummate such public offering, then the amount "75,000,000" in the first proviso to Section 8.10(b), the amount "155,000,000" in clause (A) of the third proviso to such Section 8.10(b) and the amount "175,000,000" in clause (B) of the third proviso to such Section 8.10(b) shall each be reduced automatically by an amount equal to the least amount of Net Proceeds that the Company would have received if it had consummated such public offering in compliance with this clause (D); and (E) the Company complies with Section 4.2(b) in connection with any such public offering; and

(xii) the Company and any of its Restricted Subsidiaries may exercise any rights to which the Company or such Restricted Subsidiary is otherwise entitled as pledgee with respect to the 152,177 shares of Company Common Stock pledged as collateral pursuant to those certain Stock Pledge Agreements dated as of December 17, 1993, originally between National Mentor Holding Corp. and each of the pledgors party thereto."

(c) Clause (iii) of each of Sections 8.2(i) and 8.8(n) of the Credit Agreement and clause (v) of each of Sections 8.2(j), 8.2(k) and 8.5(e) of the Credit Agreement are each amended by inserting "(other than pursuant to Permitted JV Distribution Provisions)" after the word "restricted" in each place it appears in such clauses.

(d) Section 8.4(a)(i)(A) of the Credit Agreement is amended by adding the following after "Restricted Subsidiaries" in the fifth line thereof and before ",":

"(provided that Permitted JV Distribution Provisions contained in the governing documents of a Restricted Subsidiary that is a Permitted Joint Venture as the result of a Permitted JV Transaction shall not constitute an encumbrance or restriction that violates clause (A) of this clause (i))"

(e) Clause (ii)(B) of the last proviso to Section 8.8(r) of the Credit Agreement is amended by (i) inserting "the sum, without duplication, of (x)" at the beginning of clause (2) thereof; and (ii) inserting the following after the word "interest" at the end of clause (2) thereof:

"", and (y) all amounts paid by the Company or any Domestic Guarantor at any time in complete or partial satisfaction of each and any such guaranty".

(f) Section 8.10(b) of the Credit Agreement is amended by (i) inserting "the sum, without duplication, of (x)" at the beginning of clause (B)(ii) of the last proviso to such Section; and (ii) inserting the following after the reference "Section 8.15(a)(ix)" at the end of clause (B)(ii) of the last proviso to such Section:

"", and (y) all amounts paid by the Company or any Domestic Guarantor at any time in complete or partial satisfaction of each and any such guaranty".

(g) Section 8.15(b) of the Credit Agreement is amended by inserting the following at the end of such Section:

"; provided that (l) the documents evidencing any Indebtedness of any Person that was in existence on the date such Person became an Unrestricted Subsidiary and was not assumed or otherwise incurred in connection with or in anticipation of such Person’s becoming an Unrestricted Subsidiary shall not be required to expressly state that
such Indebtedness is without recourse to the Company and its Restricted Subsidiaries, and (2) no opinion of the type described in the preceding clause (ii) of this Section 8.15(b) shall be required to be delivered in respect of any Indebtedness described in the preceding clause (1) of this proviso.

(h) The following is inserted after the definition of the term "Agreement" in Section 10 of the Agreement:

"'Amendment No. 6 Initial Effective Date' shall mean the date the amendments set forth in Sections 1 and 2 of Amendment No. 6, dated as of October 17, 1995, to this Agreement become effective in accordance with the provisions of Section 5(a) thereof."

(i) The definition of the term "Debt Service Coverage Tests" in Section 10 of the Credit Agreement is amended (i) by inserting "(or if such Subject Transaction occurs at any time on or prior to March 31, 1996, is a Subject Transaction pursuant to Section 8.8(o)(iii) or is an issuance of Green Spring PSI, 2.5:1.0)" after the ratio "3.0:1.0" in each of clauses (a) and (b) of such definition and (ii) by inserting "(or if such Subject Transaction occurs at any time on or prior to March 31, 1996, is a Subject Transaction pursuant to Section 8.8(o)(iii) or is an issuance of Green Spring PSI, 4.25:1.0)" after the ratio "4.0:1.0" in clause (c).

(j) The following is inserted after the definition of the term "Permitted Joint Venture" in Section 10 of the Credit Agreement:

"'Permitted JV Distribution Provisions' means, with respect to any Permitted Joint Venture, (a) provisions contained in the governing documents of such Permitted Joint Venture that prohibit or otherwise restrict the making of distributions by such Permitted Joint Venture solely (i) at any time that any outstanding Indebtedness for borrowed money is owed to any owner of equity interests thereof; (ii) in the case of any such Permitted Joint Venture that is a partnership or limited liability company, to the extent such distribution would cause any partner or member thereof, as applicable, to have a negative balance in its capital account; (iii) without the required approval of at least a majority of (A) the directors thereof (if such Permitted Joint Venture is a corporation), (B) the managers or managing members (or, if there are no such managers or managing members, the members of any board or other body that performs functions substantially equivalent to those of a board of directors of a corporation) thereof (if, in any such case, such Permitted Joint Venture is a limited liability company), (C) the general partners thereof (if such Permitted Joint Venture is a partnership), or (D) persons performing a similar function as any of the foregoing (if such permitted Joint Venture is other than a corporation, limited liability company or partnership); (iv) to the extent such distribution would be prohibited by any applicable law described in clause (b) below; (v) out of or through the use of funds of such Permitted Joint Venture that the directors, managers, managing members, general partners (or persons performing substantially equivalent functions) of such Permitted Joint Venture determine are necessary to pay such Permitted Joint Venture's current and anticipated cash obligations, such current and anticipated obligations including, without limitation, operating expenses, debt service, authorized acquisitions, budgeted capital expenditures, and reasonable reserves in amounts determined by such persons and/or (vi) under other circumstances that are consented to by the Required Lenders in their sole discretion with respect to such Permitted Joint Venture; and (b) prohibitions and other restrictions contained in any corporate, partnership or similar law that is applicable to such Permitted Joint Venture."

Section 2. Amendment to Credit Documents. Effective as of the Initial Effective Date, each of the Credit Documents is amended as of the date hereof by revoking the appointment of CT Corporation System as agent for service of process. Each of the Credit Parties hereby irrevocably designates
Corporation Service Company, located at 375 Hudson Street, New York, New York, 10014-3660 (or such other persons as may hereafter be selected by the Credit Parties, with the consent of the Agent), as the designee, appointee and agent of each of such Credit Party to receive, for and on behalf of such Credit Party, service of process in the courts of the State of New York or of the United States of America for the Southern District of New York in any legal action or proceeding with respect to any Credit Document or any document related thereto and such service shall, to the extent permitted by applicable law, be deemed completed ten days after delivery thereof to said agent.

Section 3. Green Spring Amendments to Credit Agreement.

Effective as of the Green Spring Effective Date (as defined in Section 5 hereof), the Credit Agreement is amended as of the date hereof as follows (it being understood that to the extent that any of the following amendments to Section 10 of the Credit Agreement are used for definitional purposes in Section 1 hereof, such amendments to Section 10 shall be effective as of the Initial Effective Date):

(a) Section 4.2(a) of the Credit Agreement is amended by inserting the following at the end thereof:

"Within two Business Days of each date on which a GSH Prepayment Event occurs, the Company shall prepay outstanding Loans in an amount equal to 70% (or, if a Default or an Event of Default exists immediately prior or after giving effect to the occurrence of such GSH Prepayment Event, 100%) of (i) in the case of the occurrence of a GSH Prepayment Event described in clause (a) of the definition of such term, the aggregate amount distributed or otherwise transferred to the Company and its Restricted Subsidiaries as a result of or in connection with the GSH Asset Sale giving rise to such GSH Prepayment Event, net of taxes paid or reasonably estimated to be payable by the Company in respect of such distribution or transfer, and (ii) in the case of the occurrence of a GSH Prepayment Event described in clause (b) of the definition of such term, the product of (A) the percentage of the outstanding common stock of Green Spring owned by the Company and its Restricted Subsidiaries, and (B) the portion of the Net Proceeds of the GSH Asset Sale giving rise to such GSH Prepayment Event that are not distributed or otherwise transferred to the shareholders of Green Spring Holdings or reinvested in the business of Green Spring Holdings and its Subsidiaries within 270 days of the occurrence of such GSH Asset Sale."

(b) Section 7.1(i) of the Credit Agreement is amended by inserting "or any Green Spring Acquisition Document" after the term "NME Purchase Agreement" in clause (A) of such Section.

(c) Section 8.8(c) of the Credit Agreement is amended by replacing the amount "$50,000,000" in the fifth line thereof with "$10,000,000".

(d) Section 8.8(o) of the Credit Agreement is amended in its entirety to read as follows:

"(o) so long as no Default or Event of Default has occurred and is continuing immediately before or after giving effect thereto:

(i) the Company may purchase on the Amendment No. 6 Green Spring Effective Date from all or any of the Green Spring Minority Shareholders up to 51% of the outstanding shares of common stock of Green Spring pursuant to and in accordance in all material respects with the terms of the Green Spring Acquisition Documents; provided that (A) the sole consideration paid or payable by the Company and its Subsidiaries for such shares is Cash payable on the closing date of such purchase in an aggregate amount not to exceed the Green Spring Cash Consideration Amount and shares of Company Common Stock, (B) the Minimum Income Tests and the Debt Service Coverage Tests are
satisfied with respect thereto, and (C) the transactions described in clause (ii) below are consummated substantially concurrent therewith;

(ii) substantially concurrent with the consummation of the Green Spring Initial Acquisition, the Company may contribute all of the common stock of Green Spring purchased by the Company pursuant to the preceding clause (i), all of the outstanding capital stock of Group Practice Affiliates, Inc. and either shares of Company Common Stock or Cash in an amount not to exceed the excess, if any, of the Green Spring Cash Consideration Amount over the amount of Cash paid or payable by the Company as described in the preceding clause (i)(A) to Green Spring Holdings pursuant to and in accordance in all material respects with the terms of the Green Spring Acquisition Documents; provided that (A) simultaneously therewith the Green Spring Minority Shareholders contribute all of their respective shares of common stock of Green Spring to Green Spring Holdings; (B) the sole consideration paid or payable to the Company and the Green Spring Minority Shareholders for such contributions by the Company and the Green Spring Minority Shareholders is

shares of common stock of Green Spring Holdings and GSH Preferred Stock; (C) simultaneously therewith there shall be established a sinking fund for any such GSH Preferred Stock paid or payable to Green Spring Minority Shareholders which complies with clause (D) or (E) below; (D) if the Company contributes Cash to Green Spring Holdings as described in this clause (ii), then the sinking fund established with respect to the GSH Preferred Stock shall (1) be in an amount equal to the amount of Cash so contributed or (2) consist solely of all shares of Company Common Stock purchased by Green Spring Holdings with the Cash contributed to Green Spring Holdings by the Company as described in this clause (ii) and any Cash so contributed which is not used to purchase shares of Company Common Stock; (E) if the Company contributes shares of Company Common Stock pursuant to this clause (ii), then the sinking fund established with respect to the GSH Preferred Stock shall consist solely of such shares; (F) any GSH Preferred Stock paid or payable to Green Spring Minority Shareholders as described in this clause (ii) (1) shall have a stated value, liquidation preference and redemption price (if any) which do not in the aggregate in any such case exceed (x) the amount of Cash contributed to Green Spring Holdings by the Company as described in this clause (ii) if the sinking fund established with respect to the GSH Preferred Stock consists solely of Cash, (y) the shares of Company Common Stock contributed to Green Spring Holdings by the Company or purchased by Green Spring Holdings as described in this clause (ii) if the sinking fund established with respect to the GSH Preferred Stock consists solely of Company Common Stock, and (z) the shares of Company Common Stock purchased by Green Spring Holdings with the Cash contributed to Green Spring Holdings by the Company as described in this clause (ii) and any Cash so contributed which is not used to purchase shares of Company Common Stock if the sinking fund established with respect to the GSH Preferred Stock consists of any combination of Company Common Stock and Cash; it being understood that no holder of GSH Preferred Stock shall have any claim as a holder of GSH Preferred Stock to Cash, stock or other property the value of which would exceed in the aggregate for all such holders taken together the amount of Cash contributed to Green Spring Holdings as described in this clause (ii) and the fair market value of the Company Common Stock that is in the sinking fund established with respect to the GSH Preferred Stock as described in this clause (ii) at the time of determination of such claim, and (2) may be convertible into shares of common stock of Green Spring Holdings as a means for such Green Spring Minority Shareholders to fund capital requirements of Green Spring Holdings only if, simultaneously with such conversion, a portion of the sinking fund established with respect to such GSH Preferred Stock corresponding to the
portion of the original amount of the GSH Preferred Stock so converted is required to be released from such sinking fund (and, if the portion of the sinking fund so to be released consists in whole or in part of shares of Company Common Stock, such shares shall be required to be sold so that Cash is released from such sinking fund); (G) the Minimum Income Tests and the Debt Service Coverage Tests are satisfied with respect to such contribution by the Company; and (H) immediately after giving effect to such contributions by the Company and the Green Spring Minority Shareholders, Green Spring Holdings directly owns all of the outstanding shares of capital stock of Green Spring and the Company directly owns at least 51% of the outstanding shares of each class of common stock of Green Spring Holdings;

(iii) the Company may purchase from time to time at any time that occurs after the Amendment No. 6 Green Spring Effective Date and on or prior to the third anniversary thereof from any Green Spring Minority Shareholder all or any portion of the GSH Minority Shares of such Green Spring Minority Shareholder; provided that (A) the sole consideration paid or payable by the Company and its Subsidiaries in respect of any such purchase of such shares is either (1) Green Spring PSI permitted by Section 8.7(f) in an aggregate principal amount not to exceed the GSH Minority Interest Put Amount for the GSH Minority Shares subject to such purchase (or, at the election of the Company, Cash in an aggregate amount not in excess of such GSH Minority Interest Put Amount; provided that the Company may only so elect if, immediately after giving effect to the payment of such Cash consideration, the sum of (i) the aggregate principal amount of Revolving Loans outstanding for all Lenders at such time, (ii) $25,000,000, (iii) the Letter of Credit Outstandings at such time, (iv) the aggregate amount of all of the Lenders' Subsidiary Credit Extensions at such time, and (v) the then aggregate outstanding principal amount of all Swingline Borrowings (without duplication of any Revolving Loans made with respect thereto pursuant to Section 1.4) does not exceed an amount equal to the Total Revolving Loan Commitment), (2) shares of Company Common Stock, or (3) a combination of (1) and (2) above, (B) if the consideration for such purchase includes Cash or Green Spring PSI, the Minimum Income Tests and the Debt Service Coverage Tests are satisfied with respect thereto, (C) such acquisition is required to be made pursuant to the terms of the Green Spring Acquisition Documents as a result of the occurrence of a GSH Minority Interest Put and is made in accordance in all material respects with the terms of the Green Spring Acquisition Documents, and (D) after giving effect to such purchase, the sum of the aggregate amount of Cash paid by the Company and its Subsidiaries and the aggregate original principal amount of Green Spring PSI issued by the Company, in each case in connection with all purchases of GSH Minority Shares pursuant to this Section 8.8(o), shall not exceed $81,830,000, plus an amount equal to the aggregate cash capital contributions (including cash contributions made by release of Cash from the sinking fund established with respect to GSH Preferred Stock) made to Green Spring Holdings by Green Spring Minority Shareholders after the Amendment No. 6 Green Spring Effective Date and up to the date of any such purchase, less the aggregate value of all shares of Company Common Stock issued or otherwise transferred by the Company pursuant to this Section 8.8(o) in exchange for GSH Minority Shares (for purposes of the foregoing, the value of each share of Company Common Stock so issued or otherwise transferred shall be deemed to be $23.00); and

(iv) the Company and its Restricted Subsidiaries may make, in addition to the Investments permitted by the preceding clauses (i), (ii) and (iii) of this Section 8.8(o), up to, in the aggregate, $50,000,000 of Investments of Cash and other assets (other than Facilities) in Green Spring Holdings and its
Subsidiaries, the Clinical Services Unit and the MIS Unit, collectively; provided that the amount of Investments permitted to be made at any time pursuant to this clause (iv) shall be increased by the lesser of (A) $30,000,000, and (B) the then Accumulated Excess Cash Flow; provided further that no more than $50,000,000 of such Investments in the aggregate may be made at any time prior to the first anniversary of the Closing Date, no more than $60,000,000 of such Investments in the aggregate may be made at any time prior to the second anniversary of the Closing Date, no more than $70,000,000 of such Investments in the aggregate may be made at any time prior to the third anniversary of the Closing Date and no more than $80,000,000 of such Investments may be made in the aggregate; provided further that no such Investment pursuant to this clause (iv) shall be permitted unless the Minimum Income Tests and the Debt Service Coverage Tests are satisfied with respect thereto; and, provided further, that the aggregate amount of Investments otherwise permitted by this clause (iv) at any time shall be reduced by the sum, without duplication, of (1) the then aggregate outstanding amounts (as determined in accordance with the definition of Accommodation Obligations) of all guaranties made by the Company and the Domestic Guarantors of Indebtedness and other obligations of Green Spring Holdings, any of Green Spring Holdings' Subsidiaries, the Clinical Services Unit and/or the MIS Unit, (2) all amounts paid by the Company or any Domestic Guarantor at any time in complete or partial satisfaction of any guaranty made by the Company or any Domestic Subsidiary of Indebtedness or other obligations of Green Spring Holdings, any of Green Spring Holdings' Subsidiaries, the Clinical Services Unit and/or the MIS Unit, and (3) the aggregate amount of Investments that were made by the Company and its Restricted Subsidiaries in the Clinical Services Unit and/or the MIS Unit prior to the Closing Date;".

(e) Clause (ii)(B) of the last proviso to Section 8.8(r) of the Credit Agreement is amended by inserting ", the Green Spring Acquisition and other purchases by the Company of shares of common stock of Green Spring Holdings, but only to the extent the aggregate amount paid or payable in Cash, property or otherwise for all such other purchases does not exceed $81,830,000, plus an amount equal to the aggregate cash capital contributions (including cash contributions made by release of Cash from the sinking fund established with respect to GSH Preferred Stock) made to Green Spring Holdings by Green Spring Minority Shareholders after the Amendment No. 6 Green Spring Effective Date and up to the date of any such purchase (it being understood that, for purposes of the foregoing, the value of each share of Company Common Stock issued in connection with any such purchase that is made pursuant to Section 8.8(o)(iii) shall be deemed to be $23.00)" at the end of the parenthetical contained in clause (1) thereof.

(f) Section 8.10(b) of the Credit Agreement is amended by (i) inserting ", the Green Spring Acquisition and other purchases by the Company of shares of common stock of Green Spring Holdings, but only to the extent the aggregate amount paid or payable in Cash, property or otherwise for all such other purchases does not exceed $81,830,000, plus an amount equal to the aggregate cash capital contributions (including cash contributions made by release of Cash from the sinking fund established with respect to GSH Preferred Stock) made to Green Spring Holdings by Green Spring Minority Shareholders after the Amendment No. 6 Green Spring Effective Date and up to the date of any such purchase (it being understood that, for purposes of the foregoing, the value of each share of Company Common Stock issued in connection with any such purchase that is made pursuant to Section 8.8(o)(iii) shall be deemed to be $23.00)" after the term "NME Acquisition" in the tenth line of such Section; and (ii) inserting "Green Spring Holdings and its Subsidiaries," before the words "the Clinical Services Unit" in the second parenthetical appearing in clause (B)(ii) of the last proviso to such Section.

(g) Section 8.11(d) of the Credit Agreement is amended by (i) inserting ", the Green Spring Acquisition Documents" after the term "NME Purchase Agreement" the first time such term appears in such Section; and (ii) inserting "or any of the conditions under the Green Spring Acquisition Documents to its obligations to
consummate all or any part of the Green Spring Acquisition" after the term "NME Acquisition" at the end of such Section.

(h) The following is inserted after Section 8.16 of the Credit Agreement:

"8.17 Certain Covenants Regarding Green Spring Holdings and its Subsidiaries. If Green Spring or Green Spring Holdings becomes a 95% or more owned Subsidiary of the Company, then (i) the Company shall give the Agent notice thereof within 10 Business Days of the obtainment of such an ownership interest, and (ii) promptly, and in any event, within 30 days of the obtainment of such an ownership interest, the Company shall cause Green Spring Holdings (and/or Green Spring, as the case may be) and each of its 95% or more owned Subsidiaries (other than Group Practice Affiliates, Inc. and its Subsidiaries) to guaranty the Obligations and secure such guaranty and the Obligations with a perfected Lien on all of its assets (other than real property and other types of assets that are not included as Collateral under the Security Stock and Notes Pledge or the Subsidiary Pledge and Security Agreement) pursuant to documents that are in form and substance satisfactory to the Agent in its reasonable discretion, and (iii) notwithstanding anything to the contrary contained in the definition of the term 'Unrestricted Subsidiary', each of Green Spring Holdings (and/or Green Spring, as the case may be) and its 95% or more owned Subsidiaries (other than Group Practice Affiliates, Inc. and its Subsidiaries) shall cease to be an Unrestricted Subsidiary upon the entering into by it of the documents described in the preceding clause (ii)."

(i) The following is inserted before the definition of the term "Amendment No. 6 Initial Effective Date" in Section 10 of the Agreement:

"'Amendment No. 6 Green Spring Effective Date' shall mean the date the amendments set forth in Section 3 of Amendment No. 6, dated as of October 17, 1995, to this Agreement become effective in accordance with the provisions of Section 5(b) thereof."

(j) The following is inserted after the definition of the term "GAAP" in Section 10 of the Agreement:

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

'Green Spring Acquisition' shall mean the acquisition by the Company of shares of common stock of Green Spring and Green Spring Holdings pursuant to clauses (i) and (ii) of Section 8.8(o) hereof.

'Green Spring Acquisition Documents' shall mean, collectively, each instrument and other agreement from time to time entered into by the Company or any of its Subsidiaries in connection with the Green Spring Acquisition or each and any acquisition by the Company of GSH Minority Shares, including, without limitation, each and any stock purchase agreement and contribution agreement in respect thereof, each and any shareholder or other similar agreement entered into with any Green Spring Minority Shareholder or any other holder of equity interests in Green Spring Holdings, each document evidencing or governing the terms of any Green Spring PSI, each document evidencing or governing the terms of any GSH Preferred Stock and each other agreement and instrument from time to time entered into by the Company or any of its Subsidiaries pursuant to or in respect of any of the foregoing documents, in each case as amended, supplemented or otherwise modified from time to time in accordance with the terms hereof.
'Green Spring Cash Consideration Amount' shall mean $80,000,000 less, if any portion of the consideration to be paid by the Company for shares of common stock of Green Spring pursuant to the Green Spring Acquisition Document is shares of Company Common Stock, or if the Company contributes shares of Company Common Stock to Green Spring Holdings pursuant to Section 8.8(o)(ii), the product of the number of all such shares of Company Common Stock times the second highest of $20.00, $22.00 and the market value per share (as determined in accordance with the applicable provisions of the Green Spring Acquisition Documents) of the Company Common Stock on the Amendment No. 6 Green Spring Effective Date.

'Green Spring Holdings' shall mean a corporation organized under the laws of a State of the United States of America for the purpose of becoming on the Amendment No. 6 Green Spring Effective Date the owner of all of the outstanding common stock of Green Spring and Group Practice Affiliates, Inc.

'Green Spring Initial Acquisition' shall mean the consummation of the portion of the Green Spring Acquisition described in clause (i) of Section 8.8(o) hereof.

'Green Spring Minority Shareholders' shall mean, collectively, Blue Cross and Blue Shield of New Jersey, Inc., Health Care Service Corporation, Independence Blue Cross, Medical Service Association of Pennsylvania, Pierce County Medical Bureau, Inc., Veritus, Inc. and their respective successors and permitted transferees (other than the Company and any of its Subsidiaries) of common stock of Green Spring under the Green Spring Acquisition Documents.

'Green Spring PSI' shall mean unsecured Indebtedness of the Company which (a) is issued by the Company in consideration for the acquisition by the Company of any GSH Minority Shares as a result of the occurrence of a GSH Minority Interest Put; (b) has a final maturity that is no earlier than the seventh anniversary of the Amendment No. 6 Green Spring Effective Date; (c) is not guaranteed by any Person; (d) does not provide for any scheduled repayments, required prepayments, fixed sinking fund payments, serial maturities, required offers to purchase or similar payments in respect of all of any of the principal of such Indebtedness prior to the final maturity thereof; (e) does not permit any holder of such Indebtedness to declare all or any part of such Indebtedness to be paid or purchased before the final maturity thereof for any reason other than the occurrence of a default in respect thereof; (f) does not contain any financial maintenance covenants or a cross-default (although it may contain a cross-acceleration to, and a cross-default to a payment default upon the express final maturity of, Indebtedness having an outstanding aggregate principal amount of no less than $15,000,000, individually, and $30,000,000 in the aggregate); (g) is subordinated to the Obligations pursuant to provisions that are no less favorable in any material respect to the Lenders than those contained in the Subordinated Debt Documents and that are consented to by the Agent in its sole discretion; (h) is pari passu with or subordinated to the Senior Subordinated Notes; (i) bears interest at a rate that is less than or equal to 10% per annum, and has payment dates for such interest that occur no more frequently than semi-annually; and (j) is incurred pursuant to documentation containing terms, conditions, covenants, events of default and other provisions that are consistent with the foregoing provisions of this definition and are consented to by the Agent in its sole discretion.

'GSH Asset Sale' shall mean the occurrence of each and any sale, conveyance, transfer or other disposition (including, without limitation, as a result of a merger or consolidation) or series of related sales, conveyances, transfers or other dispositions by Green Spring Holdings or any of its Subsidiaries to any Person other than the Company, a Domestic Guarantor, Green Spring Holdings or a 95% or more owned Subsidiary of Green Spring Holdings of all or any
substantial portion of (a) any class of equity interests owned by it of any Subsidiary of Green Spring Holdings, or (b) the assets of Green Spring Holdings or any of its Subsidiaries, in any such case that have (i) individually, a fair market value in excess of $1,000,000, or (ii) in the aggregate during any fiscal year of the Company a fair market value in excess of $5,000,000 (aggregating, for purposes of this clause (ii), such sales, conveyances, transfers and other dispositions, or series of related sales, conveyances, transfers and other dispositions, involving equity interests or other assets having a fair market value in excess of $200,000 and less than or equal to $1,000,000); provided that no sale, conveyance, transfer or other disposition of any asset described in clauses (a) or (b) above shall constitute a GSH Asset Sale if the same also constitutes an Asset Sale.

'GSH Minority Interest Put' shall mean an election made by any Green Spring Minority Shareholder pursuant to and in accordance with the terms of the Green Spring Acquisition Documents entered into on or prior to the Amendment No. 6 Green Spring Effective Date (as amended, supplemented or otherwise modified in accordance with the terms hereof) to sell to the Company all or any portion of the GSH Minority Shares owned by such Green Spring Minority Shareholder.

'GSH Minority Interest Put Amount' shall mean, with respect to any GSH Minority Shares subject to a GSH Minority Interest Put, the product of $167,000,000 and the percentage of the entire outstanding common stock of Green Spring Holdings represented by such GSH Minority Shares.

'GSH Minority Shares' shall mean, as of any time of determination, the shares of common stock of Green Spring Holdings owned by the Green Spring Minority Shareholders at such time of determination.

'GSH Preferred Stock' shall mean any shares of preferred stock of Green Spring Holdings paid or payable to the Green Spring Minority Shareholders as part of the consideration paid or payable to such Green Spring Minority Shareholders in connection with the Green Spring Acquisition.

'GSH Prepayment Event' shall mean the occurrence of each and any GSH Asset Sale and either (a) a distribution or other transfer to the Company or any Restricted Subsidiary of all or any portion of the Net Proceeds of (or a distribution or other transfer to the Company or any Restricted Subsidiary of Cash or any other assets is made in connection with or as a result of) such GSH Asset Sale, or (b) the failure of all or any portion of the Net Proceeds of such GSH Asset Sale to be reinvested in the business of Green Spring Holdings or any of its Subsidiaries or distributed or otherwise transferred to the shareholders of Green Spring Holdings within 270 days of Green Spring Holdings' or such Subsidiaries', as the case may be, receipt thereof."

(k) Clause (a) of the definition of the term "Net Proceeds" in Section 10 of the Credit Agreement is amended by (i) inserting the words "or GSH Asset Sale" after the term "Asset Sale" the first time such term appears in such clause (a); (ii) inserting the parenthetical (or Green Spring Holdings and its Subsidiaries in the case of a GSH Asset Sale)" after the term "Restricted Subsidiaries" the first time such term appears in such clause (a); and (iii) inserting the words "or GSH Asset Sale, as the case may be" before the semi-colon appearing before the proviso to such clause (a).

(l) The definition of the term "Permitted Subordinated Indebtedness" in Section 10 of the Credit Agreement is amended by (i) deleting the word "and" before the beginning of clause (b) thereof; (ii) inserting the parenthetical ",other than Green Spring PSI" after the words "any other unsecured Indebtedness of the Company" appearing at the beginning of clause (b) of such definition; and (iii) inserting "; and (c) Green Spring PSI" after the word "business" appearing at the end of such definition.

Section 4. Representations and Warranties. The Company hereby represents and warrants to the Agent and the Lenders that:

(a) The Company has furnished to the Agent for the benefit of the Lenders prior to the date hereof (i) a copy of (A) the audited consolidated balance sheets of Green Spring and its Subsidiaries as of December 31, 1994, together with the related audited consolidated statements of operations and cash
flows of Green Spring and its Subsidiaries for the fiscal year of Green Spring then ended, and (B) the unaudited consolidated balance sheet of Green Spring and its Subsidiaries as of June 30, 1995, together with the related unaudited consolidated statements of operations and cash flows of Green Spring and its Subsidiaries for the six-month period then ended; and (ii) a copy of the unaudited pro forma projected consolidated balance sheet of the Company and its Subsidiaries (after giving effect to the Green Spring Acquisition and the financing thereof) as of September 30, 1995, and the unaudited pro forma projected consolidated statements of operations for the Company and its Subsidiaries (after giving effect to the

Green Spring Acquisition and the financing thereof) for the year ended September 30, 1995. The financial statements referred to in clause (i) above fairly present in all material respects the financial condition and results of operations of the entities covered thereby on the dates and/or for the periods covered thereby, all, except as set forth in Schedule 6.4 to the Credit Agreement, in accordance with GAAP consistently applied, subject, in the case of any such interim or unaudited financial statements referred to above, to normal, recurring adjustments and the absence of footnotes thereto. The pro forma projected financial statements described in clause (ii) above were prepared by the Company in a reasonable manner consistent, to the extent they include periods covered by the financial statements described in clause (i) above or financial statements delivered by the Company pursuant to the Credit Agreement, with GAAP (except as set forth on Schedule 6.4 to the Credit Agreement) and, with respect to the portion of the period covered by such pro forma projected financial statements that are not covered by such other financial statements, represent the Company's good faith estimate of its, Green Spring's and its other Subsidiaries consolidated financial condition and performance for such portion of such period, it being understood that such pro forma projected financial statements are not necessarily indicative of the results which would have actually been attained had the Green Spring Acquisition been completed as of the dates and for the periods presented in such pro forma financial statements or that such future financial condition or results of operations will in fact be achieved. Although the financial statements referred to in clause (i) of this paragraph were provided to the Company by Green Spring, the Company believes the same were prepared in good faith and has no reason to believe the information set forth therein is inaccurate in any material respect. As of the date hereof and the Green Spring Effective Date, except as permitted by the Credit Agreement as amended hereby, no material contingent liabilities of the Company, Green Spring or any of their respective Subsidiaries exist which are not fully disclosed in all material respects in the financial statements described in clause (i) or (ii) above, the most recent financial statements of the Company delivered to the Lenders pursuant to the Credit Agreement or in the related notes or schedules thereto.

(b) After giving effect to the consummation of the Green Spring Acquisition, Green Spring Holdings will own all of the shares of each class of stock of Green Spring on a fully diluted basis, and the Company will own at least 51% of all of the shares of each class of common stock of Green Spring Holdings on a fully diluted basis (excluding for purposes of calculating the foregoing percentage, the percentage, if any, that would be attributable to any GSH Preferred Stock as a result of any conversion rights available to the holders of such GSH Preferred Stock as described in clause (ii) of Section 8.8(o) of the Credit Agreement after giving effect to the amendments to the Credit Agreement contemplated hereby).

(c) The execution and delivery by the Company of this Amendment and the Green Spring Acquisition Documents, the performance by the Company and the other Credit Parties, as applicable, of this Amendment, the other Credit Documents as amended or otherwise modified hereby and the Green Spring Acquisition Documents and the consummation by the Company and the other
Credit Parties, as applicable, of the transactions contemplated hereby and thereby are within the Company's and the other Credit Parties', as applicable, corporate powers, have been duly authorized by all necessary corporate or other action and will not (i) contravene the certificate or articles of incorporation or the bylaws of the Company or any of its Subsidiaries, (ii) contravene any law, regulation, order, writ, judgment, decree, determination or award currently in effect binding on or affecting the Company or any of its Subsidiaries or any of their respective assets, except where such contravention would not have a Material Adverse Effect, or (iii) conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any Lien (except pursuant to the Security Documents) upon any of the property or assets of the Company or any of its Subsidiaries pursuant to the terms of, any indenture, mortgage, deed of trust, agreement or other instrument (including, without limitation, the Senior Subordinated Notes Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company, any of its Subsidiaries or any of their respective properties or assets is bound or subject to, except to the extent such conflict, breach, default or creation or imposition would not have a Material Adverse Effect.

(d) Except (i) such as have been duly obtained, made or given and are in full force and effect, (ii) as fully disclosed on Schedule 6.7 to the Credit Agreement, or (iii) in the case of the performance or consummation of all or any portion of the Green Spring Acquisition Documents or the Green Spring Acquisition, respectively, such as will be duly obtained, made or given and be in full force and effect at the time of such performance or consummation, as applicable, no material order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or notice to or exemption by any governmental or public body or authority, domestic or foreign, or any subdivision thereof, or any other Person or group of Persons is required to authorize, or is required in connection with (A) the execution, delivery or performance of this Amendment, any Green Spring Acquisition Document, the Credit Documents as amended or otherwise modified hereby or the consummation of the Green Spring Acquisition or any of the other transactions contemplated hereby or thereby (including, without limitation, any such consents that are required for the pledge to the Collateral Agent under the Company Stock and Notes Pledge of the common stock of Green Spring Holdings from time to time owned by the Company and to the foreclosure upon the same by the Collateral Agent); or (B) the legality, validity, binding effect or enforceability of this Amendment, any Green Spring Acquisition Document, any Credit Document as amended or otherwise modified hereby, the Green Spring Acquisition or any of the other transactions contemplated hereby or thereby.

(e) Each Green Spring Acquisition Document from time to time entered into by the Company will constitute the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, and by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

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

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

(h) The representations and warranties of the Company and the other Credit Parties contained in the Credit Agreement and the other Credit Documents are true and correct on and as of the date hereof as if made on and as of the date hereof and will be true and correct on and as of each of the Initial Effective Date and the Green Spring Effective Date both before and after giving effect to the effectiveness of this Amendment, except, in either such case, to the extent such representations and warranties expressly relate to a specific date.
(i) The representations and warranties of the Company that will be set forth in the Green Spring Acquisition Documents will be true and correct in all material respects as of the respective dates on which they are made and, to the extent remade on any date, will be true and correct in all material respects as of the date remade. Except as disclosed in writing to the Agent for the account of the Lenders, all of the conditions precedent to the obligations of the Company under the Green Spring Acquisition Documents that are required to be satisfied on or prior to the closing date of the Green Spring Acquisition will have been satisfied as of such date in all material respects, without any waiver thereof not consented to by the Agent in writing.

Section 5. Conditions Precedent to Effectiveness. (a) The effectiveness of the amendments to the Credit Documents set forth in Sections 1 and 2 hereof is subject to the satisfaction of the following conditions precedent on or prior to December 31, 1995 (the date, if any, on which Sections 1 and 2 hereof become effective is the "Initial Effective Date"): (i) Amendment No. 6. The Agent shall have received duly executed counterparts of this Amendment from the Company, each Subsidiary of the Company that is a party to any Credit Document and as many of the Lenders as shall be necessary to comprise the "Required Lenders". (ii) Representations and Warranties. The representations and warranties contained in Section 4 hereof shall be true and correct on and as of the Initial Effective Date as though made on and as of the Initial Effective Date both before and after giving effect to this Amendment, except for such representations and warranties which expressly relate to a different date. (iii) Appointment Form. For purposes of the effectiveness of Section 2 hereof, the Agent shall have received a form appointing Corporation Service Company as agent for service of process executed by each of the Credit Parties, which appointment form shall be reasonably satisfactory in form and substance to the Agent. (b) Except as otherwise provided in the introductory paragraph to Section 3 hereof, the effectiveness of the amendments to the Credit Agreement set forth in Section 3 hereof is subject to the satisfaction of the following conditions precedent on or prior to December 31, 1995 (the date, if any, on which Section 3 hereof becomes effective is the "Green Spring Effective Date"): (i) Amendment No. 6. The Agent shall have received duly executed counterparts of this Amendment from the Company, each Subsidiary of the Company that is a party to any Credit Document and as many of the Lenders as shall be necessary to comprise the "Required Lenders". (ii) Officer's Closing Certificate. The Agent shall have received (with a copy for each of the Lenders) a certificate dated the Green Spring Effective Date of the Chief Executive Officer, Chief Financial Officer or the Treasurer of the Company certifying that on and as of the Green Spring Effective Date (i) no Default or Event of Default has occurred and is continuing either before or after giving effect to the Green Spring Acquisition, (ii) the representations and warranties of the Company and the other Credit Parties set forth in this Amendment and the other Credit Documents are true and correct on and as of the Green Spring Effective Date both before and after giving effect to the Green
Spring Acquisition, except to the extent such representations and warranties expressly relate to a different specific date, and (iii) the other conditions precedent set forth in this Section 5 have been satisfied.

(iii) Green Spring Corporate Documents. The Agent shall have received (with a copy for each of the Lenders) true, correct and complete copies of the Articles of Incorporation and By-laws of Green Spring and Green Spring Holdings, respectively, as in effect immediately after giving effect to the Green Spring Acquisition, and such Articles of Incorporation and By-laws shall be in form and substance satisfactory to the Agent in its reasonable discretion.

(iv) Opinion of the Company’s Counsel. The Agent shall have received (with a copy for each of the Lenders) a favorable opinion dated the Green Spring Effective Date of King & Spalding, counsel for the Company, as to such matters as the Agent may reasonably request, which opinion shall be in form and substance satisfactory to the Agent in its reasonable discretion.

(v) Green Spring Acquisition Documents. The Company shall have entered into a stock purchase or similar agreement or agreements in respect of the Green Spring Acquisition (collectively, the “Stock Purchase Agreements”) that are in form and substance satisfactory to the Agent in its sole discretion. Each of the other Green Spring Acquisition Documents entered into or to be entered into pursuant to the Stock Purchase Agreements or otherwise in connection with the consummation of the Green Spring Acquisition (including, without limitation, the exhibits and schedules thereto) and the structure of the Green Spring Acquisition shall be in form and substance satisfactory to the Agent in its sole discretion, such other Green Spring Acquisition Documents shall have been duly executed and delivered by the parties thereto, and neither the Stock Purchase Agreements nor any such other Green Spring Acquisition Document shall have been amended in any material respect without the prior written consent of the Agent. The Agent shall have received (with copies for each of the Lenders) executed copies of each of the Stock Purchase Agreements and the other Green Spring Acquisition Documents as in effect on the Green Spring Effective Date, certified as of such date as being true and correct copies thereof by an authorized officer of the Company, and such Green Spring Acquisition Documents shall be in full force and effect. The certificates and opinions to be delivered to, by or on behalf of the Company or any of its Subsidiaries pursuant to any Green Spring Acquisition Document shall be addressed to the Lenders or shall be accompanied by letters, in form and substance satisfactory to the Agent in its reasonable discretion, entitling the Lenders to rely thereon.

(vi) Consummation of Green Spring Acquisition. The Green Spring Acquisition shall have been consummated in accordance in all material respects with all of the terms of the Stock Purchase Agreements and the other applicable Green Spring Acquisition Documents, and none of the conditions precedent set forth therein to the obligations of the Company to consummate all or any portion of the Green Spring Acquisition shall have been waived by the Company without the prior written consent of the Agent. Immediately after giving effect to the consummation of the Green Spring Acquisition, (i) Green Spring Holdings shall be a Subsidiary of the Company and Green Spring Holdings shall be the owner of all of the outstanding shares of capital stock of Green Spring, (ii) the sole outstanding shares of stock of Green Spring and Green Spring Holdings shall be common stock and GSH Preferred Stock, and (iii) except as contemplated by the section of the Term Sheet entitled “Terms of Exchange Agreement”, there shall be no outstanding securities that are convertible into or exchangeable for capital stock of, or other equity interests in, Green Spring or Green Spring Holdings or any rights to subscribe for or purchase, any
warrants or options for the purchase of, any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, any capital stock of or other equity interests in Green Spring or Green Spring Holdings or any securities convertible or exchangeable therefor, except that any GSH Preferred Stock may be convertible into common stock of Green Spring Holdings as described in clause (ii) of Section 8.8(o) of the Credit Agreement after giving effect to the amendments to the Credit Agreement contemplated hereby.

(vii) Pledge of Acquired Green Spring Holdings Stock. The Collateral Agent shall have a valid and enforceable perfected security interest in and Lien on all of the Acquired Green Spring Holdings Stock that is superior and prior to the rights of all other Persons therein (as provided in the Uniform Commercial Code) and subject to no other Liens other than Liens permitted by the Credit Agreement. In furtherance thereof, the Company shall have delivered to the Collateral Agent for the benefit of the Lenders pursuant to the Company Stock and Notes Pledge share certificates in the name of the Company and representing all of the Acquired Green Spring Holdings Stock, together with undated stock powers therefor duly executed in blank by the Company and a certificate dated the Green Spring Effective Date meeting the requirements of Section 4.2 of the Company Stock and Notes Pledge, which certificate shall be dated the Green Spring Effective Date.

(viii) Financial Statements. The Agent shall have received (with copies for each of the Lenders) such financial statements of Green Spring and its Subsidiaries as are delivered to the Company pursuant to the Green Spring Acquisition Documents in connection with the consummation of the Green Spring Acquisition and, in any event, an unaudited consolidated balance sheet of Green Spring and its Subsidiaries as of a date that is no more than 60 days prior to the Green Spring Effective Date, together with related unaudited consolidated statements of operations and, if available, cash flows of Green Spring and its Subsidiaries for the period commencing on January 1, 1995 and ending on the date of such balance sheet; in each case accompanied by a certificate of the chief financial officer of the Company that is in form and substance satisfactory to the Agent.

(ix) Projections. The Agent shall have received (with copies for each of the Lenders) projections prepared by the Company demonstrating the projected consolidated financial condition, results of operations and cash flows of the Company, Green Spring and the Company's other Subsidiaries after giving effect to the Green Spring Acquisition, in each of the foregoing cases for the period commencing on October 1, 1995 and ending on September 30, 1999, and accompanied by a certificate of an executive officer of the Company certifying that such projections, as of the date of preparation thereof, are reasonable and represent the Company's good faith estimate of its, Green Spring's and its other Subsidiaries' consolidated financial condition and performance after giving effect to the Green Spring Acquisition, it being understood that nothing contained in such certificate shall constitute a representation or warranty that such future financial condition or results of operations will in fact be achieved. The foregoing shall be in form and substance satisfactory to the Agent.

(x) Material Events. No event, action or proceeding shall have occurred or condition shall have arisen at any time after June 30, 1995 with respect to any Credit Party, any Transaction Document or any Transaction which the Agent or the Required Lenders by notice to the Agent has reasonably determined could have a Material Adverse Effect either before or after giving effect to the consummation of the Green Spring Acquisition. No event, action or proceeding shall have occurred or condition shall have arisen at any time after December 31, 1994 with respect to Green Spring, Green Spring Holdings, any Green Spring Acquisition Document or any of the transactions contemplated
hereby or thereby which the Agent or the Required Lenders by notice to
the Agent has reasonably determined could have a Material Adverse
Effect either before or after giving effect to the Green Spring
Acquisition or a material adverse effect on the business, property,
assets, condition (financial or otherwise), liabilities or operations
of Green Spring Holdings, Green Spring and Green Spring's Subsidiaries
taken as a whole.

(xii) Absence of Litigation. There shall be no pending
or threatened action, proceeding or investigation seeking to enjoin or
challenging, or seeking damages in connection with, this Amendment, any
other Credit Document, any Green Spring Acquisition Document or the
consummation of the Green Spring Acquisition or any of the other
transactions contemplated hereby or thereby that, in the sole judgment
of the Agent is, individually or in the aggregate, likely to have a
Material Adverse Effect or otherwise material.

(xii) Representations and Warranties. The
representations and warranties contained in Section 4 hereof shall be
true and correct on and as of the Green Spring Effective Date as though
made on and as of the Green Spring Effective Date both before and after
giving effect to the Green Spring Acquisition, except for such
representations and warranties which expressly relate to a different
date.

(xiii) Corporate Proceedings, etc. All corporate,
partnership and legal proceedings and all instruments and agreements in
connection with the transactions contemplated by this Amendment and the
Green Spring Acquisition Documents shall be satisfactory in form and
substance to the Agent in its sole discretion, and the Agent shall have
received (with copies for each of the Lenders) all information and
copies of all documents and papers, including, without limitations,
certified records of corporate and partnership proceedings and
governmental approvals, if any, which the Agent, on behalf of any
Lender, may have reasonably requested in connection with the
consummation of the Green Spring Acquisition and the other transactions
contemplated hereby.

Section 6. Interim Conditional Consent. Notwithstanding any
prohibition thereon contained in the Credit Agreement, the Lenders party hereto
hereby consent to the consummation of the Green Spring Initial Acquisition
described in clause (i) of Section 8.8(o) of the Credit Agreement after giving
effect to the amendments to the Credit Agreement contemplated hereby; provided
that (a) the Green Spring Initial Acquisition is consummated in accordance with
the provisions of such clause (i) and the conditions set forth in such clause
(i) with respect thereto are satisfied, (b) the portion of the Green Spring
Acquisition described in clause (ii) of Section 8.8(o) of the Credit Agreement
after giving effect to the amendments to the Credit Agreement contemplated
hereby is consummated as promptly as practicable after and, in any event, on the
same day as the consummation of the Green Spring Initial Acquisition, and (c)
each of the other conditions precedent to the effectiveness of this Amendment
set forth in Section 5(b) hereof is satisfied on and as of the date of the
consummation of the Green Spring Initial Acquisition.

Section 7. Status of Credit Documents. This Amendment is
limited solely for the purposes and to the extent expressly set forth herein,
and, except as expressly modified hereby, the terms, provisions and conditions
of the Credit Documents and the Liens granted thereunder shall continue in full
force and effect and are hereby ratified and confirmed in all respects.

Section 8. Counterparts. This Amendment may be executed and
delivered in any number of counterparts and by the different parties hereto on
separate counterparts, each of which when so executed and delivered shall be an
original, but all of which shall together constitute one and the same
instrument. A complete set of counterparts shall be lodged with the Company and
the Agent.

Section 9. Governing Law. THIS AMENDMENT SHALL BE
IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized officers to execute and deliver this Amendment No. 6 to the Second Amended and Restated Credit Agreement as of the date first above written.

CHARTER MEDICAL CORPORATION

By:________________________  
   Name:________________________  
   Title:________________________

BANKERS TRUST COMPANY,  
as Agent and a Lender

By:________________________  
   Name:________________________  
   Title:________________________

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

By:________________________  
   Name:________________________  
   Title:________________________

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By:________________________  
   Name:________________________  
   Title:________________________

BANK OF IRELAND

By:________________________  
   Name:________________________  
   Title:________________________

CREDIT LYONNAIS,  
Cayman Islands Branch

By:________________________  
   Name:________________________  
   Title:________________________
DRESDNER BANK AG, New York and Grand Cayman Islands Branches

By: ______________________
Name: ______________________
Title: ______________________

By: ______________________
Name: ______________________
Title: ______________________

GENERAL ELECTRIC CAPITAL CORPORATION

By: ______________________
Name: ______________________
Title: ______________________

GIROCREDIT BANK AG DER SPARKESEN

By: ______________________
Name: ______________________
Title: ______________________

THE BANK OF NEW YORK

By: ______________________
Name: ______________________
Title: ______________________

THE MITSUBISHI BANK, LIMITED, New York Branch

By: ______________________
Name: ______________________
Title: ______________________

Consented and agreed to as of the date first above written by each of the entities listed on Schedule I hereto:

By: ______________________
Name: ______________________
Title: ______________________
of each of the entities listed on Schedule I hereto
AMENDMENT NO. 7
TO
SECOND AMENDED AND RESTATED CREDIT AGREEMENT

AMENDMENT NO. 7 dated as of November 30, 1995 (this "Amendment") to the SECOND AMENDED AND RESTATED CREDIT AGREEMENT dated as of May 2, 1994 (as amended by Amendment No. 1 thereto dated as of June 9, 1994, Amendment No. 2 thereto dated as of September 30, 1994, Amendment No. 3 thereto dated as of December 12, 1994, Amendment No. 4 thereto dated as of January 11, 1995, Amendment No. 5 thereto dated as of March 17, 1995 and Amendment No. 6 thereto dated as of October 17, 1995 ("Amendment No.6"), the "Credit Agreement"), each among CHARTER MEDICAL CORPORATION, a Delaware corporation (the "Company"), the banking and other financial institutions from time to time party thereto (the "Lenders"), BANKERS TRUST COMPANY, as agent for the Lenders, and FIRST UNION NATIONAL BANK OF NORTH CAROLINA, as Co-Agent. Capitalized terms used herein and not defined herein shall have the respective meanings set forth for such terms in the Credit Agreement after giving effect to the amendments thereto set forth herein.

W I T N E S S E T H :

WHEREAS Amendment No. 6 was entered into in connection with the proposed acquisition by the Company of 51% of the common stock of Green Spring;

WHEREAS, at the time Amendment No. 6 was entered into it was contemplated that such acquisition would be effected by the acquisition by the Company of 51% of the common stock of a newly formed company ("Newco") that would become the owner of all of the outstanding common stock of Green Spring;

WHEREAS, instead of investing in Newco the Company now intends to directly acquire and own 51% of the common stock of Green Spring; and

WHEREAS, in order to reflect the new structure for such acquisition it is desirable that Amendment No. 6 be replaced by this Amendment;

NOW, THEREFORE, the parties hereto hereby agree as follows:

Section 1. Rescission of Amendment No. 6; Initial Amendments to Credit Agreement. Amendment No. 6 and the amendments to the Credit Agreement made pursuant thereto are hereby rescinded, made void and shall be of no further force and effect. Effective as of October 17, 1995, the Credit Agreement is amended as follows:

(a) The last sentence of Section 7.8 of the Credit Agreement is amended by inserting the following before the period ending such sentence:

"; provided that an Unrestricted Subsidiary that becomes a Subsidiary of the Company on or after October 17, 1995 shall not be required to become a party to a Tax Sharing Agreement unless and until such Unrestricted Subsidiary is or is required to be (as a result of an election by the Company or otherwise) consolidated with the Company for federal, state, local or foreign income tax purposes".

(b) Section 8.3 of the Credit Agreement is hereby amended by (i) inserting the phrase "and pursuant to clauses (xi) and (xii) below" after the phrase "pursuant to clauses (i) and (ii) above" in clause (v) thereof; (ii) inserting the phrase "and pursuant to clauses (xi) and (xii) below" after the phrase "pursuant to clauses (i), (ii) and (v) above" in clause (x) thereof; (iii) deleting the "and" at the end of clause (ix) thereof; (iv) replacing the period at the end of clause (x) thereof with a semi-colon; and (v) inserting the following at the end of such Section as clauses (xi) and (xii) thereof:

"(xi) from time to time after October 17, 1995 and prior to March 31, 1996 the Company may repurchase shares of Company Common Stock for a price not to exceed the then fair market value thereof; provided that (A) the aggregate purchase price paid or payable
by the Company in connection with all such repurchases that are made
prior to the earlier to occur of the Amendment No. 7 Green Spring
Effective Date and December 31, 1995 (the earlier to occur of such
dates is hereinafter referred to in this clause (xi) as the "cut-off
date") shall not exceed $18,290,000; (B) the aggregate purchase price
paid or payable by the Company in connection with all such repurchases
that are made on or after the cut-off date shall not exceed the greater
of zero and the positive excess, if any, of (1) the product (such
product, for purposes of this clause (xi), being hereinafter referred
to as the "GSHS purchase price credit amount") of (x) the number of
shares of Company Common Stock issued or sold to the Green Spring
Minority Shareholders on the Amendment No. 7 Green Spring Effective
Date pursuant to the terms of the Green Spring Acquisition Documents,
and (y) the second highest of $20.00, $22.00 and the market value per
share (as determined in accordance with the applicable provisions of
the

Green Spring Acquisition Documents) of the Company Common Stock on the
Amendment No. 7 Green Spring Effective Date; (D) the Mini mum Income Tests and the Debt Service
Coverage Tests are satisfied with re spect to each such repurchase; (E)
if the Company repurchases Company Common Stock after October 17, 1995
and prior to March 31, 1996, and such repurchases are also permitted
pursuant to clause (v) above, then, to the extent so permitted, such
repurchases shall be considered repurchases pursuant to such clause (v)
above for all purposes other than for purposes of clauses (A), (B) and
(C) above; (F) within 120 days following the cut-off date, the Company
shall consummate a public or private offering of Company Common Stock
which re sults in the receipt by the Company of Net Proceeds in an
aggregate amount at least equal to the positive excess, if any, of the
aggregate purchase price paid or payable by the Company in connection
with all shares of Company Common Stock repurchased pursuant to this
clause (xi) over the GSHS purchase price credit amount; provided that,
if the Company does not so consummate such public offering, then the
amount "$60,000,000" in the third line of Section 8.8(r) and the amount
"80,000,000" in the second proviso to such Section 8.8(r) shall each be
reduced automatically by an amount equal to the least amount of Net
Proceeds that the Company would have received if it had consummated
such public offering in compliance with this clause (F); and (G) the
Company complies with Section 4.2(b) in connection with any such public offering; and

(xii) the Company and any of its Restricted Subsidiaries may exercise any rights to which the Company or such Restricted Subsidiary is otherwise entitled as pledgee with respect to the 152,177 shares of Company Common Stock pledged as collateral pursuant to those certain Stock Pledge Agreements dated as of December 17, 1993, originally between National Mentor Holding Corp. and each of the pledgors party thereto."

(c) Clause (iii) of each of Sections 8.2(i) and 8.8(n) of the Credit Agreement and clause (v) of each of Sections 8.2(j), 8.2(k) and 8.5(e) of the Credit Agreement are each amended by inserting "(other than pursuant to Permitted JV Distribution Provisions)" after the word "restricted" in each place it appears in such clauses.

(d) Section 8.4(a)(i)(A) of the Credit Agreement is amended by adding the following after "Restricted Subsidiaries" in the fifth line thereof and before ":

"(provided that Permitted JV Distribution Provisions contained in the governing documents of a Restricted Subsidiary that is a Permitted Joint Venture as the result of a Permitted JV Transaction shall not constitute an encumbrance or restriction that violates clause (A) of this clause (i))."

(e) Clause (ii)(B) of the last proviso to Section 8.8(r) of the Credit Agreement is amended by (i) inserting "the sum, without duplication, of (x)" at the beginning of clause (2) thereof; and (ii) inserting the following after the word "interest" at the end of clause (2) thereof:

", and (y) all amounts paid by the Company or any Domestic Guarantor at any time in complete or partial satisfaction of each and any such guaranty".

(f) Section 8.10(b) of the Credit Agreement is amended by (i) inserting "the sum, without duplication, of (x)" at the beginning of clause (B)(ii) of the last proviso to such Section; and (ii) inserting the following after the reference "Section 8.15(a)(ix)" at the end of clause (B)(ii) of the last proviso to such Section:

", and (y) all amounts paid by the Company or any Domestic Guarantor at any time in complete or partial satisfaction of each and any such guaranty".

(g) Section 8.15(b) of the Credit Agreement is amended by inserting the following at the end of such Section:

"; provided that (1) the documents evidencing any Indebtedness of any Person that was in existence on the date such Person became an Unrestricted Subsidiary and was not assumed or otherwise incurred in connection with or in anticipation of such Person's becoming an Unrestricted Subsidiary shall not be required to expressly state that such Indebtedness is without recourse to the Company and its Restricted Subsidiaries, and (2) no opinion of the type described in the preceding clause (ii) of this Section 8.15(b) shall be required to be delivered in respect of any Indebtedness described in the preceding clause (1) of this proviso".

(h) The definition of the term "Debt Service Coverage Tests" in Section 10 of the Credit Agreement is amended (i) by inserting "(or if such Subject Transaction occurs at any time on or prior to March 31, 1996, is a Subject Transaction pursuant to Section 8.8(o)(iii) or is an issuance of Green Spring PSI, 2.5:1.0)" after the ratio "3.0:1.0" in each of clauses (a) and (b) of such definition and (ii) by inserting "(or if such Subject Transaction occurs at any time on or prior to March 31, 1996, is a Subject Transaction pursuant to Section 8.8(o)(iii) or is an issuance of Green Spring PSI, 4.25:1.0)" after the
ratio "4.0:1.0" in clause (c).

(i) The following is inserted after the definition of the term "Permitted Joint Venture" in Section 10 of the Credit Agreement:

"Permitted JV Distribution Provisions' means, with respect to any Permitted Joint Venture, (a) provisions contained in the governing documents of such Permitted Joint Venture that prohibit or otherwise restrict the making of distributions by such Permitted Joint Venture solely (i) at any time that any outstanding Indebtedness for borrowed money is owed to any owner of equity interests thereof; (ii) in the case of any such Permitted Joint Venture that is a partnership or limited liability company, to the extent such distribution would cause any partner or member thereof, as applicable, to have a negative balance in its capital account; (iii) without the required approval of at least a majority of (A) the directors thereof (if such Permitted Joint Venture is a corporation), (B) the managers or managing members (or, if there are no such managers or managing members, the members of any board or other body that performs functions substantially equivalent to those of a board of directors of a corporation) thereof (if, in any such case, such Permitted Joint Venture is a limited liability company), (C) the general partners thereof (if such Permitted Joint Venture is a partnership), or (D) persons performing a similar function as any of the foregoing (if such Permitted Joint Venture is other than a corporation, limited liability company or partnership); (iv) to the extent such distribution would be prohibited by any applicable law described in clause (b) below; (v) out of or through the use of funds of such Permitted Joint Venture that the directors, managers, managing members, general partners (or persons performing substantially equivalent functions) of such Permitted Joint Venture determine are necessary to pay such Permitted Joint Venture's current and anticipated cash obligations, such current and anticipated obligations including, without limitation, operating expenses, debt service, authorized acquisitions, budgeted capital expenditures, and reasonable reserves in amounts determined by such persons and/or (vi) under other circumstances that are consented to by the Required Lenders in their sole discretion with respect to such Permitted Joint Venture; and (b) prohibitions and other restrictions contained in any corporate, partnership or similar law that is applicable to such Permitted Joint Venture."

Section 2. Amendment to Credit Documents. Effective as of October 17, 1995, each of the Credit Documents is amended by revoking the appointment of CT Corporation System as agent for service of process. Each of the Credit Parties hereby irrevocably designates Corporation Service Company, located at 375 Hudson Street, New York, New York, 10014-3660 (or such other persons as may hereafter be selected by the Credit Parties, with the consent of the Agent), as the designee, appointee and agent of each of such Credit Party to receive, for and on behalf of such Credit Party, service of process in the courts of the State of New York or of the United States of America for the Southern District of New York in any legal action or proceeding with respect to any Credit Document or any document related thereto and such service shall, to the extent permitted by applicable law, be deemed completed ten days after delivery thereof to said agent.

Section 3. Green Spring Amendments to Credit Agreement. Effective as of the Green Spring Effective Date (as defined in Section 5 hereof), the Credit Agreement is amended as of the date hereof as follows (it being understood that to the extent that any of the following amendments to Section 10 of the Credit Agreement are used for definitional purposes in Section 1 hereof, such amendments to Section 10 shall be effective as of October 17, 1995):
(a) Section 4.2(a) of the Credit Agreement is amended by inserting the following at the end thereof:

"Within two Business Days of each date on which a GSHS Prepayment Event occurs, the Company shall prepay outstanding Loans in an amount equal to 70% (or, if a Default or an Event of Default exists immediately prior to or after giving effect to the occurrence of such GSHS Prepayment Event, 100%) of (i) in the case of the occurrence of a GSHS Prepayment Event described in clause (a) of the definition of such term, the aggregate amount distributed or otherwise transferred to the Company and its Restricted Subsidiaries as a result of or in connection with the GSHS Asset Sale giving rise to such GSHS Prepayment Event, net of taxes paid or reasonably estimated to be payable by the Company in respect of such distribution or transfer, and (ii) in the case of the occurrence of a GSHS Prepayment Event described in clause (b) of the definition of such term, the product of (A) the percentage of the outstanding common stock of Green Spring owned by the Company and its Restricted Subsidiaries, and (B) the portion of the Net Proceeds of the GSHS Asset Sale giving rise to such GSHS Prepayment Event that are not distributed or otherwise transferred to the shareholders of Green Spring or reinvested in the business of Green Spring and its Subsidiaries within 270 days of the occurrence of such GSHS Asset Sale."

(b) Section 7.1(i) of the Credit Agreement is amended by inserting "or any Green Spring Acquisition Document" after the term "NME Purchase Agreement" in clause (A) of such Section.

(c) Section 8.8(c) of the Credit Agreement is amended by replacing the amount "$50,000,000" in the fifth line thereof with "$10,000,000".

(d) Section 8.8(o) of the Credit Agreement is amended in its entirety to read as follows:

"(o) so long as no Default or Event of Default has occurred and is continuing immediately before or after giving effect thereto:

(i) the Company may purchase on the Amendment No. 7 Green Spring Effective Date from all or any of the Green Spring Minority Shareholders up to 51% of the outstanding shares of common stock of Green Spring pursuant to and in accordance in all material respects with the terms of the Green Spring Acquisition Documents; provided that (A) the sole consideration paid or payable by the Company and its Subsidiaries for such shares is Cash payable on the closing date of such purchase in an aggregate amount not to exceed the Green Spring Cash Consideration Amount and shares of Company Common Stock, (B) the Minimum Income Tests and the Debt Service Coverage Tests are satisfied with respect thereto, and (C) the transactions described in clause (ii) below are consummated substantially concurrent therewith;

(ii) substantially concurrent with the consummation of the transactions described in clause (i) above, the Company may exchange all of the outstanding capital stock of Group Practice Affiliates, Inc. for shares of common stock of Green Spring pursuant to and in accordance in all material respects with the terms of the Green Spring Acquisition Documents; provided that (A) the sole consideration paid or payable to the Company in exchange for such stock of Group Practice Affiliates, Inc. is shares of common stock of Green Spring; (B) the Minimum Income Tests and the Debt Service Coverage Tests are satisfied with respect to such contribution by the Company; and (C) immediately after giving effect to such contributions by the Company, the Company directly owns at least 51% of the outstanding shares of each class of common stock of
Green Spring;

(iii) the Company may purchase from time to time at any time that occurs after the Amendment No. 7 Green Spring Effective Date and on or prior to the third anniversary thereof from any Green Spring Minority Shareholder all or any portion of the GSHS Minority Shares of such Green Spring Minority Shareholder; provided that (A) the sole consideration paid or payable by the Company and its Subsidiaries in respect of any such purchase of such shares is either (1) Green Spring PSI permitted by Section 8.7(f) in an aggregate principal amount not to exceed the GSHS Minority Interest Put Amount for the GSHS Minority Shares subject to such purchase (or, at the election of the Company, Cash in an aggregate amount not in excess of such GSHS Minority Interest Put Amount; provided that the Company may only so elect if, immediately after giving effect to the payment of such Cash consideration, the sum of (i) the aggregate principal amount of Revolving Loans outstanding for all Lenders at such time, (ii) $25,000,000, (iii) the Letter of Credit Outstandings at such time, (iv) the aggregate amount of all of the Lenders' Subsidiary Credit Extensions at such time, and (v) the then aggregate outstanding principal amount of all Swingline Borrowings (without duplication of any Revolving Loans made with respect thereto pursuant to Section 1.4) does not exceed an amount equal to the Total Revolving Loan Commitment), (2) shares of Company Common Stock, or (3) a combination of (1) and (2) above, (B) if the consideration for such purchase includes Cash or Green Spring PSI, the Minimum Income Tests and the Debt Service Coverage Tests are satisfied with respect thereto, (C) such acquisition is required to be made pursuant to the terms of the Green Spring Acquisition Documents as a result of the occurrence of a GSHS Minority Interest Put and is made in accordance with all material respects with the terms of the Green Spring Acquisition Documents, and (D) after giving effect to such purchase, the sum of the aggregate amount of Cash paid by the Company and its Subsidiaries and the aggregate original principal amount of Green Spring PSI issued by the Company, in each case in connection with all purchases of GSHS Minority Shares pursuant to this Section 8.8(o), shall not exceed $81,830,000, plus an amount equal to the aggregate cash capital contributions made to Green Spring by Green Spring Minority Shareholders after the Amendment No. 7 Green Spring Effective Date and up to the date of any such purchase, less the aggregate value of all shares of Company Common Stock issued or otherwise transferred by the Company pursuant to this Section 8.8(o) in exchange for GSHS Minority Shares (for purposes of the foregoing, the value of each share of Company Common Stock so issued or otherwise transferred shall be deemed to be $23.00); and

(iv) the Company and its Restricted Subsidiaries may make, in addition to the Investments permitted by the preceding clauses (i), (ii) and (iii) of this Section 8.8(o), up to, in the aggregate, $50,000,000 of Investments of Cash and other assets (other than Facilities) in Green Spring and its Subsidiaries, the Clinical Services Unit and the MIS Unit, collectively; provided that the amount of Investments permitted to be made at any time pursuant to this clause (iv) shall be increased by the lesser of (A) $30,000,000, and (B) the then Accumulated Excess Cash Flow; provided further that no more than $50,000,000 of such Investments in the aggregate may be made at any time prior to the first anniversary of the Closing Date, no more than $60,000,000 of such Investments in the aggregate may be made at any time prior to the second anniversary of the Closing Date, no more than $70,000,000 of such Investments in the aggregate may be made at any time prior to the third anniversary of the Closing Date and no more than $80,000,000 of such Investments may be made in the aggregate; provided further that no such Investment pursuant to this clause (iv) shall be permitted unless the Minimum Income Tests and the Debt Service Coverage Tests are satisfied with respect thereto; and, provided further, that the aggregate amount of Investments otherwise permitted by this clause (iv) at any time shall be reduced by the sum, without duplication, of (1) the then aggregate...
outstanding amounts (as determined in accordance with the definition of Accommodation Obligations) of all guaranties made by the Company and the Domestic Guarantors of Indebtedness and other obligations of Green Spring, any of Green Spring's Subsidiaries, the Clinical Services Unit and/or the MIS Unit, (2) all amounts paid by the Company or any Domestic Guarantor at any time in complete or partial satisfaction of any guaranty made by the Company or any Domestic Subsidiary of Indebtedness or other obligations of Green Spring Holdings, any of Green Spring's Subsidiaries, the Clinical Services Unit and/or the MIS Unit, and (3) the aggregate amount of Investments that were made by the Company and its Restricted Subsidiaries in the Clinical Services Unit and/or the MIS Unit prior to the Closing Date;".

(e) Clause (ii)(B) of the last proviso to Section 8.8(r) of the Credit Agreement is amended by inserting ", the Green Spring Acquisition and other purchases by the Company of shares of common stock of Green Spring, but only to the extent the aggregate amount paid or payable in Cash, property or otherwise for all such other purchases does not exceed $81,830,000, plus an amount equal to the aggregate cash capital contributions made to Green Spring by Green Spring Minority Shareholders after the Amendment No. 7 Green Spring Effective Date and up to the date of any such purchase (it being understood that, for purposes of the foregoing, the value of each share of Company Common Stock issued in connection with any such purchase that is made pursuant to Section 8.8(o)(iii) shall be deemed to be $23.00)" at the end of the parenthetical contained in clause (1) thereof.

(f) Section 8.10(b) of the Credit Agreement is amended by (i) inserting ", the Green Spring Acquisition and other purchases by the Company of shares of common stock of Green Spring, but only to the extent the aggregate amount paid or payable in Cash, property or otherwise for all such other purchases does not exceed $81,830,000, plus an amount equal to the aggregate cash capital contributions made to Green Spring by Green Spring Minority Shareholders after the Amendment No. 7 Green Spring Effective Date and up to the date of any such purchase (it being understood that, for purposes of the foregoing, the value of each share of Company Common Stock issued in connection with any such purchase that is made pursuant to Section 8.8(o)(iii) shall be deemed to be $23.00)" after the term "NME Acquisition" in the tenth line of such Section; and (ii) inserting "Green Spring and its Subsidiaries," before the words "the Clinical Services Unit" in the second parenthetical appearing in clause (B)(ii) of the last proviso to such Section.

(g) Section 8.11(d) of the Credit Agreement is amended by (i) inserting ", the Green Spring Acquisition Documents" after the term "NME Purchase Agreement" the first time such term appears in such Section; and (ii) inserting "or any of the conditions under the Green Spring Acquisition Documents to its obligations to consummate all or any part of the Green Spring Acquisition" after the term "NME Acquisition" at the end of such Section.

(h) The following is inserted after Section 8.16 of the Credit Agreement:

"8.17 Certain Covenants Regarding Green Spring and its Subsidiaries. If Green Spring becomes a 95% or more owned Subsidiary of the Company, then (i) the Company shall give the Agent notice thereof within 10 Business Days of the obtainment of such an ownership interest, and (ii) promptly, and in any event, within 30 days of the obtainment of such an ownership interest, the Company shall cause Green Spring and each of its 95% or more owned Subsidiaries (other than Group Practice Affiliates, Inc. and its Subsidiaries) to guaranty the Obligations and secure such guaranty and the Obligations with a perfected Lien on all of its assets (other than real property
and other types of assets that are not included as Collateral under the
Security Stock and Notes Pledge or the Subsidiary Pledge and Security
Agreement) pursuant to documents that are in form and substance
satisfactory to the Agent in its reasonable discretion, and (iii)
notwithstanding anything to the contrary contained in the definition
of the term 'Unrestricted Subsidiary', each of Green Spring and its 95%
or more owned Subsidiaries (other than Group Practice Affiliates, Inc.
and its Subsidiaries) shall cease to be an Unrestricted Subsidiary upon
the entering into by it of the documents described in the preceding
clause (ii)."

(i) The following is inserted before the definition of the term "Agreement" in Section 10 of the Credit Agreement:

"'Amendment No. 7 Green Spring Effective Date' shall
mean the date the amendments set forth in Section 3 of Amendment No. 7,
dated as of November 30, 1995, to this Agreement become effective in accordance with the provisions of Section 5(b) thereof."

(j) The following is inserted after the definition of the term "GAAP" in Section 10 of the Agreement:

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

'Green Spring Acquisition' shall mean the acquisition by the Company of shares of common stock of Green Spring pursuant to clauses (i) and (ii) of Section 8.8(o) hereof.

'Green Spring Acquisition Documents' shall mean, collectively, each instrument and other agreement from time to time entered into by the Company or any of its Subsidiaries in connection with the Green Spring Acquisition or each and any acquisition by the Company of GSHS Minority Shares, including, without limitation, each and any stock purchase agreement and contribution agreement in respect thereof, each and any shareholder or other similar agreement entered into with any Green Spring Minority Shareholder or any other holder of equity interests in Green Spring, each document evidencing or governing the terms of any Green Spring PSI and each other agreement and instrument from time to time entered into by the Company or any of its Subsidiaries pursuant to or in respect of any of the foregoing documents, in each case as amended, supplemented or otherwise modified from time to time in accordance with the terms hereof.

'Green Spring Cash Consideration Amount' shall mean $80,000,000 less, if any portion of the consideration to be paid by the Company for shares of common stock of Green Spring pursuant to the Green Spring Acquisition Document is shares of Company Common Stock, the product of the number of all such shares of Company Common Stock times the second highest of $20.00, $22.00 and the market value per share (as determined in accordance with the applicable provisions of the Green Spring Acquisition Documents) of the Company Common Stock on the Amendment No. 7 Green Spring Effective Date.

'Green Spring Minority Shareholders' shall mean, collectively, Blue Cross and Blue Shield of New Jersey, Inc., Health Care Service Corporation, Independence Blue Cross, Medical Service Association of Pennsylvania, Pierce County Medical Bureau, Inc., Veritus, Inc. and their respective successors and permitted transferees (other than the Company and any of its Subsidiaries) of common stock of Green Spring under the Green Spring Acquisition Documents.
'Green Spring PSI' shall mean unsecured Indebtedness of the Company which (a) is issued by the Company in consideration for the acquisition by the Company of any GSHS Minority Shares as a result of the occurrence of a GSHS Minority Interest Put; (b) has a final maturity that is no earlier than the seventh anniversary of the Amendment No. 7 Green Spring Effective Date; (c) is not guaranteed by any Person; (d) does not provide for any scheduled repayments, required prepayments, serial sinking fund payments, serial maturities, required offers to purchase or similar payments in respect of all of any of the principal of such Indebtedness prior to the final maturity thereof; (e) does not permit any holder of such Indebtedness to declare all or any part of such Indebtedness to be paid or purchased before the final maturity thereof for any reason other than the occurrence of a default in respect thereof; (f) does not contain any financial maintenance covenants or a cross-default (although it may contain a cross-acceleration to, and a cross-default to a payment default upon the express final maturity of, Indebtedness having an outstanding aggregate principal amount of no less than $15,000,000, individually, and $30,000,000 in the aggregate); (g) is subordinated to the Obligations pursuant to provisions that are no less favorable in any material respect to the Lenders than those contained in the Subordinated Debt Documents and that are consented to by the Agent in its sole discretion; (h) is pari passu with or subordinated to the Senior Subordinated Notes; (i) bears interest at a rate that is less than or equal to 10% per annum, and has payment dates for such interest that occur no more frequently than semi-annually; and (j) is incurred pursuant to documentation containing terms, conditions, covenants, events of default and other provisions that are consistent with the foregoing provisions of this definition and are consented to by the Agent in its sole discretion.

'GSHS Asset Sale' shall mean the occurrence of each and any sale, conveyance, transfer or other disposition (including, without limitation, as a result of a merger or consolidation) or series of related sales, conveyances, transfers or other dispositions by Green Spring or any of its Subsidiaries to any Person other than the Company, a Domestic Guarantor, Green Spring or a 95% or more owned Subsidiary of Green Spring of all or any substantial portion of (a) any class of equity interests owned by it of any Subsidiary of Green Spring, or (b) the assets of Green Spring or any of its Subsidiaries, in any such case that have (i) individually, a fair market value in excess of $1,000,000, or (ii) in the aggregate during any fiscal year of the Company a fair market value in excess of $5,000,000 (aggregating, for purposes of this clause (ii), such sales, conveyances, transfers and other dispositions, or series of related sales, conveyances, transfers and other dispositions, involving equity interests or other assets having a fair market value in excess of $200,000 and less than or equal to $1,000,000); provided that no sale, conveyance, transfer or other disposition of any asset described in clauses (a) or (b) above shall constitute a GSHS Asset Sale if the same also constitutes an Asset Sale.

'GSHS Minority Interest Put' shall mean an election made by any Green Spring Minority Shareholder pursuant to and in accordance with the terms of the Green Spring Acquisition Documents entered into on or prior to the Amendment No. 7 Green Spring Effective Date (as amended, supplemented or otherwise modified in accordance with the terms hereof) to sell to the Company all or any portion of the GSHS Minority Shares owned by such Green Spring Minority Shareholder.

'GSHS Minority Interest Put Amount' shall mean, with respect to any GSHS Minority Shares subject to a GSHS Minority Interest Put, the product of $167,000,000 and the percentage of the entire outstanding common stock of Green Spring represented by such GSHS Minority Shares.

'GSHS Minority Shares' shall mean, as of any time of determination, the shares of common stock of Green Spring owned by the Green Spring Minority Shareholders at such time of determination.
'GSHS Prepayment Event' shall mean the occurrence of each and any GSHS Asset Sale and either (a) a distribution or other transfer to the Company or any Restricted Subsidiary of all or any portion of the Net Proceeds of (or a distribution or other transfer to the Company or any Restricted Subsidiary of Cash or any other assets is made in connection with or as a result of) such GSHS Asset Sale, or (b) the failure of all or any portion of the Net Proceeds of such GSHS Asset Sale to be reinvested in the business of Green Spring or any of its Subsidiaries or distributed or otherwise transferred to the shareholders of Green Spring within 270 days of Green Spring’s or such Subsidiaries', as the case may be, receipt thereof."

(k) Clause (a) of the definition of the term "Net Proceeds" in Section 10 of the Credit Agreement is amended by (i) inserting the words "or GSHS Asset Sale" after the term "Asset Sale" the first time such term appears in such clause (a); (ii) inserting the parenthetical "(or Green Spring and its Subsidiaries in the case of a GSHS Asset Sale)" after the term "Restricted Subsidiaries" the first time such term appears in such clause (a); and (iii) inserting the words "or GSHS Asset Sale, as the case may be" before the semi-colon appearing before the proviso to such clause (a).

(l) The definition of the term "Permitted Subordinated Indebtedness" in Section 10 of the Credit Agreement is amended by (i) deleting the word "and" before the beginning of clause (b) thereof; (ii) inserting the parenthetical "(other than Green Spring PSI)" after the words "any other unsecured Indebtedness of the Company" appearing at the beginning of clause (b) of such definition; and (iii) inserting "; and (c) Green Spring PSI" after the word "business" appearing at the end of such definition.

Section 4. Representations and Warranties. The Company hereby represents and warrants to the Agent and the Lenders that:

(a) The Company has furnished to the Agent for the benefit of the Lenders prior to the date hereof (i) a copy of (A) the audited consolidated balance sheets of Green Spring and its Subsidiaries as of December 31, 1994, together with the related audited consolidated statements of operations and cash flows of Green Spring and its Subsidiaries for the fiscal year of Green Spring then ended, and (B) the unaudited consolidated balance sheet of Green Spring and its Subsidiaries as of June 30, 1995, together with the related unaudited consolidated statements of operations and cash flows of Green Spring and its Subsidiaries for the six-month period then ended; and (ii) a copy of the unaudited pro forma projected consolidated balance sheet of the Company and its Subsidiaries (after giving effect to the Green Spring Acquisition and the financing thereof) as of September 30, 1995, and the unaudited pro forma projected consolidated statements of operations for the Company and its Subsidiaries (after giving effect to the Green Spring Acquisition and the financing thereof) for the year ended September 30, 1995. The financial statements referred to in clause (i) above fairly present in all material respects the financial condition and results of operations of the entities covered thereby on the dates and/or for the periods covered thereby, all, except as set forth in Schedule 6.4 to the Credit Agreement, in accordance with GAAP consistently applied, subject, in the case of any such interim or unaudited financial statements referred to above, to normal, recurring adjustments and the absence of footnotes thereto. The pro forma projected financial statements described in clause (ii) above were prepared by the Company in a reasonable manner consistent, to the extent they include periods covered by the financial statements described in clause (i) above or financial statements delivered by the Company pursuant to the Credit Agreement, with GAAP (except as set forth on Schedule 6.4 to the Credit Agreement) and, with respect to the portion of the period covered by such pro forma projected financial statements that are not covered by such other financial statements, represent the Company's good faith estimate of its,
Green Spring's and its other Subsidiaries consolidated financial condition and performance for such portion of such period, it being understood that such pro forma projected financial statements are not necessarily indicative of the results which would have actually been attained had the Green Spring Acquisition been completed as of the dates and for the periods presented in such pro forma financial statements or that such future financial condition or results of operations will in fact be achieved. Although the financial statements referred to in clause (ii) of this paragraph were provided to the Company by Green Spring, the Company believes the same were prepared in good faith and has no reason to believe the information set forth therein is inaccurate in any material respect. As of the date hereof and the Green Spring Effective Date, except as permitted by the Credit Agreement as amended hereby, no material contingent liabilities of the Company, Green Spring or any of their respective Subsidiaries exist which are not fully disclosed in all material respects in the financial statements described in clause (i) or (ii) above, the most recent financial statements of the Company delivered to the Lenders pursuant to the Credit Agreement or in the related notes or schedules thereto.

(b) After giving effect to the consummation of the Green Spring Acquisition, the Company will own at least 51% of all of the shares of each class of stock of Green Spring on a fully diluted basis.

(c) The execution and delivery by the Company of this Amendment and the Green Spring Acquisition Documents, the performance by the Company and the other Credit Parties, as applicable, of this Amendment, the other Credit Documents as amended or otherwise modified hereby and the Green Spring Acquisition Documents and the consummation by the Company and the other Credit Parties, as applicable, of the transactions contemplated hereby and thereby are within the Company's and the other Credit Parties', as applicable, corporate powers, have been duly authorized by all necessary corporate or other action and will not (i) contravene the certificate or articles of incorporation or the bylaws of the Company or any of its Subsidiaries, (ii) contravene any law, regulation, order, writ, judgment, decree, determination or award currently in effect binding on or affecting the Company or any of its Subsidiaries or any of their respective assets, except where such contravention would not have a Material Adverse Effect, or (iii) conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any Lien (except pursuant to the Security Documents) upon any of the property or assets of the Company or any of its Subsidiaries pursuant to the terms of, any indenture, mortgage, deed of trust, agreement or other instrument (including, without limitation, the Senior Subordinated Notes Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company, any of its Subsidiaries or any of their respective properties or assets is bound or subject to, except to the extent such conflict, breach, default or creation or imposition would not have a Material Adverse Effect.

(d) Except (i) such as have been duly obtained, made or given and are in full force and effect, (ii) as fully disclosed on Schedule 6.7 to the Credit Agreement, or (iii) in the case of the performance or consummation of all or any portion of the Green Spring Acquisition Documents or the Green Spring Acquisition, respectively, such as will be duly obtained, made or given and be in full force and effect at the time of such performance or consummation, as applicable, no material order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or notice to or exemption by any governmental or public body or authority, domestic or foreign, or any subdivision thereof, or any other Person or group of Persons is required to authorize, or is required in connection with (A) the execution, delivery or performance of this Amendment, any Green Spring Acquisition Document, the Credit Documents as amended or otherwise modified hereby or the consummation of the Green Spring Acquisition or any of the other transactions contemplated hereby or thereby (including, without limitation, any such consents that are required for the pledge to the Collateral Agent under the Company Stock and Notes Pledge of the common stock of Green Spring from time to time owned by the Company and to the foreclosure upon the same by the Collateral Agent); or (B) the legality, validity, binding effect or enforceability of this Amendment, any Green Spring Acquisition Document, any Credit Document as amended or otherwise
modified hereby, the Green Spring Acquisition or any of the other transactions contemplated hereby or thereby.

(e) Each Green Spring Acquisition Document from time to time entered into by the Company will constitute the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, and by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

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

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

(h) The representations and warranties of the Company and the other Credit Parties contained in the Credit Agreement and the other Credit Documents are true and correct on and as of the date hereof as if made on and as of the date hereof and will be true and correct on and as of the Green Spring Effective Date both before and after giving effect to the effectiveness of this Amendment, except, in either such case, to the extent such representations and warranties expressly relate to a specific date.

(i) The representations and warranties of the Company that will be set forth in the Green Spring Acquisition Documents will be true and correct in all material respects as of the respective dates on which they are made and, to the extent remade on any date, will be true and correct in all material respects as of the date remade. Except as disclosed in writing to the Agent for the account of the Lenders, all of the conditions precedent to the obligations of the Company under the Green Spring Acquisition Documents that are required to be satisfied on or prior to the closing date of the Green Spring Acquisition will have been satisfied as of such date in all material respects, without any waiver thereof not consented to by the Agent in writing.

Section 5. Conditions Precedent to Effectiveness. (a) The effectiveness of the amendments to the Credit Documents set forth in Sections 1 and 2 hereof and the rescission set forth therein of Amendment No.6 is subject to the satisfaction of the following conditions precedent on or prior to December 31, 1995:

(i) Amendment No. 7. The Agent shall have received duly executed counterparts of this Amendment from the Company, each Subsidiary of the Company that is a party to any Credit Document and as many of the Lenders as shall be necessary to comprise the "Required Lenders".

(ii) Representations and Warranties. The representations and warranties contained in Section 4 hereof shall be true and correct on and as of the date hereof as though made on and as of the date hereof both before and after giving effect to this Amendment, except for such representations and warranties which expressly relate to a different date.
Appointment Form. For purposes of the effectiveness of Section 2 hereof, the Agent shall have received a form appointing Corporation Service Company as agent for service of process executed by each of the Credit Parties, which appointment form shall be reasonably satisfactory in form and substance to the Agent.

(b) Except as otherwise provided in the introductory paragraph to Section 3 hereof, the effectiveness of the amendments to the Credit Agreement set forth in Section 3 hereof is subject to the satisfaction of the following conditions precedent on or prior to December 31, 1995 (the date, if any, on which Section 3 hereof becomes effective is the "Green Spring Effective Date"):

(i) Amendment No. 7. The Agent shall have received duly executed counterparts of this Amendment from the Company, each Subsidiary of the Company that is a party to any Credit Document and as many of the Lenders as shall be necessary to comprise the "Required Lenders".

(ii) Officer's Closing Certificate. The Agent shall have received (with a copy for each of the Lenders) a certificate dated the Green Spring Effective Date of the Chief Executive Officer, Chief Financial Officer or the Treasurer of the Company certifying that on and as of the Green Spring Effective Date: (i) no Default or Event of Default has occurred and is continuing either before or after giving effect to the Green Spring Acquisition, (ii) the representations and warranties of the Company and the other Credit Parties set forth in this Amendment and the other Credit Documents are true and correct on and as of the Green Spring Effective Date both before and after giving effect to the Green Spring Acquisition, except to the extent such representations and warranties expressly relate to a different specific date, and (iii) the other conditions precedent set forth in this Section 5 have been satisfied.

(iii) Green Spring Corporate Documents. The Agent shall have received (with a copy for each of the Lenders) true, correct and complete copies of the Articles of Incorporation and By-laws of Green Spring as in effect immediately after giving effect to the Green Spring Acquisition, and such Articles of Incorporation and By-laws shall be in form and substance satisfactory to the Agent in its reasonable discretion.

(iv) Opinion of the Company's Counsel. The Agent shall have received (with a copy for each of the Lenders) a favorable opinion dated the Green Spring Effective Date of King & Spalding, counsel for the Company, as to such matters as the Agent may reasonably request, which opinion shall be in form and substance satisfactory to the Agent in its reasonable discretion.

(v) Green Spring Acquisition Documents. The Company shall have entered into a stock purchase or similar agreement or agreements in respect of the Green Spring Acquisition (collectively, the "Stock Purchase Agreements") that are in form and substance satisfactory to the Agent in its sole discretion. Each of the other Green Spring Acquisition Documents entered into (or to be entered into pursuant to the Stock Purchase Agreements or otherwise) in connection with the consummation of the Green Spring Acquisition (including, without limitation, the exhibits and schedules thereto) and the structure of the Green Spring Acquisition shall be in form and substance satisfactory to the Agent in its sole discretion, such other Green Spring Acquisition Documents shall have been duly executed and delivered by the parties thereto, and neither the Stock Purchase Agreements nor any such other Green Spring Acquisition Document shall have been amended in any material respect without the prior written consent of the Agent. The Agent shall have received (with copies for
each of the Lenders) executed copies of each of the Stock Purchase Agreements and the other Green Spring Acquisition Documents as in effect on the Green Spring Effective Date, certified as of such date as being true and correct copies thereof by an authorized officer of the Company, and such Green Spring Acquisition Documents shall be in full force and effect. The certificates and opinions to be delivered to, by or on behalf of the Company or any of its Subsidiaries pursuant to any Green Spring Acquisition Document shall be addressed to the Lenders or shall be accompanied by letters, in form and substance satisfactory to the Agent in its reasonable discretion, entitling the Lenders to rely thereon.

(vi) Consummation of Green Spring Acquisition. The Green Spring Acquisition shall have been consummated in accordance in all material respects with all of the terms of the Stock Purchase Agreements and the other applicable Green Spring Acquisition Documents, and none of the conditions precedent set forth therein to the obligations of the Company to consummate all or any portion of the Green Spring Acquisition shall have been waived by the Company without the prior written consent of the Agent. Immediately after giving effect to the consummation of the Green Spring Acquisition, (i) Green Spring shall be a Subsidiary of the Company and the Company shall be the owner of at least 51% of all of the outstanding shares of capital stock of Green Spring, (ii) the sole outstanding shares of stock of Green Spring shall be common stock, and (iii) except as contemplated by the section of the Term Sheet entitled "Terms of Exchange Agreement", there shall be no outstanding securities that are convertible into or exchangeable for capital stock of, or other equity interests in, Green Spring or any rights to subscribe for or purchase, any warrants or options for the purchase of, any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, any capital stock of or other equity interests in Green Spring or any securities convertible or exchangeable therefor.

(vii) Pledge of Acquired Green Spring Stock. The Collateral Agent shall have a valid and enforceable perfected security interest in and Lien on all of the shares of stock of Green Spring acquired by the Company pursuant to the Green Spring Acquisition (the "Acquired Green Spring Stock") that is superior and prior to the rights of all other Persons therein (as provided in the Uniform Commercial Code) and subject to no other Liens other than Liens permitted by the Credit Agreement. In furtherance thereof, the Company shall have delivered to the Collateral Agent for the benefit of the Lenders pursuant to the Company Stock and Notes Pledge share certificates in the name of the Company and representing all of the Acquired Green Spring Stock, together with undated stock powers therefor duly executed in blank by the Company and a certificate dated the Green Spring Effective Date meeting the requirements of Section 4.2 of the Company Stock and Notes Pledge, which certificate shall be dated the Green Spring Effective Date.

(viii) Financial Statements. The Agent shall have received (with copies for each of the Lenders) such financial statements of Green Spring and its Subsidiaries as are delivered to the Company pursuant to the Green Spring Acquisition Documents in connection with the consummation of the Green Spring Acquisition and, in any event, an unaudited consolidated balance sheet of Green Spring and its Subsidiaries as of a date that is no more than 60 days prior to the Green Spring Effective Date, together with related unaudited consolidated statements of operations and, if available, cash flows of Green Spring and its Subsidiaries for the period commencing on January 1, 1995 and ending on the date of such balance sheet; in each case accompanied by a certificate of the chief financial officer of the Company that is in form and substance satisfactory to the Agent.

(ix) Projections. The Agent shall have received (with copies for each of the Lenders) projections prepared by the
projected consolidated financial condition, results of operations and cash flows of the Company, Green Spring and the Company's other Subsidiaries after giving effect to the Green Spring Acquisition, in each of the foregoing cases for the period commencing on October 1, 1995 and ending on September 30, 1999, and accompanied by a certificate of an executive officer of the Company certifying that such projections, as of the date of preparation thereof, are reasonable and represent the Company's 'good faith estimate of its, Green Spring's and its other Subsidiaries' consolidated financial condition and performance after giving effect to the Green Spring Acquisition, it being understood that nothing contained in such certificate shall constitute a representation or warranty that such future financial condition or results of operations will in fact be achieved. The foregoing shall be in form and substance satisfactory to the Agent.

(x) Material Events. No event, action or proceeding shall have occurred or condition shall have arisen at any time after June 30, 1995 with respect to any Credit Party, any Transaction Document or any Transaction which the Agent or the Required Lenders by notice to the Agent has reasonably determined could have a Material Adverse Effect either before or after giving effect to the consummation of the Green Spring Acquisition. No event, action or proceeding shall have occurred or condition shall have arisen at any time after December 31, 1994 with respect to Green Spring, any Green Spring Acquisition Document or any of the transactions contemplated hereby or thereby which the Agent or the Required Lenders by notice to the Agent has reasonably determined could have a Material Adverse Effect either before or after giving effect to the Green Spring Acquisition or a material adverse effect on the business, property, assets, condition (financial or otherwise), liabilities or operations of Green Spring and its Subsidiaries taken as a whole.

(xi) Absence of Litigation. There shall be no pending or threatened action, proceeding or investigation seeking to enjoin or challenging, or seeking damages in connection with, this Amendment, any other Credit Document, any Green Spring Acquisition Document or the consummation of the Green Spring Acquisition or any of the other transactions contemplated hereby or thereby that, in the sole judgment of the Agent, individually or in the aggregate, likely to have a Material Adverse Effect or otherwise material.

(xii) Representations and Warranties. The representations and warranties contained in Section 4 hereof shall be true and correct on and as of the Green Spring Effective Date as though made on and as of the Green Spring Effective Date both before and after giving effect to the Green Spring Acquisition, except for such representations and warranties which expressly relate to a different date.

(xiii) Corporate Proceedings, etc. All corporate, partnership and legal proceedings and all instruments and agreements in connection with the transactions contemplated by this Amendment and the Green Spring Acquisition Documents shall be satisfactory in form and substance to the Agent in its sole discretion, and the Agent shall have received (with copies for each of the Lenders) all information and copies of all documents and papers, including, without limitations, certified records of corporate and partnership proceedings and governmental approvals, if any, which the Agent, on behalf of any Lender, may have reasonably requested in connection with the consummation of the Green Spring Acquisition and the other transactions
contemplated hereby.

Section 6. Status of Credit Documents. This Amendment is limited solely for the purposes and to the extent expressly set forth herein, and, except as expressly modified hereby, the terms, provisions and conditions of the Credit Documents and the Liens granted thereunder shall continue in full force and effect and are hereby ratified and confirmed in all respects.

Section 7. Counterparts. This Amendment may be executed and delivered in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with the Company and the Agent.

Section 8. Governing Law. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND SHALL BE GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF).

IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized officers to execute and deliver this Amendment No. 7 to the Second Amended and Restated Credit Agreement as of the date first above written.

CHARTER MEDICAL CORPORATION

By:________________________
Name:
Title:

BANKERS TRUST COMPANY,
as Agent and a Lender

By:________________________
Name:
Title:

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

By:________________________
Name:
Title:

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By:________________________
Name:
Title:

BANK OF IRELAND
By:________________________
Name:
Title:

BANQUE FRANCAISE COMMERCE D'EXTERIEUR

By:________________________
Name:
Title:

CREDIT LYONNAIS,
Cayman Islands Branch

By:________________________
Name:
Title:

DRESDNER BANK AG, New York and
Grand Cayman Islands Branches

By:________________________
Name:
Title:

By:________________________
Name:
Title:

25

GENERAL ELECTRIC CAPITAL CORPORATION

By:________________________
Name:
Title:

GIROCREDIT BANK AG DER SPARKESEN

By:________________________
Name:
Title:

THE BANK OF NEW YORK

By:________________________
Name:
Title:

THE MITSUBISHI BANK, LIMITED,
New York Branch

By:________________________
Consented and agreed to as of the date first above written by each of the entities listed on Schedule I hereto:

By: ____________________
   Name: ____________________
   Title: ____________________

of each of the entities listed on Schedule I hereto
AMENDMENT NO. 8 TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

AMENDMENT NO. 8 dated as of January 24, 1996 (this "Amendment") to the SECOND AMENDED AND RESTATED CREDIT AGREEMENT dated as of May 2, 1994 (as amended by Amendment No. 1 thereto dated as of June 9, 1994, Amendment No. 2 thereto dated as of September 30, 1994, Amendment No. 3 thereto dated as of December 12, 1994, Amendment No. 4 thereto dated as of January 11, 1995, Amendment No. 5 thereto dated as of March 17, 1995, Amendment No. 6 thereto dated as of October 17, 1995 and Amendment No. 7 thereto dated as of November 30, 1995, the "Credit Agreement"), each among MAGELLAN HEALTH SERVICES, INC., a Delaware corporation formerly known as CHARTER MEDICAL CORPORATION (the "Company"), the banking and other financial institutions from time to time party thereto (the "Lenders"), BANKERS TRUST COMPANY, as agent for the Lenders, and FIRST UNION NATIONAL BANK OF NORTH CAROLINA, as Co-Agent. Capitalized terms used herein and not defined herein shall have the respective meanings set forth for such terms in the Credit Agreement after giving effect to the amendments thereto set forth herein.

W I T N E S S E T H :

WHEREAS, the Company has requested that the Credit Agreement be amended to, among other things, (a) disregard certain cash settlement payments for purposes of the definition of EBITDA and (b) provide that the sale by the Company of certain shares of common stock of Green Spring will not be considered an Asset Sale under the Credit Agreement; and

WHEREAS, subject to and upon the terms and conditions hereinafter set forth and in the Credit Agreement as amended hereby, the Lenders party hereto are willing to agree to the foregoing;

NOW, THEREFORE, the parties hereto hereby agree as follows:

Section 1. Amendments to Credit Agreement. Effective as of December 31, 1995, the Credit Agreement is amended as follows:

(a) Section 8.2 of the Credit Agreement is amended by (i) deleting the "and" at the end of clause (k) thereof, (ii) replacing the period at the end of clause (l) thereof with "; and" and (iii) inserting the following at the end of such Section as clause (m) thereof:

"(m) so long as no Default or Event of Default has occurred and is continuing either immediately before or after giving effect thereto, the Company may sell the New Green Spring Common Stock to any Person in one or more transactions, and such transactions will not individually or in the aggregate constitute an Asset Sale other than for purposes of Section 7.1(e)(iii); provided that: (i) each such sale is made for consideration that is at least equal to the fair market value of such New Green Spring Common Stock, (ii) at least 70% of the consideration therefor is the payment of Cash, (iii) the Collateral Agent has a perfected Lien on any non-Cash proceeds received in such sale, other than notes and similar instruments having, in the aggregate, a principal amount of $500,000 or less, (iv) immediately after giving effect to each of such transactions individually and in the aggregate, the Company will own at least 51% of all of the outstanding shares of each class of capital stock of Green Spring on a fully diluted basis, and (v) notwithstanding anything herein to the contrary, the entire amount of any excess of (A) the consideration received by the Company in connection with the acquisition of such New Green Spring Common Stock over (B) the consideration paid or payable by the Company in connection with the acquisition of such New Green Spring Common Stock (it being understood that to the extent all or any part of such consideration constitutes Company Common Stock,
the amount of such consideration shall be considered zero for purposes of this clause (B)), which excess shall be determined either proportionately on a per share basis or in the aggregate, as the case may be, shall constitute Net Proceeds of an Asset Sale and shall be used to make the prepayments required by Section 4.2(a) hereof."

(b) The definition of the term "Asset Sale" in Section 10 of the Credit Agreement is amended by (i) deleting the "and" at the end of clause (vi) of the second proviso thereof and (ii) inserting ", and (viii) the sale by the Company of New Green Spring Common Stock to the extent permitted by Section 8.2(m)" at the end of clause (vii) of the second proviso thereof.

(c) The definition of the term "EBITDA" in Section 10 of the Credit Agreement is amended by inserting the following at the end thereof "Notwithstanding anything in the foregoing to the contrary, (a) Insurance Settlement Payments made at any time prior to or on December 31, 1995 shall not be deducted from the calculation of EBITDA for the relevant period, and (b) if, on or prior to March 31, 1996, the Company shall have consummated the sale of shares of Company Common Stock to a group of investors led by Richard Rainwater and Darla Moore and shall have received Cash Net Proceeds from such transaction in an amount at least equal to $60,000,000, Insurance Settlement Payments made at any time after December 31, 1995 shall not be deducted from the calculation of EBITDA for the relevant period; provided that such Insurance Settlement Payments do not in the aggregate exceed $67,300,000 at any time."

(d) The following is inserted after the definition of the term "Initial NME Acquisition Closing" in Section 10 of the Credit Agreement:

"'Insurance Settlement Payments' shall mean the cash payments made from time to time by the Company to the insurers that are party to the Settlement Agreements dated November 16, 1994 and March 31, 1995, respectively, in accordance with Schedule 10.1(f) hereto and in an aggregate amount not to exceed $67,300,000."

(e) The definition of the term "Net Proceeds" in Section 10 of the Credit Agreement is amended by (i) deleting the "and" at the end of clause (a) and (ii) inserting "; and (c) in the case of any sale of New Green Spring Common Stock, the amount set forth in clause (v) of Section 8.2(m)" at the end of the first sentence.

(f) The following is inserted after the definition of the term "Net Proceeds" in Section 10 of the Credit Agreement:

"'New Green Spring Common Stock' shall mean the 1,349 shares of common stock of Green Spring purchased by the Company on December 21, 1995 from Health Care Service Corporation for an aggregate consideration of $16,705,098, which shares represent 10% of the outstanding common stock of Green Spring."

(g) Exhibit A hereto is added as Schedule 10.1(f) to the Credit Agreement.

Section 2. Representations and Warranties. The Company hereby represents and warrants to the Agent and the Lenders that:

(a) Exhibit A is a true, correct and complete copy of the payment schedules relating to the Insurance Settlement Payments, as adjusted for future asset sales.
(b) The execution and delivery by the Company of this Amendment and the performance by the Company of the Credit Agreement as amended hereby are within the Company's corporate powers, have been duly authorized by all necessary corporate or other action and will not (i) contravene the certificate or articles of incorporation or the bylaws of the Company, (ii) contravene any law, regulation, order, writ, judgment, decree, determination or award currently in effect binding on or affecting the Company or any of its Subsidiaries or any of their respective assets, except where such contravention would not have a Material Adverse Effect, or (iii) conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any Lien (except pursuant to the Security Documents) upon any of the property or assets of the Company or any of its Subsidiaries pursuant to the terms of, any indenture, mortgage, deed of trust, agreement or other instrument (including, without limitation, the Senior Subordinated Notes Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company, any of its Subsidiaries or any of their respective properties or assets is bound or subject to, except to the extent such conflict, breach, default or creation or imposition would not have a Material Adverse Effect.

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

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

(e) The representations and warranties of the Company and the other Credit Parties contained in the Credit Agreement and the other Credit Documents are true and correct on and as of the date hereof as if made on and as of the date hereof both before and after giving effect to the effectiveness of this Amendment, except to the extent such representations and warranties expressly relate to a specific date.
instrument. A complete set of counterparts shall be lodged with the Company and the Agent.


IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized officers to execute and deliver this Amendment No. 8 to the Second Amended and Restated Credit Agreement as of the date first above written.

MAGELLAN HEALTH SERVICES, INC.

By:________________________
Name: ______________________
Title: ________________________

BANKERS TRUST COMPANY,
as Agent and a Lender

By:________________________
Name: ______________________
Title: ________________________

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

By:________________________
Name: ______________________
Title: ________________________

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By:________________________
Name: ______________________
Title: ________________________

BANK OF IRELAND

By:________________________
Name: ______________________
Title: ________________________

BANQUE FRANCAISE COMMERCE D'EXTERIEUR
CREDIT LYONNAIS,
Cayman Islands Branch

By: __________________________
Name: _______________________
Title: ________________________

DRESDNER BANK AG, New York and
Grand Cayman Islands Branches

By: __________________________
Name: _______________________
Title: ________________________

GENERAL ELECTRIC CAPITAL
CORPORATION

By: __________________________
Name: _______________________
Title: ________________________

GIROCREDIT BANK AG DER
SPARKESSEN

By: __________________________
Name: _______________________
Title: ________________________

THE BANK OF NEW YORK

By: __________________________
Name: _______________________
Title: ________________________

THE MITSUBISHI BANK, LIMITED,
New York Branch

By: __________________________
Name: _______________________
Title: ________________________
Consented and agreed to as of the date first above written by each of the entities listed on Schedule I hereto:

By: ______________________
   Name:____________________
   Title: ______________________

of each of the entities
listed on Schedule I hereto
STOCKHOLDERS' AGREEMENT

among

GREEN SPRING HEALTH SERVICES, INC.

and

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, INC.
HEALTH CARE SERVICE CORPORATION
INDEPENDENCE BLUE CROSS
PIERCE COUNTY MEDICAL BUREAU, INC.

and

CHARTER MEDICAL CORPORATION

dated

December 13, 1995

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STOCKHOLDERS' AGREEMENT

THIS STOCKHOLDERS' AGREEMENT, dated this 13th day of December, 1995, is made and entered into by and among Green Spring Health Services, Inc., a Delaware corporation (the "Corporation"), Blue Cross and Blue Shield of New Jersey, Inc., a New Jersey health service corporation ("BCBSNJ"), Health Care Service Corporation, an Illinois mutual legal reserve company doing business as Blue Cross and Blue Shield of Illinois ("BCILL"), Independence Blue Cross, a Pennsylvania non-profit hospital plan corporation ("IBC"), Pierce County Medical Bureau, Inc., a Washington non-profit corporation ("PCMB"), and Charter Medical Corporation, a Delaware corporation ("Charter").

WHEREAS, BCBSNJ, BCILL, IBC and PCMB (individually, a "Minority Stockholder" and collectively, the "Minority Stockholders") and Charter own 100% of the issued and outstanding shares of common stock, $.01 par value per share ("Common Stock"), of the Corporation; and

WHEREAS, Charter and the Minority Stockholders believe that it would be in the best interests of the Corporation that provision be made for the continuity of ownership and stability of management of the Corporation, and
desire to enter into this Agreement to set forth the terms and conditions pursuant to which the Corporation will be organized and the business and affairs of the Corporation will be conducted;

NOW, THEREFORE, in consideration of the foregoing, the parties hereto, subject to the terms and conditions set forth below, hereby agree as follows:

ARTICLE I.
DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

Section 1.1 "Affiliate" shall mean any Person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, the Person specified. As used in this definition, "control" shall mean the power through the ownership of voting securities, contract, or otherwise to direct the affairs of another Person.

Section 1.2 "Agreement" shall mean this Stockholders' Agreement as originally executed or, as the context or subject matter otherwise requires, as amended, modified, supplemented or restated from time to time.

Section 1.3 "Annual Capital Plan" shall mean the annual and three-year rolling capital plan and budget of the Corporation and the Subsidiaries prepared annually by the President and approved by the Board of Directors in accordance with Section 2.9 hereof.

Section 1.4 "Annual Operating Plan" shall mean the annual and three-year rolling operating plan and budget of the Corporation and the Subsidiaries prepared annually by the President and approved by the Board of Directors in accordance with Section 2.9 hereof.

Section 1.5 "Base Amount" shall have the meaning ascribed to such term in Section 6.3 hereof.

Section 1.6 "BCBSNJ" shall have the meaning ascribed to such term in the Preamble to this Agreement.

Section 1.7 "BCILL" shall have the meaning ascribed to such term in the Preamble to this Agreement.

Section 1.8 "Board of Directors" shall mean the Board of Directors of the Corporation.

Section 1.9 "Business" shall mean the business of the Corporation and the Subsidiaries, as conducted from time to time, including the business of providing managed behavioral health care services, including managed alcohol and other substance abuse services, employee assistance plan services, management of behavioral group practices and MSO services; and the components of such services may include for a particular client or customer one or more of the following: case or care management, administrative services for self-insured or partly self-insured customers, utilization review, certification or pre-admission or pre-treatment certification, assessment and referral, triage, stop-loss insurance, single purpose or limited purpose health maintenance organization or insurance services, services priced on a capitated, non-capitated or partly-capitated basis, staff clinical services, provider network services and preferred provider organization services.

Section 1.10 "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or required by law to close.

Section 1.11 "Bylaws" shall mean the Bylaws of the Corporation in accordance with Section 2.1 and in the form attached as Exhibit A, as amended, modified or restated from time to time by the Stockholders in accordance with Section 2.9 hereof.
Section 1.12 "Capital Contribution" shall have the meaning ascribed to such term in Section 7.1 hereof.

Section 1.13 "Capital Contribution Notice" shall have the meaning ascribed to such term in Section 7.1 hereof.

Section 1.14 "Certificate" shall mean the amended and restated Certificate of Incorporation of the Corporation in accordance with Section 2.1 and in the form attached as Exhibit B, as amended, modified or restated from time to time by the Stockholders in accordance with Section 2.9 hereof.

Section 1.15 "Chairman" shall mean the Chairman of the Board of Directors from time to time elected by the Directors in accordance with Section 2.7 hereof.

Section 1.16 "Charter" shall have the meaning ascribed to such term in the Preamble to this Agreement and shall include successors and Permitted Transferees.

Section 1.17 "Charter Change of Control" shall mean 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 Exchange Act by any Person or any group of Persons (other than directors of Charter) who constitute a group (within the meaning of Section 13(d)(3) under the Exchange Act) of any securities of Charter such that as a result of such acquisition such Person or group beneficially owns (within the meaning of Rule 13d-3(a)(1) under the Exchange Act) more than 50% of Charter's then outstanding voting securities entitled to vote on a regular basis for a majority of the board of directors of Charter; or (b) the sale of all or substantially all of the assets of Charter (including, without limitation, by way of merger, consolidation, share exchange, lease, transfer or similar transaction) in a transaction in which Charter or the holders of Charter Common Stock 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 or surviving entity or of an Affiliate which controls the acquiring or surviving entity, if a corporation or (ii) securities representing a majority of the equity interests of the acquiring or surviving entity or of an Affiliate that controls the acquiring or surviving entity, if other than a corporation.

Section 1.18 "Charter Common Stock" shall mean the Common Stock, par value $.25 per share, of Charter.

Section 1.19 "Charter Mandatory Call" shall have the meaning ascribed to such term in Section 6.3 hereof.

Section 1.20 "Charter Proposed Transfer" shall have the meaning ascribed to such term in Section 5.2 hereof.

Section 1.21 "Charter Option" shall have the meaning ascribed to such term in Section 6.2 hereof.

Section 1.22 "Chief Executive Officers" shall have the meaning ascribed to such term in Section 2.10 hereof.

Section 1.23 "Closing" shall mean the consummation of the transactions contemplated by the Stock Purchase Agreement.
Section 1.24 "Closing Date" shall mean the date and effective time at which the Closing occurs.

Section 1.25 "Common Stock" shall have the meaning ascribed to such term in the First Recital to this Agreement.

Section 1.26 "Confidential Information" shall mean any financial, operational, technical and other information relating to the present and future business and affairs of the Corporation and the Subsidiaries, whether (a) provided in written, graphic, pictorial or recorded form or stored on computer discs, hard drives, magnetic tape or digital or any other electronic medium or (b) orally disclosed by representatives of the Corporation. Confidential Information shall not include any information that: (i) is or subsequently becomes publicly available without the disclosing or receiving party's breach of any obligation owed to the Corporation, (ii) became known to the receiving party from a third party prior to the Corporation's disclosure of such information to the receiving party other than as a result of the breach of an obligation of confidentiality owed to the Corporation by such third party or (iii) is independently developed by the receiving party.

Section 1.27 "Contributing Stockholder" or "Contributing Stockholders" shall have the meanings ascribed to such terms in Section 7.1(c) hereof.

Section 1.28 "Corporation" shall have the meaning set forth in the Preamble to this Agreement.

Section 1.29 "Credit Agreement" shall mean the Second Amended and Restated Credit Agreement, dated as of May 2, 1994, among Buyer, Bankers Trust Company, as Agent, First Union National Bank of North Carolina, as Co-Agent, and the Lenders from time to time named as a party to such Credit Agreement, as amended through the date of this Agreement and as from time to time hereafter amended, restated, supplemented or otherwise modified.

Section 1.30 "Deadlock" shall have the meaning ascribed to such term in Section 2.10 hereof.

Section 1.31 "Declining Stockholder" or "Declining Stockholders" shall have the meanings ascribed to such terms in Section 7.1 hereof.

Section 1.32 "Deemed Conversion Premium" shall have the meaning ascribed to such term in Section 6.3 hereof.

Section 1.33 "DGCL" shall mean the Delaware General Corporation Law, as amended.

Section 1.34 "Directors" shall mean the individuals elected to the Board of Directors in accordance with Article II hereof.

Section 1.35 "Election Notice" shall have the meaning ascribed to such term in Section 5.1(b) hereof.

Section 1.36 "Equity Ownership Interest" shall, with respect to any Stockholder, mean the fraction (a) having as its numerator the number of shares of Common Stock, whether voting or non-voting (calculated on a fully-diluted basis) held beneficially by such Stockholder on the date of determination and (b) having as its denominator the aggregate number of shares of Common Stock, whether voting or non-voting (calculated on a fully-diluted basis) issued and outstanding on such date.

Section 1.37 "Equity Securities" shall mean any capital stock of the Corporation, whether voting or non-voting, and any securities directly or indirectly convertible into, or exercisable or exchangeable for any capital stock of the Corporation, or any right, option, warrant or other security which, with the payment of additional consideration, the expiration of time or the occurrence of any event shall give the holder thereof the right to acquire any capital stock of the Corporation or any security convertible into or exercisable
Section 1.38 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.39 "Exchange Agreement" shall mean the Exchange Agreement, dated December 13, 1995, as amended, modified, supplemented or restated from time to time by and among Charter and the Minority Stockholders.

Section 1.40 "Exchange Common Stock" shall mean shares of Charter Common Stock that have been exchanged for shares of Common Stock pursuant to the Exchange Agreement, which shares of Charter Common Stock are held beneficially by the Stockholder making such exchange.

Section 1.41 "Fair Market Value" shall have the meaning ascribed to such term in Section 7.3 hereof.

Section 1.42 "First Offer Period" shall mean a period commencing upon delivery of an Offer Notice and expiring at 5:00 p.m., New York time, on the 15th Business Day following delivery of such Offer Notice; provided, however, if the Proposed Transfer involves Non-Cash Consideration, the First Offer Period shall not expire until the 10th Business Day after a binding determination of the Fair Market Value of such Non-Cash Consideration has been made in accordance with Section 7.3(a) hereof.

Section 1.43 "Fiscal Year" shall mean the fiscal year of the Corporation as determined from time to time by the Board of Directors and, initially, shall be the twelve-month (or, in the case of the first Fiscal Year the period from Closing until September 30, 1996) period ending each September 30.

Section 1.44 "Fundamental Corporate Transaction" shall mean: (a) any merger, consolidation, share exchange or other business combination of the Corporation or GPA with any other Person other than a merger, consolidation, share exchange or business combination that would result in the Voting Securities or the voting securities, as applicable, of the Corporation or GPA outstanding immediately prior to the consummation of such transaction continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity in such merger, consolidation, share exchange or business combination) 100% of the total voting power of the Voting Securities or the voting securities, as applicable, of the Corporation or GPA or of the voting securities of such surviving entity having the right to vote on a regular basis for the election of directors in each case outstanding immediately after such merger, consolidation, share exchange or business combination, (b) any sale by the Corporation or GPA of all or substantially all of its assets or properties or (c) any recapitalization or liquidation of, or filing of a voluntary bankruptcy petition by, the Corporation or GPA.

Section 1.45 "Fundamental Issues" shall have the meaning ascribed to such term in Section 2.9 hereof.

Section 1.46 "GAAP" shall mean generally accepted accounting principles (as such term is used in the American Institute of Certified Public Accountants' Professional Standards) from time to time in effect.

Section 1.47 "Governmental Authority" shall mean any foreign, federal, state or local governmental entity or municipality or subdivision thereof or any authority, department, commission, board, bureau, agency, court or instrumentality thereof.

Section 1.48 "GPA" shall mean Group Practice Affiliates, Inc., a Delaware corporation and a wholly-owned Subsidiary of the Corporation.

Section 1.49 "GSHS Common Stock" shall mean the common stock, par value $.01 per share, of GSHS.

Section 1.50 "Issuance" shall have the meaning ascribed to such term
in Section 6.1 hereof.

Section 1.51 “Mandatory Call Notice” shall have the meaning ascribed to such term in Section 6.3 hereof.

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Section 1.52 “Minority Stockholder” and “Minority Stockholders” shall have the meanings ascribed to such terms in the First Recital to this Agreement (a) for so long as such Person or a Permitted Transferee of such Person pursuant to Section 1.62(f) holds Equity Securities or (b) for purposes of Article II, for so long as such Person or a Permitted Transferee of such Person pursuant to Section 1.62(f) holds any Exchange Common Stock or is a party to an Operating Agreement.

Section 1.53 “Non-Cash Consideration” shall have the meaning ascribed to such term in Section 5.1(f) hereof.

Section 1.54 “Non-Selling Stockholders” shall have the meaning ascribed to such term in Section 5.1 hereof.

Section 1.55 “Offer Notice” shall have the meaning ascribed to such term in Section 5.1 hereof.

Section 1.56 “Offer Percentage” shall have the meaning ascribed to such term in Section 5.1(b) hereof.

Section 1.57 “Offer Period” shall mean a period commencing upon delivery of an Offer Notice and expiring upon the earlier of (a) in the case of the Right of First Refusal, the expiration of the Third Offer Period or, in the case of the Charter Right of First Refusal, the expiration of the Second Offer Period and (b) the delivery of one or more Election Notices for the purchase of all of the Equity Securities covered by such Offer Notice.

Section 1.58 “Operating Agreement” shall mean an agreement between the Corporation or a Subsidiary and a Stockholder (other than Charter) or an Affiliate for the provision by the Corporation or a Subsidiary of one or more of the services offered by the Corporation and its Subsidiaries in the conduct of the Business.

Section 1.59 “Option Notice” shall have the meaning ascribed to such term in Section 6.2 hereof.

Section 1.60 “Option Period” shall mean a period commencing upon delivery of an Option Notice and expiring at 5:00 p.m., New York time, on the 20th Business Day following delivery of such Option Notice.

Section 1.61 “PCMB” shall have the meaning ascribed to such term in the Preamble to this Agreement.

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Section 1.62 “Permitted Transfer” shall mean a Transfer of Equity Securities by: (a) a Stockholder to Charter pursuant to the Exchange Agreement; (b) a Stockholder to another Stockholder, Charter, the Corporation or a Third Party Purchaser pursuant to the Right of First Refusal or by Charter to a Stockholder, the Corporation or a Third Party Purchaser pursuant to the Charter Right of First Refusal; (c) a Stockholder to Charter pursuant to the Charter Option; (d) a Stockholder to Charter pursuant to the Charter Mandatory Call; (e) the Corporation to a Stockholder or other Person in a manner not inconsistent with the restrictions set forth in this Agreement; (f) a Stockholder to a corporation that owns 100% of such Stockholder's voting equity securities, a
corporation the voting equity securities of which are owned 100% by the
corporation that owns 100% of such Stockholder's voting equity securities, or a
corporation the voting equity securities of which are 100% owned by such
Stockholder and any subsequent Transfer to such Stockholder required by Section
7.7 of this Agreement provided, that as to any Stockholder which is a non-profit
membership corporation without any authorized or outstanding class of voting
equity securities, a Permitted Transfer under this subsection 1.62(f) shall also
include a Transfer of Equity Securities by such Stockholder to a corporation
which is its sole voting member having the right to vote in the election of such
Stockholder's directors (the "Sole Voting Member"), to a corporation the voting
equity securities of which are owned 100% by such Sole Voting Member, or to a
corporation as to which such Sole Voting Member has the exclusive right to vote
in the election of such corporation's directors; or (g) a Stockholder in the
form of a pledge of Equity Securities to a bona fide financial institution,
which, immediately prior to the creation of such Pledge, is not an Affiliate of
such Stockholder, to secure bona fide arms' length recourse indebtedness of such
Stockholder and/or its subsidiaries if the pledgee thereof agrees (i) to provide
the Corporation with all notices of foreclosure by such pledgee and (ii) in the
event of such a default and enforcement by the pledgee of its rights to become
the record holder of the Equity Securities pledged to secure such indebtedness,
to be bound by the provisions hereof applicable to its transferor, it being
understood that both (x) the making of such pledge and (y) such financial
institution's becoming the owner of the Equity Securities subject to such pledge
in satisfaction of all or any part of the indebtedness secured thereby or
otherwise as a result of the exercise by it of its rights and remedies with
respect thereto shall each constitute a Permitted Transfer under this clause
(g); provided, however, that, in all such events, no such Transfer described in
clauses (a) through (g) (except for a pledge pursuant to clause (g)) shall be a
Permitted Transfer unless, prior to such Transfer, the transferee shall either
be a party to this Agreement or shall execute and deliver to the Corporation a
writing, in form and substance reasonably satisfactory to the Corporation,
agreeing that such transferee shall join in this Agreement as a Stockholder and
become bound by all of the terms and restrictions of this Agreement applicable
to its transferor; and provided further that each Stockholder that is a
Permitted Transferee pursuant to clause (g)(ii) above shall during the term of
this Agreement (and notwithstanding any other provisions of this Agreement) vote
all shares of Voting Securities acquired by it pursuant to clause (g) above at
each meeting of Stockholders and on each action or proposal voted upon by
Stockholders in the same proportion as all other Stockholders (other than
Stockholders that also hold Voting Securities pursuant to a clause (g)(ii)
Transfer) vote their shares of Voting Securities on each such action or
proposal.

Section 1.63 "Permitted Transferee" shall mean any transferee of Equity
Securities in a Permitted Transfer.

Section 1.64 "Person" shall mean an individual, firm, trust,
association, corporation, partnership, limited liability company, Governmental
Authority or other entity.

Section 1.65 "Preemptive Notice" shall have the meaning ascribed to
such term in Section 6.1 hereof.

Section 1.66 "Preemptive Right" shall have the meaning ascribed to such
term in Section 6.1 hereof.

Section 1.67 "Preemptive Right Offer Period" shall have the meaning
ascribed to such term in Section 6.1 hereof.

Section 1.68 "Preemptive Right Securities" shall have the meaning
ascribed to such term in Section 6.1 hereof.

Section 1.69 "President" shall mean the President of the Corporation,
who shall be the Chief Executive Officer of the Corporation, from time to time
appointed by the Board of Directors in accordance with the Bylaws.

Section 1.70 "Proposed Transfer" shall have the meaning ascribed to
Section 1.71 "Right of First Refusal" shall have the meaning ascribed to such term in Section 5.1 hereof.

Section 1.72 "SEC" shall mean the United States Securities and Exchange Commission or any other federal agency at the time administering the Securities Act or the Exchange Act.

Section 1.73 "Second Offer Period" shall mean a period commencing on the first Business Day following the First Offer Period and expiring at 5:00 p.m., New York time on the 10th Business Day thereafter.

Section 1.74 "Securities Act" shall mean the Securities Act of 1933, as amended.

Section 1.75 "Selling Stockholder" shall have the meaning ascribed to such term in Section 5.1 hereof.

Section 1.76 "Stockholder" and "Stockholders" shall mean Charter, the Minority Stockholders and any Permitted Transferee, for so long as such Person holds any Equity Securities.

Section 1.77 "Stock Purchase Agreement" shall have the meaning ascribed to such term in the Exchange Agreement.

Section 1.78 "Subsidiary" shall mean a corporation, partnership, limited liability company, or other entity of which the Corporation (a) has the power to elect more than 50% of the board of directors or other governing authority either directly or indirectly or (b) owns or controls more than 50% of the outstanding equity securities or equity interests either directly or indirectly through an unbroken chain of entities as to each of which 50% or more of the outstanding equity securities or equity interests is owned directly or indirectly by its parent.

Section 1.79 "Third Offer Period" shall mean a period commencing on the first Business Day following the Second Offer Period and expiring at 5:00 p.m., New York time, on the 5th Business Day thereafter.

Section 1.80 "Third Party Purchaser" shall have the meaning ascribed to such term in Section 5.1(e) hereof.

Section 1.81 "Transfer" shall mean any transfer, sale, exchange, assignment, mortgage, pledge, grant of lien on or security interest in, gift or other disposition of any legal or beneficial interest or encumbrance of any nature, voluntary, involuntary or by operation of law.

Section 1.82 "Voting Ownership Interest" shall, with respect to any Stockholder, mean the fraction (a) having as its numerator the number of shares of voting Common Stock (calculated on a fully-diluted basis) beneficially owned by such Stockholder on the date of determination and (b) having as its denominator the aggregate number of shares of voting Common Stock (calculated on a fully-diluted basis) issued and outstanding on such date.

Section 1.83 "Voting Securities" shall mean any Equity Securities, including Common Stock, having voting rights generally with respect to matters submitted to a vote of the stockholders of the Corporation.

ARTICLE II.
MANAGEMENT OF THE CORPORATION

Section 2.1 Certificate and Bylaws. In addition to the provisions of this Agreement and the Exchange Agreement, the rights of the Stockholders and the business and affairs of the Corporation shall be conducted in accordance with the Certificate and the Bylaws. To the fullest extent permitted by applicable law, the Certificate and the Bylaws shall be subject in their
entirety to the terms and restrictions set forth in this Agreement. Each Stockholder hereby ratifies and approves the adoption of the Certificate and the Bylaws as set forth on Exhibits B and A, respectively. In the event of a conflict between this Agreement and the Certificate or the Bylaws, each Stockholder shall, if permitted by the DGCL, cause the Voting Securities owned beneficially or of record by such Stockholder to be voted in favor of an amendment to the Certificate or the Bylaws, as appropriate, to conform the terms thereof to the terms of this Agreement.

Section 2.2 Board of Directors. Subject to the terms of this Agreement, the Certificate and the Bylaws, the business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which shall consist of nine Directors (unless changed by amendment of the Bylaws). Each Director shall serve until (a) the designation, election, qualification and acceptance of his or her successor or (b) his or her earlier death, resignation or removal. Directors need not be residents of Delaware or Stockholders of the Corporation. Directors shall serve on the Board of Directors, any committee of the Board of Directors and the board of directors of any Subsidiary without compensation from the Corporation or any Subsidiary for such service. Each Stockholder shall be responsible for compensating any Director designated by such Stockholder for service on the Board of Directors, any such committee or the board of directors of any Subsidiary; and the Corporation shall be responsible for reimbursing any Director designated by such Stockholder for any expenses incurred in connection with such service.

Section 2.3 Voting; Designation of Directors. (a) At each annual meeting of the Stockholders and each special meeting called for the purpose of electing Directors, and at any time at which Stockholders shall have the right to, or shall, vote for Directors, each Stockholder shall cause all Voting Securities beneficially owned by such Stockholder to be voted in favor of the election of the representatives of Charter and the Minority Stockholders as provided in subsections (b) and (c) of this Section 2.3 and shall otherwise take such action as may be necessary to ensure that each of Charter and the Minority Stockholders shall be afforded such representation on the Board of Directors as is contemplated by this Agreement.

(b) Charter shall be entitled to designate a number of Directors equal to (i) the number of Directors constituting the Board of Directors minus (ii) the number of Directors the Minority Stockholders are entitled to designate pursuant to subsection (c) of this Section 2.3.

(c) For so long as (i) a Minority Stockholder or a Permitted Transferee of such Minority Stockholder pursuant to Section 1.62(f) holds beneficially any shares of Common Stock or (ii) a Minority Stockholder is a party to an Operating Agreement (which has not been breached by such Minority Stockholder in any material respect), such Minority Stockholder shall be entitled to designate one Director.

(d) The voting obligations created hereby shall survive and continue with respect to each Stockholder notwithstanding the fact that any such Stockholder may not be entitled to designate or to participate in the designation of a member of the Board of Directors.

Section 2.4 Removal and Replacement. Charter or any Minority Stockholder may, from time to time, without the approval or consent of any other party hereto, without cause and without any condition or restriction whatsoever remove any or all of its designees that have been elected to the Board of Directors in accordance with this Article II. In the event that a Minority Stockholder shall not have the right hereunder to designate a Director, such
Minority Stockholder shall immediately remove its designee from the Board of Directors. Upon any removal or the occurrence of a vacancy on the Board of Directors for any reason whatsoever, such vacancy shall be filled by the Stockholders in the manner provided in Section 2.3 and not by the remaining Directors. In such a case, the Chairman or Stockholders shall call, notice and convene a special meeting of the Stockholders within ten Business Days of the occurrence of such vacancy for the purpose of filling such vacancy. At such meeting, each Stockholder shall cause the Voting Securities beneficially owned by such Stockholder to be voted in favor of the election of a new Director to fill such vacancy in a manner consistent with Section 2.3 hereof. During the pendency of any vacancy and until the vacancy is filled in the manner contemplated by this Section 2.4, no meeting of the Board of Directors shall be held and no action by written consent shall be taken without the prior consent of the Stockholder or Stockholders having the right to designate the Director who will fill such vacancy.

Section 2.5 Composition of the Board of Directors of Subsidiaries. The Stockholders acknowledge and agree that the composition of the boards of directors of each Subsidiary of the Corporation shall consist of nine directors and such boards of directors shall be established and maintained on a basis consistent with the procedure described in this Article II, so that Charter and the Minority Stockholders shall at all times have the same number of designees on each such board of directors as they have on the Board of Directors; provided, however, that the Subsidiary board composition provided by this Section 2.5 may be changed with respect to any Subsidiary or all Subsidiaries without amending this Agreement if and for so long as the Directors unanimously agree in writing or at a Board of Directors meeting to such change.

Section 2.6 Board Action; Quorum Requirement. Except as expressly provided in Section 2.9 hereof, in any action taken by the Directors at a meeting of the Board of Directors, the act of a majority of the Directors present at a meeting at which a quorum is present shall constitute action by the Board of Directors. The presence of a majority of the members of the Board of Directors fixed by this Agreement shall constitute a quorum for the transaction of business. Any action by the Board of Directors by written consent, in lieu of a meeting, shall be unanimous to be effective.

Section 2.7 Designation of Chairman. The Minority Stockholders shall have the right to designate the Chairman of the Board of Directors as provided in this Section 2.7. In connection with each annual meeting of the Board of Directors occurring prior to the third anniversary date of this Agreement, each Minority Stockholder shall be entitled to nominate one Director as a candidate for Chairman of the Board of Directors. Each Stockholder shall cause such Stockholder’s respective designee or designees on the Board of Directors to vote so as to elect one of such nominees as Chairman. Notwithstanding anything in this Agreement to the contrary, the term of a Chairman elected hereunder shall not extend past the third anniversary date of this Agreement. Election of the Chairman shall be by a plurality vote. Upon the occurrence of a vacancy in the office of Chairman for any reason, such vacancy shall be filled by the remaining Directors. In such a case, the Directors shall call, notice and commence a special meeting of the Board of Directors within ten Business Days of the occurrence of such vacancy for the purpose of filling such vacancy. At such meeting, a new Chairman of the Board of Directors shall be elected in the same manner as provided in this Section 2.7 for election at an annual meeting. Following three years after the date of this Agreement, the Chairman of the Board of Directors shall be elected as provided in the Bylaws.

Section 2.8 Stockholder Action. Except as otherwise provided in Section 2.9 hereof, in the case of any action proposed to be taken by the Stockholders at a meeting of the Stockholders, or at any time Stockholders shall have the right to, or shall vote, the act of the Stockholders holding a majority of the voting power of the outstanding shares of Voting Securities entitled to vote and present at a meeting, in person or by proxy, at which a quorum is present, shall constitute action by the Stockholders of the Corporation. Each Stockholder shall be entitled to a number of votes equal to the number of shares of Voting Securities that are issued and outstanding and held of record by such
Stockholder and entitled to be voted at the meeting. The presence, in person or
by proxy, of a majority of the outstanding shares of each class of Voting
Securities shall constitute a quorum for the transaction of business at any
annual or special meeting of the Stockholders. Stockholders may participate in a
meeting of the Stockholders by means of conference telephone or similar
communications equipment by means of which all participants in the meeting can
hear each other, and such participation in a meeting shall constitute presence
in person at the meeting.

Section 2.9 Fundamental Issues. Notwithstanding the majority vote
requirements set forth in Sections 2.6 and 2.8 hereof, each of the following
actions or transactions (the "Fundamental Issues") shall require, and shall not
be taken or consummated without: (a) in the case of clauses (i) through (iii)
the favorable vote of not less than two-thirds of the number of Directors
constituting the Board of Directors (provided, that any Director that is
designated by a Minority Stockholder that does not hold, and as to which a
Permitted Transferee of such Minority Stockholder pursuant to Section 1.62(f)
does not hold, at the time such action is to be taken, any shares of Common
Stock or Exchange Common Stock, shall abstain from any vote under clauses (ii)
and (iii) hereof); and (b) in the case of clauses (iv) through (vii), the
favorable vote of the holders of a majority of the issued and outstanding Voting
Securities and the favorable vote of Minority Stockholders holding a majority of
the aggregate shares of Voting Securities held by the Minority Stockholders at
the time such action is to be taken (calculated, for purposes of this Section
2.9, as if the Minority Stockholders hold all shares of Common Stock previously
exchanged for Charter Common Stock that is, as the date of determination,
Exchange Common Stock):

(i) approval or modification of the Annual Operating Plan;

(ii) approval or modification of the Annual Capital Plan;

(iii) exercise by the Corporation of (A) the Right of First
Refusal or approval of any Transfer to a Third Party Purchaser pursuant to the
Right of First Refusal, (B) the Charter Right of First Refusal and (C) the
Corporation's rights pursuant to Section 4.4;

(iv) issuance of any Equity Securities of the Corporation or GPA,
except for issuances to Charter pursuant to Section 6.1 and issuances pursuant
to Section 7.1, if such issuances are in accordance with an Annual Capital Plan;

(v) approval of any Fundamental Corporate Transaction;

(vi) incurrence of indebtedness by the Corporation or any
consolidated subsidiary in excess of $250,000 during any Fiscal Year, which
indebtedness is not contemplated by the Annual Operating Plan or Annual Capital
Plan; or

(vii) amendment, modification or restatement of the Certificate or the
Bylaws.

In the event that all of the Voting Securities of the Corporation are
beneficially owned by Charter and one other Stockholder, the approval
requirements of this Section 2.9 shall terminate and be of no further force or
effect, and in such case the designation provisions of Section 2.3 shall
terminate; provided, however, that in the event that (i) a majority in interest
of the Voting Securities of the Corporation are beneficially owned in the
aggregate by Minority Stockholders and any Permitted Transferees (other than
Charter) of any Minority Stockholder under Section 1.62(f) of this Agreement, or
(ii) Charter (including for this purpose only Charter Medical Corporation and
its Permitted Transferees under Section 1.62(f) of the Agreement) has the right
to vote or direct the voting of less than a majority of the Voting Securities of the
Corporation, then in either such case, the Minority Stockholders (and their
Permitted Transferees under Section 1.62(f) of this Agreement) shall have the
option to maintain in effect or to terminate either or both of (x) the
designation provisions of Section 2.3 or (y) the approval requirements of
Section 2.9.
Section 2.10 Deadlock. (a) A deadlock of the Stockholders or Board of Directors (a "Deadlock") shall be deemed to exist (i) if the Stockholders or the Board of Directors shall be unable to reach agreement by the required vote on any significant issue that has been submitted for consideration at two successive meetings, (ii) if the Stockholders or Board of Directors shall be unable to achieve a quorum for the conduct of business at two successive meetings, or (iii) if the Board of Directors shall be unable to convene a meeting for a period of 20 Business Days following the occurrence of a vacancy that is not filled in the manner set forth in Section 2.4.

(b) If a Deadlock exists, the Stockholders or Board of Directors, as appropriate, shall negotiate in good faith and use their respective best efforts to resolve such Deadlock. If, however, after 20 Business Days such Deadlock remains, Charter or any Minority Stockholder, by giving notice to the other Stockholders, may request that such Deadlock be referred for resolution to the Chief Executive Officer of Charter and the Chief Executive Officers of two of the Minority Stockholders (designated by the consent of a majority of the aggregate shares of Voting Securities held by the Minority Stockholders at the time such action is to be taken, assuming, for purposes of this Section 2.10, that the Minority Stockholders hold all shares of Common Stock previously exchanged for Charter Common Stock that is, as of any date of determination, Exchange Common Stock) (the "Chief Executive Officers"). The Chief Executive Officers shall meet within 20 Business Days thereafter and shall attempt in good faith to resolve such Deadlock. Any resolution agreed to in writing by the Chief Executive Officers shall be final and binding on the Corporation and the Stockholders, so long as the resolution is not inconsistent with any provision of this Agreement. Notwithstanding anything herein to the contrary, at any time during the pendency of a Deadlock, Charter shall be entitled to make an offer to purchase all of the Equity Securities held by the Stockholders (other than Charter) pursuant to the Charter Option.

(c) During the pendency of any Deadlock relating to the approval of any Annual Operating Plan or Annual Capital Plan for an ensuing Fiscal Year, the Board of Directors and the President shall conduct the Business of the Corporation in accordance with the Annual Operating Plan and Annual Capital Plan for the immediately preceding Fiscal Year.

ARTICLE III.
PLANS AND REPORTS

Section 3.1 Annual Operating Plan; Annual Capital Plan. At least 60 calendar days prior to the beginning of each Fiscal Year, the President shall prepare, distribute to Directors not less than 5 Business Days prior to the meeting at which such matter is to be considered and present to the Board of Directors for its consideration in accordance with Section 2.9 hereof the Annual Operating Plan and Annual Capital Plan for the Corporation for the ensuing Fiscal Year and rolling three-year period. The Annual Operating Plan shall set forth in reasonable detail, among other things, the anticipated capital requirements of the Business for such Fiscal Year and rolling three-year period, the anticipated returns on such investment, the anticipated source of funding such investments, and the anticipated Capital Contributions and Equity Securities to be issued with respect thereto pursuant to Section 7.1. The President shall make such changes to the Annual Operating Plan and Annual Capital Plan as the Board of Directors shall request and, upon approval by the Board of Directors in accordance with Section 2.9 hereof, shall conduct the day-to-day Business of the Corporation substantially in accordance therewith.
Section 3.2 Books and Records. Copies of the books and records of the Corporation shall be maintained at the Corporation's principal place of business. All of the books and records of the Corporation shall be maintained in U.S. dollars. The Board of Directors shall cause the Corporation to maintain the following: (a) a current list of the full name and last known business or residence address of each Stockholder set forth in alphabetical order together with the Equity Securities of the Corporation held of record by such Stockholder, (b) copies of the Corporation's federal, state and local income tax returns and reports, if any, for all taxable years for which the respective statute of limitations remains open, (c) copies of this Agreement and all amendments hereto and (d) the consolidated financial statements of the Corporation for the three most recent Fiscal Years. Each Stockholder who owns at least 5% of the Common Stock, or its duly authorized representative, shall have access to the books and records of the Corporation, upon reasonable notice, during the normal business hours of the Corporation.

Section 3.3 Accounts and Reports. The Corporation shall maintain a proper system of accounts in accordance with GAAP consistently applied, shall keep full and complete financial records in which entries shall be made in accordance with GAAP, reflecting financial transactions of the Corporation and in which proper reserves for depreciation, obsolescence, amortization, taxes, bad debts and other purposes shall be made, and shall, except as hereinafter set forth, furnish to each Stockholder, so long as such Stockholder shall own at least 5% of the Common Stock, the following reports:

(a) within 25 (or in the case of the last month of any fiscal quarter of the Corporation's Fiscal Year, 40) days after the close of each of the first eleven months of each Fiscal Year and within 55 days of the close of each of the last month of each Fiscal Year, copies of (i) the balance sheet of the Corporation as of the end of such month, (ii) statements of operations and cash flows of the Corporation for such month and (iii) a report of the aging of receivables and classification thereof by age and type;

(b) within 55 days after the close of each of the first three fiscal quarters of each Fiscal Year and within 70 days after the close of the fourth fiscal quarter of each Fiscal Year, copies of (i) the balance sheet of the Corporation as of the end of such quarter and (ii) statements of operations and cash flows of the Corporation for such quarter and the elapsed portion of the Fiscal Year ended with the last day of such quarter, in each case setting forth comparative figures for the preceding Fiscal Year (except that balance sheet comparisons may be made to the prior Fiscal Year end), prepared in accordance with GAAP (subject to normal year-end and quarterly adjustments) and certified by the Chief Financial Officer of the Corporation; and

(c) within 90 days after the close of each Fiscal Year, the balance sheet of the Corporation as of the end of such Fiscal Year and the related statements of operations, changes in stockholders' equity and cash flows for such Fiscal Year, prepared in accordance with GAAP and audited by Arthur Andersen LLP or such other independent certified public accountants of recognized national standing selected by the Board of Directors.

Section 3.4 Consolidated Basis. The Annual Operating Plan, Annual Capital Plan and all financial information provided pursuant to this Article III shall include the Corporation and its Subsidiaries.

ARTICLE IV.
RESTRICTIONS ON TRANSFER

Section 4.1 Restrictions on Transfer. No Stockholder shall make or permit to be made, any Transfer of any Equity Securities now held or hereafter acquired by such Stockholder except in a Permitted Transfer in compliance with the terms and conditions of this Agreement and with then applicable laws, rules and regulations.
Section 4.2 Scope of Restrictions on Transfer. Each Stockholder acknowledges that the restrictions on Transfer of Equity Securities set forth herein are imposed to accomplish legitimate purposes of the parties hereto, and that such restrictions are not more restrictive than necessary to accomplish such purposes. Each Stockholder acknowledges that no Equity Securities of the Corporation, whether now owned or hereafter acquired by such Stockholder, nor any right, title or interest therein, shall be subject to any Transfer except for a Permitted Transfer in compliance with the terms and conditions of this Agreement.

Section 4.3 Permitted Transfers. Notwithstanding the foregoing, any Stockholder may Transfer all or any portion of any Equity Securities owned by such Stockholder pursuant to a Permitted Transfer as long as the other requirements, if any, for an effective Transfer, as set forth in this Agreement, are fulfilled in connection with such Permitted Transfer.

Section 4.4 Involuntary Transfers. In the event that the Equity Securities owned by any Stockholder shall be subject to Transfer by reason of (a) bankruptcy or insolvency proceedings, whether voluntary or involuntary, or (b) distraint, levy, execution or other involuntary Transfer (unless, in the case of clause (b) the transferee releases such Equity Securities within 5 Business Days of the occurrence of such involuntary Transfer), then, unless such Transfer constitutes a Permitted Transfer, such Stockholder shall give the Corporation written notice thereof promptly upon the occurrence of such event stating the terms of such proposed Transfer, the identity of the proposed transferee and the price or other consideration, if readily determinable, for which the subject Equity Securities are to be transferred. After receipt of such notice, or failing such receipt, after the Corporation otherwise obtains actual knowledge of such a proposed Transfer, the Corporation shall have the right to purchase (or to assign to the other Stockholders, pro rata, the right to purchase; and if any such Stockholder other than Charter declines to exercise its right to purchase, such right shall be reassigned by the Corporation and such Stockholder to Charter) all, but not less than all of the Equity Securities subject to such involuntary Transfer at the price and on the terms applicable to such proposed Transfer, which right shall be exercised by written notice given by the Corporation or the other Stockholders to the Stockholder subject to such involuntary Transfer within 60 days following the Corporation's receipt of such notice or, failing such receipt, the Corporation's obtaining actual knowledge of such involuntary Transfer. The closing of the purchase and sale of such Equity Securities shall be held at the principal office of the Corporation on a date to be established by the Corporation, which date shall in no event shall be less than 10 nor more than 20 Business Days from the date on which the Corporation gives notice of its election to purchase the subject Equity Securities. If the nature of the event giving rise to such involuntary Transfer is such that no readily determinable consideration is to be paid for the Transfer of such Equity Securities, the price to be paid by the Corporation (or its assignees) shall be the then current Fair Market Value thereof as determined in accordance with Section 7.3(a) hereof.

Section 4.5 Noncomplying Transfers Void. Any purported Transfer of Equity Securities other than in compliance with the terms and conditions of this Agreement shall be void and of no force and effect, and the Corporation shall be entitled to recognize the last Stockholder of record who acquired such Equity Securities in a manner not contrary to this Agreement as the holder of such Equity Securities for all purposes.
Section 4.6 Legend. Each Stockholder acknowledges and agrees that each certificate representing Equity Securities shall bear a legend in substantially the following form:

**THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT PURPOSES ONLY AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. WITHOUT SUCH REGISTRATION, SUCH SECURITIES MAY NOT BE SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED, EXCEPT UPON DELIVERY TO THE CORPORATION OF AN OPINION OF COUNSEL OR OTHER EVIDENCE SATISFACTORY TO THE CORPORATION THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER.**

**THE SECURITIES REPRESENTED BY THIS CERTIFICATE AND THE SALE, ASSIGNMENT, TRANSFER, PLEDGE OR OTHER DISPOSITION THEREOF ARE SUBJECT TO CERTAIN RESTRICTIONS AND AGREEMENTS CONTAINED IN A STOCKHOLDERS' AGREEMENT DATED DECEMBER 13, 1995, AMONG THE CORPORATION AND ITS STOCKHOLDERS, A COPY OF WHICH IS ON FILE AND MAY BE EXAMINED AT THE PRINCIPAL OFFICE OF THE CORPORATION BY ANY REGISTERED HOLDER OF EQUITY SECURITIES. ANY TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IN CONTRAVENATION OF SUCH AGREEMENT SHALL BE VOID AND OF NO EFFECT.**

**ARTICLE V. RIGHTS OF FIRST REFUSAL**

Section 5.1 Non-Charter Right of First Refusal.

(a) In the event that any Stockholder other than Charter has a binding, written offer for the Transfer of, and desires to accept such offer to purchase, any Equity Securities other than pursuant to a Permitted Transfer described in clauses (a), (c), (d), (e), (f) or (g) of Section 1.62 hereof (a "Proposed Transfer"); such Stockholder (the "Selling Stockholder") shall deliver to the Corporation and the remaining Minority Stockholders (the "Non-Selling Stockholders") and to Charter written notice of the material terms of such offer, including the proposed purchaser thereof, the amount and nature of the consideration to be received, the conditions, if any, associated therewith and any other material terms of such offer (an "Offer Notice"). The Offer Notice shall constitute an irrevocable offer by the Selling Stockholder to sell all (but not less than all) of the Equity Securities subject to the Proposed Transfer (i) first, to the Non-Selling Stockholders; (ii) second, to Charter and (iii) third, to the Corporation on terms and conditions of the Proposed Transfer, except that a purchaser under this Section 5.1 shall have the right to pay cash in an amount equal to the Fair Market Value of any Non-Cash Consideration (the "Right of First Refusal").

(b) During the First Offer Period, each Non-Selling Stockholder may elect to purchase all or any portion of such Non-Selling Stockholder's "Offer Percentage" of the Equity Securities subject to the Proposed Transfer by delivering written notice of such election stating the number of shares of Equity Securities to be purchased (an "Election Notice") to the Corporation, Charter and the Selling Stockholder prior to the expiration of the First Offer Period. As used herein, a Stockholder's "Offer Percentage" shall be equal to the fraction (expressed as a percentage) the numerator of which is the number of shares of Common Stock held by such Stockholder on the date of the Offer Notice and the denominator of which is the number of shares of Common Stock held on such date by all Non-Selling Stockholders; provided that a Stockholder shall have the right in an Election Notice to agree to purchase all or any portion of the shares of Equity Securities that could be purchased by other Stockholders; and, if one or more Stockholders do not deliver an Election Notice or elect to purchase less than their respective Offer Percentages, then the shares of Equity Securities that could have been purchased by such Stockholders shall be purchased by Stockholders that, in an Election Notice, agreed to purchase such shares, and each such Stockholder shall purchase the number of such shares indicated in an Election Notice, unless the sum of such numbers exceeds the number of shares so available for purchase, in which case such shares shall be purchased pro rata on the basis of the proportionate amount of the Offer Percentage of such Stockholders that deliver
an Election Notice. The failure by any Non-Selling Stockholder to deliver an Election Notice during the First Offer Period shall be deemed to be an election by such Stockholder not to purchase any of the Equity Securities subject to the Proposed Transfer.

(c) If the Non-Selling Stockholders do not elect during the First Offer Period to purchase all of the Equity Securities subject to the Proposed Transfer, during the Second Offer Period, Charter may elect to purchase all or any portion of such Equity Securities that the Non-Selling Stockholders did not elect to purchase during the First Offer Period by delivering an Election Notice to the Corporation and the Selling Stockholder prior to the expiration of the Second Offer Period. The failure by Charter to deliver an Election Notice during the Second Offer Period shall be deemed to be an election by Charter not to purchase any of the Equity Securities subject to the Proposed Transfer.

(d) If the Non-Selling Stockholders and Charter do not elect during the First and Second Offer Periods to purchase all of the Equity Securities subject to the Proposed Transfer, during the Third Offer Period, the Corporation may elect to purchase all (but not less than all) of the Equity Securities that the Non-Selling Stockholders and Charter did not elect to purchase during the First and Second Offer Periods by delivering an Election Notice to Charter and the Selling Stockholder prior to the expiration of the Third Offer Period. The failure by the Corporation to deliver an Election Notice during the Third Offer Period shall be deemed to be an election by the Corporation not to purchase any of the Equity Securities subject to the Proposed Transfer.

(e) If the Non-Selling Stockholders, Charter and the Corporation (either individually or collectively) do not elect to purchase all of the Equity Securities subject to the Proposed Transfer, the Selling Stockholder may, upon approval by the Board of Directors in its sole discretion pursuant to Section 2.9(iii) hereof, Transfer to the purchaser named in the Offer Notice (the "Third Party Purchaser") all (but not less than all) of the Equity Securities subject to the Proposed Transfer in accordance with the terms and conditions set forth in the Offer Notice; provided, however, that if the Selling Stockholder has not consummated the Transfer of such Equity Securities within the 45 Business Day period following the approval of such Transfer by the Board of Directors, all of the restrictions on Transfer contained in this Agreement shall again be in effect with respect to such Equity Securities. Upon a Transfer of Equity Securities to a Third Party Purchaser, the Corporation shall not be obligated to transfer ownership of such Equity Securities on the records of the Corporation unless such Third Party Purchaser has complied with the proviso to Section 1.62.

(f) If the consideration for the sale of Equity Securities pursuant to the Proposed Transfer is cash consideration, the purchase price to be paid by each of the Non-Selling Stockholders, Charter and the Corporation, as applicable, shall be equal to the total consideration set forth in the Offer Notice multiplied by the fraction (a) the numerator of which is the number of shares or other units of Equity Securities being purchased by such Non-Selling Stockholder, Charter or the Corporation, as applicable, and (b) the denominator of which is the total number of shares or other units of Equity Securities subject to such Offer Notice. If the consideration for the Proposed Transfer consists of consideration that is other than cash consideration payable in immediately available funds at the closing thereunder ("Non-Cash Consideration") or consists of a combination of cash consideration and Non-Cash Consideration, the purchase price shall be cash in an amount equal to the total of the cash consideration, if any, and the Fair Market Value of the Non-Cash Consideration as determined in accordance with Section 7.3(a) hereof.

(g) The purchase and sale of Equity Securities pursuant to this Right of First Refusal shall be consummated at a closing that shall occur at the principal business office of the Corporation within 20 Business Days following the expiration of the relevant Offer Period, or at such other place or time as may be mutually acceptable to the parties. At such closing, the Selling Stockholder shall deliver a certificate or other instrument representing the
Equity Securities being purchased, free and clear of all liens, claims, encumbrances (other than as a result of this Agreement) and defects in title and duly endorsed for Transfer to the appropriate purchaser and, in exchange therefor, the purchaser of such Equity Securities shall pay the purchase price provided in Section 5.1(f) hereof at such closing by bank wire transfer of immediately available funds to a bank account designated in writing by the Selling Stockholder at least three Business Days prior to such closing.

Section 5.2 Charter Right of First Refusal.

(a) In the event that Charter has a binding, written offer for the Transfer of any Equity Securities other than pursuant to a Permitted Transfer described in clause (f) or (g) of Section 1.62 hereof (a "Charter Proposed Transfer"), Charter shall deliver to the Corporation and the remaining Stockholders an Offer Notice (meeting the requirements of Section 5.1(a) relating to an Offer Notice) relating to such written offer. The Offer Notice shall constitute an irrevocable offer by Charter to sell all (but not less than all) of the Equity Securities subject to the Charter Proposed Transfer (i) first, to the other Stockholders; and (ii) second, to the Corporation on terms and conditions no less favorable to the purchaser than the terms and conditions of the Charter Proposed Transfer (the "Charter Right of First Refusal").

(b) During the First Offer Period, each Stockholder (other than Charter) may elect to purchase all or any portion of such Stockholder's Offer Percentage of the Equity Securities subject to the Charter Proposed Transfer by delivering an Election Notice (meeting the requirements of Section 5.1(b) relating to an Election Notice) stating the number of shares of Equity Securities to be purchased to the Corporation and Charter prior to the expiration of the First Offer Period. The failure by any Stockholder (other than Charter) to deliver an Election Notice during the First Offer Period shall be deemed to be an election by such Stockholder not to purchase any of the Equity Securities subject to the Charter Proposed Transfer.

(c) If the Stockholders (other than Charter) do not elect during the First Offer Period to purchase all of the Equity Securities subject to the Charter Proposed Transfer, during the Second Offer Period, the Corporation may elect to purchase all or any portion of such Equity Securities that the Stockholders (other than Charter) did not elect to purchase during the First Offer Period by delivering an Election Notice to the Corporation and Charter prior to the expiration of the Second Offer Period. The failure by the Corporation to deliver an Election Notice during the Second Offer Period shall be deemed to be an election by the Corporation not to purchase any of the Equity Securities subject to the Charter Proposed Transfer.

(d) If the Stockholders (other than Charter) and the Corporation do not elect to purchase all of the Equity Securities subject to the Charter Proposed Transfer, Charter may Transfer to the Third Party Purchaser named in the Offer Notice all (but not less than all) of the Equity Securities subject to the Charter Proposed Transfer in accordance with the terms and conditions set forth in the Offer Notice; provided, however, that if Charter has not consummated the Transfer of such Equity Securities within the 30 Business Day period following the end of the Second Offer Period, all of the restrictions on Transfer contained in this Agreement shall again be in effect with respect to such Equity Securities. Upon a Transfer of Equity Securities to a Third Party Purchaser, the Corporation shall not be obligated to transfer ownership of such Equity Securities on the records of the Corporation unless such Third Party Purchaser has complied with the proviso to Section 1.62.
(e) If the consideration for the Charter Proposed Transfer is cash consideration, the purchase price to be paid by each of the Stockholders (other than Charter) and the Corporation, as applicable, shall be equal to the total consideration set forth in the Offer Notice multiplied by the fraction (a) the numerator of which is the number of shares or other units of Equity Securities being purchased by such Stockholder or the Corporation, as applicable, and (b) the denominator of which is the total number of shares or other units of Equity Securities subject to such Offer Notice. If the consideration for the Charter Proposed Transfer consists of Non-Cash Consideration or consists of a combination of cash consideration and Non-Cash Consideration, the purchase price shall be cash in an amount equal to the total of the cash consideration, if any, and the Fair Market Value of the Non-Cash Consideration as determined in accordance with Section 7.3(a) hereof.

(f) The purchase and sale of Equity Securities pursuant to the Charter Right of First Refusal shall be consummated at a closing that shall occur at the principal business office of the Corporation within 20 Business Days following the expiration of the relevant Offer Period, or at such other place or time as may be mutually acceptable to the parties. At such closing, Charter shall deliver a certificate or other instrument representing the Equity Securities being purchased, free and clear of all liens, claims, encumbrances (other than as a result of this Agreement) and defects in title and duly endorsed for Transfer to the appropriate purchaser and, in exchange therefor, the purchaser of such Equity Securities shall pay the purchase price provided in Section 5.2(e) at such closing by bank wire transfer of immediately available funds to a bank account designated in writing by Charter at least two Business Days prior to such closing.

ARTICLE VI.
CERTAIN RIGHTS

Section 6.1 Charter Preemptive Right. (a) In the event that the Corporation desires to issue any Equity Securities other than to a Contributing Stockholder pursuant to Section 7.1 hereof (an "Issuance"), the Corporation shall, prior to such Issuance, provide written notice to each Stockholder describing in detail the Equity Securities to be issued, the reasons for such Issuance, the potential purchasers thereof, if specifically known, and the consideration to be received therefrom (a "Preemptive Notice"). Charter shall have the right, during the 20 Business Days following receipt of the Preemptive Notice (the "Preemptive Right Offer Period"), to elect to subscribe for and purchase (the "Preemptive Right") at the same price, and on such other terms and conditions as are set forth in the Preemptive Notice, such number of shares of Equity Securities (in addition to the Equity Securities covered by the Preemptive Notice) as may be required to cause (i) Charter's Equity Ownership Interest or Voting Ownership Interest, whichever is greater, immediately following such Issuance to be equal to (ii) Charter's Equity Ownership Interest or Voting Ownership Interest, as appropriate, on the date of the Preemptive Notice (the "Preemptive Right Securities").

(b) Charter shall be entitled to exercise the Preemptive Right by delivering written notice to the Corporation during the Preemptive Right Offer Period, designating that Charter elects to purchase all, or any portion of, the Preemptive Right Securities.

(c) The Corporation may, during the 60 Business Days following the earlier to occur of (i) the Corporation's receipt of a Section 6.1(b) notice from Charter or (ii) expiration of the Preemptive Right Offer Period, offer and sell the Equity Securities covered by the Preemptive Notice provided that such Issuance is effected in accordance with the terms described in the Preemptive Notice. Any Equity Securities not so issued by the Corporation during such 60 Business Day period shall again be subject to the Preemptive Right set forth in this Section 6.1.

(d) If the consideration for the Issuance is cash consideration, the purchase price to be paid by Charter shall be equal to the total consideration set forth in the Preemptive Notice multiplied by the fraction (i) the numerator of which is the number of shares of Preemptive Right Securities being purchased by Charter, as applicable, and (ii) the denominator
of which is the total number of shares of Equity Securities subject to such Preemptive Notice. If the consideration for the Issuance consists of Non-Cash Consideration or consists of a combination of cash consideration and Non-Cash Consideration, the consideration set forth in the Preemptive Notice shall be deemed to be cash consideration in an amount equal to the total of the cash consideration, if any, and the Fair Market Value of the Non-Cash Consideration as determined in accordance with Section 7.3(b) hereof. Charter shall have the right, in its sole discretion, to revoke its Section 6.1(b) notice within 5 Business Days after the final determination of Fair Market Value under Section 7.3(b) hereof.

(e) The issuance of the Preemptive Right Securities to Charter pursuant to the Preemptive Right shall be consummated simultaneously with the issuance of Equity Securities pursuant to the Preemptive Notice, or at such other place or time as may be mutually acceptable to the parties. At such closing, the Corporation shall deliver a certificate or other instrument registered in the name of Charter representing the Preemptive Right Securities being purchased, free and clear of all liens, claims, encumbrances and defects in title (other than restrictions on the Transfer thereof as may be described in the Preemptive Notice) and, in exchange therefor, Charter shall pay the purchase price provided in subsection (d) of this Section 6.1 by bank wire transfer of immediately available funds to a bank account designated in writing by the Corporation at least three Business Days prior to such closing.

(f) In the event of an Issuance, in lieu of an exercise of the Preemptive Right, Charter may, upon written notice to the Corporation, require that all Equity Securities to be issued in connection with such Issuance consist of Equity Securities that do not have voting rights with respect to any matter submitted to a vote of the stockholders of the Corporation or, in Charter's sole discretion, with respect to certain specified matters.

Section 6.2 Charter Option. (a) At any time during the term of this Agreement, Charter shall have the right and option to offer to purchase from the Stockholders (other than Charter) all, but not less than all, of the issued and outstanding Common Stock and all of any portion of the Equity Securities (other than Common Stock), held by such Stockholders at the time of such offer (the "Charter Option"). In the event that Charter desires to exercise the Charter Option, Charter shall deliver to the Corporation and the Stockholders (other than Charter) written notice of such offer,

including the Equity Securities subject to such offer, the amount and nature of the consideration to be received (which consideration shall be separately stated by class of Equity Securities), the conditions, if any, associated therewith, and any other material terms of such offer (an "Option Notice"). If any portion of such consideration consists of shares of Charter Common Stock, such shares shall be registered under the Securities Act at the time of the purchase and sale pursuant to Section 6.2(e). The Option Notice shall constitute an irrevocable offer by Charter to purchase the Equity Securities subject to the Charter Option if Stockholders holding more than 50% of each class of Equity Securities subject to the Charter Option deliver notices pursuant to the first sentence of Section 6.2(c).

(b) During the Option Period, each Stockholder (other than Charter) may elect to sell all, but not less than all, of such Stockholder's Equity Securities subject to the Charter Option by delivering written notice of such election to the Corporation and Charter prior to the expiration of the Option Period. The failure by any such Stockholder to deliver a notice of election during the Option Period shall be deemed to be an election by such Stockholder not to sell any of the Equity Securities subject to the Charter Option.

(c) If Stockholders holding more than 50% of each class of Equity Securities subject to the Charter Option deliver notices of election prior to the expiration of the Option Period, Charter shall be obligated to purchase, and the Stockholders shall be obligated to sell, all of the Equity Securities subject to the Charter Option, regardless of whether any such Stockholder delivered an election notice prior to the expiration of the Option Period. If Stockholders holding exactly 50% of each class of Equity Securities
subject to the Charter Option deliver notices of election prior to the expiration of the Option Period, Charter shall have the right (but not the obligation) on ten Business Days' notice to such electing Stockholders to purchase, and in such event such electing Stockholders shall be obligated to sell, all of the Equity Securities subject to the Charter Option and held by such electing Stockholders. If Stockholders holding less than 50% of each class of Equity Securities subject to the Charter Option deliver notices of election prior to the expiration of the Option Period, Charter shall not be entitled to purchase and the Stockholders shall not be obligated to sell any of the Equity Securities subject to the Charter Option; provided, that nothing set forth in this Section 6.2 shall prohibit Charter from purchasing such Equity Securities in a manner that is otherwise in accordance with this Agreement. If Stockholders holding exactly 50% of each class of Equity Securities subject to the Charter Option deliver notices of election prior to the expiration of the Option Period and if, pursuant to the second sentence of this Section 6.2(c), Charter elects to purchase such shares from such Stockholders, then Charter shall have the right, by a Mandatory Call Notice given not more than 20 Business Days after expiration of the Option Period, to purchase from the Stockholders who did not deliver notices of election prior to expiration of the Option Period all of the Equity Securities of such non-electing Stockholders subject to the Charter Option; and any such purchase shall be by means of a Charter Mandatory Call pursuant to Section 6.3.

(d) The aggregate purchase price to be paid by Charter in connection with the Charter Option in which Stockholders holding more than 50% of each class of Equity Securities subject to the Charter Option deliver notices of election prior to the expiration of the Option Period shall be the consideration set forth in the Option Notice. The aggregate purchase price to be paid by Charter in connection with the Charter Option in which Stockholders holding exactly 50% of each class of Equity Securities subject to the Charter Option deliver notices of election prior to the expiration of the Option Period shall be, for the Stockholders delivering such notices of election, the purchase price set forth in subsection (b) of this Section 6.2 hereof by bank wire transfer of immediately available funds to a bank account designated by each such Stockholder in writing at least three Business Days prior to such closing. The portion of the aggregate purchase price with respect to each class of Equity Securities payable to each Stockholder shall be equal to the total purchase price multiplied by the fraction (A) the numerator of which is the number of shares or other amount of that class of Equity Securities being sold by such Stockholder and (B) the denominator of which is the total number of shares or other amount of that class of Equity Securities subject to such Option Notice.

(e) The purchase and sale of Equity Securities pursuant to the Charter Option shall be consummated at a closing that shall occur at the principal business office of the Corporation not later than the 10th Business Day after the expiration of the Option Period, or at such other place or time as may be mutually acceptable to the parties. At such closing, the Stockholders (other than Charter) shall deliver a certificate or other instrument representing the Equity Securities being purchased, free and clear of all liens, claims, encumbrances and defects in title (other than as a result of this Agreement) and duly endorsed for Transfer to Charter and, in exchange therefor, Charter shall pay the purchase price provided in subsection (b) of this Section 6.2 hereof by bank wire transfer of immediately available funds to a bank account designated by each such Stockholder in writing at least three Business Days prior to such closing. The portion of the aggregate purchase price with respect to each class of Equity Securities payable to each Stockholder shall be equal to the total purchase price multiplied by the fraction (A) the numerator of which is the number of shares or other amount of that class of Equity Securities being sold by such Stockholder and (B) the denominator of which is the total number of shares or other amount of that class of Equity Securities subject to such Option Notice.

Section 6.3 Charter Mandatory Call. (a) At any time and from time to time during the term of this Agreement that Charter's Voting Ownership Interest (expressed as a percentage) is at least 75%, Charter shall have the right and option to elect to purchase from the Stockholders (other than Charter), and to require the Stockholders (other than Charter) to sell to Charter, all, but not less than all, of the issued and outstanding Common Stock held by such Stockholders at the time of such election (a "Charter Mandatory Call"). In the event that Charter desires to exercise Charter Mandatory Call, Charter shall deliver to the Corporation and the Stockholders (other than Charter) written notice of such election, including the number of shares of Common Stock subject to such election and Charter's calculation of the purchase price for such Common Stock in accordance with subsection (b) of this Section 6.3 (a "Mandatory Call Notice"). The Mandatory Call Notice shall constitute an irrevocable election by
Charter to purchase the Common Stock subject to Charter Mandatory Call, except that Charter shall have the right, upon notice to the Corporation and the Stockholders (other than Charter) given not more than 5 Business Days after the final determination of Fair Market Value pursuant to Section 7.3(c), to revoke such Mandatory Call Notice.

(b) Subject to Section 6.5, the aggregate purchase price to be paid by Charter in connection with the Charter Mandatory Call shall be cash in an amount equal to the greatest of:

(a) 1.2 multiplied by the Base Amount, (b) the Base Amount plus the Deemed Conversion Premium and (c) the Fair Market Value of the Common Stock subject to Charter Mandatory Call as determined in accordance with Section 7.3 hereof. As used in this Agreement, the term "Base Amount" shall mean an amount equal to the product (i) $81.83 million and (ii) the fraction (A) having as its numerator the number of shares of Common Stock issued to all Stockholders (other than Charter) pursuant to the Subscription Agreement, which shares continue to be held by such Stockholders as of the date of the Mandatory Call Notice and (B) having as its denominator the aggregate number of shares of Common Stock issued to all Stockholders (other than Charter) pursuant to the Subscription Agreement, in each case subject to adjustment as provided in Section Three of the Exchange Agreement. As used in this Agreement, the term "Deemed Conversion Premium" shall mean an amount equal to the product of (1) the Base Amount divided by $20, (2) the arithmetic average of the closing prices of Charter Common Stock on the American Stock Exchange (or the principal trading market on which Charter Common Stock is then listed or quoted) for the 10 trading day period prior to the date of the Mandatory Call Notice less $20 and (3) 70%.

(c) The purchase and sale of Common Stock pursuant to Charter Mandatory Option shall be consummated at a closing that shall occur at the principal business office of the Corporation not later than the 10th Business Day after a binding determination of the Fair Market Value of such Common Stock has been determined in accordance with Section 7.3(c) hereof, or at such other place or time as may be mutually acceptable to the parties. At such closing, the Stockholders shall deliver a certificate or other instrument representing the Common Stock being purchased pursuant to such Charter Mandatory Call, free and clear of all liens, claims, encumbrances and defects in title and duly endorsed for Transfer to Charter and, in exchange therefor, Charter shall pay the purchase price provided in subsection (b) of this Section 6.3 hereof by bank wire transfer of immediately available funds to a bank account designated in writing by each such Stockholder at least three Business Days prior to such closing. The portion of the aggregate purchase price payable to each Stockholder (other than Charter) shall be equal to the total purchase price multiplied by the fraction (i) the numerator of which is the number of shares of Common Stock being sold by such Stockholder and (ii) the denominator of which is the total number of shares of Common Stock subject to such Mandatory Call Notice.

Section 6.4 Charter Change of Control Put. (a) Upon a Charter Change of Control, each Minority Stockholder shall have the right to require Charter to purchase all (but not less than all) the shares of Common Stock owned by each such Minority Stockholder (including shares owned by a Permitted Transferee of such Minority Stockholder pursuant to Section 1.62(f)). The aggregate purchase price for shares of Common Stock purchased by Charter upon exercise of such right and the purchase price per share of Common Stock shall be as provided in Section 6.3(b) and the last sentence of Section 6.3(c), respectively, except that the aggregate purchase price shall be the Section 6.3(b) amount plus an amount equal to 10% of the Section 6.3(b) amount multiplied by the fraction, the denominator of which is 100 and the numerator of which is the excess, if any, of the percentage (expressed as a whole number) of outstanding shares of Common Stock owned by the Minority...
Section 6.4(a) shall so do by giving Charter written notice of such election within 5 Business Days after the date of Charter's notice; and such written notice of election by a Minority Stockholder shall constitute an irrevocable election to exercise its Section 6.4(a) right with respect to all (but not less than all) of the shares of Common Stock owned by such Minority Stockholder or Permitted Transferee of such Minority Stockholder pursuant to Section 1.62(f) and to sell such shares to Charter in the manner and for the purchase price provided in this Section 6.4.

Section 6.5 Certain Purchase Price Adjustments; Separate Agreements.

(a) Charter and the Minority Stockholders mutually acknowledge that the purchase price provisions of Section 6.3(b), relating to the Charter Mandatory Call, and Section 6.4(a) relating to the right of Minority Stockholders to require Charter to purchase all shares of Common Stock owned by a Minority Stockholder upon a Charter Change of Control, do not provide a purchase price for (i) shares of Common Stock purchased by a Contributing Stockholder pursuant to Section 7.1, (ii) shares of Common Stock purchased by a Stockholder pursuant to a Preemptive Notice under Sections 2.9(iv) and 6.1(a), which Stockholder is not at the time of such purchase a Minority Stockholder, and (iii) shares of Common Stock that may be acquired by a Minority Stockholder from Charter by means other than exercise of rights pursuant to a Charter Right of First Refusal.

(b) In the case of clause (i) of Section 6.5(a), Charter and the Contributing Stockholders shall, as a condition to the funding of a Capital Contribution that involves the issuance of Common Stock by the Corporation, either enter into a separate agreement providing the terms and conditions relating to the purchase of such shares of Common Stock by Charter upon a Charter Mandatory Call or a put of Minority Stockholders' other shares of Common Stock pursuant to Section 6.4(a) or agree in writing that neither Section 6.3 nor Section 6.4 shall apply to the shares of Common Stock so acquired upon a Capital Contribution.

(c) In the case of clauses (ii) and (iii) of Section 6.5(a), Charter and the applicable Stockholder or Minority Stockholder may, in the sole discretion of each party, enter into a separate agreement relating to the purchase by Charter of the shares of Common Stock covered by such clauses (ii) and (iii) upon a Charter Mandatory Call or a put of other shares of Common Stock pursuant to Section 6.4(a), but shall not be obligated to do so.

Section 6.6 Charter Board Representation. During the term of this Agreement and subject to Charter's Certificate of Incorporation and Bylaws, Charter (but not any assignee of Charter) shall, from time to time, nominate and use its best efforts to cause the election to the Board of Directors of Charter, of a representative of the Minority Stockholders. Such representative shall be chosen, in Charter's discretion, from the chief executive officers of the Minority Stockholders and the members of the Corporation's Board of Directors designated by the Minority Stockholders.

ARTICLE VII.
CERTAIN COVENANTS

Section 7.1 Capital Contributions. (a) Except as provided in this Section 7.1 or contemplated by the Subscription Agreement, no Stockholder shall be required to make any capital contribution to the Corporation.

(b) In the event that the Board of Directors determines that additional equity capital is reasonably necessary or reasonably desirable to enable the Corporation to carry out its business objectives as contemplated by the Annual Operating Plan or Annual Capital Plan (a "Capital Contribution"), the
Board of Directors shall provide written notice of such Capital Contribution to each Stockholder (a "Capital Contribution Notice"), including in such notice (i) the total amount of cash that would be required to fund such Capital Contribution, (ii) each Stockholder's proportionate share (based on such Stockholder's respective Ownership Interest) of such Capital Contribution, (iii) a detailed description of the intended use or uses of such Capital Contribution, (iv) the proposed schedule for funding such Capital Contribution, (v) the Equity Securities, if any, to be issued at not less than fair market value in connection with such Capital Contribution, (vi) the method of reducing the Equity Interest of any Declining Stockholders, (vii) the Equity Securities, if any, to be issued at not less than fair market value to any Contributing Stockholder making an additional Capital Contribution on behalf of any Declining Stockholder, and (viii) if such Equity Securities are Common Stock and if the Exchange Period (as defined in the Exchange Agreement) shall not have expired at the time such Common Stock is issued, the terms of an amendment to the Exchange Agreement whereby such shares of Common Stock shall be exchangeable into shares of Charter Common Stock at a per share exchange price equal to the arithmetic average of the closing sale prices for a share of such Charter Common Stock as reported by the American Stock Exchange for the ten trading days immediately preceding the third Business Day prior to the date of a Capital Contribution Notice. Charter agrees that any such shares of Charter Common Stock shall be registered under the Securities Act or exempt from registration pursuant to an exemption that permits resale of such shares of Charter Common Stock in the public market promptly after issuance, subject only to the provisions of Rule 144 under the Securities Act except for the provisions applicable to "restricted securities" (as such term is defined in Rule 144).

(c) Upon receipt of a Capital Contribution Notice, each Stockholder (other than Charter) shall have the right to (i) consent to make such Capital Contribution (Charter and each such Stockholder referred to individually as a "Contributing Stockholder" or collectively as the "Contributing Stockholders") or (ii) decline to make such Capital Contribution (individually, the "Declining Stockholder" or collectively, the "Declining Stockholders"). Each Contributing Stockholder shall contribute its proportionate share of such Capital Contribution (based on its Equity Ownership Interest) in accordance with the funding schedule set forth in the Capital Contribution Notice, subject, if applicable, to the provisions of Section 6.5(b). Each Stockholder, within 15 Business Days after the date of a Capital Contribution Notice, shall give notice to the Corporation of its election to be a Contributing Stockholder or a Declining Stockholder with respect to such Capital Contribution Notice.

(d) The Contributing Stockholder or the Contributing Stockholders, as the case may be, may elect to contribute all or any part of the Declining Stockholder's Capital Contribution due to be made to the Corporation, and the Stockholders hereby consent to the issuance of additional Equity Securities to the Contributing Stockholders in the manner set forth in the applicable Capital Contribution Notice.

(e) In addition to, or in lieu of, the Capital Contributions contemplated pursuant to this Section 7.1, the Corporation may fund its capital requirements through cash on hand, cash flow or borrowings from any Stockholder or from third parties on an arms' length basis and may grant a security interest in the assets of the Corporation to secure any such indebtedness in proportion to the debt borrowed; provided, that any such security interest is non-recourse to the Stockholders.

Section 7.2 Confidential Information. (a) The Stockholders acknowledge that the Corporation derives and will continue to derive significant economic and competitive value from the Confidential Information that has been developed in connection with the operation of the Business and that the Confidential Information is not generally known to and is not readily available to or ascertainable by others. The Stockholders shall maintain as secret and confidential the Confidential Information and shall take all reasonable precautions against the disclosure of the Confidential Information to third parties. The Stockholders shall not circulate or otherwise disclose the Confidential Information within their own organizations except to personnel
(including, without limitation, such Stockholder's employees, officers, directors, representatives, agents, Affiliates, lenders or advisors) directly involved in the Business on a need-to-know basis and, prior to any such circulation or disclosure of the Confidential Information, shall require such personnel to have executed a non-disclosure agreement which covers the Confidential Information (e.g., a Stockholder's standard employee non-disclosure agreement which by its terms covers third party confidential information) or be otherwise bound to hold the Confidential Information in confidence (e.g., pursuant to professional rules of conduct). The Stockholders acknowledge that a breach of the confidentiality provisions of this Agreement would cause irreparable injury to the Corporation for which no remedy at law would be adequate. It is the understanding of the Stockholders that the obligations relating to Confidential Information may be enforced to the fullest extent permissible under the laws and public policies of the State of Delaware. If there is a breach or threatened breach of the confidentiality provisions of this Agreement, the Corporation shall be entitled to injunctive relief or the equivalent mandatory relief under the laws of the State of Delaware restraining any Stockholder from such breach or threatened breach. The Stockholders acknowledge and agree that the prohibition against disclosure of Confidential Information is in addition to, and not in lieu of, any other or additional rights or remedies which may be available to the Corporation pursuant to the laws of the State of Delaware and that the enforcement by the Corporation of its rights and remedies pursuant to this Agreement shall not be construed as a waiver of any rights or remedies which it may possess in law or at equity absent this Agreement.

(b) Upon the written request of the Corporation, the Stockholders shall return to the Corporation or destroy (subject to the right to retain, for archival purposes only, a single copy, which single copy may be used solely by attorneys representing such Stockholders for reference purposes only and may not be used for any commercial or competitive purposes whatsoever) all copies of Confidential Information held by the Stockholders or any personnel within each Stockholder's organization, regardless of the form of such Confidential Information. The foregoing provision shall not apply to Confidential Information which is rightfully held by a Stockholder in connection with its performance under an agreement or agreements between such Stockholder and the Corporation which has not expired or been properly terminated.

(c) No Stockholder shall be subject to the provisions contained in Section 7.2(a) hereof to the extent that the Stockholder or any of its Affiliates is, based on the advice of its counsel, required by law (including, without limitation, any requirement under the Securities Act or Exchange Act or any regulations promulgated thereunder) to make disclosure of any Confidential Information relating to the Corporation.

Section 7.3 Determination of Fair Market Value. (a) In the event that a determination of the fair market value of Non-Cash Consideration is required pursuant to the Right of First Refusal or the Charter Right of First Refusal, the Selling Stockholder or Charter, as appropriate, shall specify in the applicable Offer Notice its good faith estimate of the fair market value of any Non-Cash Consideration to be paid in connection with the proposed transfer. If a majority of the disinterested members of Board of Directors agrees with the estimated fair market value of such Non-Cash Consideration, the estimate shall be deemed to be the Fair Market Value thereof for purposes of this Agreement. If the Board of Directors does not agree with the estimated fair market value, the Board of Directors shall, within 10 Business Days of receipt of the Offer Notice, deliver to the Selling Stockholder or Charter, as appropriate, written notice of its disagreement and shall, for a period of 10 Business Days after delivering such notice, negotiate with the Selling Stockholder or Charter, as appropriate, for the purpose of determining the fair market value of the Non-Cash Consideration that is acceptable to the Board of Directors and the Selling Stockholder or Charter, as appropriate. If the Board of Directors and the Selling Stockholder or Charter, as appropriate, are unable to agree on a fair market value during the aforementioned negotiation period, the Corporation and the Selling Stockholder or Charter, as appropriate, shall appoint a mutually agreeable appraiser of recognized standing with respect to the nature of the property constituting the Non-Cash Consideration to complete an appraisal of the
render a binding and non-appealable appraisal of the Fair Market Value of the property constituting the Non-Cash Consideration within 10 Business Days of such appraiser's appointment or, if it is not reasonably possible to complete such appraisal in such time period, such longer period as shall be reasonably necessary to complete such appraisal (not to exceed 30 Business Days). The Corporation and the Selling Stockholder or Charter, as appropriate, each shall bear one-half of the costs of such appraisal.

(b) In the event that a determination of the fair market value of Non-Cash Consideration is required pursuant to the Preemptive Right, the Corporation shall specify in the applicable Preemptive Notice its good faith estimate of the fair market value of any Non-Cash Consideration to be paid in connection with the applicable Preemptive Notice. If Charter agrees with the estimated fair market value of such Non-Cash Consideration, the estimate shall be deemed to be the Fair Market Value thereof for purposes of this Agreement. If Charter does not agree with the estimated fair market value, Charter shall, within 10 Business Days of receipt of the Preemptive Notice, deliver to the Corporation written notice of its disagreement and shall, for a period of 10 Business Days after delivering such notice, negotiate with the Corporation for the purpose of determining the fair market value of the Non-Cash Consideration that is acceptable to Charter and the Corporation. If Charter and the Corporation are unable to agree on a fair market value during the aforementioned negotiation period, Charter and the Corporation shall appoint a mutually agreeable appraiser of recognized standing with respect to the property constituting the Non-Cash Consideration to complete an appraisal of the property constituting the Non-Cash Consideration within 10 Business Days of such appraiser's appointment or, if it is not reasonably possible to complete such appraisal in such time period, such longer period as shall be reasonably necessary to complete such appraisal (not to exceed 30 Business Days). Charter and the Corporation each shall bear one-half of the costs of such appraisal, except that Charter shall pay all the costs of such appraisal if Charter exercises its revocation right provided by the last sentence of Section 6.3(a).

(c) In the event that a determination of the fair market value of shares of Common Stock is required in connection with an exercise by Charter of the Charter Mandatory Call, Charter shall specify in the applicable Mandatory Call Notice its good faith estimate of the fair market value of the Common Stock subject to the Charter Mandatory Call. If the Stockholders (other than Charter) agree with the estimated fair market value of such Common Stock, the estimate shall be deemed to be the Fair Market Value thereof for purposes of this Agreement. If the Stockholders (other than Charter) do not agree with the estimated fair market value, such Stockholders shall, within 10 Business Days of receipt of the Mandatory Call Notice, deliver to Charter written notice of their disagreement and shall, for a period of 10 Business Days after delivering such notice, negotiate with Charter for the purpose of determining the fair market value of such Common Stock that is acceptable to Charter and such Stockholders. If Charter and such Stockholders are unable to agree on a fair market value during the aforementioned negotiation period, Charter and such Stockholders shall appoint a mutually agreeable appraiser of recognized standing with respect to the valuation of equity interests of companies engaged in a business similar to the Business to complete an appraisal of the Common Stock subject to the Charter Mandatory Call (assuming, for purposes of such valuation, a change in control of 100% of the Corporation). Such appraiser shall render a binding and non-appealable appraisal of the Fair Market Value of the Common Stock subject to the Charter Mandatory Call within 20 Business Days of such appraiser's
appointment or, if it is not reasonably possible to complete such appraisal in such time period, such longer period as shall be reasonably necessary to complete such appraisal (not to exceed 40 Business Days). Charter and such Stockholders (acting as a group on the basis of the number of shares of Common Stock owned by each such Stockholder and subject to the Charter Mandatory Call) each shall bear one-half of the costs of such appraisal. The provisions of this subsection (c) of Section 7.3 shall also apply in the event that such an appraisal is required in connection with the Charter Option. Determinations by Stockholders under this Section 7.3(c) shall be made by the affirmative vote of Stockholders holding shares of Common Stock subject to the Charter Mandatory Call.

Section 7.4 No Inconsistent Agreements. No Stockholder shall grant any proxy or agree to be bound by any voting trust with respect to any Equity Securities, nor shall any Stockholder enter into any agreement or arrangement with any Person (whether or not a party to this Agreement) with respect to the voting or transfer of Equity Securities or the designation or conduct of Directors, containing any provision that is inconsistent with this Agreement.

Section 7.5 Minority Stockholders' Agreement. Those provisions of any written agreement among any Minority Stockholders or among one or more Minority Stockholders and any other Stockholder or Stockholders (i) generally governing voting as Stockholders or as Directors, whether by voting trust, voting agreement, irrevocable proxy or similar agreement, (ii) generally governing the conduct of such parties with respect to Transfers, proposed Transfers, or restrictions on Transfers of Equity Securities, or (iii) generally governing issuances by the Corporation of New Equity Securities, shall be subject to the prior written approval of Charter in its sole discretion. This Section 7.5 shall not apply to communications and discussions among Stockholders or Directors concerning matters upon which they may deliberate, vote or act in a manner consistent with this Agreement, or to agreements among them with respect to any particular vote or other action on specific matters arising from time to time as contemplated by this Agreement (which agreements are made at or about the time of any such particular vote or other action on specific matters) such as periodic designations of Directors, exercise of rights of first refusal, and other specific elections or actions provided for in this Agreement. Charter's rights of approval under this Section 7.5 shall expire at such time as Charter shall no longer own beneficially at least 50% of the Voting Securities of the Corporation, and for this purpose, the term "Charter" shall include only Charter Medical Corporation and its Permitted Transferee or Permitted Transferees under Section 1.62(f).

Section 7.6 No Event of Default. (a) The Stockholders acknowledge that the Credit Agreement restricts Charter's ability to issue indebtedness, purchase or otherwise acquire Equity Securities of the Corporation or make additional capital contributions to the Corporation (each, an "Action") if (a) any Default or Event of Default (each as defined in the Credit Agreement) has occurred and is continuing or (b) if such Action would result in a Default or an Event of Default. In the event that the Credit Agreement would preclude the taking of any such Action (whether pursuant to this Agreement, the Stock Purchase Agreement, the Exchange Agreement or any document or instrument contemplated hereby or thereby), or the taking of such Action would result in a Default or Event of Default, Charter shall use its best efforts to cure such Default or Event of Default or obtain an appropriate waiver or amendment to the Credit Agreement and notwithstanding anything to the contrary contained in this Agreement, the Exchange Agreement or any document or instrument contemplated hereby or thereby, Charter shall not (and shall not be required to) take such Action unless and until such a cure has been effected or waiver or amendment has been obtained. In the event of the consummation of any such Action in violation of the covenants set forth in the preceding sentence, the Stockholders shall promptly rescind such Action upon written notice from the Agent under the Credit Agreement requesting such rescission.

(b) For so long as the Credit Agreement is in effect, Charter shall, upon the request of any Minority Stockholder, send to such Minority Stockholder, within ten Business Days after sending the same to its lenders under the Credit Agreement, a copy of the quarterly and annual Officer's
Certificate pursuant to Section 7.1(e) of the Credit Agreement, together with the calculations and statements of amounts required by such Section 7.1(e).

Section 7.7 Change of Control. Prior to a change in control of any Person (including, without limitation, any sale of all or substantially all of such Person's assets, or a merger, consolidation, share exchange, lease, transfer or similar transaction involving such Person which is a Permitted Transferee pursuant to Section 1.62(f), such Person shall be obligated to Transfer all Equity Securities owned by it to the transferor as the result of which such Person became a Permitted Transferee pursuant to Section 1.62(f).

ARTICLE VIII.
REPRESENTATIONS AND WARRANTIES

Section 8.1 Representations and Warranties of the Corporation. The Corporation hereby represents and warrants to the Stockholders as follows:

(a) Organization and Good Standing. The Corporation is a corporation duly formed, validly existing and in good standing under the laws of the State of Delaware and has the full corporate power and authority to own and operate its assets and properties and carry on its businesses as presently conducted and is duly qualified without material exception to do business and is in good standing in all jurisdictions in which the ownership of its properties or the operation of its business presently makes such qualification necessary.

(b) Authority. The Board of Directors has duly authorized the execution and delivery of this Agreement and the transactions contemplated hereby. The Corporation has the full power and authority to execute and deliver, and to perform its obligations under, this Agreement.

(c) No Violations. Neither the execution or delivery by the Corporation of this Agreement, nor the consummation by the Corporation of the transactions herein contemplated, nor the fulfillment by the Corporation of the terms and provisions hereof will conflict with, violate or result in a breach of, any of the terms, conditions or provisions of any law, regulation, order, writ, injunction, decree, determination or award of any Governmental Authority applicable to the Corporation, nor will conflict with, violate or result in a breach of, or constitute a default under, any of the terms, conditions or provisions of the Corporation's constituent documents, nor will conflict with, violate or result in a breach of, or constitute a default under, any of the terms, conditions or provisions of any loan agreement, indenture, trust, deed or other agreement or instrument to which the Corporation is a party or by which it is bound or except as provided herein or otherwise permitted hereby, result in the creation or imposition of any lien, charge, security interest or encumbrance of any nature whatsoever upon any of the Corporation's property or assets (including, without limitation, the Common Stock held by the Corporation). The Corporation is not in default under any agreement to which it is a party which default could impair its ability to perform its obligations under this Agreement.

Section 8.2 Representations and Warranties of the Stockholders. Each
Stockholder hereby represents and warrants to the Corporation and the other Stockholders as follows:

(a) Organization. Such Stockholder is a corporation or mutual legal company duly formed, validly existing and in good standing under the laws of its state of incorporation or formation and has full corporate or organizational power and authority to own and operate its assets and properties and carry on its businesses as presently conducted and is duly qualified without material exception to do business and is in good standing in all jurisdictions in which the ownership or occupancy of its properties or conduct of its business presently makes such qualification necessary.

(b) Authority. The board of directors or governing body of such Stockholder has duly authorized the execution and delivery of this Agreement and the transactions contemplated hereby. Such Stockholder has the full power and authority to execute and deliver, and to perform its obligations under, this Agreement. Such Stockholder has reviewed the terms of this Agreement, understands the intentions of the parties in entering into this Agreement and the scope and nature of their respective obligations hereunder and has had the opportunity to review the terms of this Agreement and any other agreements, documents and instruments to be executed and delivered in connection herewith with its attorneys, accountants and investment advisors to the extent deemed appropriate. This Agreement constitutes a valid and binding obligation of such Stockholder, enforceable against such Stockholder in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting the rights of creditors generally.

(c) Consents and Approvals. All authorizations, approvals and consents, if any, required to be obtained from, and all registrations, declarations and filings, if any, required to be made with, all governmental authorities and regulatory bodies to permit such Stockholder to execute and deliver, and to perform its obligations under, this Agreement have been obtained or made, as the case may be, and all such authorizations, approvals, consents, registrations, declarations and filings are in full force and effect. All terms and conditions contained in, or existing in respect of, such authorization, approvals, consents, registrations, declarations and filings have been, to the extent necessary prior to the date of execution and delivery hereof, duly satisfied and performed.

(d) No Violations. Neither the execution or delivery by such Stockholder of this Agreement, nor the consummation by such Stockholder of the transactions herein contemplated, nor the fulfillment by such Stockholder of the terms and provisions hereof (i) will conflict with, violate or result in a breach of, any of the terms, conditions or provisions of any law, regulation, order, writ, injunction, decree, determination or award of any court, Governmental Authority, applicable to such Stockholder, (ii) will conflict with, violate or result in a breach of, or constitute a default under, any of the terms, conditions or provisions of such Stockholder's constituent documents, (iii) will conflict with, violate or result in a breach of, or constitute a default under, any of the terms, conditions or provisions of any loan agreement, indenture, trust, deed or other agreement or instrument to which such Stockholder is a party or by which it is bound or (iv) except as provided herein or otherwise permitted hereby, result in the creation or imposition of any lien, charge, security interest or encumbrance of any nature whatsoever upon any of such Stockholder's property or assets (including, without limitation, the Common Stock held by such Stockholder). Such Stockholder is not in default under any agreement to which it is a party which default could impair its ability to perform its obligations under this Agreement.
ARTICLE IX.
MISCELLANEOUS

Section 9.1 Termination. This Agreement shall terminate: (a) upon the written agreement of all Stockholders, (b) as to any Stockholder who neither owns any Equity Securities or is a party to an Operating Agreement or (c) upon the acquisition by a single Person of all of the issued and outstanding Equity Securities.

Section 9.2 Simultaneous Transaction. The execution of this Agreement shall occur simultaneously with the Closing of the transactions contemplated by the Stock Purchase Agreement, and neither the consummation of the transactions contemplated hereby or by the Stock Purchase Agreement shall be deemed to have occurred unless and until the transactions contemplated by all such agreements shall have been completed.

Section 9.3 No Waiver. No failure on the part of any party hereto to exercise, no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

Section 9.4 Assignability. Except as specifically provided herein to the contrary, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and Permitted Transferees. Charter shall have the right to grant to the lenders under the Credit Agreement a security interest in its rights under this Agreement but no such assignment shall impact or diminish its obligations under this Agreement.

Section 9.5 Notices. In any case where any notice or other communication is required or permitted to be given hereunder (including, without limitation, any change in the information set forth in this Section 9.5) such notice or communication shall be in writing and (a) personally delivered, (b) sent by registered United States mail, postage prepaid, return receipt requested, (c) transmitted by telecopy or (d) sent by way of a recognized overnight courier service, charges prepaid, return receipt requested with instructions to deliver on the next business day, in each case as follows:

(a) If to the Corporation, to:

Green Spring Health Services, Inc.
Clark Building, Suite 500
5565 Sterret Place
Columbia, Maryland 21044-2642
Attention: Joyce N. Fitch, Esq.
Telecopy: (410) 740-2686

(b) If to Charter, to:

Charter Medical Corporation
3414 Peachtree Road, N.E.
Suite 1400
Atlanta, Georgia 30326
Attention: Cherie M. Fuzzell, Esq.
Telecopy: (404) 814-5795

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with a copy to:

King & Spalding
191 Peachtree Street
Atlanta, Georgia 30303
Attention: Robert W. Miller, Esq.
Telecopy: (404) 572-5144

(c) If to BCILL, to:

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Health Care Service Corporation
233 North Michigan Avenue
Chicago, Illinois 60601
Attention: Sherman Wolff
Telecopy: (312) 819-1220

with a copy to:

Kirkland & Ellis
200 E. Randolph Drive
Chicago, Illinois 60601
Attention: Robert Kinderman, Esq.
Telecopy: (312) 861-2200

(d) If to BCBSNJ to:

Blue Cross and Blue Shield of New Jersey, Inc.
3 Penn Plaza East
Newark, New Jersey 07105-2200
Attention: Robert J. Pures
Telecopy: (201) 466-8288

with a copy to:

Blue Cross and Blue Shield of New Jersey, Inc.
3 Penn Plaza East
Newark, New Jersey 07105-2200
Attention: Susan S. Connor, Esq.
Telecopy: (201) 466-7759

(e) If to IBC, to:

Independence Blue Cross
1901 Market Street
Philadelphia, Pennsylvania 19103
Attention: Richard J. Neeson
Telecopy: (215) 241-3527

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with copies to:

Independence Blue Cross
1901 Market Street
Philadelphia, Pennsylvania 19103
Attention: Patricia R. Hatler, Esq.
Telecopy: (215) 241-2426

and

Dilworth, Paxson, Kalish & Kauffman
(f) If to PCMB, to:

Pierce County Medical Bureau, Inc.
1501 Market Street
P.O. Box 2354
Tacoma, Washington 98401-2354
Attention: Donald P. Sacco
Telecopy: (206) 597-7023

with a copy to:

Karr, Tuttle & Campbell
1201 Third Avenue
Suite 2900
Seattle, Washington 98101
Attention: Walt Maas, Esq.
Telecopy: (206) 682-7100

All such notices or other communications shall be deemed to have been given or received (i) upon receipt if personally delivered, (ii) on the fifth day following posting if by registered United States mail, (iii) when sent if by confirmed telecopy or (iv) on the next business day following deposit with an overnight courier.

Section 9.6 Third Party Rights. Nothing in this Agreement, whether express or implied, is intended or shall be construed to confer, directly or indirectly, upon or give to any Person other than the Corporation, the Stockholders and their respective Affiliates or Permitted Transferees, any legal or equitable right, remedy or claim under or in respect of this Agreement or any covenant, condition or other provision contained herein. Notwithstanding the foregoing, the agent and the lenders, pursuant to the Credit Agreement, shall be third party beneficiaries of the covenants and other provisions set forth in Article IV and Section 7.6 hereof.

Section 9.7 Choice of Law. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

Section 9.8 Severability. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provisions shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability with out in any manner affecting the validity or enforceability thereof in any other jurisdiction or the validity or enforceability of the remaining provisions hereof. If any provision of this Agreement shall be or become ineffective because of changes in applicable laws or interpretations thereof or should this Agreement fail to include a provision that is required as a matter of law, the parties hereto shall negotiate in good faith appropriate amendment or modifications to this Agreement so as to comply with applicable law.

Section 9.9 Enforcement of Agreement. Any legal action or proceeding with respect to this Agreement or any document related to this Agreement may be brought in the courts of the State of Delaware or of the United States of America for the District of Delaware, and, by execution and delivery of this Agreement, each party to this Agreement consents, for itself and in respect of its property, to the jurisdiction of the aforesaid courts solely for the purpose of adjudicating its rights with respect to this Agreement or any document related to this Agreement. Each party, at or prior to Closing, shall designate an agent as the designee, appointee and agent of such party to receive, for and on behalf of such party, service of process in such jurisdictions in any legal action or proceeding with respect to this Agreement or any document related to
this Agreement and such service shall, to the extent permitted by applicable law, be deemed completed ten days after delivery thereof to said agent. It is understood that a copy of such process served on such agent will be promptly forwarded by mail to such party at its address set forth in Section 9.5, but the failure of such party to receive such copy shall not, to the extent permitted by applicable law, affect in any way the service of such process. Each party to this Agreement irrevocably waives, to the extent permitted by applicable law, any objection, including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter have to the bringing of any action or proceeding in such respective jurisdictions in respect of this Agreement or any document related to this Agreement. Nothing in this Agreement shall affect the right of any party to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

Section 9.10 References to Money. References to "cash," "$," "Dollars" or other money amounts refer to currency of the United States.

Section 9.11 Construction. Any reference herein to this Agreement shall be deemed to be a reference to such Agreement as the same may be modified, varied, amended or supplemented from time to time by the parties hereto in accordance with the provisions hereof. Unless the context otherwise expressly requires, the words "herein," "hereof" and "hereunder" and other words of similar importance refer to this Agreement as a whole and not to any particular Article, Section or other subdivision.

Section 9.12 Entire Agreement. This Agreement, the Stock Purchase Agreement and the other agreements and documents contemplated hereby and thereby constitute the entire agreement between the parties hereto and supersede any prior agreement or understanding between the parties hereto whether oral or written, with respect to the matters contemplated hereby.

Section 9.13 Headings, etc. The Article and Section headings in this Agreement, and the table of contents included herein, are inserted for convenience of reference only and shall not affect the interpretation of this Agreement. Whenever the context shall require, each term stated in either the singular or plural shall include the singular and the plural. References herein to masculine, feminine or neuter pronouns shall be construed to refer to another gender when the context may require.

Section 9.14 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

Section 9.15 Survival. The provisions of Sections 7.2 and all representations and warranties made herein shall survive the execution and delivery of this Agreement and any termination of this Agreement for a period of two years following the effective date of any such termination.

Section 9.16 Amendments. This Agreement may be amended or modified only by a written instrument executed by all of the Stockholders, or by their respective successors and Permitted Transferees.

Section 9.17 Certain Capital Contributions. The Minority Stockholders covenant and agree that any Minority Stockholder that exercises any right to exchange shares of Common Stock pursuant to the Exchange Agreement prior to the time that all payments to be made to participants under the GSHS Long-Term Compensation Plan (as defined in the Stock Purchase Agreement) in connection with the termination or amendment of such plan pursuant to Section 6.12 of the Stock Purchase Agreement have been made shall pay to the Corporation prior to such exchange an amount in cash equal to $163,333 times a fraction, the numerator of which is the number of shares of
Common Stock so to be exchanged and the denominator of which is the number of shares of Common Stock beneficially owned by such Minority Stockholder on the date of this Agreement.

Section 9.18 Exchanges. Notwithstanding anything to the contrary in this Agreement (except for Section 7.6(a)), any Stockholder (other than Charter) shall have the right and the option to Exchange (as defined in the Exchange Agreement) its shares of Common Stock during the Exchange Period (as defined in the Exchange Agreement), provided that upon becoming obligated to sell its shares of Common Stock to another Stockholder (other than Charter) pursuant to the Right of First Refusal or to Charter pursuant to the Right of First Refusal, the Charter Option or the Charter Mandatory Call, such Stockholder shall not have the right and option to Exchange, except that such Stockholder shall have the right and option to Exchange its shares of Common Stock within ten Business Days after its receipt of a Mandatory Call Notice.

IN WITNESS WHEREOF, the parties hereto have caused this Stockholders' Agreement to be duly executed and delivered by their respective officers thereunto duly authorized on the day and year first written above.

GREEN SPRING HEALTH SERVICES, INC.

By: 

---------------------------------
Name:  
Title: 

HEALTH CARE SERVICE CORPORATION

By:  

---------------------------------
Name:  
Title: 

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, INC.

By:  

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Name:  
Title: 

INDEPENDENCE BLUE CROSS

By:  

---------------------------------
Name:  
Title: 

PIERCE COUNTY MEDICAL BUREAU, INC.
EXCHANGE AGREEMENT

THIS EXCHANGE AGREEMENT ("Agreement") dated the 13th day of December, 1995, is made and entered into by and among Blue Cross and Blue Shield of New Jersey, Inc. ("BCBS"), a New Jersey health service corporation, Health Care Service Corporation ("HCSC"), an Illinois legal mutual reserve company, Independence Blue Cross ("IBC"), a Pennsylvania non-profit hospital service plan corporation, Pierce County Medical Bureau, Inc. ("PCMB"), a Washington non-profit corporation, and Charter Medical Corporation ("Charter"), a Delaware corporation. (Each of BCBS, HCSC, IBC and PCMB is referred to in this Agreement as a "Seller" and together as the "Sellers").

WHEREAS, on the date of this Agreement, Charter is purchasing from Sellers, Medical Service Association of Pennsylvania ("MSAP") and Veritus, Inc. ("VI") an aggregate of 5,908.76 shares of the common stock, par value $0.01 per share ("GSHS Shares"), of Green Spring Health Services, Inc., a Delaware corporation ("GSHS") pursuant to a Stock Purchase Agreement, dated November 14, 1995, among GSHS, Charter, MSAP, VI and Sellers (the "Stock Purchase Agreement");

WHEREAS, upon closing of the stock purchase transaction contemplated by the Stock Purchase Agreement, Charter and Sellers will own all of the issued and outstanding capital stock of GSHS ("GSHS Shares"); and

WHEREAS, as a condition to the closing of the stock purchase contemplated by the Stock Purchase Agreement, Sellers and Charter are entering into this Agreement, which contains the option, subject to the provisions of this Agreement, of Sellers to exchange their GSHS Shares for shares of the common stock, par value $0.25 per share ("Charter Common Stock") of Charter or for Charter's nonnegotiable subordinated promissory notes;

WHEREAS, following consummation of the transactions contemplated by the Stock Purchase Agreement, Sellers and Charter will own beneficially and of record GSHS Shares as follows:

<table>
<thead>
<tr>
<th>Stockholder</th>
<th>Number of GSHS Shares Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charter</td>
<td>6,877.80</td>
</tr>
<tr>
<td>BCBS</td>
<td>1,652.02</td>
</tr>
<tr>
<td>HCSC</td>
<td>1,652.02</td>
</tr>
<tr>
<td>IBC</td>
<td>1,652.02</td>
</tr>
<tr>
<td>PCMB</td>
<td>1,652.02</td>
</tr>
</tbody>
</table>

NOW, THEREFORE, the parties to this Agreement agree as follows:

SECTION ONE

EXCHANGE RIGHTS

0.1 Value for Exchange Purposes -- GSHS Shares. Sellers and Charter agree that, for purposes of exchanges under this Agreement, (a) the 6,608.08 GSHS Shares owned in the aggregate by Sellers on the date of this Agreement have an aggregate value of $81.83 million ("Sellers' GSHS Value"), and (b) each GSHS Share owned by a Seller has a value of $12,383.32, subject to adjustment pursuant to Section 3 (such per GSHS share value, as the same may be adjusted from time to time pursuant to Section 3, the "PGSSV").

0.2 Exchange Price -- Charter Common Stock. Sellers and Charter agree that, for purposes of exchanges under this Agreement of GSHS Shares for shares of Charter Common Stock during the Exchange Period (as defined), the exchange
price of Charter Common Stock per share shall be $23, subject to adjustment pursuant to Section 3 (such exchange price, as the same may be adjusted from time to time pursuant to Section 3, the "Exchange Price").

0.3 Each Seller's Right to Exchange. Subject to and on the terms and conditions set forth in this Agreement, each Seller, individually and not jointly, at any time and from time to time during the period commencing on the date of this Agreement through the third anniversary of the date of this Agreement (the "Exchange Period") shall have the right to exchange (an "Exchange") all or any portion (but not less than 82 GSHS Shares, subject to adjustment pursuant to Section 3) of the GSHS Shares owned by it for either:

(a) That number of whole shares of Charter Common Stock determined by dividing (i) the result of (X) the number of GSHS Shares to be exchanged in an Exchange multiplied by (Y) the PGSSV, by (ii) the Exchange Price (each such Exchange, a "Stock Exchange"); provided, that no fractional shares of or interests in Charter Common Stock shall be issued as the result of a Stock Exchange, and fractional interests shall be rounded up or down to the nearest whole number of shares.

(b) A Note (as defined) in an original principal amount determined by multiplying (i) the number of GSHS Shares to be exchanged in an Exchange by (ii) the PGSSV (each such Exchange, a "Note Exchange"); provided that the principal amount of each Note shall be in whole U.S. dollars only, and fractions of a dollar shall be rounded up or down to the nearest whole dollar. In the event of any Note Exchange, Charter may elect, in its sole discretion upon notice pursuant to Section 9.11 not more than five business days after receipt by Charter of a notice of exchange relating to a Note Exchange, to pay to the Seller making such Exchange a cash payment equal to all, but not less than all, of the original principal amount of the Note to be issued in such Exchange in lieu of issuing such Note (a "Cash Election").

0.4 Note Defined. The term "Note" (collectively, the "Notes") means (a) Charter's nonnegotiable, subordinated promissory note in the form of Exhibit A; (b) executed on behalf of Charter by a duly authorized officer and attested by Charter's Secretary or an Assistant Secretary; (c) made payable to a Seller upon a Note Exchange; (d) dated the date of a Note Exchange; and (e) completed in a principal amount determined pursuant to Section 1.3.(b).

0.5 Other Exchange Terms. Each Exchange and all Exchanges shall be on and subject to the following terms and conditions:

(a) Each Exchange must be in whole a Stock Exchange or a Note Exchange; provided, however, that a Seller may make both a Stock Exchange and a Note Exchange on the same day; provided that each such Exchange is in accordance with this Agreement.

(b) No Exchange, as provided in Section 1.3, shall be an exchange of less than 82 GSHS Shares (subject to adjustment pursuant Section 3); each Exchange shall be only for a whole number of GSHS Shares.

0.6 Notice of an Exchange. This Section 1.6 provides the exclusive means and required procedure for the making of an Exchange by a Seller. A Seller may make an Exchange by giving written notice to Charter pursuant to Section 9.11, and such notice shall be signed on behalf of such Seller by a duly authorized officer of such Seller and shall include the following:

(a) The date of the Exchange, which date shall be designated by Seller and shall be not less than ten business days and not more than 20 business days after Charter's receipt (as notices are deemed to be received under Section 9.11) of the notice (the "Exchange Date").

(b) The number of whole GSHS Shares to be exchanged.

(c) The type of Exchange (Stock or Note).

(d) If the Exchange is a Stock Exchange, the number of certificates
for shares of Charter Common Stock to be issued upon Exchange and the
denomination of each such certificate.

(e) Seller's acknowledgment that a notice of an Exchange shall be
irrevocable by Seller, and not subject to amendment or withdrawal, after the
close of business on the 5th business day prior to the Exchange Date.

Each Exchange shall be on and subject to the following terms and
conditions:

(i) Notice of an Exchange must be received by Charter (as notices are
deemed to be received pursuant to Section 9.11) not earlier than the 20th
business day prior to the Exchange Date and not later than the 10th business day
prior to the Exchange Date.

(ii) A notice of an Exchange shall be irrevocable from and after the 5th
business day prior to an Exchange Date.

(iii) Certificates for shares of Charter Common Stock issuable upon a Stock
Exchange shall be registered only in the name of the exchanging Seller and in
denominations of not less than 1,000 shares of Charter Common Stock, except that
one certificate issued in an Exchange may be for less than 1,000 shares.

(iv) One Note (and not more than one Note) shall be issued upon each Note
Exchange, and the payee of each such Note shall be the exchanging Seller.

(v) Exchanges shall otherwise be effected in accordance with Section 2.

0.7 Deliveries. Subject to Section 2.1, delivery by an exchanging
Seller to Charter of a certificate or certificates for the GSHS Shares being
exchanged in an Exchange shall be made on the Exchange Date at the office of
Charter listed in Section 9.11, and delivery by Charter to an exchanging Seller
of a certificate or certificates for shares of Charter Common Stock, a Note, or
cash payment in lieu of a Note, as the case may be, shall be made on the
Exchange Date against receipt by Charter of such certificate or certificates for
the GSHS Shares being exchanged. With respect to an Exchange, Charter and the
exchanging Seller shall have the right, by mutual agreement, to change the
manner, time and place of such deliveries without having to amend this
Agreement. (The deliveries provided by this Section 1.7 are referred to as an
"Exchange Closing."

SECTION TWO

ISSUANCE AND DELIVERY OF SHARES AND NOTES

2.1 Issuance and Delivery of Shares of Charter Common Stock to a
Seller. In the case of a Stock Exchange, at the Exchange Closing, Charter shall
issue and deliver to the exchanging Seller one or more certificates for shares of
Charter Common Stock in definitive form, registered in the name of such
Seller for the applicable

number of shares of Charter's Common Stock. All shares of Charter Common Stock
issued upon an Exchange shall, upon issuance, be duly and validly issued, fully
paid and nonassessable, not in violation of any pre-emptive rights, and free
from all taxes, liens and charges with respect to such shares. Charter has
reserved and will at all times during the Exchange Period reserve and keep
available out of its authorized but unissued shares of Charter Common Stock or
issued shares held in treasury, solely for the purpose of issuance upon exchange
of GSHS Shares, such number of shares of Charter Common Stock as may become
issuable upon the exchange of all outstanding GSHS Shares as owned at the date
of this Agreement by Sellers, exchanged on the basis of the Exchange Price and
PGSSV. Charter will take all such actions as may be necessary to assure that all
such shares of Charter Common Stock may be issued without violation of any
applicable law or governmental regulation or any requirements of any domestic
securities exchange upon which shares of Charter Common Stock may be listed
(except for official notice of issuance which will be immediately transmitted to
the applicable stock exchange by Charter upon issuance).
2.2 Issuance and Delivery of a Note. In the case of a Note Exchange, at the Exchange Closing, Charter shall (a) execute and deliver to the exchanging Seller its Note on the terms and conditions set forth in Section 1.4 or (b) in the event of a Cash Election, pay to Seller a cash payment in the original principal amount of such Note by wire transfer or immediately available funds to an account designated by such Seller at least 2 business days prior to the Exchange Date.

2.3 Transfer of a Seller's GSHS Shares. At the Exchange Closing for an Exchange, the exchanging Seller shall deliver to Charter one or more GSHS common stock certificates in the name of such Seller and representing the GSHS Shares to be exchanged. The GSHS Shares transferred to Charter upon a Stock or Note Exchange shall be deemed to be transferred to Charter on the Exchange Date. All GSHS shares which are transferred upon an Exchange shall be duly and validly issued, fully paid and nonassessable, not in violation of any pre-emptive rights, and free from all taxes, liens and charges with respect to such shares. Certificates for GSHS Shares being exchanged shall be duly endorsed for transfer or accompanied by duly executed stock powers.

2.4 Additional Instruments of Transfer. Charter and Sellers agree, from time to time at Charter's or a Seller's, as the case may be, reasonable request and without further consideration, to execute and deliver such instruments of transfer, conveyance and assignment in addition to those delivered pursuant to this Section 2 as Charter or a Seller, as the case may be, shall request to transfer, convey and assign more effectively the shares of Charter Common Stock, a Note or GSHS Shares with respect to an Exchange.

SECTION THREE
ANTI-DILUTION PROVISIONS

3.1 Application of Section 3 to GSHS Shares and Charter Common Stock. Charter and Sellers agree that this Section 3 applies to GSHS Shares, Charter Common Stock, PGSSV and the Exchange Price. In the case of GSHS, the terms used in this Section 3 shall have the following meanings: (a) Company shall mean GSHS; (b) Stock shall mean the common stock of GSHS; (c) Price shall mean PGSSV; and (d) New Stock shall mean the class or series of securities received by holders of GSHS Shares in exchange for shares of GSHS Shares upon the occurrence of an event described in Section 3.3. In the case of Charter, the terms used in Section 3 shall have the following meanings: (a) Company shall mean Charter; (b) Stock shall mean Charter Common Stock; (c) Price shall mean the Exchange Price; and (d) New Stock shall mean the class or series of securities received by holders of Charter Common Stock in exchange for shares of Charter Common Stock upon the occurrence of an event described in Section 3.3.

3.2 Dividend or Distribution; Subdivision or Combination of Stock. If the Company shall (i) pay a dividend or make a distribution on Stock in shares of such Stock, (ii) subdivide or split the outstanding Stock into a greater number of shares or (iii) combine the outstanding Stock into a smaller number of shares, then the Price in effect immediately prior to such event shall be adjusted so that (A), with respect to the Exchange Price, the Sellers shall be entitled to receive the number of shares of Stock which Sellers would have owned or have been entitled to receive after the occurrence of any of the events described above had such shares been the subject of an Exchange immediately prior to such event or the record date for such event, whichever is earlier; and (B), with respect to PGSSV, PGSSV shall be adjusted to equal the quotient obtained by dividing Seller's GSHS Value by the number of GSHS Shares that would be owned in the aggregate by Sellers immediately after such event (x) if all Sellers immediately prior to such event owned (i) the number of GSHS Shares listed besides Sellers' names in the fourth "WHEREAS" clause, plus (2) the number of GSHS Shares that would have been received in the aggregate by Sellers as the result of previous events of the type described in (i) through (iii) above, and (y) calculated as if no Exchange or other dispositions of GSHS Shares on the part of any Seller had taken place between the date of this Agreement and the event that gives rise to the adjustment. An adjustment made pursuant to this Section 3.2 shall become effective immediately after the close of business on the record date for
3.3 Reorganization, Reclassification, Sale or Merger, Special Dividends. If at any time from the date of this Agreement until the later of (i) the day after the Exchange Closing in which the last GSHS Shares have been exchanged for shares of Charter Common Stock pursuant to this Agreement (the "Last Exchange Closing") or (ii) the end of the Exchange Period, any capital reorganization or reclassification of the capital stock of the Company, any Sale or Merger of the Company (as defined) or any distribution for no consideration, by dividend or otherwise, to the holders of Stock (excluding regular cash dividends in the ordinary course of business) shall be effected in such a way that holders of Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Stock (such stock, securities or assets are referred to together as the "New Stock") then, as a condition of such reorganization, reclassification, Sale, Merger or distribution, lawful and adequate provisions shall be made whereby Sellers and Charter shall thereafter have the right to acquire and receive upon an Exchange, in lieu of or in addition to the shares of Stock receivable in an Exchange immediately prior to such event, such number of shares or other amount of New Stock as would have been issued or paid with respect to the number of shares of Stock involved in an Exchange if the Exchange had occurred immediately prior to reorganization, reclassification, Sale, Merger or distribution. In the event of a Sale or Merger of the Company as a result of which a greater or lesser number of shares of New Stock of the surviving corporation are issuable to holders of Stock outstanding immediately prior to such Sale or Merger, the Price in effect immediately prior to such Sale or Merger shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Stock. Charter shall not effect any such Sale or Merger of Charter, unless prior to the consummation of such Sale or Merger the successor corporation (if other than Charter) resulting from such Merger or Sale or the corporation purchasing such assets shall assume by written instrument the obligation to deliver to Sellers such shares or other amount of New Stock, in accordance with the foregoing provisions, Sellers may be entitled to receive upon an Exchange. For purposes of Section 3.3, a "Sale or Merger" of the Company shall mean (a) the sale of all or substantially all of the Company's assets followed by a liquidation of the Company, or (b) the acquisition of the Company by another entity by way of merger, consolidation, share exchange or other similar business transaction resulting in the exchange of the Stock of the Company for securities or consideration issued, or caused to be issued, by the acquiring corporation or its parent or subsidiary.

3.4 Notice of Adjustment. Upon any adjustment of the Price or Stock, then and in each such case Charter shall give written notice to each Seller, which notice shall describe the adjustment, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

3.5 No Dilution or Impairment. Charter will not, by amendment of its certificate of incorporation or through any reorganization, consolidation, dissolution, Sale or Merger, or by any other voluntary act or deed, avoid or seek to avoid the performance or observance of any of the terms of this Agreement, but shall at all times in good faith assist in the carrying out of all provisions of this Agreement and in the taking of all other action which may be necessary or appropriate in order to protect the rights of the Sellers against dilution in an Exchange or in Exchanges.

SECTION FOUR
SECURITIES MATTERS

4.1 Compliance with Section 6.13 of the Stock Purchase Agreement. Charter covenants and agrees with Sellers that it will comply with the provisions of Section 6.13(a) of the Stock Purchase Agreement that relate to the offer and issuance of shares of Charter Common Stock under this Agreement or, as
an alternative to such covenant and agreement, Charter represents and warrants to Sellers that it has complied with Section 6.13(b) of the Stock Purchase Agreement prior to the execution of this Agreement.

4.2 Indemnification. Charter and Sellers mutually covenant and agree that the indemnification provisions of Section 6.13(a) of the Stock Purchase Agreement shall, in accordance with their terms, apply to securities laws aspects of the offer and issuance of shares of Charter Common Stock pursuant to this Agreement.

SECTION FIVE

Rule 144

For so long as any Seller is or may be subject to the volume and other restrictions of Rule 144 under the Securities Act, Charter shall use diligent efforts to comply with the requirements of Rule 144 applicable to Charter under the Securities Act, as such Rule may be amended from time to time (or any similar rule or regulation adopted by the Securities and Exchange Commission after the date of this Agreement), including but not limited to the availability of current public information to the extent required to enable any Seller to sell shares of Charter Common Stock acquired under the Stock Purchase Agreement and this Agreement pursuant to Rule 144 (or any similar rule or regulation). Upon the request of any Seller, Charter will deliver to such Seller a written statement as to whether it has complied with such requirements.

SECTION SIX

GSHS SHARES OWNERSHIP REPRESENTATIONS AND WARRANTIES

6.1 Title. Each Seller has and on an applicable Exchange Date will have good and valid title to the GSHS Shares subject to such Exchange, free and clear of all claims, liens, pledges, options, charges, security interests, encumbrances or other rights of third parties ("Encumbrances"), other than the Stockholders' Agreement dated the date of this Agreement among GSHS, Charter and Sellers (the "Stockholders' Agreement), with full right, power and authority to transfer and sell such GSHS Shares to Charter upon an Exchange.

6.2 Transfer. The certificate or certificates for GSHS Shares delivered to Charter at each Exchange Closing, and any related instruments of transfer, will be sufficient to transfer and vest in Charter good and valid title to such GSHS Shares, free and clear of all Encumbrances.

SECTION SEVEN

CHARTER'S REPRESENTATIONS AND WARRANTIES

7.1 General.

(a) Charter represents and warrants to Sellers as provided in Sections 5.1, 5.2 (but only as it relates to this Agreement), 5.3 (but only as it relates to this Agreement) and 5.5 of the Stock Purchase Agreement.

(b) Charter represents and warrants that (i) all shares of Charter Common Stock issued upon an Exchange shall, upon issuance, be duly and validly issued, fully paid and nonassessable, not in violation of any pre-emptive rights, and free from all taxes, liens and charges with respect to such shares; (ii) Charter has reserved and will at all times during the Exchange Period reserve and keep available out of its authorized but unissued shares of Charter Common Stock or issued shares held in treasury, solely for the purpose of issuance upon Exchange of GSHS shares, such number of shares of Charter Common Stock as may become issuable upon the exchange of all outstanding GSHS Shares as owned at the date of this Agreement by Sellers, exchanged on the basis of the Exchange Price and PGSSV.
7.2 Notes. Charter represents and warrants that each Note issued pursuant to this Agreement will have been authorized and executed and will be binding on Charter to the same extent and effect as Charter has represented the authorization, execution and binding effect of the Stock Purchase Agreement in Section 5.2 of such agreement.

SECTION EIGHT

CONDITIONS PRECEDENT TO EACH EXCHANGE

8.1 Conditions Precedent to the Obligation of Charter to Exchange.

The obligation of Charter to issue and deliver certificates for shares of Charter Common Stock or a Note (or cash in lieu of a Note) at an Exchange Closing, is subject to the satisfaction, on or before such date, of the following conditions:

(a) Performance. The exchanging Seller shall have complied with Sections 1.6, 1.7, 2.3 and 2.4, and shall have performed and complied in all material respects with all other agreements and covenants contained in this Agreement required to be performed or complied with by it prior to or on the date of the Exchange Closing.

(b) Representations and Warranties True. Each of the representations and warranties of such Seller contained in this Agreement shall be true and correct as of the date of the Exchange Closing.

(c) All Proceedings to be Satisfactory. All corporate and other proceedings to be taken by the exchanging Seller in connection with Exchange and all related documents shall be satisfactory in form and substance to Charter and its counsel, and Charter and its counsel shall have received all such certified and other copies of such documents as they may reasonably request.

8.2 Conditions Precedent to the Obligations of Each Seller to Exchange. The obligation of a Seller to deliver GSHS Shares at an Exchange Closing is subject to the satisfaction, on such date, of the following conditions:

(a) Performance. Charter shall have complied with Sections 1.7, 2.1, 2.2 (to the extent applicable), 2.4 and 4.1 and shall have performed and complied in all material respects with all other agreements and covenants contained in this Agreement required to be performed or complied with by it prior to or on the date of the Exchange Closing.

(b) Representations and Warranties True. Each of the representations and warranties of Charter contained in this Agreement shall be true and correct as of the date of the Exchange Closing.

(c) All Proceedings to be Satisfactory. All corporate and other proceedings to be taken by Charter in connection with the Exchange and all related documents shall be satisfactory in form and substance to such Seller and its counsel, and such Seller and its counsel shall have received all such certified and other copies of such documents as they may reasonably request.

SECTION NINE

MISCELLANEOUS

9.1 Applicable Law. The validity, construction and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to any choice of law principles of such State.

9.2 Severability. If any provision of this Agreement shall be held to be illegal, invalid or unenforceable, that provision will be enforced to the
maximum extent permissible so as to effect the intent of the parties, and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. If necessary to effect the intent of the parties, the parties will negotiate in good faith to amend this Agreement to replace the unenforceable language with enforceable language which as closely as possible reflects such intent.

9.3 Amendments and Waivers. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. Any party to this Agreement may, only by an instrument in writing, waive compliance by the other party to this Agreement with any term or provision of this Agreement. The waiver by any parties to this Agreement of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach.

9.4 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts shall have been signed by each party and delivered to the other parties.

9.5 Entire Agreement. This Agreement, the New Stockholders' Agreement (as defined in the Stock Purchase Agreement) and the other agreements and documents contemplated by such agreements constitute the entire agreement and understanding among the parties to this Agreement and supersede any prior agreement or understanding, whether oral or written, between the parties relating to the matters contemplated by this Agreement.

9.6 No Assignment.

(a) No party shall, directly or indirectly, assign this Agreement or any of its rights or obligations under this Agreement without the prior written consent of the other parties except as provided in Section 9.6(d); provided, however, that Charter shall have the right to grant to or for the benefit of its lenders under the Credit Agreement (as defined in the Stock Purchase Agreement) a security interest in its rights under this Agreement pursuant to the Credit Agreement and the documents securing the same from time to time.

(b) Any attempted assignment of this Agreement in violation of this Section 9.6 shall be void and of no effect.

(c) This Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and permitted assigns.

(d) A Seller shall have the right to assign to any Third Party Purchaser (as defined in the Stockholders' Agreement) from such Seller and to any transferee in a Permitted Transfer (as defined in the Stockholders' Agreement) pursuant to Section 1.62(f) of the Stockholders' Agreement Seller's right to exchange pursuant to this Agreement the GSHS Shares sold or otherwise transferred to such Third Party Purchaser or such transferee by such Seller.

9.7 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties and their permitted assigns, and nothing in this Agreement expressed or implied shall give or be construed to give to any person, other than the parties and permitted assigns, any legal or equitable rights under this Agreement.

9.8 Miscellaneous. The parties acknowledge and agree that irreparable damage would occur in the event any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, the parties shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States or any state having jurisdiction, in addition to any other remedy to which they may be entitled at law or equity.

9.9 Additional Remedies. Nothing in this Agreement shall be construed
as limiting the right of any party to commence litigation against any other party alleged to be in default under this Agreement. Such litigation shall be in addition to, and not in substitution for, any other remedies that may be available under this Agreement or otherwise.

9.10 Section Headings. The section headings in this Agreement are inserted for reference only and shall not limit or otherwise affect the meaning of this Agreement. All capitalized terms defined in this Agreement are equally applicable to both the singular and plural forms of such terms.

9.11 Notices. All notices under this Agreement shall be sufficiently given for all purposes under this Agreement if in writing (a) when delivered personally; (b) three Business Days after mailing in the United States Postal Service; (c) one day after sending by documented overnight delivery service; or (d) when receipt is confirmed, by telecopy, telex or other electronic transmission service to the appropriate address or number as set forth below. Notices to Sellers shall be addressed to:

Blue Cross and Blue Shield of New Jersey, Inc.
3 Penn Plaza East
Newark, New Jersey 07105-2200
Attention: Robert J. Pures
Telecopier: (201) 466-8288

with a copy to:

Blue Cross and Blue Shield of New Jersey, Inc.
3 Penn Plaza East
Newark, New Jersey 07105-2200
Attention: Susan S. Connor, Esq.
Telecopier: (201) 466-7759

Health Care Service Corporation
233 North Michigan Avenue
Chicago, Illinois 60601
Attention: Sherman Wolff
Telecopier: (312) 819-1220

with a copy to:

Kirkland & Ellis
200 E. Randolph Drive
Chicago, Illinois 60601
Attention: Robert Kinderman, Esq.
Telecopier: (312) 861-2200

Independence Blue Cross
1901 Market Street
Philadelphia, Pennsylvania 19103
Attention: Richard J. Neeson
Telecopier: (215) 241-3527

with copies to:

Independence Blue Cross
1901 Market Street
Philadelphia, Pennsylvania 19103
Attention: Patricia R. Hatler, Esq.
Telecopier: (215) 241-2426

and

Dilworth, Paxson, Kalish & Kauffman
3200 Mellon Bank Center
1735 Market Street
Philadelphia, Pennsylvania 19103-7596
Attention: Joseph P. Canuso, Esq.
with a copy to:

Karr, Tuttle & Campbell
1201 Third Avenue
Suite 2900
Seattle, Washington 98101
Attention: Walt Maas, Esq.
Telecopier: (206) 682-7100

with a copy of Notices to any Seller to:

Venable, Baetjer and Howard, LLP
1800 Mercantile Bank and Trust Building
Two Hopkins Plaza
Baltimore, Maryland 21201
Attention: Alan D. Yarbro, Esq.
Telecopier: (410) 244-7742

or at such other address and to the attention of such other person as each Seller may designate by written notice to Charter. Notices to Charter shall be addressed to:

Charter Medical Corporation
Suite 1400
3414 Peachtree Road, N.E.
Atlanta, Georgia 30326
Attention: Michael Catalano
Telecopier: (404) 814-5797

with copies to:

Charter Medical Corporation
3414 Peachtree Road, N.E.
Atlanta, Georgia 30326
Attention: Cherie M. Fuzzell, Esq.
Telecopier: (404) 814-5795

and

King & Spalding
191 Peachtree Street
Atlanta, Georgia 30303
Attention: Robert W. Miller, Esq.
Telecopier: (404) 572-5144

or to such other address and to the attention of such other person as Buyer may designate by written notice to Sellers.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by a duly authorized officer on the 13th day of December, 1995.
CHARTER:

CHARTER MEDICAL CORPORATION

By: ----------------------------------------
    Name: ------------------------------------
    Title: ------------------------------------

SELLERS:

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, INC.

By: ----------------------------------------
    Name: ------------------------------------
    Title: ------------------------------------

HEALTH CARE SERVICE CORPORATION

By: ----------------------------------------
    Name: ------------------------------------
    Title: ------------------------------------

INDEPENDENCE BLUE CROSS

By: ----------------------------------------
    Name: ------------------------------------
    Title: ------------------------------------

PIERCE COUNTY MEDICAL BUREAU, INC.

By: ----------------------------------------
    Name: ------------------------------------
    Title: ------------------------------------
STOCK AND WARRANT PURCHASE AGREEMENT

STOCK AND WARRANT PURCHASE AGREEMENT (this "Agreement"), dated as of December 22, 1995, between Magellan Health Services, Inc. (f/n/a Charter Medical Corporation), a Delaware corporation (the "Company"), and the persons whose names are set forth on Annex I hereto (such persons being referred to herein individually as a "Buyer" and collectively as "Buyers").

WHEREAS, the Company desires to sell to Buyers, and Buyers desire to purchase from the Company, shares of Common Stock, par value $.25 per share, of the Company ("Common Stock") and warrants to purchase shares of Common Stock;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the Company and Buyers hereby agree as follows:

ARTICLE I
TERMS OF THE TRANSACTION

1.1 Agreement to Sell and to Purchase Common Stock and Warrants. At the Closing (as hereinafter defined), and on the terms and subject to the conditions set forth in this Agreement, the Company shall sell and deliver to each Buyer, and each Buyer shall purchase and accept from the Company, the number of shares of Common Stock (collectively, the "Shares") and warrants (collectively, the "Warrants"); and herein together with the Shares referred to as the "Securities") to purchase the number of shares of Common Stock (subject to adjustment from time to time as provided in the Warrants), set forth opposite the name of such Buyer on Annex I hereto. The Warrants shall be in substantially the form set forth as Exhibit A hereto.

1.2 Purchase Price and Payment. The aggregate purchase price for the Securities is $69,732,000 (the "Purchase Price"). The parties acknowledge that the Purchase Price, as calculated on a per share basis, is equal to 95% of the average closing price of the Common Stock as reported in the Wall Street Journal over the ten trading days beginning on Monday, November 13, 1995 and continuing through the close of business on Monday, November 27, 1995, which average was $18.350 per share (i.e. $18.350 x .95 = $17.433 per share). The portion of the Purchase Price payable by each Buyer for the Securities to be purchased by it is set forth opposite the name of such Buyer on Annex I hereto and shall be paid by each Buyer on or before the Closing Date (as hereinafter defined) in immediately available funds by confirmed wire transfer to a bank account to be designated by the Company (such designation to occur no later than the third Business Day (as hereinafter defined) prior to the Closing Date).

1.3 Allocation of the Purchase Price. The parties hereto acknowledge that the allocation of the Purchase Price between the Shares and the Warrants was made by them in arm's length negotiation and agree that a written allocation of the Purchase Price between the Shares and the Warrants shall be provided before Closing and such allocation shall be made as of the date of this Agreement.

ARTICLE II
CLOSING AND CLOSING DATE

The closing of the transactions contemplated hereby (the "Closing") shall take place (i) at the offices of Thompson & Knight, P.C., 1700 Pacific Avenue, Suite 3300, Dallas, Texas, at 9:00 a.m., local time, on the third Business Day following the satisfaction or waiver (subject to Applicable Law [as hereinafter defined]) of each of the conditions to the obligations of the parties set forth in Articles VI and VII hereof, or (ii) at such other time or place on or such other date as the parties hereto shall agree. The date on which the Closing is required to take place is herein referred to as the "Closing
All Closing transactions shall be deemed to have occurred simultaneously.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to each Buyer, as of the date hereof, that:

3.1 Corporate Organization. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority in all material respects to own, lease, and operate its properties and to carry on its business as now being conducted. No actions or proceedings to dissolve the Company are pending or, to the best knowledge of the Company, threatened.

3.2 Qualification. Each of the Company and the Subsidiaries (as hereinafter defined) is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the property owned, leased, or operated by it or the conduct of its business requires such qualification or licensing, except where the failure to do so would not have a material adverse effect on the business, assets, results of operations or financial condition of the Company or on the ability of the Company to consummate the transactions contemplated hereby.

3.3 Capitalization of the Company.

(a) The authorized capital stock of the Company consists of (i) 80,000,000 shares of Common Stock, of which, as of the date hereof, 28,650,715 shares are outstanding and 187,435 shares are held in the Company's treasury, and (ii) 10,000,000 shares of Preferred Stock, without par value, of which, as of the date hereof, no shares are outstanding. All outstanding shares of capital stock of the Company have been validly issued and are fully paid and nonassessable, and no shares of capital stock of the Company are subject to, nor have any been issued in violation of, preemptive or similar rights. As of the date hereof, (i) an aggregate of 4,851,186 shares of Common Stock are reserved for issuance pursuant to stock options granted to certain directors, officers, and employees; (ii) an aggregate of 172,981 shares of Common Stock are reserved for issuance and issuable upon the exercise of outstanding warrants; (iii) certain shares of Common Stock are reserved for issuance upon the exercise of certain purchase rights which become exercisable pursuant to the terms of the Rights Agreement (as hereinafter defined); and (iv) an aggregate of 3,557,900 shares of Common stock are reserved for issuance and issuable under the Exchange Agreement (as hereinafter defined).

(b) Except as set forth above in subparagraph (a) of this Section 3.3 and as contemplated by this Agreement, there are outstanding (i) no shares of capital stock or other voting securities of the Company; (ii) no securities of the Company convertible into or exchangeable for shares of capital stock or other voting securities of the Company; (iii) no options or other rights to acquire from the Company, and no obligation of the Company to issue or sell, any shares of capital stock or other voting securities of the Company or any securities of the Company convertible into or exchangeable for such capital stock or voting securities; and (iv) other than employee compensation plans based on the Company's earnings and executive officer employment agreements, no equity equivalents, interests in the ownership or earnings, or other similar rights of or with respect to the Company. There are no outstanding contractual obligations of the Company to repurchase, redeem or otherwise acquire any shares of Common Stock or any other securities of the type described in clauses (i) - (iv) of the preceding sentence.

3.4 Authority Relative to This Agreement. The Company has full corporate power and authority to execute, deliver, and perform this Agreement and the Ancillary Documents (as hereinafter defined) to which it is a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery, and performance by the Company of this Agreement and the Ancillary Documents to which it is a party, and the consummation by it of the transactions
contemplated hereby and thereby, have been duly authorized by all necessary corporate action of the Company. This Agreement has been duly executed and delivered by the Company and constitutes, and each Ancillary Document executed or to be executed by the Company has been, or when executed will be, duly executed and delivered by the Company and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws affecting creditors' rights generally, and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances.

3.5 Noncontravention. The execution, delivery, and performance by the Company of this Agreement and the Ancillary Documents to which it is a party and the consummation by it of the transactions contemplated hereby and thereby do not and will not (i) conflict with or result in a violation of any provision of the Company's Restated Certificate of Incorporation or the Company's Bylaws, as amended, or the charter, bylaws or other governing instruments of any Subsidiary, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation, or acceleration under, any bond, debenture, note, mortgage, indenture, lease, agreement, or other instrument or obligation to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any of their respective properties may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties of the Company or any Subsidiary, or (iv) assuming compliance with the matters referred to in Section 3.6, violate any Applicable Law binding upon the Company or any Subsidiary, except, in the case of clauses (ii), (iii), and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations, or Encumbrances which would not, individually or in the aggregate, have a material adverse effect on the business, assets, results of operations, or financial condition of the Company and the Subsidiaries taken as a whole or the ability of the Company to consummate the transactions contemplated hereby.

3.6 Governmental Approvals. No consent, approval, order, or authorization of, or declaration, filing, or registration with, any Governmental Entity (as hereinafter defined) is required to be obtained or made by the Company or any Subsidiary in connection with the execution, delivery, or performance by the Company of this Agreement and the Ancillary Documents to which it is a party or the consummation by it of the transactions contemplated hereby and thereby, other than (i) compliance with any applicable requirements of the HSR Act (as hereinafter defined); (ii) compliance with any applicable requirements of the Securities Act (as hereinafter defined); (iii) compliance with any applicable requirements of the Exchange Act (as hereinafter defined); (iv) compliance with any applicable state securities laws; and (v) such consents, approvals, orders, or authorizations which, if not obtained, and such declarations, filings, or registrations which, if not made, would not, individually or in the aggregate, have a material adverse effect on the business, assets, results of operations, or financial condition of the Company or on the ability of the Company to consummate the transactions contemplated hereby. The representations and warranties of the Company contained in this Section 3.6, insofar as such representations and warranties pertain to compliance by the Company with the requirements of the Securities Act and applicable state securities laws, are based on the representations and warranties of Buyers contained in Section 4.5.

3.7 Authorization of Issuance; Reservation of Shares. When issued and delivered pursuant to this Agreement against payment therefor, the Securities will have been duly authorized, issued and delivered and will constitute valid and legally binding obligations of the Company entitled to the benefits provided therein. When issued and delivered pursuant to the Agreement against payment therefor, the Shares will be fully paid and nonassessable. During the period within which the Warrants may be exercised, the Company will at all times have authorized and reserved for the purpose of issue upon exercise of the Warrants, a sufficient number of shares of Common Stock to provide for the exercise of the
Warrants. All shares of Common Stock which are issuable upon exercise of the Warrants (the "Warrant Shares") will, when issued, be validly issued, fully paid and nonassessable. The issuance of the Shares is not, and upon exercise of the Warrants the issuance of the Warrant Shares will not be, subject to any preemptive or similar rights.

3.8 Subsidiaries. Except as listed on Section 3.8 of the Company's Disclosure Schedule attached hereto (the "Disclosure Schedule"), there are no "Significant Subsidiaries" as that term is defined in Regulation S-X promulgated by the Securities and Exchange Commission (the "Commission"). Each Subsidiary is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation. Each Subsidiary has all requisite corporate power and corporate authority to own, lease, and operate its properties and to carry on its business as now being conducted. No actions or proceedings to dissolve any Subsidiary are pending.

3.9 SEC Filings. The Company has filed with the Commission all forms, reports, schedules, statements, and other documents (excluding exhibits) required to be filed by it since September 30, 1993 under the Securities Act, the Exchange Act, and all other federal securities laws. All forms, reports, schedules, statements, and other documents (including all amendments thereto) filed by the Company with the Commission since such date are herein collectively referred to as the "SEC Filings". The SEC Filings, at the time filed, complied in all material respects with all applicable requirements of federal securities laws. None of the SEC Filings, including, without limitation, any financial statements or schedules included therein, at the time filed, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading except as the same was corrected or superseded in a subsequent document duly filed with the Commission. Except as set forth in Section 3.9 of the Disclosure Schedule and except for those contracts not required to be filed pursuant to the rules and regulations of the Commission, all material contracts of the Company and the Subsidiaries have been included in the SEC Filings. The audited consolidated financial statements and unaudited consolidated interim financial statements of the Company included in the SEC Filings present fairly in all material respects, in conformity with generally accepted accounting principles applied on a consistent basis (except as may be indicated in the notes thereto and, in the case of the unaudited consolidated interim financial statements, except to the extent that preparation of such financial statements in accordance with generally accepted accounting principles is not required by applicable rules of the Commission), the consolidated financial position of the Company as of the dates thereof and its consolidated results of operations and cash flows for the periods then ended (subject to normal year-end audit adjustments in the case of any unaudited interim financial statements).

3.10 Absence of Undisclosed Liabilities. Except as set forth in Section 3.10 of the Disclosure Schedule or to the extent disclosed in the SEC Filings filed prior to the date hereof, (a) as of June 30, 1995, neither the Company nor any Subsidiary had any liabilities or obligations (whether accrued, absolute, contingent, unliquidated, or otherwise) material to the Company and the Subsidiaries considered as a whole, and (b) since June 30, 1995, neither the Company nor any Subsidiary has incurred any such material liabilities or obligations, other than those incurred in the ordinary course of business consistent with past practice or pursuant to or as contemplated by this Agreement.

3.11 Absence of Certain Changes. Except as disclosed in the SEC Filings filed prior to the date hereof, since June 30, 1995, (i) there has not been any material adverse change in, or any event or condition that might reasonably be expected to result in any material adverse change in, the business, assets, results of operations, condition (financial or otherwise), of the Company and the Subsidiaries considered as a whole, other than as a result of legal or regulatory changes affecting the U.S. health care industry generally and (ii) neither the Company nor any Subsidiary has incurred any material liability, engaged in any material transaction, or entered into any material agreement in each case outside the ordinary course of business consistent with past practice.
3.12 Compliance With Laws. Except as set forth in Section 3.12 of the Disclosure Schedule, since July 31, 1992, (i) the Company and the Subsidiaries have complied in all material respects with all Applicable Laws (including without limitation Applicable Laws relating to securities, properties, Medicare or Medicaid participation, business products, advertising and sales practices, employment practices, terms and conditions of employment, wages and hours, safety, occupational safety, health, environmental protection, product safety, and civil rights); (ii) neither the Company nor any Subsidiary has received any written notice, which has not been dismissed or otherwise disposed of, that the Company or any Subsidiary has not so complied and (iii) neither the Company nor any Subsidiary is charged or, to the best knowledge of the Company, threatened with, or, to the best knowledge of the Company, under investigation with respect to, any violation of any Applicable Law relating to any aspect of the business of the Company or any Subsidiary other than violations which in the reasonable judgement of the Company, individually or in the aggregate, do not and will not have a material adverse effect on the business, assets, results of operation or financial condition of the Company or the ability of the Company to consummate the transactions contemplated hereby.

3.13 Litigation. Except as set forth in Section 3.13 of the Disclosure Schedule, (i) there is (whether insured or uninsured) no action, suit, proceeding or investigation pending or, to the knowledge of the Company, threatened in writing, at law or in equity, in any court or before any Governmental Entity against the Company or any Subsidiary or affecting the Company or any Subsidiary or any of the respective assets or properties of the Company or any Subsidiary that, in the reasonable judgement of the Company, individually or in the aggregate would have a material adverse effect on the Company or would prevent the Company from consummating the transactions contemplated by this Agreement, and (ii) the Company and the Subsidiaries and their respective assets and properties are not subject to any order from any Governmental Entity that has or is likely to have a material adverse effect on the Company.

3.14 Prior Private Offerings. Since July 31, 1992, (i) all securities offered or sold by the Company which were not registered pursuant to the Securities Act and applicable state securities laws, were offered or sold pursuant to valid exemptions from the Securities Act and applicable state securities laws and (ii) no private offering memorandum or other information furnished (whether in writing or orally) to any offeree or purchaser of such securities, at the time of delivery of such private offering memorandum or other information, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

3.15 Private Offering of the Securities. The Company agrees that neither the Company nor anyone acting on its behalf has offered or will offer the Securities or any part hereof or any similar securities for issue or sale to, or has solicited or will solicit any offer to acquire any of the same from, anyone so as to bring the issuance and sale of the Securities within the provisions of Section 5 of the Securities Act.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYERS

Each Buyer severally (and not jointly) represents and warrants to the Company that:

4.1 Organization. If Buyer is a corporation, such Buyer is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation. If Buyer is a partnership or trust, such Buyer is duly formed and validly existing as a partnership or trust under the laws of the jurisdiction of its formation.
4.2 Authority Relative to This Agreement. Buyer has full power and authority to execute, deliver, and perform this Agreement and the Ancillary Documents to which it is a party and to consummate the transactions contemplated hereby and thereby. If Buyer is a corporation, partnership or trust, the execution, delivery, and performance by Buyer of this Agreement and the Ancillary Documents to which it is a party, and the consummation by it of the transactions contemplated hereby and thereby, have been duly authorized by all necessary action of Buyer. This Agreement has been duly executed and delivered by Buyer and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except that such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws affecting creditors’ rights generally and (ii) equitable principles which may limit the availability of certain equitable remedies (such as specific performance) in certain instances.

4.3 Noncontravention. The execution, delivery, and performance by Buyer of this Agreement and the Ancillary Documents to which it is a party and the consummation by it of the transactions contemplated hereby do not and will not (i) if Buyer is a corporation, partnership or trust, conflict with or result in a violation of any provision of the charter, bylaws, or similar organizational documents of Buyer, (ii) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation, or acceleration under, any bond, debenture, note, mortgage, indenture, lease, agreement, or other instrument or obligation to which Buyer is a party or by which Buyer or any of its properties may be bound, (iii) result in the creation or imposition of any Encumbrance upon the properties of Buyer, or (iv) violate any Applicable Law binding upon Buyer, except, in the case of clauses (ii), (iii), and (iv) above, for any such conflicts, violations, defaults, terminations, cancellations, accelerations, or Encumbrances which would not, individually or in the aggregate, have a material adverse effect on the business, assets, results of operations, or financial condition of Buyer or on the ability of Buyer to consummate the transactions contemplated hereby.

4.4 Governmental Approvals. Other than any HSR Act filing, no consent, approval, order, or authorization of, or declaration, filing, or registration with, any Governmental Entity is required to be obtained or made by Buyer in connection with the execution, delivery, or performance by Buyer of this Agreement or the consummation by it of the transactions contemplated hereby.

4.5 Purchase for Investment. Buyer has been furnished with all information that it has requested for the purpose of evaluating the proposed acquisition of the Securities pursuant hereto, and Buyer has had an opportunity to ask questions of and receive answers from the Company regarding the Company and its business, assets, results of operations, and financial condition and the terms and conditions of the issuance of the Securities. Buyer is acquiring the Securities to be purchased by it for its own account for investment and not for distribution in any manner that would violate applicable securities laws, but without prejudice to Buyer’s rights to dispose of such Securities or a portion thereof to a transferee or transferees, in accordance with such laws if at some time in the future Buyer deems advisable to do so. Buyer can bear the risk of an investment in the Securities, and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of a prospective investment in the Securities. The acquisition of such Securities by Buyer at Closing shall constitute Buyer’s confirmation of the foregoing representations. Buyer understands that such Securities are being sold to it in a transaction which is exempt from the registration requirements of the Securities Act, and that, in making the representations and warranties contained in Section 3.6 pertaining to compliance by the Company with the requirements of the Securities Act and applicable securities laws, the Company is relying, to the extent applicable, upon Buyer's representations set forth herein.

4.6 No Other Shares. Except for such rights as may be conferred
on Buyer by this Agreement and the Ancillary Documents, as of the date hereof, Buyer does not beneficially own, directly or indirectly, any shares of capital stock of the Company.

ARTICLE V
ADDITIONAL AGREEMENTS

5.1 Press Releases. Except as may be required by Applicable Law or by the rules of any national securities exchange, neither Buyer, on the one hand, nor the Company, on the other, shall issue any press release with respect to this Agreement or the transactions contemplated hereby without the prior written consent of the other party (which consent shall not be unreasonably withheld under the circumstances). Any such press release required by Applicable Law or by the rules of any national securities exchange shall only be made after reasonable notice to the other party.

5.2 Stock Exchange Listing. The Company shall use its reasonable best efforts to cause the Shares and the Warrant Shares to be approved for listing on the American Stock Exchange, subject to official notice of issuance, prior to the Closing Date, and at such time as the Common Stock is listed on the New York Stock Exchange, cause the Shares and the Warrant Shares to be listed on the New York Stock Exchange as soon as practicable thereafter.

5.3 Registration Rights.

(a) Registration of Shares. Within 30 days following the Closing, the Company will prepare and file a registration statement under the Securities Act, and shall use its best efforts to cause such registration statement to become effective as promptly as possible thereafter, with respect to the resale of the Registrable Shares (as hereinafter defined).

(b) Registration of Warrant Shares. Prior to the first date on which the Warrant Shares are issuable upon exercise of the Warrants, the Company will prepare and file one or more registration statements under the Securities Act, and cause such registration statements to become effective as promptly as possible, with respect to the issuance of the Warrant Shares upon exercise of the Warrants and the resale of the Registrable Warrant Shares (as hereinafter defined).

(c) Piggyback Registrations. Until such time as the Buyer Group (as hereinafter defined) no longer beneficially owns in the aggregate at least 10% of the Shares and Underlying Warrant Shares (as hereinafter defined) initially purchased hereunder, whenever the Company proposes to register an offering of any of its Common Stock under the Securities Act other than (i) under employee compensation or benefit programs or otherwise on Form S-8 or an equivalent form, (ii) an exchange offer or an offering of securities solely to the existing stockholders or employees of the Company or to the existing stockholders of another company in connection with a merger or acquisition or otherwise on Form S-4 or an equivalent form or (iii) a secondary registration solely on behalf of holders of securities of the Company, and the registration form to be used may be used for the registration of the Registrable Securities (as hereinafter defined), the Company will give prompt written notice to all Buyers of its intention to effect such a registration and will include in such registration and offering all Registrable Securities which are then owned by members of the Buyer Group and with respect to which the Company has received written requests for inclusion therein within 20 days after the receipt of the Company’s notice (a "Piggyback Registration"). The Company shall use reasonable efforts to cause the managing underwriters of a proposed underwritten offering to permit the Registrable Securities then owned by members of the Buyer Group which have been requested to be included in the registration statement (or registration statements) for such offering to be included therein and in the prospectus used in connection therewith on the same terms and conditions as are provided for therein for persons other than Buyers. Notwithstanding the foregoing, if the Company gives notice of such a proposed registration, the total number of Registrable Securities which shall be included in such registration shall be reduced pro rata to such number, if any, as in the reasonable opinion of the
managing underwriters of such offering would not adversely affect the marketability or offering price of all of the securities proposed to be offered by the Company in such offering; provided however, that to the extent not prohibited by any registration rights agreements existing as of the date hereof, the securities to be included in the registration statement (or registration statements) for any person other than Buyers and the Company shall be first reduced prior to any pro rata reduction. It is specifically agreed that the Piggyback Registration rights set forth in this subparagraph (c) shall not be assignable to any transferee of Registrable Securities if such transferee is not a member of the Buyer Group.

(d) Registration Procedures. With respect to each registration statement filed in accordance with this Section 5.3 (the "Registration Statement"), the Company shall:

(i) cause the Registration Statement and the related prospectus and any amendment or supplement, (A) to comply in all material respects with the applicable requirements of the Securities Act and under the rules and regulations promulgated thereunder, and (B) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading;

(ii) prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection therewith, and upon the mandatory expiration of the Registration Statement, one or more additional registration statements, as may be necessary to keep the Registration Statement effective on a continual basis for so long as the Buyer Group collectively owns Shares and Underlying Warrant Shares constituting more than 25% of the Shares and Underlying Warrant Shares initially purchased hereunder; provided that, the Company shall not be required to maintain the effectiveness of the Registration Statement filed for a Piggyback Registration for more than 90 days, and shall not be required to maintain the effectiveness of any other Registration Statement filed hereunder for a period in excess of three years from the Closing Date if after the expiration of such period the Registrable Securities may be resold without any restrictions under the Securities Act, it being agreed that if the Registrable Securities remain subject to any restrictions under the Securities Act (including any volume restrictions imposed upon "affiliates" under Rule 144) the Company will continue to maintain the effectiveness of such statement beyond the three year period subject to the terms hereof;

(iii) furnish, upon written request, to each Buyer a copy of any amendment or supplement to the Registration Statement or prospectus prior to filing it after effectiveness and not file any such amendment or supplement to which any such Buyer shall have reasonably objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or of the rules or regulations promulgated thereunder;

(iv) furnish to each Buyer such number of copies of the Registration Statement, each amendment and supplement thereto, the prospectus used in connection therewith (including, without limitation, each preliminary prospectus and final prospectus) and such other document as such Buyer may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Buyer;

(v) use its best efforts to register or qualify all Registrable Securities covered by the Registration Statement under such other securities or blue sky laws of the states of the United States as may be required for the issuance and sale of the Registrable Securities, to keep such registration or qualification in effect for so long as the Registration Statement remains in effect except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction in which it is not and would not, but for the requirements of this Section 5.3, be
obligated to be so qualified, or to subject itself to taxation in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(vi) prior to any sale of the Registrable Securities effected on the American Stock Exchange or the New York Stock Exchange, as applicable, deliver to such national securities exchange copies of the prospectus to be used in connection with the offering to be conducted pursuant to the Registration Statement;

(vii) upon discovery that, or upon the happening of any event as a result of which, the prospectus included in the Registration Statement, as then in effect, includes or in the judgment of the Company may include an untrue statement of a material fact or omits or may omit to state any material fact required to be stated in such prospectus or necessary to make the statements in such prospectus not misleading in the light of the circumstances in which they were made, which circumstance requires amendment of the Registration Statement or supplementation of the prospectus, prepare and file as promptly as reasonably possible a supplement to or an amendment of such prospectus as may be necessary so that, as when delivered (if required by the Securities Act) to a purchaser of Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated in such prospectus or necessary to make the statements in such prospectus not misleading in the light of the circumstances in which they were made;

(viii) otherwise use its best efforts to comply with all applicable rules and regulations under the Securities Act and, in its discretion, to make available to its securities holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month of the first fiscal quarter after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of section 11(a) of the Securities Act;

(ix) provide and cause to be maintained a transfer agent and registrar for all Registrable Securities covered by the Registration Statement from and after a date not later than the effective date of the Registration Statement;

(x) use its best efforts to list all Registrable Securities covered by the Registration Statement on any national securities exchange on which securities of the same class as the Registrable Securities are then listed;

(xi) after any sale of the Registrable Securities pursuant to this Section 5.3, to the extent not prohibited by law, cause any restrictive legends to be removed and any transfer restrictions to be rescinded with respect to the Registrable Securities;

(xii) enter into such customary agreements (including, without limitation, underwriting agreements in customary form, substance, and scope) and take all such other actions as the holders of a majority of the Registrable Securities being sold or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Shares;

(xiii) in the event of the issuance of any stop order suspending the effectiveness of the Registration Statement, or of any order suspending or preventing the use of any related prospectus or suspending the disqualification of any Common Stock included in the Registration Statement for sale in any jurisdiction, the Company will use its best efforts promptly to obtain the withdrawal of such order; and

(xiv) use its best efforts to cause such Registrable
Securities covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the Buyers thereof to consummate the disposition of such Shares.

(e) Obligations of Buyer. Each member of the Buyer Group holding Registrable Securities shall furnish to the Company such information regarding such member as the Company may from time to time reasonably request in writing (and will notify the Company of any changes in such information) and as shall be required by the Securities Act in connection with such registration. Each such member of the Buyer Group shall enter into such customary agreements (including, without limitation, underwriting agreements, custody agreements and powers of attorney in customary form, substance and scope) and take all such other actions as the Company or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of the Registrable Securities.

(f) Delay of Sales. During any period in which the Company is maintaining the effectiveness of a Registration Statement for the Registrable Securities pursuant to this Section 5.3, the Company shall have the right, upon giving notice to the members of the Buyer Group holding Registrable Securities of the exercise of such right, to require such members not to sell any Registrable Securities pursuant to such Registration Statement for a period of time the Company deems reasonably necessary, which time shall be specified in such notice but in no event longer than a period of 90 days, if (i) the Company is engaged in an offering of shares by the Company for its own account or is engaged in or proposes to engage in discussions or negotiations with respect to, or has proposed or taken a substantial step to commence, or there otherwise is pending, any merger, acquisition, other form of business combination, divestiture, tender offer, financing or other transaction, or there is an event or state of facts relating to the Company, in each case which is material to the Company (any such negotiation, step, event or state of facts being herein called a "Material Activity"), (ii) such Material Activity would, in the opinion of counsel for the Company, require disclosure so as to permit the Registrable Securities to be sold in compliance with applicable law, and (iii) such disclosure would, in the reasonable judgment of the Company, be adverse to its interests; provided, that, the Company shall have no right to delay the filing of a Registration Statement or the selling of Registrable Securities if at any time during the twelve months preceding the date on which such notice was given the Company had delayed the selling of Registrable Securities pursuant to this subparagraph (f). The Company shall have no obligation to include in any notice contemplated by this subparagraph (f) any reference to or description of the facts based upon which the Company is delivering such notice.

(g) Indemnification.

(i) The Company shall indemnify and hold harmless each member of the Buyer Group holding Registrable Securities, and if such member is a corporation or partnership, its directors, Affiliates (as hereinafter defined) and officers, and each other person, if any, who controls such member within the meaning of the Securities Act against any losses, claims, damages, liabilities or expenses (including reasonable fees and expenses of counsel), joint or several, to which such member or any such director, Affiliate or officer or participating or controlling person may become subject under the Securities Act or otherwise in connection with or as a result of a sale by such member of the Registrable Securities, insofar as such losses, claims, damages, liabilities or expenses (or related actions or proceedings) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any preliminary prospectus, final prospectus or summary prospectus contained in the Registration Statement, or any amendment or supplement to the Registration Statement, or (ii) any omission or alleged omission to state in any such document a material fact required to be stated in any such document or necessary to make the statements in any such document not misleading, and the Company will reimburse such member and each such director, Affiliate, officer, participating
person and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or expense (or action or proceeding in respect of any such loss, claim, damage, liability or expense) which arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such member or any such director, Affiliate, officer, participating person or controlling person for use in the preparation of the Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such member or any such director, Affiliate, officer, participating person or controlling person and shall survive the transfer of such securities by such member.

(ii) Each member of the Buyer Group holding Registrable Securities, severally and not jointly, shall indemnify and hold harmless (in the same manner and to the same extent as set forth in clause (i) of this subparagraph (g)) the Company, each director of the Company, each officer of the Company who shall sign the Registration Statement and each other person, if any, who controls the Company within the meaning of the Securities Act, with respect to any untrue statement in or omission from the Registration Statement, any preliminary prospectus, final prospectus or summary prospectus included in the Registration Statement, or any amendment or supplement to the Registration Statement, but only to the extent that such statement or omission was made in direct reliance upon and in conformity with written information furnished to the Company by such member for use in the preparation of the Registration Statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person and shall survive the transfer of the Registrable Securities by such member.

(iii) Indemnification under this Section 5.3 shall be made as set forth in Article IX hereof.

(h) Registration Expenses. All expenses incident to the Company's registration of the Registrable Securities pursuant to the provisions of this Section 5.3, including, without limitation, all registration and filing fees, fees and expenses of compliance with securities or blue sky laws, printing and engraving expenses, messenger and delivery expenses and fees and disbursements of counsel for the Company and all independent certified public accountants, underwriters (excluding underwriting discounts and any selling commissions) and any persons retained by the Company (all such expenses being herein called "Registration Expenses"), will be paid by the Company; provided, that, all expenses incurred by members of the Buyer Group holding Registrable Securities to retain any counsel, accountant or other advisor will not be deemed to be Registration Expenses and will be paid by such members pro rata based upon the number of Registrable Securities included in the registration. The underwriting discounts or commissions and any selling commissions together with any stock transfer or similar taxes attributable to sales of the Registrable Securities will be paid by the holders of the Registrable Securities pro rata based upon the number of Registrable Securities held by them.

5.4 Board Representation. In connection with the Company's 1996 annual meeting of stockholders, the Company will nominate a designee of Rainwater, Inc. (the "Initial Designee") that is acceptable to the Company to fill a vacancy in the Board of Directors of the Company existing on the date hereof and will use its reasonable best efforts to cause the Initial Designee to become elected to the Board. As long as Buyers and their Affiliates continue to beneficially own in the aggregate at least 600,000 Shares, Warrant Shares and/or Underlying Warrant Shares (appropriately adjusted for stock splits, combinations and similar changes), the Company will continue to nominate the Initial Designee or other designee of Rainwater, Inc. that is acceptable to the Company on each
subsequent date for re-nomination of the Initial Designee or other designee, as applicable, and will use its reasonable best efforts to cause such designee to become elected to the Board.

5.5 Fees and Expenses. The Company shall (i) at the Closing pay Rainwater, Inc., the amount of $150,000; (ii) upon the earlier of the Closing or the termination of this Agreement, unless this Agreement is terminated solely as a result of any Buyer's breach of the terms hereof, reimburse Rainwater, Inc. for (A) up to two filing fees for HSR Act approval of the transaction proposed herein together with all other fees and expenses (including fees and expenses of counsel) incurred in connection with such filings and (B) all other fees and expenses (including fees and expenses of counsel, financial advisors, accountants and other third party consultants) incurred in connection with this Agreement and the ancillary documents, up to a maximum of $100,000 for such other fees and expenses incurred in connection with this Agreement and the ancillary documents; and (iii) for so long as Buyers and their Affiliates continue to beneficially own in the aggregate at least 600,000 Shares, Warrant Shares and/or Underlying Warrant Shares (appropriately adjusted for stock splits, combinations and similar changes), pay Rainwater, Inc. $75,000 annually, due quarterly in arrears beginning March 31, 1995 (adjusted pro-rata for any period which is less than a full quarter), and reimburse Rainwater, Inc. annually for all fees and expenses, including legal fees, reasonably incurred by Rainwater, Inc. in connection with the ownership of the Securities, up to a maximum of $25,000 for any calendar year, unless the Company shall have approved a greater amount.

5.6 Restrictions on Transfers; Restrictions on Exercise of Warrants.

(a) Restrictions on Transfer of Shares, Warrants and Warrant Shares. Subject to the provisions of subsection (c), no member of the Buyer Group, without having obtained the prior written consent of the Company, shall:

(i) prior to the first anniversary of the Closing Date, sell or transfer any of the Shares held by such member to any other person, except for (A) Excluded Transfers (as hereinafter defined), or (B) sales or transfers of a number of Shares, which together with all other sales or transfers of Shares made by Rainwater, Inc. (or upon its approval, other members of the Buyer Group) pursuant to this clause (B), does not exceed 1% of the Shares initially purchased hereunder;

(ii) sell or transfer any of the Warrants held by such member to any other person, except for Excluded Transfers; and

(iii) prior to the fourth anniversary of the Closing Date, except for an Excluded Transfer, sell or transfer in a privately negotiated transaction to a single purchaser and its Affiliates, or any "Group" (as such term is defined in Rule 13d-5(b)(1) under the Exchange Act) any combination of Shares, Warrants and/or Warrant Shares, if the aggregate number of Shares, Warrant Shares and Underlying Warrant Shares to be so transferred equals 5% or more of the Common Stock then outstanding on a fully-diluted basis (i.e. including all shares of Common Stock issuable under the terms of any options, warrants and similar rights).

(b) Restrictions on Exercise of Warrants. Subject to the provisions of subsection (d), the members of the Buyer Group shall not, during the time periods set forth below, exercise Warrants to purchase less than the number of Warrant Shares set forth opposite such time period (appropriately adjusted for stock splits, combinations and similar changes):

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<th>Time Period</th>
<th>Warrant Shares</th>
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Ancillary Documents, up to a maximum of $100,000 for such other fees and expenses incurred in connection with this Agreement and the ancillary documents; and (iii) for so long as Buyers and their Affiliates continue to beneficially own in the aggregate at least 600,000 Shares, Warrant Shares and/or Underlying Warrant Shares (appropriately adjusted for stock splits, combinations and similar changes), pay Rainwater, Inc. $75,000 annually, due quarterly in arrears beginning March 31, 1995 (adjusted pro-rata for any period which is less than a full quarter), and reimburse Rainwater, Inc. annually for all fees and expenses, including legal fees, reasonably incurred by Rainwater, Inc. in connection with the ownership of the Securities, up to a maximum of $25,000 for any calendar year, unless the Company shall have approved a greater amount.
From the date immediately following the first anniversary of the Closing Date to and including the second Anniversary of Closing Date

400,000

From the date immediately following the second Anniversary of the Closing Date to and including the third Anniversary of Closing Date

200,000

From and after the third Anniversary of the Closing Date No restriction

(c) Exceptions to Transfer Restrictions. Notwithstanding subsection (a), any member of the Buyer Group may sell or transfer any of the Shares, Warrants and/or Warrant Shares to any person pursuant to, as a result of, or in connection with (i) a tender offer or an exchange offer approved by the Board of Directors of the Company; (ii) the consummation of a merger (provided the Company is not the surviving corporation in such merger), consolidation, or a sale of all or substantially all the assets of the Company; or (iii) any other "Fundamental Change Transaction" (as such term is defined in the Warrant).

(d) Exceptions to Warrant Exercise Restrictions. The limitations on the exercise of the Warrants during the Exercise Period (as defined in the Warrant) which are set forth in subsection (b) are subject to the following exceptions:

(i) the holders may at any time exercise the balance of the Warrants remaining outstanding at any time;

(ii) upon the written request of Rainwater, Inc., the holders of the Warrants may exercise once in each calendar year Warrants to purchase up to 100,000 Warrant Shares; and

(iii) any of the Warrants may be exercised in connection with a transaction described in subsection (c).

(e) Transferees; No Other Restrictions. During the period in which the restrictions set forth in this Section 5.6 remain applicable, neither Buyer nor any transferee who is a member of the Buyer Group shall be entitled to, directly or indirectly, sell or transfer any of the Shares, Warrants and/or Warrant Shares in an Excluded Transfer to any person who is not a party to this Agreement, unless the purported transferee executes an instrument acknowledging that it is bound by the terms of this Section 5.6 and such instrument is delivered to the Company. Except as provided in subsection (a) and this subsection (e), and subject to compliance with the applicable provisions of the Securities Act, the Shares, the Warrants and the Warrant Shares are freely transferable.

5.7 Indemnification of Brokerage. The Company shall be solely responsible for the payment of any amounts owed to Dean Witter Reynolds Inc. in connection with the transactions contemplated herein. Each of the parties hereto agrees to indemnify and hold harmless each other party from and against any claim or demand for a commission or other compensation by any financial advisor, broker, agent, finder, or similar intermediary claiming to have been employed by or on behalf of such indemnifying party and to bear the cost of legal fees and expenses incurred in defending against any such claim or demand.

5.8 Delivery of Information. The Company will deliver to each Buyer promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K (or their equivalents) which the Company shall have filed with the Commission or any similar reports filed with any state
5.9 Rule 144 and Rule 144A Information. With a view to making available to each Buyer the benefits of Rule 144 and Rule 144A promulgated under the 1933 Act and any other rule or regulation of the Commission that may at any time permit the Buyers to sell Common Stock of the Company to the public without registration, the Company agrees to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144;

(ii) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(iii) furnish to each Buyer forthwith upon request (A) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (B) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company under the Securities Act and the Exchange Act and (C) such other information as may be reasonably requested by each Buyer in availing itself of any rule or regulation of the Commission which permits the selling of any such securities without registration.

(iv) comply with all rules and regulations of the Commission applicable to the Company in connection with use of Rule 144A (or any successor thereto); and

(v) within five business days of the Company's receipt of a request made by, or on behalf of, any prospective transferee of who is a Qualified Institutional Buyer (as defined in Rule 144A) and would be purchasing Common Stock of the Company in reliance upon Rule 144A, provide to such prospective transferee copies of annual audited and quarterly unaudited financial statements of the Company for it to comply with Rule 144A.

5.10 Standstill.

(a) General. Each Buyer agrees that during the two year period ending on the second anniversary of the Closing Date, it will not, and it will cause its Affiliates and employees not to, purchase additional shares of the Company's Common Stock so that Buyers and their Affiliates and employees collectively own 20% or more of the Company's Common Stock then outstanding; provided, however, that Buyers and their Affiliates and employees shall not be deemed to own 20% or more of the Common Stock then outstanding solely by reason of the Company's purchase of any Common Stock unless thereafter Buyers and their Affiliates and employees purchase any additional shares of Common Stock (excluding any acquisition of Warrant Shares upon exercise of the Warrants, which shall not be restricted hereunder).

(b) Additional Standstill Obligations. Each Buyer further agrees that during the two year period ending on the second anniversary of the Closing Date, it will not, and it will cause its Affiliates and employees not to, without prior Company consent, (i) effect or cause to be effected any (A) "solicitation" of "proxies" (as such terms are used in the proxy rules of the Commission) with respect to the Company or any action resulting in such person becoming a "participant" in any "election contest" (as such terms are used in the proxy rules of the Commission) with respect to the Company, or (B) any tender or exchange offer or offer for a merger, consolidation, share exchange or business combination involving the Company or substantially all of its assets, or (ii) propose any matter for submission to a vote of the stockholders of the Company.

(c) Amendments to Rights Agreement. If the Company undertakes the purchase of any Common Stock under circumstances in which any exercise of Warrants would be considered to cause Buyers and their Affiliates to become an "Acquiring Person" under the Rights Agreement, the Company agrees to amend the Rights Agreement to either (i) include the Buyers and their Affiliates in the
of the Warrants from being considered as an additional purchase of shares of Common Stock for purposes of the Rights Agreement.

5.11 Participation in Subsequent Private Placements. Until such time as Buyers and their Affiliates no longer beneficially own in the aggregate at least 600,000 Shares, Warrant Shares and/or Underlying Warrant Shares, in the event that the Company desires to issue any Equity Securities (as hereinafter defined) for cash in a private placement transaction, the Company shall, prior to such issuance, provide written notice to Rainwater, Inc. describing in detail the Equity Securities to be issued, the potential purchasers thereof, if specifically known, and the consideration to be received therefrom (a "Preemptive Notice"). The Buyer Group shall have the right, during the 20 Business Days following receipt of the Preemptive Notice (the "Preemptive Right Offer Period"), to elect to subscribe for and purchase (the "Preemptive Right") at the same price, and on such other terms and conditions as are set forth in the Preemptive Notice, such number of shares of Equity Securities (in the Company's sole discretion either as a portion of or in addition to the Equity Securities covered by the Preemptive Notice) as may be required to cause the Equity Ownership Interest (as hereinafter defined) of the Buyer Group immediately following such issuance to be equal to the Equity Ownership Interest of the Buyer Group on the date of the Preemptive Notice. Any notice by the Buyer Group of their election to exercise the Preemptive Right shall be provided by Rainwater, Inc. on behalf of such group. Any Equity Securities to be purchased by the Buyer Group shall be allocated pro-rata among the members of the Buyer Group electing to exercise the Preemptive Right, as determined by Rainwater, Inc.

5.12 No Solicitation. From the date of this Agreement to the earlier of (i) the Closing Date, (ii) January 31, 1996, or (ii) the termination of this Agreement in accordance with its terms (but not including upon or due to a breach of this Agreement by the Company), the Company agrees that, except pursuant to agreements in existence as of the date hereof, (A) it will not, (B) it will not permit any Subsidiary to and (C) it will not authorize or permit any officer, director or employee of the Company or any Subsidiary, or any investment banker, attorney, financial advisor, accountant or other person retained by the Company or any Subsidiary, directly or indirectly (including by way of furnishing any information) to (i) solicit, initiate, assist, encourage or accept any proposal regarding a financing, sale of stock, or any other transaction involving the Company, which in each case is similar to the proposed investment contemplated herein (a "Transaction"); (ii) engage in any negotiations with respect to, or otherwise attempt to consummate, a Transaction; (iii) provide any public or non-public information concerning the Company to any person in connection with any proposal for a Transaction or to any person whom the Company or any Subsidiary knows or has reason to believe is in the process of planning or considering a Transaction; or (iv) reach any agreement or understanding for or with respect to any Transaction. The Company will immediately advise Buyer orally and, within one Business Day, in writing of any such inquiries, requests for information or Transaction proposals of which it has knowledge. If the Company or any Subsidiary receives from any person any offer, inquiry or informational request referred to above, the Company will promptly advise such person in writing of the terms of this Section 5.12 and will send Buyer a copy of such notice.

5.13 Amendment of Schedules. Each party hereto agrees that, with respect to the representations and warranties of such party contained in this Agreement, such party shall have the continuing obligation until the Closing to supplement or amend promptly the Schedules hereto with respect to any matter hereafter arising or discovered which, if existing or known at the date of this Agreement, would have been required to be set forth or described in the Schedules. For all purposes of this Agreement, including without limitation for purposes of determining whether the conditions set forth in Sections 6.1 and 7.1 have been fulfilled, the Schedules hereto shall be deemed to include only that information contained therein on the date of this Agreement and shall be deemed to exclude all information contained in any supplement or amendment thereto; provided, however, that if the Closing shall occur, then all matters
disclosed pursuant to any such supplement or amendment at or prior to the Closing shall be waived and no party shall be entitled to make a claim thereon pursuant to the terms of this Agreement.

5.14 Access to Information. Between the date hereof and the Closing, the Company (i) shall give Buyers and their authorized representatives reasonable access to the Company’s employees, offices and other facilities, and all books and records of the Company and the Subsidiaries, (ii) shall permit Buyer and its authorized representatives to make such inspections as they may reasonably require to verify the accuracy of any representation or warranty contained in Article III, and (iii) shall cause the Company’s officers to furnish Buyer and its authorized representatives with such financial and operating data and other information with respect to the Company and the Subsidiaries as Buyer may from time to time reasonably request; provided, however, that no investigation pursuant to this Section shall affect any representation or warranty of the Company contained in this Agreement or in any agreement, instrument, or document delivered pursuant hereto or in connection herewith; and provided further that the Company shall have the right to have a representative present at all times.

5.15 HSR Act Notification. To the extent it is determined that the HSR Act will be applicable to the transaction contemplated hereby, each of the parties hereto shall (i) file or cause to be filed, as promptly as practicable after the execution and delivery of this Agreement and in no event later than January 10, 1996, with the Federal Trade Commission and the United States Department of Justice, all reports and other documents required to be filed by such party under the HSR Act concerning the transactions contemplated hereby and (ii) promptly comply with or cause to be complied with any requests by the Federal Trade Commission or the United States Department of Justice for additional information concerning such transactions, in each case so that the waiting period applicable to this Agreement and the transactions contemplated hereby under the HSR Act shall expire as soon as practicable after the execution and delivery of this Agreement. Each party hereto agrees to request, and to cooperate with the other party or parties in requesting, early termination of any applicable waiting period under the HSR Act.

5.16 Survival of Covenants. Except for any covenant or agreement which by its terms expressly terminates as of a specific date, the covenants and agreements of the parties hereto contained in this Agreement shall survive the Closing without contractual limitation.

ARTICLE VI

CONDITIONS TO OBLIGATIONS OF THE COMPANY

The obligations of the Company to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

6.1 Representations and Warranties True. All the representations and warranties of Buyers contained in this Agreement shall be true and correct on and as of the Closing Date, except to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as of such specified date, except to the extent contemplated by this Agreement or the Ancillary Documents.

6.2 Covenants and Agreements Performed. Buyers shall have performed and complied with all covenants and agreements required by this Agreement, if any, to be performed or complied with by them on or prior to the Closing Date.
6.3 HSR Act. To the extent that the HSR Act is applicable to the
transaction contemplated herein, all waiting periods (and any extensions
thereof) applicable to this Agreement and the transactions contemplated hereby
under the HSR Act shall have expired or been terminated.

6.4 Legal Proceedings. No Proceeding (as hereinafter defined) shall, on
the Closing Date, be pending or threatened seeking to restrain, prohibit, or
obtain damages or other relief in connection with this Agreement or the
consummation of the transactions contemplated hereby.

6.5 Certificate. The Company shall have received a certificate executed
by each Buyer, and if Buyer is a corporation, partnership or trust, by a duly
authorized person on behalf of Buyer dated the Closing Date, representing and
certifying, in such detail as the Company may reasonably request, that the
conditions set forth in Sections 6.1 and 6.2 have been fulfilled.

6.6 Private Placement Information. The Company shall have received
evidence reasonably satisfactory it establishing the status (as "accredited
investors" or otherwise) of all Buyers who are assignees of the Buyer initially
executing this Agreement, to the extent reasonably required to establish that
the issuance and sale of the Securities is exempt from the registration
requirements of the Securities Act.

ARTICLE VII
CONDITIONS TO OBLIGATIONS OF BUYERS

The obligations of Buyers to consummate the transactions contemplated
by this Agreement shall be subject to the fulfillment on or prior to the Closing
Date of each of the following conditions:

7.1 Representations and Warranties True. All the representations and
warranties (other than Section 3.11) of the Company contained in this Agreement
shall be true and correct on and as of the Closing Date (except that the
representations and warranties contained in Sections 3.3(a) and 3.8 shall be
true and correct in all material respects), except to the extent that any such
representation or warranty is made as of a specified date, in which case such
representation or warranty shall have been true and correct as of such specified
date, except to the extent contemplated by this Agreement or the Ancillary
Documents.

7.2 Covenants and Agreements Performed. The Company shall have
performed and complied with all covenants and agreements required by this
Agreement to be performed or complied with by it on or prior to the Closing
Date.

7.3 Opinion of Counsel. Each Buyer shall have received an opinion of
legal counsel to the Company, dated the Closing Date, in form and substance
satisfactory to the Buyers and their counsel, covering those matters set forth
in Exhibit 7.3 attached hereto.

7.4 Legal Proceedings. No Proceeding shall, on the Closing Date, be
pending or threatened seeking to restrain, prohibit, or obtain damages or other
relief in connection with this Agreement or the consummation of the transactions
contemplated hereby.

7.5 Certificates. Each Buyer shall have received a certificate or
certificates representing the Shares and the Warrants, as applicable, in
definitive form representing the Shares and Warrants purchased by it, (in the
case of the Warrants in substantially the form set forth in Exhibit A hereto)
registered in the name of such Buyer and duly executed by the Company.

7.6 Officer Certificate. Buyer shall have received a certificate
executed on behalf of the Company by the chief executive officer or the chief
financial officer of the Company, dated the Closing Date, representing and
certifying, in such detail as the Buyer may reasonably request, that the
conditions set forth in Sections 7.1, 7.2 and 7.4 have been fulfilled.
ARTICLE VIII
TERMINATION, AMENDMENT, AND WAIVER

8.1 Termination. This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing in the following manner:

(a) by mutual written consent of the Company and Buyers; or

(b) by the Company, if, on the Closing Date, any of the conditions set forth in Article VI shall not have been satisfied and shall not have been waived by the Company; or

(c) by Buyers, if, on the Closing Date, any of the conditions set forth in Article VII shall not have been satisfied and shall not have been waived by Buyers; or

(d) by the Company or Buyers if the Closing has not occurred by the close of business on January 31, 1996, so long as the failure to consummate the transaction on or before such date does not result from a breach of this Agreement by the party seeking termination of this Agreement; provided that, if the failure to consummate the transaction on or before such date is due solely to the failure to have satisfied the condition in Section 6.3, then the earliest date upon which this Agreement may be terminated pursuant to this subparagraph (d) is March 31, 1996; or

(e) at any time before the Closing, by Company or Buyers, in the event (i) of a material breach of this Agreement by any non-terminating party if such non-terminating party fails to cure such breach within five Business Days following notification by any one or more terminating parties, or (ii) upon notification to the non-terminating party by the terminating party that the satisfaction of any condition to the terminating party's obligations under this Agreement has become impossible or impractical with the use of best efforts, if the failure of such condition to be satisfied is not caused by a breach by the terminating party.

8.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 8.1 by the Company, on the one hand, or Buyers, on the other, written notice thereof shall forthwith be given to the other party specifying the provision hereof pursuant to which such termination is made, and this Agreement shall become void and have no effect, except that the agreements contained in this Section and in Sections 5.1, 5.5 and 5.7 and Article IX shall survive the termination hereof. Nothing contained in this Section shall relieve any party from liability for any breach of this Agreement.

8.3 Amendment. This Agreement may not be amended except by an instrument in writing signed by or on behalf of all the parties hereto.

8.4 Waiver. No failure or delay by a party hereto in exercising any right, power, or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The provisions of this Agreement may not be waived except by an instrument in writing signed by or on behalf of the party against whom such waiver is sought to be enforced.

ARTICLE IX
SURVIVAL OF REPRESENTATIONS; INDEMNIFICATION

9.1 Survival. The representations and warranties of the parties hereto contained in this Agreement or in any certificate, instrument or document delivered pursuant hereto shall survive the Closing, regardless of any investigation made by or on behalf of any party, until the second anniversary of
the Closing Date; provided, however, that the representations and warranties of
the Company contained in Sections 3.1, 3.3, 3.4 and 3.7 shall survive until 30
days after the expiration of the limitation period under the applicable statute
of limitations (each such anniversary and time of expiration, a "Survival
Date"). No action may be brought with respect to a breach of any representation
after the Survival Date unless, prior to such time, the party seeking to bring
such an action has notified the other parties of such claim, specifying in
reasonable detail the nature of the loss suffered. The provisions of this
Section 9.1 shall have no effect upon any of the covenants of the parties set
forth in Article V or any of the other obligations of the parties hereto under
the Agreement, whether to be performed later, at or after the Closing.

9.2 Indemnification by Company. The Company shall indemnify, defend,
and hold harmless Buyers from and against any and all claims, actions, causes of
action, demands, losses, damages, liabilities, costs, and expenses (including
reasonable attorneys' fees and expenses) (collectively, "Damages"), asserted
against, resulting to, imposed upon, or incurred by Buyers, directly or
indirectly, by reason of or resulting from any breach by the Company of any of
its representations, warranties, covenants, or agreements contained in this
Agreement or in any certificate, instrument, or document delivered pursuant
hereto.

9.3 Indemnification by Buyers. Each Buyer severally (but not jointly)
shall indemnify, defend, and hold harmless the Company from and against any and
all Damages asserted against, resulting to, imposed upon, or incurred by the
Company, directly or indirectly, by reason of or resulting from any breach by
such Buyer of any of its representations, warranties, covenants, or agreements
contained in this Agreement or in any certificate, instrument, or document
delivered pursuant hereto.

9.4 Procedure for Indemnification. Promptly after receipt by an
indemnified party under Section 9.2 or 9.3 of notice of the commencement of any
action, such indemnified party shall, if a claim in respect thereof is to be
made against an indemnifying party under such Section, give written notice to
the indemnifying party of the commencement thereof, but the failure so to notify
the indemnifying party shall not relieve it of any liability that it may have to
any indemnified party except to the extent the indemnifying party demonstrates
that the defense of such action is prejudiced thereby. In case any such action
shall be brought against an indemnified party and it shall give written notice
to the indemnifying party of the commencement thereof, the indemnifying party
shall be entitled to participate therein and, to the extent that it may wish, to
assume the defense thereof with counsel reasonably satisfactory to such
indemnified party. If the indemnifying party elects to assume the defense of
such action, the indemnified party shall have the right to employ separate
counsel at its own expense and to participate in the defense thereof. If the
indemnifying party elects not to assume (or fails to assume) the defense of such
action,

the indemnified party shall be entitled to assume the defense of such action
with counsel of its own choice, at the expense of the indemnifying party. If the
action is asserted against both the indemnifying party and the indemnified party
and there is a conflict of interests which renders it inappropriate for the same
counsel to represent both the indemnifying party and the indemnified party, the
indemnifying party shall be responsible for paying for separate counsel for the
indemnified party; provided, however, that if there is more than one indemnified
party, the indemnifying party shall not be responsible for paying for more than
one separate firm of attorneys to represent the indemnified parties, regardless
of the number of indemnified parties. The indemnifying party shall have no
liability with respect to any compromise or settlement of any action effected
without its written consent (which shall not be unreasonably withheld).

ARTICLE X

MISCELLANEOUS

10.1 Notices. All notices, requests, demands, and other communications
required or permitted to be given or made hereunder by any party hereto shall be
in writing and shall be deemed to have been duly given or made if delivered
personally, or transmitted by first class registered or certified mail, postage prepaid, return receipt requested, or sent by prepaid overnight delivery service, or sent by cable, telegram, or telefax, to the parties at the addresses and telefax numbers set forth opposite their names on the signature page hereof (in the case of the Company) and on Annex I hereto (in the case of Buyers) (or at such other addresses and telefax numbers as shall be specified by the parties by like notice).

10.2 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

10.3 Binding Effect; Assignment; No Third Party Benefit. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors, and permitted assigns. Except as otherwise expressly provided in this Agreement, neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties, except that any Buyer may assign to any partnership in which Rainwater, Inc. is the sole managing partner, or to any other member of the Buyer Group, any of Buyer's rights, interests, or obligations hereunder, upon notice to the other party or parties. Prior to the Closing, any assignee of the initial Buyer executing this Agreement shall, upon such assignment, execute this Agreement as a Buyer and the provisions of Annex I shall be amended to accurately reflect the portion of the Securities to be purchased by each Buyer. Except as provided in Article IX, nothing in this Agreement, express or implied, is intended to or shall confer upon any person other than the parties hereto, and their respective heirs, legal representatives, successors, and permitted assigns, any rights, benefits, or remedies of any nature whatsoever under or by reason of this Agreement.

10.4 Severability. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect, provided however, that if any such provision may be made enforceable by limitation thereof, then such provision shall be deemed to be so limited and shall be enforceable to the maximum extent permitted by applicable law.

10.5 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

10.6 Counterparts. This Agreement may be executed by the parties hereto in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all, the parties hereto.

ARTICLE XI
DEFINITIONS

11.1 Certain Defined Terms. As used in this Agreement, each of the following terms has the meaning given it in this Article:

"Affiliate" has the meaning specified in Rule 12b-2 promulgated under the Exchange Act.

"Ancillary Documents" means each agreement, instrument, and document (other than this Agreement) executed or to be executed by the Company or Buyer in connection with the transactions contemplated by this Agreement, including without limitation the Warrants.

"Applicable Law" means any statute, law, rule, or regulation
"Business Day" shall mean any day other than a Saturday, a Sunday, or a day on which banking institutions in Atlanta, Georgia are authorized or obligated by law or executive order to close.

"Buyer Group" shall mean collectively, all Buyers together with their respective Affiliates and bona fide employees.

"Encumbrances" means liens, charges, pledges, options, mortgages, deeds of trust, security interests, claims, restrictions (whether on voting, sale, transfer, disposition, or otherwise), easements, and other encumbrances of every type and description, whether imposed by law, agreement, understanding, or otherwise.

"Equity Ownership Interests" shall mean, with respect to the members of the Buyer Group, at any time, the fraction (a) having as its numerator the number of shares of Common Stock and Underlying Warrant Shares held beneficially by all members of the Buyer Group at such time, and (b) having as its denominator the aggregate number of shares of Common Stock (calculated on a fully diluted basis) issued and outstanding at such time.

"Equity Securities" means any capital stock of the Company, and any securities directly or indirectly convertible into, or exercisable or exchangeable for any capital stock of the Company, or any right, option, warrant or other security which, with the payment of additional consideration, the expiration of time or the occurrence of any event shall give the holder thereof the right to acquire any capital stock of the company or any security convertible into or exercisable or exchangeable for, any capital stock of the Company.


"Exchange Agreement" means that certain Exchange Agreement among the Company and certain other parties dated as of December 13, 1995.

"Excluded Transfer" means any transfer by a member of the Buyer Group to (i) an affiliate or bona fide employee of the transferor, (ii) any other Buyer, or (iii) to any Affiliate or bona fide employee of another Buyer.

"Governmental Entity" means any court or tribunal in any jurisdiction (domestic or foreign) or any public, governmental, or regulatory body, agency, department, commission, board, bureau, or other authority or instrumentality (domestic or foreign).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, enterprise, unincorporated organization, or Governmental Entity.

"Proceedings" means all proceedings, actions, suits, investigations, and inquiries by or before any arbitrator or Governmental Entity.

"Registrable Securities" means the Registrable Shares and the Registrable Warrant Shares.

"Registrable Shares" means the Shares and any Common Stock or other Equity Securities issued with respect thereto by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or
otherwise.

"Registrable Warrant Shares" means the Warrant Shares and any Common Stock or other Equity Securities issued with respect thereto by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise.

"Rights Agreement" means that certain Rights Agreement, dated as of July 21, 1992 between the Company and First Union National Bank of North Carolina, as rights agent.

"Securities Act" means the Securities Act of 1933, as amended.

"Subsidiary" means any corporation more than 50% of whose outstanding voting securities, or any general partnership, joint venture, or similar entity more than 50% of whose total equity interests, is owned, directly or indirectly, by the Company, or any limited Partnership of which the Company or any Subsidiary is a general partner.

"Underlying Warrant Shares" shall mean, at any time, all shares of Common Stock which may be acquired upon exercise of the Warrants. For purposes hereof, any person who holds Warrants shall be deemed to be the holder of the Underlying Warrant Shares obtainable upon exercise of such Warrants.

11.2 Certain Additional Defined Terms. In addition to such terms as are defined in the opening paragraph of and the recitals to this Agreement and in Section 11.1, the following terms are used in this Agreement as defined in the Sections set forth opposite such terms:

<table>
<thead>
<tr>
<th>Defined Term</th>
<th>Section Reference</th>
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<tbody>
<tr>
<td>Closing</td>
<td>Article II</td>
</tr>
<tr>
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<td>Warrant Registration Agreement</td>
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<td>Warrant Shares</td>
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<td>Warrants</td>
<td>1.1</td>
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</table>

IN WITNESS WHEREOF, the parties have executed this Agreement, or caused this Agreement to be executed by their duly authorized representatives, all as of the day and year first above written.
BUYER(S):

/s/ Richard E. Rainwater

Richard E. Rainwater

ANNEX I

<table>
<thead>
<tr>
<th>Name of Buyer</th>
<th>Address and Fax</th>
<th>Number of Shares</th>
<th>Shares Underlying Warrants</th>
<th>Total Purchase Price</th>
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</thead>
<tbody>
<tr>
<td>Richard E. Rainwater</td>
<td>777 Main St., Suite 2700, Fort Worth, TX 76102 (817)878-0460</td>
<td>4,000,000</td>
<td>2,000,000</td>
<td>$69,732,000</td>
</tr>
</tbody>
</table>

EXHIBIT A

(Form of Warrants)

THIS WARRANT AND ANY SHARES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, OR OTHERWISE DISPOSED OF IN UNLESS REGISTERED PURSUANT TO THE PROVISIONS OF THAT ACT OR UNLESS AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL, REASONABLY SATISFACTORY TO THE COMPANY IS OBTAINED STATING THAT SUCH DISPOSITION IS IN COMPLIANCE WITH AN AVAILABLE EXEMPTION FROM SUCH REGISTRATION.

THE RIGHT TO SELL OR OTHERWISE TRANSFER THIS WARRANT IS SUBJECT TO CERTAIN RESTRICTIONS SET FORTH IN A STOCK AND WARRANT PURCHASE AGREEMENT DATED DECEMBER 22, 1995, BETWEEN THE COMPANY AND THE INITIAL BUYERS OF THE WARRANTS, A COPY OF WHICH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICES OF THE COMPANY. THIS WARRANT MAY NOT BE SOLD OR TRANSFERRED EXCEPT UPON THE CONDITIONS SPECIFIED IN THE STOCK AND WARRANT PURCHASE AGREEMENT AND IN THIS WARRANT, AND NO SALE OR TRANSFER OF THIS WARRANT SHALL BE VALID OR EFFECTIVE UNLESS AND UNTIL SUCH CONDITIONS SHALL HAVE BEEN COMPLIED WITH.

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MAGELLAN HEALTH SERVICES, INC.
STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, _________________________, (the "Holder"). or registered assigns, is entitled to purchase from Magellan Health Services, Inc. (f/n/a Charter Medical Corporation), a Delaware Corporation (the "Company"), at any time or from time to time during the period specified in Paragraph 2 hereof, __________ ( ) fully paid and nonassessable shares of the Company's Common Stock, par value $.25 per share (the "Common Stock"), at an exercise price per share of $26.150 (the "Exercise Price"). The term "Warrant Shares", as used herein, refers to the shares of Common Stock purchasable hereunder. The Warrant Shares and the Exercise Price are subject to adjustment as provided in Paragraph 4 hereof.

This Warrant is one of a series of Warrants (the "Warrants") issued pursuant to, and is subject to all terms, provisions, and conditions contained in, that certain Stock and Warrant Purchase Agreement, dated December 22, 1995 (by and among the Company, the Holder and other purchasers of the Warrants. This Warrant is subject to the following additional terms, provisions, and conditions:

1. Manner of Exercise; Issuance of Certificates; Payment for Shares.

Subject to the provisions hereof and the provisions of the Purchase Agreement which restrict the exercise of the Warrants, this Warrant may be exercised by the holder hereof, in whole or in part, by the surrender of this Warrant, together with a completed Exercise Agreement in the form attached hereto, to the Company during normal business hours on any business day at the Company's principal office in Atlanta, Georgia (or such other office or agency of the Company as it may designate by notice to the holder hereof), during the Exercise Period (as defined in Paragraph 2), and upon payment to the Company of the Exercise Price for the Warrant Shares specified in said Exercise Agreement, which such payment shall be made in cash or by certified or official bank check. The Company shall not be required to issue fractional Warrant Shares upon any exercise of the Warrant, but instead shall pay to the holder of this Warrant the cash value of any such fractional Warrant Shares. The Warrant Shares so purchased shall be deemed to be issued to the holder hereof or its designee as the record owner of such shares as of the close of business on the date on which this Warrant shall have been surrendered, the completed Exercise Agreement delivered, and payment made for such shares as aforesaid. Certificates for the Warrant Shares so purchased, representing the aggregate number of shares specified in said Exercise Agreement, shall be delivered to the holder hereof within a reasonable time, not exceeding ten business days, after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be reasonably requested by the holder hereof, shall, unless the Warrant Shares evidenced by such certificate have previously been registered under "The Securities Act" of 1933, as amended (the "Securities Act") be imprinted with a restrictive legend substantially similar to the legend appearing on the face of this Warrant, and shall be registered in the name of said holder or such other name as shall be designated by said holder. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of said certificates, deliver to said holder a new Warrant representing the number of shares with respect to which this Warrant shall not have then been exercised, which Warrant shall be imprinted on its face with the same legend appearing on the face of this Warrant. The Company shall pay all taxes and other expenses and charges payable in connection with the preparation, execution, and delivery of stock certificates (and any new Warrants) pursuant to this Paragraph 1 except that, in case such stock certificates shall be registered in a name or names other than the holder of this Warrant, funds sufficient to pay all stock transfer taxes

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which shall be payable in connection with the execution and delivery of such stock certificates shall be paid by the holder hereof to the Company at the time of the delivery of such stock certificates by the Company as mentioned above.

2. Period of Exercise. Subject to the provisions of the Purchase Agreement which restrict the exercise of the Warrants, this Warrant is exercisable at any time or from time to time during the period commencing on January ____, 1997 and ending 5:00 p.m. Atlanta, Georgia, local time, on January 2, 2000 (the “Exercise Period”).

3. Certain Actions Prohibited. The Company will not, by amendment of certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant.

Without limiting the generality of the foregoing,

(i) the Company will not increase the par value of the shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect,

(ii) before taking any action which would cause an adjustment reducing the Exercise Price below the then par value of the shares of Common Stock so receivable, the Company will take all such corporate action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock at such adjusted Exercise Price upon the exercise of this Warrant, or

(iii) the Company will not take any action which results in any adjustment of the Exercise Price if the total number of shares of Common Stock issuable after the action upon the exercise of this Warrant would exceed the total number of shares of Common Stock then authorized by the Company's charter and available for other the purpose of issue upon such exercise.

4. Anti-dilution Provisions. The Exercise Price shall be subject to adjustment from time to time as provided in this Paragraph 4. Upon each adjustment of the Exercise Price, the holder of this Warrant shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, the largest number of Warrant Shares obtained by multiplying the Exercise Price in effect immediately prior thereto by the number of Warrant Shares purchasable hereunder immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment. For purposes of this Paragraph 4, the term "Capital Stock", as used herein, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation which may be authorized in the future by an amendment to the Company's charter, provided that the shares purchasable pursuant to this Warrant shall include only shares of Common Stock, or shares resulting from any subdivision or combination of the Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in this Paragraph 4, the stock or other securities or property provided for in this Paragraph 4.

(a) Subdivisions and Combinations. In case at any time the Company shall (i) subdivide the outstanding shares of Capital Stock into a greater number of shares, or (ii) combine the outstanding shares of Capital Stock into a smaller number of shares, the Exercise Price in effect immediately prior thereto shall be adjusted proportionately so that the adjusted Exercise Price shall bear the same relation to the Exercise Price in effect immediately prior to such event as the total number of shares of Capital Stock outstanding immediately prior to such event shall bear to the total number of shares of Capital Stock...
outstanding immediately after such event. Such adjustment shall become effective immediately after the effective date of a subdivision or combination.

(b) Stock Dividends. In case the Company at any time after the date hereof shall declare, order, pay or make any dividend or other distribution to all holders of the Capital Stock payable in Capital Stock, then in each such case, subject to Paragraph 4(d) hereof, the Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of any class of securities entitled to receive such dividend or distribution shall be reduced to a price (calculated to the nearest .001 of a cent) determined by multiplying such Exercise Price by a fraction

(i) the numerator of which shall be the number of shares of Capital Stock outstanding immediately prior to such dividend or distribution, and

(ii) the denominator of which shall be the number of shares of Capital Stock outstanding immediately after such dividend or distribution.

Such adjustment shall be made on the date such dividend is paid or such distribution is made and shall become effective retroactive to the record date for the determination of shareholders entitled to receive such dividend or distribution.

(c) Dividends other than Stock Dividends. In case the Company at any time after the date hereof shall declare, order, pay or make any dividend or other distribution to all holders of the Capital Stock, other than a dividend payable in shares of Capital Stock (including, without limitation, dividends or distributions payable in cash, evidences of indebtedness, rights, options or warrants to subscribe for or purchase any Capital Stock or other securities, or any other securities or other property), then, and in each such case, subject to Paragraph 4(d) hereof, the Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of any class of securities entitled to receive such dividend or distribution shall be reduced to a price (calculated to the nearest .001 of a cent) determined by multiplying such Exercise Price by a fraction

(i) the numerator of which shall be the "Market Price" (as defined below) in effect on such record date or, if any class of Capital Stock trades on an ex-dividend basis, the trading date immediately prior to the date of commencement of ex-dividend trading, less the value of such dividend or distribution (as determined in good faith by the Board of Directors of the Company) applicable to one share of Capital Stock, and

(ii) the denominator of which shall be such Market Price on such record date or, if any class of Capital Stock trades on an ex-dividend basis, the trading date immediately prior to the date of commencement of ex-dividend trading.

Such adjustment shall be made on the date such dividend is paid or such distribution is made and shall become effective retroactive to the record date for the determination of shareholders entitled to receive such dividend or distribution.

For the purpose hereof, "Market Price" shall mean, on any date specified herein, (A) if any class of Capital Stock is listed or admitted to trading on any national securities exchange, the highest price obtained by taking the arithmetic mean over a period of 20 consecutive days on which such national securities exchange (or if such stock is traded on more than one national securities exchange, the exchange the Company has designated under the Securities Exchange Act of 1934 to receive copies of reports filed by the Company under such act) is open for trading on a regular basis (any such day is a "Trading Day") ending the Trading Day immediately prior to such date of the average, on each such Trading Day, of the high and low sale prices of shares of each such class of Capital Stock or if no such sale takes place on such date, the average of the highest closing bid and lowest closing asked prices thereof.
on such date, in each case as officially reported on all national securities exchanges on which each such class of Capital Stock is then listed or admitted to trading, or (B) if no shares of any class of Capital Stock are then listed or admitted to trading on any national securities exchange, the highest closing price of any class of Capital Stock on such date in the over-the-counter market as shown by the NASDAQ National Market System or, if no such shares of any class of Capital Stock are then quoted in such system, as published by the National Quotation Bureau, Inc. or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Company. If no shares of any class of Capital Stock are then listed or admitted to trading on any national securities exchange and if no closing bid and asked prices thereof are then so quoted or published in the over-the-counter market, "Market Price" shall mean the higher of (x) the book value per share of Capital Stock (assuming for the purposes of this calculation the economic equivalence of all shares of all classes of Capital Stock) as determined on a fully diluted basis in accordance with generally accepted accounting principles by the Board of Directors of the Company as of the last day of any month ending within 60 days preceding the date as of which the determination is to be made or (y) the fair value per share of Capital Stock (assuming for the purposes of this calculation the economic equivalence of all shares of all classes of Capital Stock), as determined on a fully diluted basis in good faith by the Board of Directors of the Company, as of a date which is 15 days preceding the date as of which the determination is to be made.

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(d) Minimum Adjustment of Exercise Price. If the amount of any adjustment of the Exercise Price required pursuant to this Paragraph 4 would be less than one percent (1%) of the Exercise Price in effect at the time such adjustment is otherwise so required to be made, such amount shall be carried forward and adjustment with respect thereto made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate at least one percent (1%) of such Exercise Price; provided that, upon the exercise of this Warrant, all adjustments carried forward and not theretofore made up to and including the date of such exercise shall, with respect to the portion of this Warrant then exercised, be made to the nearest .001 of a cent.

(e) Fundamental Change Transaction. In case at any time after the date hereof a purchase, tender, or exchange offer shall have been made to and accepted by the holders of more than 50% of the outstanding shares of Capital Stock, or the Company is otherwise a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all the Company's assets, liquidation, or recapitalization of the Capital Stock) which is to be effected in such a way that as a result of such transaction or offer (x) the holders of Common Stock (or any other securities of the Company then issuable upon the exercise of this Warrant) shall be entitled to receive stock or other securities or property (including cash) with respect to or in exchange for Common Stock (or such other securities), or (y) the Capital Stock ceases to be a publicly traded security either listed on the American Stock Exchange, the New York Stock Exchange or the NASDAQ National Market System or any successor thereto or comparable system (each such transaction being herein called a "Fundamental Change Transaction"), then, as a condition of such Fundamental Change Transaction, lawful and adequate provision shall be made whereby the holder of this Warrant shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant, and in lieu of the shares of Common Stock (or such other securities) purchasable immediately before such transaction upon the exercise hereof, such stock or other securities or property (including cash) as may be issuable or payable with respect to or in exchange for a number of outstanding shares of Common Stock (or such other securities) equal to the number of shares of Common Stock (or such other securities) purchasable immediately before such transaction upon the exercise hereof, had such Fundamental Change Transaction not taken place. In any such case appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, the provisions for adjustments of the Exercise Price and of the number of Warrant Shares purchasable upon exercise hereof) shall thereafter be applicable, as nearly as reasonably may be, in relation to the stock or other securities or property thereafter deliverable upon the exercise hereof (including an immediate adjustment of the Exercise
Price if by reason of or in connection with such Fundamental Change Transaction any securities are issued or event occurs which would, under the terms hereof, require an adjustment of the Exercise Price. In the event of a consolidation or merger of the Company with or into another corporation or entity as a result of which a greater or lesser number of shares of common stock of the surviving corporation or entity are issuable to holders of Capital Stock in respect of the number of shares of Capital Stock outstanding immediately prior to such consolidation or merger, then the Exercise Price in effect immediately prior to such consolidation or merger shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Capital Stock. The Company shall not effect any such Fundamental Change Transaction unless prior to or simultaneously with the consummation thereof the successor corporation or entity (if other than the Company) resulting from such consolidation or merger or the corporation or entity purchasing such assets and any other corporation or entity the shares of stock or other securities or property of which are receivable thereupon by the holder of this Warrant shall expressly assume, by written instrument executed and delivered (and satisfactory in form) to the holder of this Warrant, (i) the obligation to deliver to such holder such stock or other securities or property as, in accordance with the foregoing provisions, such holder may be entitled to purchase and (ii) all other obligations of the Company hereunder.

(f) Notice of Adjustment. Upon the occurrence of any event requiring an adjustment of the Exercise Price, then and in each such case the Company shall promptly deliver to the holder of this Warrant a notice stating the Exercise Price resulting from such adjustment and the increase or decrease, if any, in the number of shares of Common Stock issuable upon exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Within 90 days after each fiscal year in which any such adjustment shall have occurred, or within 30 days after any request therefor by the holder of this Warrant stating that such holder contemplates exercise of this Warrant, the Company will deliver to the holder of this Warrant a certificate of the Company's chief financial officer confirming the statements in the most recent notice delivered under this Paragraph 4(f).

(g) Other Notices. In case at any time:

(i) the Company shall declare or pay to all the holders of Capital Stock any dividend (whether payable in Capital Stock, cash, securities or other property);

(ii) the Company shall offer for subscription pro rata to all the holders of Capital Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization, or reclassification of the Capital Stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all its assets to, another corporation or other entity;

(iv) there shall be a voluntary or involuntary dissolution, liquidation, or winding-up of the Company; or

(v) there shall be any other Fundamental Change Transaction;

then, in any one or more of such cases, the Company shall give to the holder of this Warrant (a) at least 15 days prior to any event referred to in clause (i) above, at least 30 days prior to any event referred to in clause (ii), (iii), (iv) or (v) above, written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution, or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, or Transaction and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, or Transaction known to the Company, at least 30 days prior written notice of the date (or, if not then known, a reasonable approximation thereof by the Company) when the same shall take place. Such
notice in accordance with the foregoing clause (a) shall also specify, in the case of any such dividend, distribution, or subscription rights, the date on which such holders of Capital Stock shall be entitled thereto, and such notice in accordance with the foregoing clause (b) shall also specify the date on which such holders of Capital Stock shall be entitled to exchange their Capital Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, or Transaction, as the case may be. Such notice shall also state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act, or to a favorable vote of security holders, if either is required.

(h) Certain Events. If any event occurs as to which, in the good faith judgment of the Board of Directors of the Company, the other provisions of this Paragraph 4 are not strictly applicable or if strictly applicable would not fairly protect the exercise rights of the holder of this Warrant in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall make such adjustment, if any, on a basis consistent with such essential intent and principles, necessary to preserve, without dilution, the rights of the holder of this Warrant, provided, that no such adjustment shall have the effect of increasing the Exercise Price as otherwise determined pursuant to this Paragraph 4.

5. Issue Tax. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the holder of this Warrant or such shares for any issuance tax in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any warrant or certificate in a name other than the holder of this Warrant.

6. No Rights or Liabilities as a Shareholder. This Warrant shall not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company. No provision of this Warrant, in the absence of affirmative action by the holder hereof to purchase Warrant Shares, and no mere enumeration herein of the rights or privileges of the holder hereof, shall give rise to any liability of such holder for the Exercise Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer, Exchange, and Replacement of Warrant; Registration Rights.

(a) Warrant Transferable. The transfer of this Warrant and all rights hereunder, in whole or in part, is registrable at the office or agency of the Company referred to in Paragraph 7(e) hereof by the holder hereof in person or by his duly authorized attorney, upon surrender of this Warrant properly endorsed. Upon any transfer of this Warrant to any person, other than a person who is at that time a holder of other Warrants, the Company shall have the right to require the holder and the transferee to make customary representations to the extent reasonably necessary to assure that the transfer will comply with the Securities Act and any applicable state securities laws. Each holder of this Warrant, by taking or holding the same, consents and agrees that this Warrant, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Warrant shall have been so endorsed, may be treated by the Company and all other persons dealing with this Warrant as the absolute owner and holder hereof for any purpose and as the person entitled to exercise the rights represented by this Warrant and to the registration of transfer hereof on the books of the Company; but until due presentment for registration of transfer on such books the Company may treat the registered holder hereof as the holder hereof for all purposes, and the Company shall not be affected by any notice to the contrary.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office or agency of the Company referred to in Paragraph 7(e) hereof, for new Warrants of like tenor representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new Warrants to be imprinted with the same legend appearing on the face of this Warrant and to represent the right to purchase such number of shares as shall be
designated by said holder hereof at the time of such surrender. For purposes hereof, the term "Warrant" shall be deemed to include any and all such replacement Warrants, whether issued pursuant to this subparagraph (b) or any other Paragraph hereof.

(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Paragraph 7, this Warrant shall be promptly cancelled by the Company. The Company shall pay all taxes (other than securities transfer taxes) and all other expenses and charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Paragraph 7.

(e) Register. The Company shall maintain, at its principal office in Atlanta, Georgia (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

(f) Registration Rights. The issuance of any Warrant Shares required to be reserved for purposes of exercise of this Warrant and the resale of such Warrant Shares are entitled to the benefits of the registration rights set forth in the Purchase Agreement.

8. Notices. All notices, requests, and other communications required or permitted to be given or delivered hereunder to the holder of this Warrant shall be in writing, and shall be personally delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, to such holder at the address shown for such holder on the books of the Company, or at such other address as shall have been furnished to the Company by notice from such holder. All notices, requests, and other communications required or permitted to be given or delivered hereunder to the Company shall be in writing, and shall be personally delivered, or shall be sent by certified or registered mail, postage prepaid and addressed, to the office of the Company at 3414 Peachtree Road, N.E., Suite 1400, Atlanta, GA 30326, Attention: -------------------------------------------, or at such other address as shall have been furnished to the holder of this Warrant by notice from the Company. Any such notice, request, or other communication may be sent by telegram or telex, but shall in such case be subsequently confirmed by a writing personally delivered or sent by certified or registered mail as provided above. All notices, requests, and other communications shall be deemed to have been given either at the time of the delivery thereof to (or the receipt by, in the case of a telegram or telex) the person entitled to receive such notice at the address of such person for purposes of this Paragraph 8, or, if mailed, at the completion of the third full day following the time of such mailing thereof to such address, as the case may be.

9. GOVERNING LAW. THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF DELAWARE, WITHOUT REGARD TO ANY CHOICE OF LAW PRINCIPLES OF SUCH STATE.

10. Remedies. The Company stipulates that the remedies at law of the holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate, and that such terms may be specifically enforced by a decree for the specific enforcement of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.
11. Miscellaneous.

(a) Amendments. This Warrant and any provision hereof may not be changed, waived, discharged, or terminated orally, but only by an instrument in writing signed by the party (or any predecessor in interest thereof) against which enforcement of the same is sought.

(b) Descriptive Headings. The descriptive headings of the several paragraphs of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(c) Successors and Assigns. This Warrant shall, to the extent provided in Section 4(e), be binding upon any entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all the Company's assets.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer under its corporate seal, attested by its duly authorized officer, on this day of 1996.

MAGELLAN HEALTH SERVICES, INC.

By: ________________________________
   Name: ________________________________
   Title: ________________________________

[CORPORATE SEAL]

Attest:

- ________________________________
  Name: ________________________________
  Title: ________________________________

FORM OF EXERCISE AGREEMENT

Dated: ______, _____

To: __________________________________________
   ________________________________
   ________________________________
   ________________________________
   Attention: ________________________________
The undersigned, pursuant to the provisions set forth in the within Warrant, hereby agrees to purchase shares of Common Stock covered by such Warrant, and makes payment herewith in full therefor at the price per share provided by such Warrant *(in cash or by certified or official bank check in the amount of $*held by the undersigned and any applicable taxes payable by undersigned. Please issue a certificate or certificates for such shares of Common Stock in the name of and pay any cash for any fractional share to:

Name:  
Signature:  
Title of Signing Officer or Agent(if any):  

Note: The above signature should correspond exactly with the name on the face of the within Warrant or with the name of the assignee appearing in the assignment form.

and, if said number of shares of Common Stock shall not be all the shares purchasable under the within Warrant, a new Warrant is to be issued in the name of said undersigned covering the balance of the shares purchasable thereunder less any fraction of a share paid in cash.

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FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers all the rights represented by and under the within Warrant, with respect to the number of shares of Common Stock covered thereby set forth hereinbelow, to:

<table>
<thead>
<tr>
<th>Name of Assignee</th>
<th>Address</th>
<th>No. of Shares</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

, and hereby irrevocably constitutes and appoints as agent and attorney-in-fact to transfer said Warrant on the books of the within-named corporation, with full power of substitution in the premises.

Dated:     

In the presence of

<table>
<thead>
<tr>
<th>Name:</th>
</tr>
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<tbody>
<tr>
<td>Signature:</td>
</tr>
</tbody>
</table>

Title of Signing Officer or Agent (if any):  

---

<table>
<thead>
<tr>
<th>Name:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signature:</td>
</tr>
</tbody>
</table>

Title of Signing Officer or Agent (if any):  

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COMPANY DISCLOSURE SCHEDULE

Section 3.8. - List of Significant Subsidiaries

Charter Behavioral Health Systems Inc.

Section 3.9 - List of Material Agreements

Employment agreement of Craig L. McKnight is being filed with the Company's 10-K for the year ended September 30, 1995.

Section 3.10 - List of Material Liabilities/Obligations

(a) the litigation and non-compliance with laws referred to in the letter from Steve J. Davis to Steve Surbaugh dated November 10, 1995, and the update thereto from Steve J. Davis to Cherie Fuzzell and Bob Miller dated November 21, 1995 (copies of which have been delivered to Buyers), which in the reasonable judgment of the Company, do not and will not, individually and in the aggregate have a material adverse effect on the business, assets, results of operations or financial condition of the Company.

(b) acquisition of a majority interest in Green Springs Health Systems Inc.

Section 3.12 - Compliance with Laws

(ii) those notices of noncompliance referred to in the letter from Steve J. Davis to Steve Surbaugh dated November 10, 1995, and the update thereto from Steve J. Davis to Cherie Fuzzell and Bob Miller dated November 21, 1995 (copies of which have been delivered to Buyers).

Section 3.13 - Litigation

None

EXHIBIT 7.3
Matters to be Covered in Opinion of Counsel to Company

- due incorporation, valid existence and good standing of Company and significant subsidiaries under the laws of the State of Delaware, and corporate power to own, lease and operate properties and to carry on business as presently conducted

- qualification to do business and good standing as a foreign corporation in states necessary for conduct of current business

- confirmation of authorized and outstanding capital stock of Company

- issuance of shares duly authorized, and shares are validly issued, fully paid and nonassessable

- warrant shares to be issued are validly authorized and reserved for issuance and assuming no changes in law, warrant shares will be validly issued, fully paid and nonassessable upon proper exercise of warrant and payment of exercise price

- issuance of the Securities and any Warrant Shares upon exercise of Warrants is not subject to any preemptive right under the Delaware General Corporation Law or the certificate of incorporation or bylaws of Company

- due authorization, execution, delivery and performance of agreements

- agreements are legal, valid and binding upon Company

- agreements and transaction will not conflict with or violate certificate of incorporation, bylaws or applicable law or breach, violate or cause default under material contracts, judgments, orders etc., or result in creation of material lien upon properties

- any required consents approvals, filings etc. required under applicable law have been obtained

- confirmation of no material adverse litigation and proceedings

- issuance of Securities exempt from registration requirements

- confirmation that private offering of Warrants and Shares will not be integrated with public offering of Warrant Shares and resale of Warrant Shares.
I. PURPOSE

The purpose of this plan is to provide an incentive to certain executives and key employees of the Company who contribute to the success of the enterprise by offering an opportunity to such persons to earn compensation in addition to their salaries, based on the pre-tax net income of Magellan Health Services, Inc. (the “Company”).

II. ELIGIBLE PARTICIPANTS

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

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

III. CONDITIONS FOR RECEIVING PAYMENT

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

NO INCENTIVE COMPENSATION WILL BE PAID TO ANY EMPLOYEE IF EMPLOYMENT IS TERMINATED, WHETHER VOLUNTARY OR INVOLUNTARY, PRIOR TO THE ACTUAL PAYMENT DATE.

However, the Companies' Board of Directors retains authority to make exceptions to the foregoing policy in unusual or meritorious cases including, but not limited to, the death of an employee during the fiscal year or termination of employment due to total or partial disability or retirement with the consent of the Company.

IV. METHOD OF CALCULATION

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

<table>
<thead>
<tr>
<th>Position</th>
<th>100%</th>
<th>110%</th>
<th>120%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>50.0%</td>
<td>67.5%</td>
<td>85%</td>
</tr>
<tr>
<td>Senior Officer (SVP &amp; above)</td>
<td>40.0%</td>
<td>65.0%</td>
<td>85%</td>
</tr>
<tr>
<td>Officer (AVP &amp; VP)</td>
<td>32.5%</td>
<td>60.0%</td>
<td>80%</td>
</tr>
<tr>
<td>Sr. Exec., Exec. &amp; Sr. Dir.</td>
<td>25.0%</td>
<td>40.0%</td>
<td>50%</td>
</tr>
<tr>
<td>Director</td>
<td>15.0%</td>
<td>25.0%</td>
<td>35%</td>
</tr>
</tbody>
</table>
V. DISTRIBUTION

The distribution of bonuses shall be made promptly after completion of unaudited financial statements for the 1996 fiscal year or as may be otherwise approved by the Board of Directors. Specific provisions regarding distribution are outlined in Section III, Conditions for Receiving Payment.

VI. ADMINISTRATION

The plan will be administered by a Committee of Company officers.

VII. INTERPRETATION AND DURATION

Any areas of question, interpretation, dispute, etc., concerning any area of this plan shall be governed by the Committee of Company officers. The Committee is defined as the Chairman, the Executive Vice President/Chief Financial Officer, the Executive Vice President of Administration, and the Sr. Vice President of Human Resources. This plan shall be effective for the fiscal year beginning October 1, 1995. The Committee and the Board of Directors each retain the authority to modify, repeal or discontinue the plan on a prospective or retroactive basis, for any reason.

VIII. DEFINITION OF TERMS

A. Pre-tax Net Income of the Company is income before provision for state and federal income taxes and subject to adjustment for the following:

1. Change in Operations

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

2. Change in Accounting Policy or Practice

A material change (from the prior year) in accounting policy or practice which has an effect on the company's Pre-tax Net Income will be considered as an adjustment to Pre-tax Net Income. Year end adjustments to correct prior errors or to adjust previous estimates and accruals will not be regarded as changes in policy or practice.
EMPLOYMENT AGREEMENT
---------------------
THIS AGREEMENT made and executed as of the 18th day of March, 1993, by
and between GREEN SPRING HEALTH SERVICES, INC., a Delaware corporation
hereinafter the "Employer") and Henry T. Harbin, M.D. (hereinafter the
"Employee").

WITNESSETH:

WHEREAS, the Employee currently serves in the capacity of Executive
Vice-President and Chief Operating Officer.

WHEREAS, it is the intention of the parties hereto to set out the terms
and conditions of that employment and the rights and duties of the Employee in
fulfilling the capacity of Executive Vice-President and Chief Operating Officer
for the Employer.

NOW, THEREFORE, in consideration of the mutual promises of the parties
and the mutual benefits they will gain by the performance thereof, all in
accordance with the provisions hereinafter set forth, it is agreed by and
between the parties hereto as follows:

1. (a) Effective as of the date hereof the Employer confirms the
employment of the Employee and the Employee agrees to continue to be employed
by the Employer and to continue to serve as the Executive Vice-President and
Chief Operating Officer of the Employer, pursuant to the terms of this
Agreement.

(b) (i) The term of this employment shall commence on the date
hereof and shall terminate on the last day of the calendar month in which occurs
the third (3rd) anniversary of the date hereof ("Initial Term"). After the
Initial Term, this Agreement shall automatically renew for a one year period and
for subsequent one year periods thereafter unless one party presents to the
other party written notice of intent to terminate the Agreement at least ninety
(90) calendar days prior to the applicable expiration date of this Agreement.

2. (a) During the period commencing as of the date hereof through
December 31, 1993, the Employee will be entitled as compensation for the
performance of his duties an annual salary (the "Salary") of Two hundred and
twenty-two thousand dollars ($222,000). On the first (1st) day of January, 1994
and on the first (1st) day of each January thereafter during the term of this
Agreement, the annual Salary in effect immediately preceding the
month of the adjustment shall be adjusted by (i) the increase in the cost of
living which shall be accomplished by multiplying the then annual salary by a
fraction the numerator of which is the Index (as hereinafter defined) most
recently published as of the month immediately preceding the month of the
adjustment and the denominator of which shall be the Index most recently
published as of the thirteenth (13th) month immediately preceding the month of
the adjustment, provided, however, in no event shall any annual adjustment be
less than two percent (2%) nor more than seven percent (7%), and if but for this
proviso the adjustment would be less than two percent (2%), then and in such
event the adjustment shall be two percent (2%), and if but for this proviso, the
adjustment would be more than seven percent (7%), then and in such event the
adjustment shall be seven percent (7%). For the purposes hereof, the "Index"
shall be the Consumer Price Index for all urban wage earner (CPIU) for
Washington D.C. maintained by the United States Department of Labor, Bureau of
Labor Statistics (1982-84 - 100); (ii) or any other increase in annual salary
which shall not be less than the increase set forth in 2(a)(i) above; and

(b) (i) In addition to the annual Salary, the Employee shall
be entitled subject to the discretion of the President to an annual short term
incentive target of 17.5%. The calculation of the short term incentive target
will be a minimum based upon the same method used by Employer during calendar
year 1992. (ii) Additionally, in the event of a Change of Control of the Company
set forth in the 1992 Stock and Performance Incentive Plan ("Incentive Plan"),
the vesting schedule set forth in the Incentive Plan shall accelerate as set
forth in Exhibit A, attached hereto and incorporated herein. (iii) In the event there is an agreement to consummate a merger agreement with MEDCO or an affiliate of MEDCO or there is an agreement to consummate any other merger agreement or acquisition agreement, in which it is contemplated that all awards will be vested and paid at or before the closing for said merger or acquisition, all Employee's awards will be fully vested and exercised by Employee upon the closing of a merger or acquisition, and Employee hereby agrees if he/she has options under the Incentive Plan, his/her options under the Incentive Plan will be void and canceled immediately prior to the consummation of the merger of acquisition; and further the Employee agrees that the fair market value of the company in determining the value of the awards will be $45,000,000.00; and

(c) All payments of compensation shall be subject to all lawful deductions such as Federal Withholding Taxes and FICA; and

(d) In addition to the compensation payable to the Employee as provided by subparagraphs 2(a) and 2(b) above, the Employee shall be entitled to fringe benefits similar to those the Employee enjoyed prior to the Change of Control. This provision does not apply to the Transition Assistance Policy or Vacation Policy which the Employer had in place prior to the Change of Control.

3. (a) During the term of this employment the Employee shall:

(i) hold the title of Executive Vice President and Chief Operating Officer; and

(ii) generally perform the duties on behalf of the Employer that he performs as of the date hereof and such other duties which may be required commensurate with the Employee's professional ability and qualifications.

(b) During the term of this employment, if the Employer and the Employee mutually agree to a change in the duties of the Employee, then and in that event the parties shall to the extent necessary and appropriate modify the terms of this Agreement, including, if such modification requires, an adjustment to the Salary and/or fringe benefits.

4. (a) The Employee agrees: (i) not to disclose any trade or secret data or any other proprietary or confidential information acquired during employment by the Employer or a subsidiary of the Employer, during employment or after the termination of employment or retirement, except with the prior permission of Employer, unless said information becomes generally available to the public or becomes available to Employee on a non-confidential basis from a source other than the Employer; (ii) not to interfere with the employment of any other employee of the Employer or a subsidiary of the Employer, or urge, induce or solicit other employees to leave the Employer or a subsidiary of Employer; (iii) during the term of employment with the Employer and for a period of two (2) years following employment termination, not to solicit the business of, contract with, or become employed by any entity with which the

Employer has contracts or had contracts within the two (2) years period prior to termination, including subsidiaries, affiliates or organizations related to such entities; and (iv) during the term of employment and for one (1) year after the termination of employment, engage, directly or indirectly, or through any corporations or associations in any business enterprise or employment which is directly competitive (including but not limited to the following activities: utilization management, network management or dental health and/or; substance abuse managed care) with the Employer or an subsidiary in any state or territory, including the District of Columbia, where the Employer does business at the time of the Employee’s termination of employment. (b) Section 4(a)(iv) and 4(a)(v) shall not be binding on Employee if Employee has completed the Employment Period set forth in paragraph 1 and the Employee is not offered
continued employment with the Employer, or if Employee's Employment Period is terminated by Employer without cause earlier than that time set forth in paragraph 1.

5. The Employment Period shall terminate earlier than that time set forth in Paragraph 1 above in the event of the occurrence of the following:

(a) the death of the Employee; or

(b) the disability of the Employee as defined by Paragraph 6 hereinbelow; or

(c) the default by the Employee as defined by Paragraph 7 hereinbelow.

6. For purposes of this Agreement, the term disability means that the Employee is substantially unable to discharge his responsibilities to the Employer and its affiliates by reason of physical or mental illness or incapacity, whether arising out of sickness, accident or otherwise, and shall be evidenced by the written determination of a qualified medical doctor acceptable to the Employer, which determination shall specify the date and time when such disability commenced and that it has continued uninterrupted for a period of at least one hundred eighty (180) days.

7. For purposes of this Agreement, the term default means that the Employee has:

(a) by deliberate and intentional actions refused to perform his duties for the Employer as provided by Paragraph 3 above. In the event that the Employer determines that the Employee has deliberately or intentionally failed to perform his duties for the Employer as provided in Paragraph 3, the Employer shall notify the Employee in writing of the reasons for its determination and shall provide the Employee a reasonable period in which to contest the determination or to correct the defects in performance; or

(b) breached or otherwise failed to comply with the provisions of Paragraph 4 above; or

(c) committed an act of dishonesty, fraud, misrepresentation or other acts of moral turpitude which in the reasonable opinion of the Board of Directors of the Employer causes it to conclude that the continuation of employment is not in the best interests of the Employer; or

8. In the event the Employer shall terminate without cause the Employment Period earlier than that time set forth in Paragraph 1, or Employer shall change the location of Employee's primary base of employment from Columbia, Maryland, the Employee shall be entitled to all compensation set forth in paragraph 2(a), 2(b), and 2(d) for the remaining balance of the Employment Period.

9. All notices required hereunder shall be in writing and either delivered by hand delivery or by certified mail, postage prepaid, return receipt requested. Notices to the Employer shall be addressed as follows: Green Spring Health Services, Inc., Suite 500, 5565 Sterrett Place, Columbia, Maryland 21044, Attn: President, with a copy to: Joyce Fitch, Esquire, c/o Green Spring Health Services, Inc., Suite 500, 5565 Sterrett Place, Columbia, Maryland 21044; and notices to the Employee shall be addressed to the then last known address of the Employee as reflected on the records of the Employer.

10. Other than as set forth in paragraph 13 of this agreement, upon the dissolution, reorganization, or consolidation of Employer, Employee shall not be bound by the terms of this Agreement.
11. This Agreement shall be binding upon the parties hereto, and their respective heirs, executors, administrators, successors and assigns. The Employee, however, shall not assign any part of his rights and/or duties under this Agreement, unless the Employer agrees thereto in writing.

12. This instrument contains the entire agreement of the parties. It may not be changed orally and only by an agreement in writing signed by the party against whom enforcement or any waiver, change, modification, extension or discharge is sought.

13. Notwithstanding the provisions of Paragraph 1(b) set forth above, this Agreement shall terminate upon the merger of MEDCO or an affiliate of MEDCO. Additionally, in the event there is an Agreement to consummate a merger agreement with MEDCO or an affiliate of MEDCO, Employee shall be bound by the provisions of Paragraph 2(b)(iii).

14. This Agreement shall be governed by the laws of the State of Maryland.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals the day and year first above written.

ATTEST:
GREEN SPRING HEALTH SERVICES, INC.

/s/ Joyce N. Fitch     By: /s/ Paul G. Shoffeit
- -----------------------                        --------------------------------
President

WITNESS:
/s/ Judith Poulin     /s/ Henry Harbin, M.D. (SEAL)
- -----------------------                        --------------------------------
6

EXHIBIT A
AMENDMENTS TO STOCK AND PERFORMANCE INCENTIVE PLAN AGREEMENTS FOR PARTICIPANTS WHO HAVE ENTERED INTO EMPLOYMENT AGREEMENTS

Section I.D. of the Stock and Performance Incentive Plan Agreements (for PAR Grants, PAR and Option Grants and PRU and Option Grants) (the "Plan Agreements") is amended by inserting after the vesting schedule set forth in such section, the following:

In the event of a Change of Control of the Company, the vesting schedule set forth above, as of the next January 1 after such Change of Control (the "Acceleration Date") (except as set forth below), automatically shall be accelerated by one year (so that at such Acceleration Date, the award shall vest by that percentage that would have vested on the next anniversary of the grant that follows the Acceleration Date pursuant to the above schedule; at such next anniversary of the grant following the Acceleration Date, the amount vested shall be that percentage that would have otherwise vested on the next succeeding anniversary pursuant to the above schedules; etc). Notwithstanding the foregoing with respect to the effective date of such accelerated vesting, for purposes of Sections 2.3(c) and 3.3(c) of the Incentive Plan, if any event specified in Section 2.3(c) or 3.3(c) occurs after a Change of Control of the Company but prior to the Acceleration Date, the vesting schedule set forth above automatically shall be accelerated by one year as of the date of such event specified in Section 2.3(c) or 3.3(c) (so that upon such event the amount vested shall be that percentage that would have otherwise vested at the next anniversary of the grant after such event pursuant to the above schedule or on the Acceleration Date pursuant to the previous sentence, whichever would
occur first). Notwithstanding these provisions with respect to acceleration, awards shall vest pursuant to the above schedule on any anniversary of the date of grant that occurs between a Change of Control and the Acceleration Date.
Henry T. Harbin, M.D.
Chief Operating Officer
Executive Vice President
GreenSpring Mental Health Services
5565 Sterrett Place
Suite 500
Columbia, Maryland 21044

Dear Henry:

As we have discussed, GreenSpring's Board of Directors places great value on your leadership and your continuing commitment to the success of our company. We have taken the action described below to demonstrate our desire for you to have a long and rewarding career with GreenSpring. This letter constitutes an agreement (the "Agreement") between you and Green Spring Health Services (the "Company") to provide a benefit to you at retirement based on your continued employment with the Company until retirement or employment termination, as defined herein. This Agreement is entered into in consideration of (i) your past contribution to the Company and the value created by your efforts, (ii) the desire of the Board of Directors to encourage continued employment with the Company until your retirement, and (iii) the expected contribution that you will make to the profitability of the Company. This Agreement is made as a separate Agreement from any employment contract currently in effect between you and the Company.

The terms and conditions of this Agreement are as follows:

1. It is the intent of the Board that you shall be provided with a lump-sum dollar amount, or equivalent annual annuity payment, in an amount as determined by the Board at the time of payment, at the time of your retirement or termination from the Company, as defined below. The amount of the payment shall be specified below.

2. The amount of the payment shall be:
   a. $1,250,000 if the average Earnings Before Interest and Taxes (EBIT) as defined below) over your employment period exceeds 10 percent of Shareowner's Investment, as defined below.
   b. $850,000 if the average EBIT over your employment period is 10 percent or less of Shareowner's Investment.

3. Retirement shall be defined as termination of employment from the Company on or after age 60 years. If termination occurs in each of the above cases, the amount of the payment shall be reduced by any payments to you, as determined from the date of this Agreement until your employment termination or retirement, from amounts earned under the grant of PARs, or other long-term incentive payments, for any plan approved by the Board of Directors.
prior to age 60 years, then the payment will be based on the conditions of termination, as defined below.

4. If you voluntarily terminate your employment with the Company, or the Board terminates your employment For-Cause, as it is defined in your employment contract (or in the Company's long-term incentive plan, e.g., the Performance Appreciation Rights Plan), then there shall be no payment other than any payments received under the long-term incentive plan of the Company.

5. If your employment is terminated as a result of death, disability (as defined in your employment contract or the company's retirement income plan), or at the request of the Board of Directors, then the payment shall be as defined in paragraph 2, above at the time of termination.

6. Earnings Before Interest and Taxes shall be as defined in the Company's long-term incentive plan, except that it shall include any accruals, under GAAP accounting, for the Company's long-term incentive plan.

7. Shareowners' Investment shall be defined as equal to the book value of the GreenSpring Health Services as determined by purchase accounting as of April 30, 1993 adjusted for acquisitions at cost as determined by the Board of Directors of the Company.

8. If you so elect at the time of retirement or termination, the benefit payment may be in the form of an annual annuity payment. Such annuity amount will be determined by the Board of Directors at the time of request and reflect actuarial considerations or the cost of providing the annuity if provided by a third-party. You may select the type of annuity, e.g., single or joint-and-survivor, to meet your needs at the time of the payment.

9. This Agreement shall be binding upon the Company, its successors and assigns, and shall inure to the benefit of you and your personal representative and/or executor.

Henry T. Harbin
Page 3
November 9, 1993

Each and every payment required hereunder shall be made as provided herein without regard to your personal state at the time of required payment, except for annuity payments where the amount is dependent on your death.

We trust that this Agreement connotes the importance the Board places on your continued involvement with the success of Green Spring. You have contributed immensely to its founding and development and we trust that you will see fit to continue this contribution to corporate performance and success in the future.

Sincerely,

/s/ Neil Hollander

Neil Hollander
Chairman of the Board

NH/lm
September 19, 1994

Henry T. Harbin, M.D.
Chief Executive Officer
President
Green Spring Health Services
5565 Sterrett Place
Suite 500
Columbia, Maryland 21044

Dear Henry:

In a letter, dated November 9, 1993, the Board of Directors agreed to provide you with certain guaranteed termination and retirement benefits (hereinafter referred to as the “Original Agreement”). The Original Agreement was entered into in consideration of (i) your past contribution to the Company and the value created by your efforts, (ii) the desire of the Board of Directors to encourage continued employment with the Company until your retirement, and (iii) the expected contribution that you will make to the profitability of the Company. At the time of the Original Agreement you were employed by the Company as its Chief Operating Officer and Executive Vice President. Since the date of the Original Agreement, you have assumed the responsibilities of the Company’s Chief Executive Officer and President position.

In consideration of the enhanced responsibilities of the new role, the Board of Directors has directed me to amend paragraph 2 of the Original Agreement to provide for additional compensation in the event of termination or retirement as defined by the Original Agreement. Paragraph 2 of the Original Agreement shall now provide as follows:

2. The amount of the payment shall be:

   a. $1,500,000 if the average Earnings Before Interest and Taxes (EBIT as defined below) over your employment period exceeds 10 percent of Shareowners' Investment, as defined below.

   b. $1,000,000 if the average EBIT over your employment period is 10 percent or less of Shareowners' Investment.

In each of the above cases, the amount of the payment shall be reduced by any payments to you, as determined from the date of this Agreement until your employment termination or retirement, from amounts earned under the grant of PARs, or other long-term incentive payments, for any plan approved by the Board of Directors.

All other provisions of the Original Agreement shall remain in full force and effect. I thank you for your continuing efforts in the Company's success.

Sincerely,

/s/ Neil Hollander

Neil Hollander
Chairman of the Board
STOCK PURCHASE AGREEMENT

among

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, INC.
HEALTH CARE SERVICE CORPORATION
INDEPENDENCE BLUE CROSS
MEDICAL SERVICE ASSOCIATION OF PENNSYLVANIA
PIERCE COUNTY MEDICAL BUREAU, INC.
VERITUS, INC.
GREEN SPRING HEALTH SERVICES, INC.

and

CHARTER MEDICAL CORPORATION

dated

November 14, 1995

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STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT ("Agreement") dated as of the 14th day of November, 1995, is made and entered into by and among Blue Cross and Blue Shield of New Jersey, Inc. ("BCBS"), a New Jersey health service corporation, Health Care Service Corporation ("HCSC"), an Illinois legal mutual reserve company, Independence Blue Cross ("IBC"), a Pennsylvania non-profit hospital plan corporation, Medical Service Association of Pennsylvania ("MSAP"), a Pennsylvania corporation, Pierce County Medical Bureau, Inc. ("PCMB"), a Washington non-profit corporation, Veritus, Inc. ("VI"), a Pennsylvania non-profit corporation, Green Spring Health Services, Inc. ("GSHS"), a Delaware corporation, and Charter Medical Corporation, a Delaware corporation ("Buyer").

(Each of BCBS, HCSC, IBC, MSAP, PCMB and VI is referred to in this Agreement as a "Seller" and together as the "Sellers").

WHEREAS, Sellers own all of the issued and outstanding common stock of GSHS in the amounts set forth in Section 3.3 of the GSHS Disclosure Schedule and Section 4.3 of the Seller Disclosure Schedule;

WHEREAS, Buyer desires to purchase from Sellers, and Sellers desire to sell to Buyer, 5,391.92 of the issued and outstanding shares of common stock of GSHS as of the date of this Agreement and 516.82 shares of the common stock of GSHS that are to be purchased by Sellers pursuant to Section 6.15 prior to the Closing of the transactions contemplated by this Agreement, both upon the terms and subject to the conditions set forth in this Agreement (the sale and purchase of such shares are referred to in this Agreement as the "Stock Purchase");

NOW, THEREFORE, the parties to this Agreement agree as follows:

ARTICLE 1.
DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

Section 1.1. "Affiliate" shall mean, with respect to any person, a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such person.

Section 1.2. "Associate" shall mean, with respect to any person, any corporation or other business organization of which such person is an executive officer (as such term is defined in Rule 3b-7 under the 1934 Act) or partner or is the beneficial owner, directly or indirectly, of ten percent or more of any class of equity securities, any trust or estate in which such person has a substantial beneficial interest or as to which such person serves as a trustee or in a similar capacity and any relative or spouse of such person, or any relative of such spouse, who has the same home as such person.

Section 1.3. "Audited Financial Statements" shall mean the audited consolidated balance sheets of GSHS at December 31, 1994, 1993 and 1992 and the related audited consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, including related footnotes, in each case as examined by and accompanied by the report of Arthur Andersen LLP, independent certified public accountants, which Audited Financial Statements are included in the GSHS Disclosure Schedule.

Section 1.4. "Balance Sheet" shall mean the unaudited consolidated balance sheet of GSHS as of August 31, 1995 included in the Interim Financial Statements.

Section 1.5. "Balance Sheet Date" shall mean August 31, 1995.

Section 1.6. "Basket Amount" shall mean an amount equal to Five Million Dollars ($5,000,000).
Section 1.7. "Benefit Plans" shall mean all plans, programs, ERISA Welfare Plans, ERISA Pension Plans and other arrangements under which or through which GSHS or an ERISA Affiliate provides, or has an obligation to provide, or makes, or has an obligation to make, contributions to provide, compensation or benefits of any kind or description whatsoever (whether current or deferred and whether paid in cash or in kind) to, or on behalf of, one, or more than one, employee or director or former employee or former director, other than any plans, programs or other arrangements which only provide for the payment of cash compensation currently from the general assets of GSHS or an ERISA Affiliate on a payday by payday basis as base salary or hourly wages for current services.

Section 1.8. "Business" shall mean the business of providing managed behavioral health care services, including managed alcohol and other substance abuse services and employee assistance plan services; and the components of such services may include for a particular client or customer one or more of the following concerning behavioral healthcare: case or care management, administrative services for self-insured or partly self-insured customers, utilization review, certification or pre-admission or pre-treatment certification, assessment and referral, triage, services priced on a capitated, non-capitated or partly-capitated basis, staff clinical services, provider network services and preferred provider organization services.

Section 1.9. "Business Day" shall mean any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

Section 1.10. "Buyer Disclosure Schedule" shall mean the disclosure schedule, dated as of the date of this Agreement, delivered to Sellers by Buyer, as amended and updated pursuant to Section 6.9.

Section 1.11. "Buyer SEC Reports" shall have the meaning set forth in Section 5.4.

Section 1.12. "Buyer Subsidiary" shall mean a corporation, partnership or other entity of which the Buyer satisfies the provisions of either clause (i) or clause (ii) of the definition of Subsidiary.

Section 1.13. "Buyer Subsidiary Shares" shall have the meaning set forth in Section 5.13.

Section 1.14. "Cash Portion of Purchase Price" shall have the meaning set forth in Section 2.2.

Section 1.15. "Charter Common Stock" shall mean the common stock, par value $0.25 per share, of Buyer.

Section 1.16. "Closing" shall have the meaning set forth in Section 2.4.

Section 1.17. "Closing Date" shall mean the date and effective time at which the Closing occurs.

Section 1.18. "Code" shall mean the Internal Revenue Code of 1986, as amended, together with the regulations promulgated thereunder.

Section 1.19. "Company Affiliate" shall have the meaning set forth in Section 3.13.

Section 1.20. "Confidentiality Agreement" shall mean the Confidentiality Agreement between GSHS and Buyer dated as of April 25, 1995.

Section 1.21. "Contract" shall mean any contract, agreement, indenture, lease of personal property (whether or not capitalized), note, bond, loan agreement, letter of credit agreement, line of credit agreement, instrument, lien, conditional sales contract, mortgage, franchise, commitment, obligation or other arrangement or agreement, but shall exclude leases of real property and insurance policies.
Section 1.22. "Credit Agreement" shall have the meaning set forth in Section 6.12(a).

Section 1.23. "Director and Officer Policies" shall mean any insurance policies providing coverage or benefits with respect to liabilities incurred by or imposed on the directors or officers of GSHS or any Subsidiary.

Section 1.24. "Employment Contracts" shall mean all Contracts or other arrangements under which GSHS or a Subsidiary has agreed to employ any person for any period, including severance contracts.

Section 1.25. "Encumbrances" shall mean any security interest, pledge, mortgage, lien, charge, adverse claim of ownership or use, or other encumbrance of any kind.

Section 1.26. "Environmental Laws" shall mean all federal, state and local laws, statutes, regulations, rules, ordinances, and orders with respect to pollution or protection of the environments including laws relating to Hazardous Substances or other toxic materials or wastes into ambient air, surface water, ground space water or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants or Hazardous Substances or other toxic materials or wastes.


Section 1.28. "ERISA Affiliate" shall mean a corporation that is or was a member of a controlled group of corporations with GSHS within the meaning of Section 414(b) of the Code, a trade or business (including a sole proprietorship, partnership, limited liability company, trust, estate or corporation) that is under common control with GSHS within the meaning of Section 414(m) of the Code, or a trade or business which together with GSHS is treated as a single employer under Section 414(o) of the Code.

Section 1.29. "ERISA Pension Plan" shall mean any employee pension benefit plan as defined in Section 3(2) of ERISA which is established, maintained or contributed to by GSHS or any ERISA Affiliate.

Section 1.30. "ERISA Welfare Plan" shall mean any employee welfare benefit plan as defined in Section 3(1) of ERISA which is established, maintained or contributed to by GSHS or any ERISA Affiliate.

Section 1.31. "Exchange Agreement" shall mean the Exchange Agreement among certain of the Sellers and Buyer, dated as of the Closing Date and attached to this Agreement as Exhibit A.

Section 1.32. "Family Member" shall have the meaning set forth in Section 3.13.

Section 1.33. "Financial Statements" shall mean the Audited Financial Statements and the Interim Financial Statements.

Section 1.34. "GAAP" shall mean generally accepted accounting principles (as such term is used in the American Institute of Certified Public Accountants' Professional Standards) from time to time in effect.

Section 1.35. "Governmental Antitrust Authority" shall mean any governmental authority (federal or state) with jurisdiction over the enforcement of any applicable antitrust laws.

Section 1.36. "Governmental Authority" shall mean any foreign, federal, state or local governmental entity or municipality or subdivision thereof or any authority, department, commission, board, bureau, agency, court or instrumentality thereof.
Section 1.37. "GPA" shall mean Group Practice Affiliates, Inc., a Delaware corporation and a wholly-owned subsidiary of Buyer.

Section 1.38. "GPA Balance Sheet" shall have the meaning set forth in Section 5.14(l).

Section 1.39. "GPA Balance Sheet Date" shall have the meaning set forth in Section 5.14(l).

Section 1.40. "GPA Common Stock" shall have the meaning set forth in Section 5.14(a).

Section 1.41. "GPA Company Affiliate" shall have the meaning set forth in Section 5.14(p).

Section 1.42. "GPA Disclosure Letter" shall have the meaning set forth in Section 5.14(g).

Section 1.43. "GPA Financial Statements" shall have the meaning set forth in Section 5.14(e).

Section 1.44. "GPA Stock Exchange Agreement" shall mean the GPA Stock Exchange Agreement, dated the date of this Agreement, between Buyer and GSHS providing for the acquisition by GSHS on the Closing Date, in a tax-free reorganization pursuant to Section 368(a)(1)(B) of the Code, of all the issued and outstanding common stock of GPA from Buyer for 969.04 shares of the common stock of GSHS, a copy of which is attached as Exhibit B.

Section 1.45. "GPA Subsidiary" shall have the meaning set forth in Section 5.14(f).

Section 1.46. "GPA Subsidiary Shares" shall have the meaning set forth in Section 5.14(h).

Section 1.47. "GSHS Disclosure Schedule" shall mean the disclosure schedule, dated as of the date of this Agreement, delivered to Buyer by GSHS, as amended and updated pursuant to Section 6.9.

Section 1.48. "GSHS Long Term Compensation Plan" shall have the meaning set forth in Section 6.11.

Section 1.49. "GSHS Shares" shall have the meaning set forth in Section 2.1.

Section 1.50. "HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations promulgated thereunder.

Section 1.51. "Indemnifiable Damages" shall mean any and all liabilities, losses, interest, penalties, obligations, judgments, damages, fines, amounts paid or payable in settlement, expenses and costs (including, without limitation, reasonable counsel fees, accounting fees, investigation costs and costs and expenses incurred in connection with the foregoing).

Section 1.52. "Interim Financial Statements" shall mean the unaudited consolidated balance sheet of GSHS at August 31, 1995 and the related unaudited consolidated statement of operations for the eight-month period then ended, which Interim Financial Statements are included in the GSHS Disclosure Schedule.

Section 1.53. "Intellectual Property" means all patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, brand names, inventions, procedures, formulae, copyrights and copyright rights, trade dress, business and product names, logos, slogans, trade secrets, processes, designs, methodologies, computer programs (including all source codes) and related documentation, technical information, know-how and all
pending applications for and registrations of patents, trademarks, service marks and copyrights.

Section 1.54. "IRS" shall mean the Internal Revenue Service.

Section 1.55. "Knowledge" shall mean actual knowledge of an executive officer of any Seller, Buyer or Buyer Subsidiary and, in the case of GSHS or any Subsidiary, actual knowledge of any executive officer or director.

Section 1.56. "Leased Real Property" shall mean the real property leased by GSHS or any Subsidiary, as tenant, together with, to the extent leased by GSHS or a Subsidiary, all buildings and other structures, facilities or improvements currently or subsequently located on or at such property, all fixtures, systems, equipment and items of personal property of GSHS attached or appurtenant to such real property, and all easements, licenses, rights and appurtenances relating to the foregoing.

Section 1.57. "Leases" shall mean the leases for the Leased Real Property.

Section 1.58. "Market Value" shall mean the arithmetic average of the closing sale prices for a share of Charter Common Stock as reported by the American Stock Exchange for the ten trading days immediately preceding the third business day prior to the Closing Date; provided, however, that if such arithmetic average is less than $20.00, the Market Value shall be deemed to be $20.00 and provided, further, that if such arithmetic average is greater than $22.00, the Market Value shall be deemed to be $22.00.

Section 1.59. "New GSHS Shares" shall mean the shares of common stock of GSHS to be purchased by Sellers pursuant to Section 6.14 prior to the Closing and sold to Buyer at the Closing pursuant to Section 6.14.

Section 1.60. "New Stockholders' Agreement" shall mean the Stockholders' Agreement among Sellers (other than MSAP and VI), Buyer and GSHS, dated as of the Closing Date and attached to this Agreement as Exhibit C.

Section 1.61. "Old Shareholders' Agreement" shall mean the Subscription and Stockholders' Agreement among Sellers and GSHS, initially dated as of April 29, 1993, as amended from time to time after such date.

Section 1.62. "Operating Agreement" shall mean an agreement between GSHS (or a Subsidiary) and a customer for the provision by GSHS (or a Subsidiary) to the customer of services related to one or more aspects of the Business.

Section 1.63. "Parachute Plan" shall mean any plan, program or policy of any kind or description whatsoever or provision in an Employment Contract that promises any special or enhanced benefits as a result of a change of control in GSHS or any Subsidiary.

Section 1.64. "Permits" shall mean all permits, licenses and other governmental approvals, accreditations, participation agreements, consents, authorizations, certificates of authority and orders.

Section 1.65. "Permitted Encumbrances" shall mean (i) Encumbrances for Taxes not yet payable and for Taxes being contested in good faith, (ii) Encumbrances arising out of, under or in connection with this Agreement and (iii) Encumbrances and imperfections of title that do not secure payment of borrowed money and the existence of which do not materially affect the use of the property subject to such Encumbrances.

Section 1.66. "Purchase Price" shall have the meaning set forth in Section 2.2.

Section 1.67. "Registration Statement" shall have the meaning set forth in Section 6.13.
Section 1.68. "Seller Disclosure Schedule" shall mean the disclosure schedule, dated as of the date of this Agreement, delivered to Buyer by Sellers, as amended and updated pursuant to Section 6.9.

Section 1.69. "Stock Portion of Purchase Price" shall have the meaning set forth in Section 2.2.

Section 1.70. "Subsidiary" shall mean a corporation, partnership or other entity of which GSHS (i) has the power to elect more than 50% of the board of directors or other governing authority either directly or indirectly or (ii) owns or controls more than 50% of the outstanding equity securities or equity interests either directly or through an unbroken chain of entities as to each of which 50% or more of the outstanding equity securities or equity interests is owned directly or indirectly by its parent.

Section 1.71. "Subsidiary Shares" shall have the meaning set forth in Section 3.4(b).

Section 1.72. "Takeover Proposal" shall mean any proposal for a merger, consolidation, acquisition of all of the stock or assets of GSHS or the acquisition of a substantial equity interest in GSHS or a substantial portion of the consolidated assets of GSHS or any solicitation of proxies in connection with any meeting for the purpose of effecting a business combination or change in control.

Section 1.73. "Tax" or "Taxes" shall mean all federal, state, local or foreign taxes, levies, imposts, duties, licenses and registration fees, and charges of any nature whatsoever including, without limitation, income tax withholding, unemployment and social security taxes, interest, penalties and additions to tax with respect to such taxes.

Section 1.74. "Tax Return" shall mean any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment to such documents and any amendment of such documents.

Section 1.75. "Tax Sharing Agreement" shall have the meaning set forth in Section 6.12(b).

Section 1.76. "Third-Party Claim" shall have the meaning set forth in Section 9.2(c).

Section 1.77. "Undisclosed Liability" shall mean an obligation, indebtedness or liability of any nature (each of which, for purposes of this definition, is assumed to be material), which is required by GAAP to be reflected on the Balance Sheet or in the notes to the Balance Sheet or to the Financial Statements of which the Balance Sheet is a part and which is not reflected, reserved against or disclosed on the Balance Sheet or the notes to the Financial Statements or disclosed in this Agreement or the GSHS Disclosure Schedule.

Section 1.78. "1933 Act" shall mean the Securities Act of 1933, as amended.

Section 1.79. "1934 Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.80. Other Defined Terms. The terms defined in first paragraph and in the whereas clauses shall have the meanings given to such terms in such paragraph and whereas clauses.

ARTICLE 2.
SALE OF STOCK; CLOSING

Section 2.1. Purchase and Sale. On the basis of the representations,
warranties, covenants and agreements and subject to the satisfaction or waiver of the conditions to Closing set forth in this Agreement, at the Closing Sellers will sell and Buyer will purchase (a) an aggregate of 5,391.92 shares of common stock of GSHS, par value $0.01 per share (collectively, the "GSHS Shares"), which constitute, and will constitute as of the Closing, approximately 40% of the issued and outstanding capital stock of GSHS; and Buyer will purchase the GSHS Shares from each Seller, and each Seller will sell the GSHS Shares to Buyer, in the following amounts: BCBS - 347.98 shares, HCSC - 347.98 shares, IBC - 347.98 shares, MSAP - 2,000 shares, PCMB - 347.98 shares, and VI - 2,000 shares; and (b) the New GSHS Shares, which will consist of an aggregate of 516.82 shares of common stock of GSHS, par value $0.01 per share, which shares shall be the shares purchased by Sellers from GSHS prior to Closing pursuant to Section 6.14; and Buyer will purchase the New GSHS Shares from each Seller, and each Seller will sell the New GSHS Shares to Buyer in the following amounts: BCBS - 86.14 shares, HCSC - 86.14 shares, IBC - 86.14 shares, MSAP - 86.14 shares, PCMB - 86.14 shares, and VI - 86.14 shares.

Section 2.2. Purchase Price. In full payment for the GSHS Shares and the New GSHS Shares, Buyer will pay and deliver to Sellers an aggregate purchase price of Seventy-three Million, One Hundred Sixty-nine Thousand Nine Hundred Ninety-five and 46/100 Dollars ($73,169,995.46) (the "Purchase Price") payable to each Seller in the following amounts:

<table>
<thead>
<tr>
<th>Seller</th>
<th>Purchase Price For GSHS Shares</th>
<th>Purchase Price For New GSHS Shares</th>
<th>Total Purchase Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>$ 4,309,158.13</td>
<td>$ 1,066,660.49</td>
<td>$ 5,375,818.62</td>
</tr>
<tr>
<td>2.</td>
<td>$ 4,309,158.13</td>
<td>$ 1,066,660.49</td>
<td>$ 5,375,818.62</td>
</tr>
<tr>
<td>3.</td>
<td>$ 4,309,158.13</td>
<td>$ 1,066,660.49</td>
<td>$ 5,375,818.62</td>
</tr>
<tr>
<td>4.</td>
<td>$24,766,700.00</td>
<td>$ 1,066,660.49</td>
<td>$25,833,360.49</td>
</tr>
<tr>
<td>5.</td>
<td>$ 4,309,158.13</td>
<td>$ 1,066,660.49</td>
<td>$ 5,375,818.62</td>
</tr>
<tr>
<td>6.</td>
<td>$24,766,700.00</td>
<td>$ 1,066,660.49</td>
<td>$25,833,360.49</td>
</tr>
</tbody>
</table>

Each Seller (other than MSAP and VI) may elect, by written notice delivered to Buyer not later than November 15, 1995, or such later date as Buyer may agree upon in writing, to receive all or any portion of the Purchase Price payable to such Seller in the form of Charter Common Stock valued at Market Value; provided, however, that if the aggregate preliminary elections made by all such Sellers exceed $18,290,000 of Charter Common Stock valued at Market Value, each such Seller's election shall be reduced by such Seller's pro rata share of the amount in excess of $18,290,000 (the "Stock Portion of the Purchase Price"). Any such election shall be irrevocable. The portion of the Purchase Price payable to MSAP and VI shall be paid in cash. The difference between the aggregate Purchase Price and the Stock Portion of the Purchase Price shall be payable in cash (the "Cash Portion of the Purchase Price").

Section 2.3. Transfer and Delivery of GSHS Shares and New GSHS Shares; Payment of Purchase Price.

(a) GSHS Shares. At the Closing, each Seller, severally and not jointly, shall sell, assign, transfer and deliver to Buyer (i) the number of GSHS Shares set forth by its name in Section 2.1 by delivery to Buyer of a certificate or certificates representing such GSHS Shares, duly endorsed for transfer or accompanied by duly executed stock powers, and (ii) the number of New GSHS Shares set forth by its name in Section 2.1 by delivery to Buyer of a certificate or certificates representing such New GSHS Shares, duly endorsed for
transfer or accompanied by duly executed stock powers. Sellers severally covenant and agree with Buyer to cause GSHS to, and GSHS agrees to,

immediately upon the Closing, accept for transfer such certificates for the GSHS Shares and the New GSHS Shares and to issue to Buyer a certificate or certificates, in the name of Buyer, representing the GSHS Shares and the New GSHS Shares.

(b) Payment of Cash Portion of the Purchase Price. At the Closing, Buyer will pay to each Seller its portion of the Cash Portion of the Purchase Price by wire transfer of immediately available funds to an account of each Seller designated by each Seller in writing to Buyer not less than three Business Days prior to the Closing.

(c) Payment of Stock Portion of the Purchase Price. At the Closing, Buyer will deliver to each Seller its portion of the Stock Portion of the Purchase Price by delivery to such Seller of a certificate registered in the name of such Seller for a number of shares of Charter Common Stock equal to such Seller's Stock Portion of the Purchase Price divided by the Market Value of Charter Common Stock and rounded up to the nearest whole number.

Section 2.4. Time and Place of Closing. The closing (the "Closing") of the Stock Purchase will be held at 10:00 a.m. on the fifth Business Day after the latest to occur of (i) the termination of the waiting periods under the HSR Act, (ii) the fulfillment or waiver of the conditions set forth in Articles 7 and 8, and (iii) November 30, 1995, at the offices of King & Spalding, 191 Peachtree Street, Atlanta, Georgia or, if Buyer so requests, at offices in New York, New York of counsel to Buyer's commercial lenders, or at such other time and place as the parties may agree. It is understood that the Stock Purchase shall be deemed to take place effective as of the close of business on the Closing Date, regardless of the time at which the Closing actually occurs on the Closing Date.

ARTICLE 3.
REPRESENTATIONS AND WARRANTIES OF GSHS

GSHS represents and warrants to Buyer as follows and acknowledges that Buyer is relying upon such representations and warranties in connection with the transactions provided for in this Agreement. The parties acknowledge that certain of the representations and warranties set forth in this Article 3 lack qualifications as to materiality in light of the agreements set forth in Sections 7.1 and 9.2(f).

Section 3.1. Organization, etc. GSHS and each Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of their respective states of incorporation and has all requisite corporate power and authority (i) to conduct its business as it is now conducted and to own or lease all of the properties owned or leased by it; and (ii) in the case of GSHS, to enter into and perform its obligations under this Agreement. True, correct and complete copies of the Certificate or Articles of Incorporation and bylaws of GSHS and each Subsidiary as of the date of this Agreement have been previously delivered or made available to Buyer. The corporate records and minute books of GSHS and each Subsidiary contain complete and accurate minutes of all meetings and other corporate actions of the directors and stockholders of GSHS and each Subsidiary held, in the case of GSHS, since its date of incorporation, and in the case of each Subsidiary, since the date of its acquisition by GSHS, and the share certificate books and register of stockholders of GSHS and each Subsidiary are complete and accurate. GSHS and each Subsidiary is duly qualified to do business as a foreign corporation, and is in good standing, in all jurisdictions in which the ownership or lease of property by it or the conduct of its business makes such qualification necessary.

Section 3.2. Authorization; Execution; Binding Effect. The execution,
delivery and performance of this Agreement, the GPA Stock Exchange Agreement and
the New Stockholders' Agreement, and the consummation of the transactions
provided for in such agreements have been duly authorized by all necessary
corporate action on the part of GSHS. Assuming due execution and delivery by the
other parties, this Agreement, the GPA Stock Exchange Agreement and the New
Stockholders' Agreement constitute the legal, valid and binding obligation of
GSHS,
enforceable against GSHS in accordance with its respective terms, except as
enforceability may be limited by bankruptcy, insolvency, reorganization, or
other laws affecting creditors' rights and remedies generally and by general
principles of equity (regardless of whether such enforceability is considered in
a proceeding in equity or at law).

Section 3.3. Capitalization; Share Ownership. The authorized capital
stock of GSHS consists of 12,000 shares of $0.01 par value common stock, of
which 12,000 shares are issued and outstanding. Upon completion of the amendment
to the Certificate of Incorporation of GSHS and the issuance and sale of the New
GSHS Shares, as provided by Section 6.14, the authorized capital stock of GSHS
will consist of 15,000 shares of $0.01 common stock, of which 12,516.82 shares
will be issued and outstanding. All outstanding shares of the capital stock of
GSHS are, and upon the sale and issuance pursuant to Section 6.14 and the GPA
Stock Exchange Agreement, respectively, the New GSHS Shares and the shares of
common stock of GSHS to be issued pursuant to the GPA Stock Exchange Agreement
will be, duly authorized, validly issued and fully paid, nonassessable and in no
case issued in violation of any pre-emptive rights granted by GSHS. GSHS has no
shares of its capital stock in its treasury. Except for this Agreement, the
transactions contemplated by the GPA Stock Exchange Agreement and Section 6.14,
and as set forth in Section 3.3 of the GSHS Disclosure Schedule, (i) there is no
existing subscription, option, warrant, call, right, commitment or other agreement
(whether pre-emptive or contractual) to which GSHS is a party requiring, and there are no convertible securities of GSHS outstanding which
upon conversion would require, directly or indirectly, the issuance of any
additional common stock of GSHS or other securities convertible into or
exercisable or exchangeable for common stock of GSHS or any other equity
security of GSHS, and (ii) there are no outstanding contractual obligations of
GSHS to repurchase, redeem or otherwise acquire any outstanding capital stock of
GSHS. There are no bonds, debentures, notes or other indebtedness issued and
outstanding having the right to vote on any matters on which GSHS's stockholders
may vote. There are no obligations, contingent or otherwise, of GSHS or any
Subsidiary to (x) repurchase, redeem or otherwise acquire any outstanding
capital stock of GSHS or the capital stock of, or other equity interests in, any
Subsidiary or (y) except for guarantees of obligations of, or loans and advances
to, GSHS or any Subsidiary, provide funds to, or make investments in, or provide
any guarantee with respect to the obligations of any other person. The GSHS Shares sold pursuant to this Agreement have been duly authorized and validly
issued, fully paid and nonassessable, will be delivered free and clear of all
aliens, charges and encumbrances of any kind or nature and will not be in
violation of any pre-emptive rights. Except for the Old Shareholders' Agreement,
GSHS has granted no person or entity any registration rights in respect of
common stock of GSHS or securities convertible into or exercisable or
exchangeable for common stock of GSHS. Each Seller is the sole record owner of
the shares of GSHS listed beside such Seller's name in Section 3.3 of the GSHS
Disclosure Schedule and, upon consummation of the transactions contemplated by
Section 6.14, will be the sole record owner of the number of New GSHS Shares
listed beside such Seller's name in Section 6.14. The Old Shareholders' Agreement
is the only stockholder agreement, voting agreement, voting trust, proxy or other agreement to which GSHS is a party with respect to the voting or
transfer of the common stock of GSHS.

Section 3.4. Subsidiaries. (a) Other than the Subsidiaries set forth
in Section 3.4(b) of the GSHS Disclosure Schedule, there are no other
corporations, partnerships, limited liability companies, joint ventures or other
entities in which GSHS or any Subsidiary owns, of record or beneficially, any
direct or indirect equity interest or any right (contingent or otherwise) to
acquire the same.
(b) Section 3.4(b) of the GSHS Disclosure Schedule sets forth the jurisdiction of incorporation of each Subsidiary, its authorized capital stock, the number and class or series of its issued and outstanding shares of capital stock, and the current ownership by GSHS and its Subsidiaries of such shares (collectively, the "Subsidiary Shares"). The Subsidiary Shares constitute all the issued and outstanding shares of capital stock of the Subsidiaries. The Subsidiary Shares have been duly authorized and validly issued and are fully paid and nonassessable and were not issued in violation of any preemptive rights. There are no existing subscriptions, options, warrants, calls, rights of conversion or other rights, agreements, arrangements or commitments relating to the capital stock of any Subsidiary.

obligating any Subsidiary to issue or sell any shares of its capital stock. Either GSHS or another Subsidiary owns the Subsidiary Shares issued by the respective Subsidiaries free and clear of all Encumbrances, except (i) as set forth in Section 3.4(b) of the GSHS Disclosure Schedule and (ii) Encumbrances arising out of or in connection with this Agreement. There are no voting trusts, stockholder agreements, proxies or other agreements in effect with respect to the voting or transfer of the Subsidiary Shares.

Section 3.5. No Conflicting Agreements or Charter Provisions. Except as set forth in Section 3.5 of the GSHS Disclosure Schedule, the execution, delivery and compliance with and performance by GSHS of the terms and provisions of this Agreement, the GPA Stock Exchange Agreement and the New Stockholders' Agreement, and the consummation of the transactions contemplated by such agreements, will not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default (or an event which, with notice, lapse of time, or both, would constitute a default) under, (iii) result in any violation of, (iv) require the obtaining of any consent, approval or action of, make any filing with or give notice to any person (except for a Governmental Authority) as a result of or under the terms of, (v) result in or give to any person any right of termination, cancellation, acceleration, modification, or increased or accelerated rights, entitlements or payments under, or (vi) result in the creation or imposition of any Encumbrance upon GSHS or any Subsidiary or any of their respective assets under: (A) the Certificate or Articles of Incorporation or bylaws of GSHS or any Subsidiary or any resolutions adopted by the stockholders or the Board of Directors of GSHS or any Subsidiary (assuming the Certificate of Incorporation of GSHS has been amended as provided in Section 6.14), or (B) any order, judgment or decree (in a proceeding to which a Governmental Authority is not a party) to which GSHS or any Subsidiary is subject.

Section 3.6. Consents, Approvals, Licenses, Etc. No consent, approval, authorization, license, statute, law, rule, regulation, order or Permit of, or declaration, filing or registration with, or notification to, any Governmental Authority is required to be made or obtained by GSHS or any Subsidiary in connection with the execution, delivery and performance of this Agreement, the GPA Stock Exchange Agreement and the New Stockholders' Agreement, or the consummation of the transactions contemplated by such agreements, except: (i) as set forth in Section 3.6 of the GSHS Disclosure Schedule; (ii) applicable requirements, if any, of the Delaware General Corporation Law, the 1934 Act, state securities or blue sky laws and the HSR Act; or (iii) where the failure to obtain such Permits, or to make such declarations, filing or registration or notifications, would not, either individually or in the aggregate, have an adverse effect on GSHS or any Subsidiary or Buyer involving more than $20,000.

Section 3.7. Litigation. Except as set forth in Section 3.7 of the GSHS Disclosure Schedule, there is (whether insured or uninsured) no action, suit, proceeding or investigation pending or, to the Knowledge of GSHS or any Subsidiary, threatened in writing, at law or in equity, in any court or before any Governmental Authority: (i) against GSHS or any Subsidiary, except for uninsured private civil litigation not involving a claim for equitable relief and involving a claim for less than $100,000; (ii) to the Knowledge of GSHS or any Subsidiary, affecting GSHS or any Subsidiary or any of their properties,
except for uninsured private civil litigation not involving a claim for equitable relief and involving a claim for less than $100,000; or (iii) to the Knowledge of GSHS or any Subsidiary, affecting this Agreement, the GPA Stock Exchange Agreement or the New Stockholders' Agreement or any action taken or to be taken or documents executed or to be executed pursuant to or in connection with the provisions of any such agreement. Prior to the execution of this Agreement, GSHS has delivered to Buyer all responses of counsel for GSHS and the Subsidiaries to auditors' requests for information delivered in connection with the 1994 Audited Financial Statements (together with any updates provided by such counsel) regarding actions or proceedings pending or threatened against, relating to or affecting GSHS or any Subsidiary.

Section 3.8. Financial Statements. The GSHS Disclosure Schedule includes true, correct and complete copies of the Financial Statements. Each of the Financial Statements (i) has been prepared from the books and records of GSHS and the Subsidiaries, which in all material respects account for transactions, assets and liabilities consistent with good business and accounting practice and Section 13(b)(2) of the 1934 Act and (ii) fairly presents the financial position, results of operations, changes in stockholder's equity and cash flows of GSHS on a consolidated basis as of the dates and for the periods set forth in such Financial Statements, in accordance with GAAP applied consistently throughout the periods involved, except as set forth in Section 3.8 of the GSHS Disclosure Schedule. Each of the financial statements delivered by GSHS pursuant to Section 6.1(c) shall comply with the preceding sentence.

Section 3.9. No Undisclosed Liabilities. To the Knowledge of GSHS or any Subsidiary, neither GSHS nor any Subsidiary had any Undisclosed Liability as of the Balance Sheet Date, and except (i) as set forth in Section 3.9 of the GSHS Disclosure Schedule, (ii) as set forth in the Balance Sheet or (iii) for normal and recurring current liabilities accruing in the ordinary course of business since the date of the Balance Sheet, neither GSHS nor any Subsidiary, on the date of this Agreement, has outstanding any Undisclosed Liability. Except as set forth in the Financial Statements or in Section 3.9 of the GSHS Disclosure Schedule, neither GSHS nor any Subsidiary has any long-term indebtedness, any lease obligation required to be recorded under GAAP as a capitalized lease and on the Closing Date will have no long-term debt due to or from any Seller (except as reflected in the most recent Audited Financial Statements).

Section 3.10. Compliance with Laws; Permits. GSHS and each Subsidiary has, since July 1, 1994, complied with all laws, regulations and orders relating or applicable to the operation of its respective business. GSHS and each Subsidiary holds all Permits required to be held by it in order to own, occupy and lease its assets and to conduct and operate its business (as presently conducted and as conducted on the Closing Date) in compliance with all applicable laws and regulations. A true and correct copy of each such Permit has previously been delivered or made available to Buyer. Except as set forth in Section 3.6 or Section 3.10 of the GSHS Disclosure Schedule, neither GSHS nor any Subsidiary is in default or, to GSHS's Knowledge, alleged to be in default with respect to any judgment, order, writ, injunction or decree of any Governmental Authority which would have an adverse effect on the business, assets or financial condition of GSHS or any Subsidiary in excess of $50,000, no notice from any Governmental Authority or agency in respect to (including an investigation) the revocation, termination, suspension or limitation of any Permit or the failure to have any Permit has been issued or given to GSHS or any Subsidiary, nor does GSHS or any Subsidiary have any Knowledge of the proposed or threatened issuance of any such notice or of any pending or threatened investigation with respect to any such matter.

Section 3.11. No Adverse Changes. Since the Balance Sheet Date and except as set forth in Section 3.11 of the GSHS Disclosure Schedule or as
contemplated by this Agreement or the GPA Stock Exchange Agreement, there has not been, occurred or arisen:

(i) any adverse change in the financial condition, results of operations, prospects, business or properties of GSHS and the Subsidiaries;

(ii) any termination (or, to the Knowledge of GSHS or any Subsidiary, threat of termination) of any Contract to which either GSHS or any Subsidiary is a party representing $500,000 or more of revenue to GSHS or a Subsidiary for the 12-month period ended June 30, 1995;

(iii) any increase in the compensation payable or to become payable by GSHS or any Subsidiary to any of its directors, officers, management, employees, consultants or agents whose base annual salary or, in the case of a non-employee, base annual compensation (for any individual) exceeds $75,000 or any increase in benefits under any bonus, insurance, pension or other benefit plan made for or with any of such persons (including, but not limited to, any change in targets, goals, bonus pools and the like under any Benefit Plan, Employment Contract or other employee compensation arrangement) except for such increases made in the ordinary course of business and consistent with the past practices of GSHS or such Subsidiary;

(iv) any direct or indirect redemption, purchase or other acquisition by GSHS or any Subsidiary of any shares of capital stock of GSHS or any Subsidiary, any declaration, setting aside or payment of any dividend or other distribution by GSHS or any Subsidiary in respect of shares of capital stock of GSHS or any Subsidiary whether in cash, shares or property, or any loan to any stockholder;

(v) any unusual or extraordinary item resulting in a loss suffered by GSHS or any Subsidiary, which, individually or in the aggregate, is equal to or in excess of $500,000;

(vi) any mortgage on, pledge of or grant of a security interest in any of the assets of GSHS or any Subsidiary other than Permitted Encumbrances;

(vii) any payment default or event of default by GSHS or any Subsidiary under any debt with a principal amount equal to or greater than $100,000 or under any lease or lease agreement with annual rental payments equal to or greater than $50,000;

(viii) any guaranty of any obligation or debt of any person or entity by GSHS or any Subsidiary (other than GSHS or a Subsidiary), except in the ordinary course of business;

(ix) any material change in (i) any investment, accounting or Tax practice or policy of GSHS or any Subsidiary or (ii) any method of calculating any bad debt, contingency, IBNR (incurred but not reported claims) or other reserve of GSHS or any Subsidiary for accounting or Tax purposes;

(x) any business combination involving GSHS or any Subsidiary and any other person (other than with respect to this Agreement);

(xi) any entering into, amendment, modification, termination (partial or complete) or granting of a waiver under or giving any consent with respect to any Contract which is required (or had it been in effect on the date of this Agreement would have been required) to be disclosed in Section 3.16 of the GSHS Disclosure Schedule (other than any of the foregoing contemplated by this Agreement);
(xii) any capital expenditures or commitments for additions to property, plant or equipment of GSHS or any Subsidiary in an aggregate amount exceeding $200,000; or

(xiii) any other transaction involving GSHS or any Subsidiary outside the ordinary course of business.

Section 3.12. Intellectual Property. GSHS or a Subsidiary either has all right, title and interest in or a valid and binding license to use all of the Intellectual Property used by GSHS or any Subsidiary in the conduct of their respective businesses. No other Intellectual Property is used or necessary in the conduct of the business of GSHS or any Subsidiary. Except as disclosed in Section 3.12 of the GSHS Disclosure Schedule, (i) all registrations with and applications to Governmental Authorities in respect of such Intellectual Property are valid and in full force and effect, (ii) GSHS and the Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of their trade secrets, and (iii) neither GSHS nor any Subsidiary is, or has received any notice that it is, in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property. Neither GSHS nor any Subsidiary has received notice that GSHS or any Subsidiary is infringing any Intellectual Property of any other person, no claim is pending or, to the Knowledge of GSHS or any Subsidiary, has been made to such effect that has not been resolved and, to the Knowledge of GSHS and each Subsidiary, neither GSHS nor any Subsidiary is infringing any Intellectual Property rights of any other person.

Section 3.13. Certain Transactions. Except as set forth in Section 3.13 of the GSHS Disclosure Schedule, to the Knowledge of GSHS or any Subsidiary:

(a) No Seller, no Affiliate or Associate of any Seller (other than GSHS and its Subsidiaries), no officer, director or other Affiliate of GSHS or any Subsidiary ("Company Affiliate") and no Associate or Family Member of any Company Affiliate has directly or indirectly (i) any interest in any corporation, partnership, limited liability company, proprietorship or other entity which sells to or purchases from GSHS or any Subsidiary any products or services, (ii) any cause of action or claim against GSHS or any Subsidiary; or (iv) a beneficial interest in any Contract to which GSHS or any Subsidiary is a party or by which it is bound;

(b) Neither GSHS nor any Subsidiary is indebted, either directly or indirectly, to any Company Affiliate, or any Associate or Family Member of any Company Affiliate in any amount other than current obligations for payments of salaries, bonuses and other fringe benefits for past services rendered and recorded on the books of GSHS or a Subsidiary; and

(c) No Company Affiliate or any Associate or Family Member of a Company Affiliate is indebted to GSHS or any Subsidiary.

For purposes of this Section 3.13, there shall be disregarded any interest which arises solely from the ownership of less than a five percent equity interest in a corporation whose stock is regularly traded on any national securities exchange or on the NASD National Market System; and the term "Family Member" shall mean a member of an immediate family as the term "immediate family" is defined in the instructions to Item 404 of Regulation S-K under the

(a) There are no Benefit Plans or Employment Contracts other than those set forth in Section 3.14(a) of the GSHS Disclosure Schedule; and no such Benefit Plans or Employment Contracts obligate GSHS or any Subsidiary to provide post-retirement health or life insurance benefits to employees or former employees of GSHS or any Subsidiary other than continuation coverage provisions under Federal and state law, including with respect to the Consolidated Omnibus Budget Reconciliation Act of 1985.

(b) GSHS has furnished or made available to Buyer a true, complete and correct copy of each Benefit Plan and Employment Contract which is set forth in writing and a complete description of each other Benefit Plan and Employment Contract.

(c) Except as set forth in Section 3.14(c) of the GSHS Disclosure Schedule, no assets have been set aside in a trust or other separate account (other than in a tax-exempt trust or tax-exempt separate account) by GSHS or any ERISA Affiliate to pay directly or indirectly any benefits under any Benefit Plan or Employment Contract, and all of the assets of any such tax-exempt trust or separate account are shown on the books and records of such trust or separate account at their current fair market value.

(d) GSHS, each Subsidiary and each ERISA Affiliate have established, maintained, administered, reported and disclosed, made contributions to and otherwise performed all their duties and responsibilities under each Benefit Plan and each Employment Contract in compliance with all applicable laws. Neither GSHS, any Subsidiary nor any ERISA Affiliate has any duty or obligation to indemnify or hold any other person harmless for any liability attributable to any acts or omissions by such person with respect to any Benefit Plan, Employment Contract or employee or former employee.

(e) Neither GSHS, any Subsidiary nor any ERISA Affiliate has any liability for any unpaid Tax or penalty with respect to any Benefit Plan or Employment Contract, including without limitation, any unpaid Tax or penalty under ERISA or under the Code.

(f) There are no claims which have been made or, to the Knowledge of any ERISA Affiliate, threatened under any of the Benefit Plans or Employment Contracts or against GSHS or any ERISA Affiliate with respect to any of the Benefit Plans or Employment Contracts (other than routine claims made in the ordinary course of plan or contract operations) or with respect to the employment or termination of employment or treatment of any employee or former employee, and no ERISA Affiliate has any Knowledge of any proposed or actual audit or investigation by any governmental or other law enforcement agency with respect to any Benefit Plan, Employment Contract or the employment or termination of employment or treatment of any employee or former employee.

(g) Except as set forth in Section 3.14(g) of the GSHS Disclosure Schedule, neither GSHS, any Subsidiary nor any ERISA Affiliate is subject to any liabilities (including withdrawal liabilities) with respect to any Benefit Plan or employee benefit plan subject to Title IV of ERISA, including without limitation, any liabilities arising from Title I or Title IV of ERISA, other than the liability to make current contributions when due and to pay current expenses and premiums when due. All such contributions, expenses and premiums have been paid in full when due.

(h) Except as set forth in Section 3.14(h) of the GSHS Disclosure Schedule, GSHS or a Subsidiary has the right under the terms of each Benefit Plan and under applicable law to terminate such plan at any time exclusively by action of GSHS or such Subsidiary, and no additional contributions would be required in order to properly effect the termination of such plan in accordance with the terms of such plan and applicable law.

(i) Neither GSHS nor any Subsidiary employs, or has ever employed, or
leases, or has ever leased, from another employer, any person who is a member of a collective bargaining unit, and neither GSHS nor any Subsidiary makes or has made, or has an obligation to make, or has had an obligation to make, or reimburses or has an obligation to reimburse, or has reimbursed or has had an obligation to reimburse, another employer directly or indirectly for making, contributions to an employee benefit plan for the benefit of such a person.

(j) Section 280G of the Code shall not apply to any payments to be made by GSHS or any Subsidiary as a result of the transactions contemplated by this Agreement. There are no Parachute Plans to which GSHS or any Subsidiary is a party or other payment obligations of GSHS or any Subsidiary to an employee or former employee of GSHS or a Subsidiary which will be triggered as a result of the change in the control of GSHS contemplated by this Agreement and the GPA Stock Exchange Agreement, and which constitute an "excess parachute payment" within the meaning of Section 280G of the Code.

(k) No employer securities, employer real property or other employer property is included in the assets of any Benefit Plan.

Section 3.15. Tax Matters.

(a) Except as set forth in Section 3.15(a) of the GSHS Disclosure Schedule, GSHS and each Subsidiary have (i) filed when due (after taking into account applicable extensions) with the appropriate federal, state, local, foreign and other governmental agencies all Tax Returns required to be filed by them, and (ii) paid when due and payable all Taxes owed by them or, to the extent of Taxes not yet due and payable, have accrued or otherwise adequately reserved on the Financial Statements in accordance with GAAP for the payment of such Taxes not yet due and payable. All such Tax Returns are correct and complete in all material respects. Complete and accurate copies of all such Tax Returns due or filed since January 1, 1993, have been furnished or made available to Buyer. GSHS and each Subsidiary set forth in Section 3.15(a) of the GSHS Disclosure Schedule is a member of the affiliated group (as defined in Section 1504 of the Code) of corporations filing a consolidated federal income tax return of which GSHS is the common parent. GSHS has included the Subsidiaries in its consolidated federal income Tax Returns, and in its consolidated, combined or unitary state or local Tax Returns, to the extent set forth in Section 3.15(a) of the GSHS Disclosure Schedule. Except as set forth in Section 3.15(a) of the GSHS Disclosure Schedule, neither GSHS nor any Subsidiary has obtained an extension of the time within which to file any Tax Return that has not yet been filed. Neither GSHS nor any Subsidiary has received notice from any Governmental Authority in a jurisdiction in which such entity does not file a Tax Return stating that such entity is or may be subject to taxation by that jurisdiction.

(b) There are no Taxes assessed or, to the Knowledge of GSHS or any Subsidiary, asserted in respect of any Tax Returns filed by GSHS or any Subsidiary or claimed to be due by any taxing authority or otherwise that are not accrued or adequately reserved for on the Financial Statements in accordance with GAAP. Except as set forth in Section 3.15(b) of the GSHS Disclosure Schedule, to the Knowledge of GSHS or any Subsidiary, no Tax Return of GSHS or any Subsidiary is currently being audited or, to GSHS or any such Subsidiary's Knowledge, is scheduled for future audit by the IRS or any other taxing authority (whether foreign or domestic). Except as set forth in Section 3.15(b) of the GSHS Disclosure Schedule, neither GSHS nor any Subsidiary has executed or filed with the IRS or any other taxing authority (whether foreign or domestic) any agreement, waiver, or other document extending, or having the effect of extending, the period for assessment or collection of any Taxes, which extension or waiver is still in effect. GSHS has delivered to Buyer correct and complete copies of all examination reports, statements of deficiencies and similar documents prepared by the IRS or any other taxing authority in the possession of GSHS or any Subsidiary that relate to the income, operations or business of GSHS or any Subsidiary. All final adjustments made by the IRS with respect to any federal Tax Return of GSHS or any Subsidiary have been reported to the relevant state, local, or foreign taxing authorities to the extent required by law. No requests for ruling or determination letters filed by GSHS or any Subsidiary are pending with any taxing authority. Except with respect to the consolidated group
of which GSHS is the parent, neither GSHS nor any Subsidiary is a party to any Tax allocation or sharing agreement with any other entity or has any liability or obligation to any other entity under any such agreement that previously was in effect. Except as set forth in Section 3.15(b) of the GSHS Disclosure Schedule, neither GSHS nor any Subsidiary has any liability to any person or entity with respect to Taxes paid, owed or to be paid for periods of time during which GSHS or any Subsidiary or any predecessor of any such entity were members of a consolidated group other than the consolidated group of which GSHS is or was the common parent.

(c) Neither GSHS nor any Subsidiary has filed a consent pursuant to Section 341(f) of the Code, or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by it. No property of GSHS or any Subsidiary is property that such a corporation is or will be required to treat as being owned by another person pursuant to the provisions of Section 168(f)(8) of the Code of 1954, as amended and in effect immediately prior to the enactment of the Tax Reform Act of 1986, or is "tax exempt use property" within the meaning of Section 168(h)(1) of the Code. Except as set forth in Section 3.18(c) of the GSHS Disclosure Schedule, neither GSHS nor any Subsidiary has agreed to, to the Knowledge of GSHS or any Subsidiary, is required to make any adjustment pursuant to Section 481(a) of the Code by reason of a change in accounting method initiated by GSHS or any Subsidiary, and GSHS has no Knowledge that the IRS has proposed any such adjustment or change in accounting method. Except as set forth in Section 3.15(c) of the GSHS Disclosure Schedule, neither GSHS nor any Subsidiary (i) has been a member of an affiliated group filing a consolidated federal income Tax Return, other than the affiliated group the common parent of which is GSHS, or (ii) has any liability for Taxes of any person (other than GSHS and its Subsidiaries) under Treasury Regulation ss. 1.1502-6 or any similar provision of state, local or foreign law, or as a transferee or successor, by contract, or otherwise.

(d) Proper and timely filings of all required forms and elections have been made with the IRS to permit treatment under Section 338(h)(10) of the Code for (i) the acquisition by GSHS (then called GS Holding Corp.) of 80 percent of the stock of the Delaware corporation then called Green Spring Health Services, Inc. on April 30, 1993, pursuant to a Stock Purchase Agreement dated as of March 19, 1993, and (ii) the acquisition by GSHS of all of the outstanding stock of TAO, Inc. on June 30, 1994, pursuant to a Stock Purchase Agreement dated June 16, 1994. All federal Tax Returns filed by GSHS and any Subsidiary subsequent to such acquisitions have consistently reflected such treatment for federal income tax purposes. With respect to the acquisition described in clause (i) of the first sentence of this paragraph, the requirements of Section 1.197-1T(c) and (e) of the Treasury Regulations were properly and timely fulfilled such that Section 197 of the Code was retroactively effective with respect to such acquisition.

Section 3.16. Contracts.

(a) Except for Contracts which are terminable by GSHS or any Subsidiary without penalty or payment of any amount on 120 days' or less prior written notice, Section 3.16 of the GSHS Disclosure Schedule sets forth each of the following Contracts to which GSHS or any Subsidiary is a party: (i) any contract for borrowed money or deferred portion of purchase price equal to or in excess of $100,000 that is secured by an Encumbrance on any property of the Company or any Subsidiary; (ii) any loan agreement, credit agreement, promissory note, guarantee, indenture, subordination agreement, letter of credit, interest rate or foreign currency protection agreement or any other similar type of Contract in each case involving a debt or similar obligation of $100,000 or more; (iii) any consulting or other Contract with attorneys, accountants, actuaries, appraisers, investment bankers, lobbyists, government relations persons or other professional advisers equal to or in excess of $500,000 per year; (iv) any brokerage agreement, marketing agreement, sales agent or consulting agreement providing for the payment of commissions or other compensation with respect to referring or directing business to GSHS or any Subsidiary equal to or in excess of $150,000 per year; (v) any Contract (except
for Contracts with customers) which, in whole or in part, (A) presently restricts or precludes GSHS or any present or future Subsidiary or Affiliate of GSHS from conducting any business anywhere in the world, or (B) upon the occurrence of any event, the giving of notice or the passage of time, by its terms would have such an effect; (vi) any Contract (except for Contracts with customers) that involves aggregate payments by or to GSHS or any Subsidiary in excess of $500,000; (vii) any indemnification agreement (except those entered into in the ordinary course of business), guaranty or power of attorney granted to any person or entity (other than GSHS or a Subsidiary); (viii) any lease or Lease with annual rental payments equal to or in excess of $50,000; and (ix) Contracts with the 15 largest customers of GSHS and the Subsidiaries measured by revenues from such customers during the twelve-month period ended June 30, 1995. GSHS has delivered or otherwise made available to Buyer true, correct and complete copies of the Contracts set forth in Section 3.16 of the GSHS Disclosure Schedule, together with all amendments, waivers, modifications, supplements or side letters materially affecting the obligations of any party under such Contracts.

(b) Except as set forth opposite or otherwise as part of the description of such Contract in Section 3.16 of the GSHS Disclosure Schedule:

(i) Each of the Contracts set forth in Section 3.16 of the GSHS Disclosure Schedule with respect to clause (ix) of Section 3.16(a) is valid and enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, and reorganization and similar laws affecting creditors' rights and remedies generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity);

(ii) Since January 1, 1995, no party to any such Contract has given to GSHS or any Subsidiary notice of any breach or default under any such Contract by GSHS or a Subsidiary which has not been cured or waived;

(iii) Neither GSHS nor any Subsidiary is in violation, breach of or default under any such Contract in any material respect or, with notice of lapse of time or both, would be in violation, breach of or default under any such Contract; and, to the Knowledge of GSHS and its Subsidiaries no other party to any such Contract is in violation, breach of or default under any such Contract or, with notice or lapse of time or both, would be in violation, breach of or default under any such Contract; and

(iv) No consent by or of any party to any such Contract is required in order to consummate the transactions contemplated by this Agreement or the GPA Stock Exchange Agreement without causing a breach or violation of or a default under such Contract.

Section 3.17. Insurance. Section 3.17 of the GSHS Disclosure Schedule sets forth (i) a true and correct list of all insurance policies and other surety arrangements of any kind or nature whatsoever which are in force and to which GSHS or any Subsidiary is a named insured or beneficiary, and a true and correct copy of each such policy has been furnished to Buyer and (ii) a summary description of each pending claim asserting liability of GSHS or a Subsidiary equal to or greater than $200,000 under each such policy.

Section 3.18. Personnel Matters. Except as set forth in Section 3.18 of the GSHS Disclosure Schedule:

(a) Neither GSHS nor any Subsidiary is a party to any collective bargaining or similar agreement nor are any of GSHS' or its Subsidiaries' employees currently represented by a labor organization for purposes of collective bargaining as provided under the National Labor Relations Act;
(b) there is no unfair labor practice charge or complaint or any other matter against or involving GSHS or any Subsidiary pending or, to the Knowledge of any Seller, GSHS or any Subsidiary, threatened before the National Labor Relations Board or any court of law;

(c) there is no labor strike, or other dispute, slowdown or stoppage pending against GSHS or any Subsidiary; and

(d) there are no charges, investigations, administrative proceedings or formal complaints of discrimination (including discrimination based upon sex, age, marital status, race, national origin, sexual preference, disability or veteran status) pending before the Equal Employment Opportunity Commission or any Governmental Authority against GSHS or any Subsidiary.

Section 3.19. Properties.

(a) Title to Properties. Except as set forth in Section 3.19(a) of the GSHS Disclosure Schedule, GSHS and the Subsidiaries collectively have a valid leasehold interest in or have legal right to use without restriction all of the real property and GSHS and the Subsidiaries collectively own, have a valid leasehold interest in or have legal right to use without restriction the tangible personal property used in the conduct of their businesses, free and clear of all Encumbrances, except Permitted Encumbrances and Encumbrances reflected on the Financial Statements.

(b) Personalty, Equipment and Fixtures. Substantially all fixtures, facilities, computers, computer hardware and peripheral equipment, personal property and equipment owned or leased by GSHS or any Subsidiary (i) are in good working order, ordinary wear and tear excepted, and GSHS and each Subsidiary has maintained the same in accordance with sound industry practices (except for equipment awaiting repair in the ordinary course of GSHS's or any Subsidiary's business consistent with past practices), and (ii) meet and comply in all material respects with all applicable laws, rules and regulations of any Governmental Authority.

Section 3.20. Absence of Certain Commercial Practices. Since January 1, 1991, none of GSHS or any Subsidiary, any of their directors, officers or employees has:

(a) given, proposed to give, or agreed to give any material gift or similar material benefit to any customer, supplier or any other person (other than as described in subsection (b) of this Section 3.20), for the purpose of furthering the business of GSHS or a Subsidiary;

(b) in connection with the business of GSHS or any Subsidiary, used any corporate or other funds for contributions, payments, gifts, or entertainment, or made any expenditures relating to political activities to government employees, officials or others in violation of any applicable law or established or maintained any unlawful or unrecorded funds; or

(c) offered or paid or solicited or received any remuneration (as such term has been interpreted under 42 U.S.C. ss. 1320a-7b(b)) to induce or in return for any referral of healthcare business or ordering of healthcare items or services in violation of any federal or state civil or criminal law.

To the knowledge of GSHS or any Subsidiary, none of GSHS, any Subsidiary, any of their respective directors, officers, or employees has accepted or received any unlawful contributions, payments or gifts in connection with the business of GSHS and the Subsidiaries.

Section 3.21. Obligations Under Certain Agreements. Except as set
forth in Section 3.21 of the GSHS Disclosure Schedule, with respect to (i) the Stock Purchase Agreement, dated March 19, 1993, among VI, HCSC, GS Holding, Inc. and Blue Cross and Blue Shield of Maryland, Inc., (ii) the Subscription Agreement, dated January 11, 1994, among GSHS, Green Spring Mental Health Services of New Jersey, Inc., BCBS, and Quality Health Management, (iii) the Stock Purchase Agreement, dated June 16, 1994, among GSHS, VI, HCSC and IBC, (iv) the Stock Purchase Agreement, dated June 16, 1994, among GSHS, VI and MSAP (v) the Stock Purchase Agreement, dated June 16, 1994, between GSHS and IBC relating to TAO, Inc., and (vi) the Stock Purchase Agreement, dated October 25, 1993, among GSHS, PCMB and Maschoff, Barr and Associates, Inc., there are no pending, unresolved or unpaid indemnification or similar claims against or further payments or consideration payable by GSHS or any Subsidiary under any of such agreements or any related agreement.

Section 3.22. Brokers, Finders and Investment Bankers. Except for Dean Witter Reynolds, Inc., no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Sellers. GSHS is solely responsible for the fees and expenses of Dean Witter Reynolds, Inc.

ARTICLE 4.
REPRESENTATIONS AND WARRANTIES OF THE SELLERS

Each Seller, severally and not jointly, represents and warrants to Buyer as follows and acknowledges that Buyer is relying upon such representations and warranties in connection with the transactions provided for in this Agreement. The parties acknowledge that certain of the representations and warranties set forth in this Article 4 lack qualifications as to materiality in light of the agreements set forth in Sections 7.1 and 9.2(f).

Section 4.1. Organization. Such Seller is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation and has all requisite corporate power and authority to enter into and perform its obligations under this Agreement and each Operating Agreement to which it or a subsidiary is a party, and, in the case of each Seller other than MSAP and VI, the Exchange Agreement and the New Stockholders' Agreement.

Section 4.2. Authorization; Execution; Binding Effect. Subject to the conditions contained in Section 8.10, the execution, delivery and performance of this Agreement, and, in the case of each Seller other than MSAP and VI, the Exchange Agreement and the New Stockholders' Agreement, and the consummation of the transactions provided for in such agreements have been duly authorized by all necessary corporate action on the part of such Seller. Subject to the conditions contained in Section 8.10, assuming due execution and delivery by the other parties, this Agreement constitutes, and, in the case of each Seller other than MSAP and VI, the Exchange Agreement and the New Stockholders' Agreement, will constitute, the legal, valid and binding obligations of such Seller, enforceable against such Seller in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, or other laws affecting creditors' rights and remedies generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 4.3. Capitalization; Share Ownership. Except for this Agreement (including but not limited to Section 6.14), the GPA Stock Exchange Agreement and as set forth in Section 4.3 of the Seller Disclosure Schedule, (i) there is no existing subscription, option, warrant, call, right, commitment or other agreement (whether pre-emptive or contractual) to which such Seller is a party requiring, directly or indirectly, the issuance of any additional shares of common stock of GSHS or other securities convertible into or exercisable or
exchangeable for shares of common stock of GSHS or any other equity security of
GSHS, and (ii) there are no outstanding contractual obligations of such Seller
to repurchase, redeem or otherwise acquire any outstanding capital stock of
GSHS. The GSHS Shares and the New GSHS Shares to be sold pursuant to this
Agreement will be delivered free and clear of all liens, charges and
encumbrances of any kind or nature and will not be in violation of any
pre-emptive rights. Except pursuant to the Old Shareholders' Agreement, such
Seller does not have registration rights in respect of the GSHS Shares or the
New GSHS Shares or securities convertible into or exercisable or exchangeable
for GSHS Shares or the New GSHS Shares. Such Seller is the sole beneficial
owner of the shares of GSHS listed beside such Seller's name in Section 4.3 of the
Seller Disclosure Schedule and, upon consummation of the transactions provided
by Section 6.14, will be the sole beneficial owner of the New GSHS Shares listed
beside such Seller's name in Section 6.14. The Old Shareholders' Agreement is
the only stockholder agreement, voting agreement, voting trust, proxy or other
agreement to which such Seller is a party with respect to the voting or transfer
of GSHS Shares.

Section 4.4. No Conflicting Agreements or Charter Provisions. Except
as set forth in Section 4.4 of the Seller Disclosure Schedule, the execution,
delivery and compliance with and performance of the terms and provisions of this
Agreement, and, in the case of each Seller other than MSAP and VI, the Exchange
Agreement and the New Stockholders' Agreement by such Seller will not (i)
conflict with or result in a breach of the terms, conditions or
provisions of, (ii) constitute a default (or an event which, with notice, lapse
of time, or both, would constitute a default) under, (iii) result in any
violation of, (iv) require the obtaining of any consent, approval or action of,
make any filing with or give notice to any person (except for a Governmental
Authority) as a result of or under the terms of, (v) result in or give to any
persons any right of termination, cancellation, acceleration, modification, or
increased or accelerated rights, entitlements or payments under, or (vi) result
in the creation or imposition of any Encumbrance upon such Seller or any of its
assets under: (A) the Certificate or Articles of Incorporation or bylaws of such
Seller or any resolutions adopted by the stockholders or the Board of Directors
(or a duly authorized committee of the Board of Directors) of such Seller, (B)
any provision of any material Contract to which such Seller is a party or by
which it or any part of any of its assets may be bound, or (C) any order,
decree, license, permit, statute, law, rule or regulation to which such Seller
is subject.

Section 4.5. Consents, Approvals, Licenses, Etc. No consent,
approval, authorization, license, order or Permit of, or declaration, filing or
registration with, or notification to, any Governmental Authority is required to
be made or obtained by such Seller in connection with the execution, delivery
and performance of this Agreement, and, in the case of each Seller other than
MSAP and VI, the Exchange Agreement and the New Stockholders' Agreement and the
consummation of the transactions contemplated by such agreements, except (i) as
set forth in Section 4.5 of the Seller Disclosure Schedule; or (ii) applicable
requirements, if any, of the Delaware General Corporation Law, the 1934 Act,
state securities or blue sky laws and the HSR Act.

ARTICLE 5.
REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Sellers as follows and acknowledges
that Sellers are relying on such representations and warranties in connection
with the transactions provided for in this Agreement:

Section 5.1. Organization, etc. Buyer is a corporation, duly
organized, validly existing and in good standing under the laws of the State of
Delaware and has all requisite corporate or other power and authority (i) to
conduct its business as it is now conducted and to own or lease all of the
properties owned or leased by it; and (ii) to enter into and perform this
Agreement, the Exchange Agreement, the GPA Stock Exchange Agreement and the New Stockholders' Agreement. True, correct and complete copies of the Certificate or Articles of Incorporation and bylaws of Buyer and each Buyer Subsidiary as of the date of this Agreement have been previously delivered or made available to GSHP. The corporate records and minute books of Buyer contain complete and accurate minutes of all meetings and other corporate actions of the directors and stockholders of Buyer, in the case of Buyer, since its date of incorporation, and in the case of each Buyer Subsidiary, since the date of its acquisition by Buyer, and the share certificate books and register of stockholders of each Buyer Subsidiary are complete and accurate. Buyer and each Buyer Subsidiary is duly qualified as a foreign corporation to do business, and is in good standing, in all jurisdictions in which the ownership or lease of property or the conduct of its business make such qualification necessary, except where the failure to be so qualified would not have an aggregate adverse effect of more than $50,000 on the financial condition of Buyer and the Buyer Subsidiaries, taken together.

Section 5.2. Authorization; Execution; Binding Effect. The execution, delivery and performance of this Agreement, the Exchange Agreement, the GPA Stock Exchange Agreement and the New Stockholders' Agreement and the consummation of the transactions provided for in such agreements have been duly authorized by all necessary corporate action on the part of Buyer. Assuming due execution and delivery by the other parties, this Agreement, the Exchange Agreement, the GPA Stock Exchange Agreement and the New Stockholders' Agreement constitute the legal, valid and binding obligations of Buyer, enforceable against Buyer in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors' rights and remedies generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. No Conflicting Agreements or Charter Provisions. The execution, delivery, compliance with and performance of the terms and provisions of this Agreement, the Exchange Agreement, the GPA Stock Exchange Agreement and the New Stockholders' Agreement will not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default (or an event which, with notice, lapse of time, or both, would constitute a default) under, (iii) result in any violation of, (iv) require the obtaining of any consent, approval or action of, or the making of any filing with or give notice to any person (except for a Governmental Authority) as a result of or under the terms of, or (v) result in or give to any person any right of termination, cancellation, acceleration, modification, or increased or accelerated rights, entitlements or payments under, (A) the Certificate of Incorporation or bylaws of Buyer, (B) except as set forth in Section 5.3 of the Buyer Disclosure Schedule, any provision of any material Contract to which Buyer is a party, or (C) any order, judgment, decree, license, permit, statute, law, rule or regulation to which Buyer is subject.

Section 5.4. Securities Filings. (a) True and complete copies of all reports and registration statements filed with respect to Buyer pursuant to the 1933 Act or pursuant to the 1934 Act during the period from October 1, 1992 to the date of this Agreement (the "Buyer SEC Reports") have been delivered to GSHP. The Buyer SEC Reports conform in all material respects to the applicable requirements of the 1933 Act and the 1934 Act and the rules and regulations promulgated under such acts and did not include at the time of filing such documents any untrue statement of a material fact or omit to state any material fact required to be stated or necessary to make the statements made, in light of the circumstances under which they were made, not misleading. During the period from October 1, 1992 through the date of this Agreement, Buyer has not failed to make any filing required by the 1933 Act or the 1934 Act on a timely basis.

(b) Each of the consolidated financial statements (including, in each case, any related notes to the consolidated financial statements) contained in the Buyer SEC Reports (i) was prepared in accordance with GAAP (except, in the
case of unaudited consolidated financial statements included in the Buyer SEC Reports, to the extent preparation of such financial statements in accordance with GAAP is not required by applicable rules of the Securities and Exchange Commission) in a manner consistent (except for the required adoption by Buyer effective on July 31, 1992 of Fresh-Start Accounting pursuant to GAAP) with prior periods; (ii) presents fairly, in all material respects, the financial position, results of operations, changes in stockholders' equity and cash flows of the Buyer on a consolidated basis at the date and for the period indicated; (iii) are in all material respects, in accordance with the books of account and records of the Buyer; and (iv) comply as to form in all material respects with applicable accounting requirements and with the rules and regulations of the Commission with respect thereto.

Section 5.5. Capitalization. The authorized capital stock of Buyer consists of (a) 80 million shares of Charter Common Stock and (b) 10 million shares of preferred stock, no par value. As of September 30, 1995: (i) 28,189,166 shares of Charter Common Stock were issued and outstanding, all of which are duly authorized, validly issued, fully paid and nonassessable and not in violation of any pre-emptive rights; (ii) 2,863,515 shares of Charter Common Stock were reserved for future issuance pursuant to stock options granted certain directors, officers and employees; (iii) 177,567 shares of Charter Common Stock were reserved for future issuance upon exercise of warrants; and (iv) 39,205 shares of Charter Common Stock were reserved in connection with the acquisition of Magellan Health Services, Inc. Since September 30, 1995, there has been no material change in the number of issued and outstanding shares of Charter Common Stock as set forth in subsection (i) above. No shares of preferred stock are issued and outstanding. Except for this Agreement, as set forth in clauses (ii) through (iv) of the second sentence of this Section 5.5, and as set forth in Section 5.5 of the Buyer Disclosure Schedule, (i) there is no existing subscription, option, warrant, call, right, commitment or other agreement (whether pre-emptive or contractual) to which Buyer is a party requiring, and there are no convertible securities of Buyer outstanding which upon conversion would require, directly or indirectly, the issuance of any additional Common Stock of Buyer or other securities convertible into or exercisable or exchangeable for Common Stock of Buyer or any other equity security of Buyer, and (ii) there are no outstanding contractual obligations of Buyer to repurchase, redeem or otherwise acquire any outstanding capital stock of Buyer. There are no bonds, debentures, notes or other indebtedness issued and outstanding having the right to vote on any matters on which Buyer's stockholders may vote. There are no obligations, contingent or otherwise, of Buyer or any Buyer Subsidiary to (x) repurchase, redeem or otherwise acquire any outstanding capital stock of Buyer or (except to the extent of not more than $10,000,000) the capital stock of, or other equity interests in, any Buyer Subsidiary or (y) except to the extent permitted by the Credit Agreement, and except for guarantees of obligations of, or loans and advances to, Buyer or any Buyer Subsidiary, provide funds to, or make investments in, or provide any guarantee with respect to the obligations of any other person. The shares of Charter Common Stock to be issued pursuant to this Agreement and the Exchange Agreement have been or will, upon issuance in accordance with the terms of such agreements, be duly authorized and validly issued, fully paid and nonassessable, will be delivered free and clear of all liens, charges and encumbrances of any kind or nature and such issuance will not be in violation of any pre-emptive rights. Buyer has granted no person or entity any registration rights in respect of the capital stock of Buyer or securities convertible into or exercisable or exchangeable for such capital stock, which registration rights are outstanding as of the date of this Agreement. Buyer is not a party to any stockholder agreement, voting agreement, voting trust, proxy or other agreement in effect with respect to the capital stock of Buyer.

Section 5.6. Absence of Certain Changes or Events. Since June 30, 1995 and except as disclosed in the Buyer SEC Reports filed prior to the date of this Agreement, Buyer has operated its business in the ordinary course and there has not been (a) any event or circumstance that has had a material adverse effect on Buyer's business, (b) any material change by Buyer in its application of GAAP, (c) any damage, destruction or loss, whether or not covered by
insurance, which, insofar as reasonably can be foreseen, in the future would have a material adverse effect on Buyer and the Buyer Subsidiaries, taken as a whole, or (d) any entry into any commitment or transaction material to Buyer and the Buyer Subsidiaries, taken as a whole (including, without limitation, any borrowing or sale of assets) except in the ordinary course of business consistent with past practice.

Section 5.7. Litigation. Except as set forth in Section 5.7 of the Buyer Disclosure Schedule, (a) there is (whether insured or uninsured) no action, suit, proceeding or investigation pending or, to the Knowledge of Buyer, threatened in writing, at law or in equity, in any court or before any Governmental Authority against Buyer or any Buyer Subsidiary or affecting Buyer or any Buyer Subsidiary or any of the respective assets or properties of Buyer or any Buyer Subsidiary that, individually or in the aggregate would have a material adverse effect on Buyer or would prevent Buyer from consummating the transactions contemplated by this Agreement, the Exchange Agreement, the GPA Stock Exchange Agreement, and the New Stockholders' Agreement, and (b) Buyer and the Buyer Subsidiaries and their respective assets and properties are not subject to any order from any Governmental Authority that has or is likely to have a material adverse effect on Buyer.

Section 5.8. Compliance with Laws. Except as set forth in Section 5.8 of the Buyer Disclosure Schedule, the conduct by Buyer and the Buyer Subsidiaries of their respective businesses is in compliance in all material respects with all applicable laws, regulations and orders. Neither Buyer nor any Buyer Subsidiary has received any notice to the effect that Buyer or any Buyer Subsidiary is not in compliance in all material respects with any applicable law, regulation or order except (i) as set forth in Section 5.8 of the Buyer Disclosure Schedule or (ii) for deficiencies noted in hospital licensure, Medicare or Medicaid surveys and inspections where revocation of licensure or Medicare or Medicaid participation is not proposed or pending if deficiencies are corrected in a timely manner pursuant to a plan of correction, and Buyer or the applicable Buyer Subsidiary is correcting such deficiencies in a timely manner. Neither Buyer nor any Buyer Subsidiary has any Knowledge of the proposed or threatened issuance of any such notice or of any pending or threatened investigation with respect to any such matter.

Section 5.9. Credit Agreement Amendment. Buyer has obtained from the requisite lenders under the Credit Agreement and will deliver prior to the Closing to GSHS and Sellers a true, correct and fully executed amendment that, subject to the conditions contained therein, permits Buyer, without violating any provision of the Credit Agreement or any of the documents relating to the Credit Agreement, to enter into and consummate this Agreement, the Exchange Agreement, the New Stockholders' Agreement and the GPA Stock Exchange Agreement and to consummate the transactions contemplated thereby, except for a requirement that the incurrence of indebtedness by Buyer and the Buyer Subsidiaries, the making of capital contributions to the Buyer Subsidiaries and the purchase of equity securities of Buyer Subsidiaries shall be subject to certain limitations contained in the Credit Agreement.

Section 5.10. No Undisclosed Liabilities. Buyer and the Buyer Subsidiaries did not have as of June 30, 1995, any material indebtedness, liability or obligation of any kind or nature (fixed or contingent) that is required to be reflected on the balance sheet as of such date in accordance with GAAP which is not reflected, reserved against or disclosed in the Buyer SEC Reports or disclosed in the Buyer Disclosure Schedule.

Section 5.11. Brokers, Finders and Investment Bankers. Except for Paine Webber Incorporated, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Buyer. Buyer is solely responsible for the fees and expenses of Paine Webber Incorporated.
Section 5.12. Subsidiaries.

(a) Buyer has no "Significant Subsidiaries" (as such term is defined in Rule 1-02 of Regulation S-X of the Securities and Exchange Commission).

(b) The shares of capital stock of the Buyer Subsidiaries owned by Buyer or a Buyer Subsidiary (the "Buyer Subsidiary Shares") have been duly authorized and validly issued and are fully paid and nonassessable and were not issued in violation of any preemptive rights. Except for the GPA Stock Exchange Agreement and as set forth in Section 5.12(b) of the Buyer Disclosure Schedule, there are no existing subscriptions, options, warrants, calls, rights of conversion or other rights, agreements, arrangements or commitments relating to the capital stock of any Buyer Subsidiary or obligation of any Buyer Subsidiary to issue or sell any of its shares of capital stock. Either Buyer or another Buyer Subsidiary owns the Buyer Subsidiary Shares free and clear of all Encumbrances, except as set forth in Section 5.12(b) of the Buyer Disclosure Schedule. Except for the GPA Stock Exchange Agreement as set forth in Section 5.12(b) of the Buyer Disclosure Schedule, there are no voting trusts, stockholder agreements, proxies or other agreements in effect with respect to the voting or transfer of the Buyer Subsidiary Shares.

Section 5.13. Takeover Provisions Inapplicable. As of the date hereof and at all times on or prior to the Closing Date, Section 203 of the Delaware General Corporation Law is, and shall be, inapplicable to the transactions contemplated by this Agreement.

Section 5.14. GPA. (a) The 1,000,000 shares of the common stock of GPA (such shares, the "GPA Common Stock") to be acquired by GSHS pursuant to the GPA Stock Exchange Agreement (i) are validly issued and outstanding, fully paid and nonassessable and not issued in violation of any pre-emptive rights and (ii) have been issued in compliance with applicable federal and state statutes and regulations.

(b) Buyer is the lawful record and beneficial owner of and has good and valid title to the shares of GPA Common Stock, free and clear of all Encumbrances, with full right, power and authority to transfer and contribute the GPA Common Stock to GSHS.

(c) The certificate or certificates representing GPA Common Stock delivered to GSHS at the Closing, together with any other instruments of transfer deemed necessary by GSHS, will be sufficient to transfer and vest in GSHS good and valid title to the GPA Common Stock, free and clear of all Encumbrances and upon the closing of the transactions provided for by the GPA Stock Exchange Agreement, GSHS will acquire the beneficial and legal, good and valid title to the GPA Common Stock, free and clear of all Encumbrances.

(d) The shares of GPA Common Stock constitute all of the issued and outstanding capital stock of GPA, and other than the GPA Stock Exchange Agreement, (i) there is no existing subscription, option, warrant, call, right, commitment or other agreement (whether pre-emptive or contractual) to which Buyer is a party requiring, and there are no convertible securities of GPA outstanding which upon conversion would require, directly or indirectly, the issuance of any additional shares of common stock of GPA or other securities convertible into or exercisable or exchangeable for common stock of GPA or any other equity security of GPA, and (ii) there are no outstanding contractual obligations of GPA to repurchase, redeem or otherwise acquire any outstanding shares of common stock of GPA. There are no bonds, debentures, notes or other indebtedness issued and outstanding having the right to vote on any matters on which GPA's stockholders may vote. There are no obligations, contingent or otherwise, of GPA or any subsidiary of GPA to (x) repurchase, redeem or otherwise acquire any outstanding shares of common stock of GPA or any other equity interests in, any subsidiary of GPA or (y) except for guarantees of obligations of, or loans and advances to, GPA or any subsidiary of
GPA, provide funds to, or make investments in, or provide any guarantee with respect to the obligations of any other person. GPA has granted no person or entity any registration rights in respect of any shares of its common stock or securities convertible into or exercisable or exchangeable for any shares of the common stock of GPA. Buyer is the sole record and beneficial owner of the GPA Common Stock.

(e) Buyer has delivered to GSHS true and complete copies of the unaudited consolidated balance sheet of GPA as of or at September 30, 1995 and unaudited statements of income, changes in stockholder's equity and cash flows for the 12-month period ended September 30, 1995 (the "GPA Financial Statements"). The GPA Financial Statements have been prepared in accordance with generally accepted accounting principles consistently applied and fairly present the financial position of GPA as at their dates and the results of operations and changes in financial position of GPA for the periods ended, except for the absence of notes to the GPA Financial Statements and normal, recurring audit adjustments which will not be material in amount. Since September 30, 1995, there has been no material adverse change in the assets, liabilities, business, prospects, results of operations or financial condition of GPA.

(f) GPA and each corporation, partnership or other entity of which GPA (i) has the power to elect more than 50% of the board of directors or other governing authority either directly or indirectly or (ii) owns or controls more than 50% of the outstanding equity securities or equity interests either directly or through an unbroken chain of entities as to each of which 50% or more of the outstanding equity securities or equity interests is owned directly by its parent (a "GPA Subsidiary") is a corporation duly organized, validly existing and in good standing under the laws of their respective states of incorporation and has all requisite corporate power and authority to conduct its business as it is now conducted and to own or lease all of the properties owned or leased by it. True, correct and complete copies of the Certificate or Articles of Incorporation and bylaws of GPA and each GPA Subsidiary as of the date of this Agreement have been previously delivered or made available to GSHS. The corporate records and minute books of GPA and each GPA Subsidiary contain complete and accurate minutes of all meetings and other corporate actions of the directors and stockholders of GPA and each GPA Subsidiary held, in the case of GPA, since its date of incorporation, and in the case of each GPA Subsidiary, since the date of its incorporation or acquisition by GPA, and the share certificate books and register of stockholders of GPA and each GPA Subsidiary are complete and accurate. GPA and each GPA Subsidiary is duly qualified to do business as a foreign corporation, and is in good standing, in all jurisdictions in which the ownership or lease of property by it or the conduct of its business makes such qualification necessary.

(g) Other than the GPA Subsidiaries set forth in Section 5.14(g) of the disclosure letter from CMC to the Company, dated the date of this Agreement (the "GPA Disclosure Letter"), there are no other corporations, partnerships, limited liability companies, joint ventures or other entities in which GPA or any GPA Subsidiary owns, of record or beneficially, any direct or indirect equity interest or any right (contingent or otherwise) to acquire the same.

(h) Section 5.14(h) of the GPA Disclosure Letter sets forth the jurisdiction of incorporation of each GPA Subsidiary, its authorized capital stock, the number and class or series of its issued and outstanding shares of capital stock, and the current ownership by GPA and the GPA Subsidiaries of such shares (collectively, the "GPA Subsidiary Shares"), as well as the current ownership percentages held by third parties. Except as set forth in Section 5.14(h) of the GPA Disclosure Letter, the GPA Subsidiary Shares constitute all the issued and outstanding shares of capital stock of the GPA Subsidiaries. The GPA Subsidiary Shares have been duly authorized and validly issued and are fully paid and nonassessable and were not issued in violation of any pre-emptive rights. There are no existing subscriptions, options, warrants, calls, rights of conversion or other rights, agreements, arrangements or commitments relating to the capital stock of any GPA Subsidiary obligating any GPA Subsidiary to issue or sell any shares of its capital stock. Either GPA or another GPA Subsidiary owns the GPA Subsidiary Shares issued by the respective GPA Subsidiaries free and clear of all Encumbrances, except (i) as set forth in Section 5.14(h)(i) of
the GPA Disclosure Letter and (ii) Encumbrances arising out of or in connection with this Agreement. There are no voting trusts, proxies or other agreements in effect with respect to the voting or transfer of the GPA Subsidiary Shares.

(i) The consummation of the transactions contemplated by this Agreement and the GPA Stock Exchange Agreement, will not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default (or an event which, with notice, lapse of time, or both, would constitute a default) under, (iii) result in any violation of, (iv) require the obtaining of any consent, approval or action of, make any filing with or give notice to any person (except for a Governmental Authority) as a result of or under the terms of, (v) result in or give to any person any right of termination, cancellation, acceleration, modification, or increased or accelerated rights, entitlements or payments under, or (vi) result in the creation or imposition of any Encumbrance upon GPA or any GPA Subsidiary or any of their respective assets under: (A) the Certificate or Articles of Incorporation or bylaws of GPA or any GPA Subsidiary or any resolutions adopted by the stockholders or the Board of Directors of GPA or any GPA Subsidiary, or (B) any order, judgment or decree (in a proceeding to which a Governmental Authority is not a party) to which GPA or any GPA Subsidiary is subject.

(j) No consent, approval, authorization, license, statute, law, rule, regulation, order or Permit of, or declaration, filing or registration with, or notification to, any Governmental Authority is required to be made or obtained by GPA or any GPA Subsidiary in connection with the execution, delivery and performance of this Agreement, or the consummation of the transactions contemplated by this Agreement or the GPA Stock Exchange Agreement, except: (i) as set forth in Section 5.14(j)(i) of the GPA Disclosure Letter; (ii) applicable requirements, if any, of the Delaware General Corporation Law, the 1934 Act, state securities or blue sky laws and the HSR Act; or (iii) where the failure to obtain such Permits, or to make such declarations, filing or registration or notifications, would not, either individually or in the aggregate, have an adverse effect on GPA or any GPA Subsidiary involving more than $20,000.

(k) Except as set forth in Section 5.14(k) of the GPA Disclosure Letter, there is (whether insured or uninsured) no action, suit, proceeding or investigation pending or, to the Knowledge of GPA or a GPA Subsidiary, threatened in writing, at law or in equity, in any court or before or by any Governmental Authority: (i) against GPA or any GPA Subsidiary, except for uninsured private civil litigation not involving a claim for equitable relief and involving a claim for less than $200,000; (ii) to the Knowledge of GPA or any GPA Subsidiary, affecting GPA or any GPA Subsidiary or any of their properties, except for uninsured private civil litigation not involving a claim for equitable relief and involving a claim for less than $200,000; or (iii) to the Knowledge of GPA or any GPA Subsidiary, affecting this Agreement, the GPA Stock Exchange Agreement or any action taken or to be taken or documents executed or to be executed pursuant to or in connection with the provisions of this Agreement.

(l) As of September 30, 1995 (the "GPA Balance Sheet Date"), neither GPA nor any GPA Subsidiary had any Undisclosed Liability. Except (i) as set forth in Section 5.14(l) of the GPA Disclosure Letter, (ii) as set forth in the unaudited consolidated balance sheet of GPA as of September 30, 1995 included in the GPA Financial Statements (the "GPA Balance Sheet") or (iii) for normal and recurring current liabilities accruing in the ordinary course of business since the date of the Balance Sheet, neither GPA nor any GPA Subsidiary, on the date of this Agreement, has outstanding any undisclosed liability that would be an Undisclosed Liability if the definition of such term referred to the GPA Balance Sheet, the GPA Financial Statements and the GPA Disclosure Letter. Except as set forth in the GPA Financial Statements or in Section 5.14(l) of the GPA Disclosure Letter, neither GPA nor any GPA Subsidiary has any long-term indebtedness, any lease obligation required to be recorded under GAAP as a capitalized lease and on the Closing Date will have no debt due to or from Buyer (except as reflected in the most recent GPA Financial Statements).

(m) GPA and each GPA Subsidiary has, since their respective dates of incorporation, complied in all material respects with all laws, regulations and
orders relating or applicable to the operation of its respective business. GPA and each GPA Subsidiary holds all Permits required to be held by it in order to own, occupy and lease its assets and to conduct and operate its business (as presently conducted and as conducted on the Closing Date) in compliance with all applicable laws and regulations. A true and correct copy of each such Permit has previously been delivered or made available to GSHS. Except as set forth in Section 5.14(j)(i) or Section 5.14(m) of the GPA Disclosure Letter, neither GPA nor any GPA Subsidiary is in default or, to GPA's Knowledge, alleged to be in default with respect to any judgment, order, writ, injunction or decree of any Governmental Authority which would have an adverse effect on the business, assets or financial condition of GPA or any GPA Subsidiary in excess of $50,000, no notice from any Governmental Authority or agency in respect to (including an investigation) the revocation, termination, suspension or limitation of any Permit or the failure to have any Permit has been issued or given to GPA or any GPA Subsidiary, nor does GPA or any GPA Subsidiary have any Knowledge of the proposed or threatened issuance of any such notice or of any pending or threatened investigation with respect to any such matter.

(n) Since the Balance Sheet Date and except as set forth in Section 5.14(n) of the GPA Disclosure Letter or as contemplated by this Agreement, there has not been, occurred or arisen:

(i) any material adverse change in the financial condition, results of operations, prospects, business, properties, assets or liabilities of GPA and the GPA Subsidiaries;

(ii) any termination (or, to the Knowledge of GPA or any GPA Subsidiary, threat of termination) of any Contract to which either GPA or any GPA Subsidiary is a party representing $500,000 or more of revenue to GPA or a GPA Subsidiary for the 12-month period ended September 30, 1995;

(iii) any increase in the compensation payable or to become payable by GPA or any GPA Subsidiary to any of its directors, officers, management, employees, consultants or agents whose base annual salary or, in the case of a non-employee, base annual compensation (for any individual) exceeds $75,000 or any increase in benefits under any bonus, insurance, pension or other benefit plan made for or with any of such persons (including, but not limited to, any change in targets, goals, bonus pools and the like under any Benefit Plan, Employment Contract or other employee compensation arrangement) except for such increases made in the ordinary course of business and consistent with the past practices of GPA or such GPA Subsidiary;

(iv) any direct or indirect redemption, purchase or other acquisition by GPA or any GPA Subsidiary of any shares of capital stock of GPA or any GPA Subsidiary, any declaration, setting aside or payment of any dividend or other distribution by GPA or any GPA Subsidiary in respect of shares of capital stock of GPA or any GPA Subsidiary whether in cash, shares or property, or any loan to any stockholder;

(v) any unusual or extraordinary item resulting in a loss suffered by GPA or any GPA Subsidiary, which, individually or in the aggregate, is equal to or in excess of $500,000;

(vi) any mortgage on, pledge of or grant of a security interest in any of the assets of GPA or any GPA Subsidiary other than Permitted Encumbrances;

(vii) any payment default or event of default by GPA or any GPA Subsidiary under any debt with a principal amount equal to or greater than $500,000 or under any lease agreement with annual rental payments equal to or greater than $200,000;

(viii) any guaranty of any obligation or debt of any person or
entity by GPA or any GPA Subsidiary (other than GPA or a GPA Subsidiary), except in the ordinary course of business;

(ix) any material change in (A) any investment, accounting or Tax practice or policy of GPA or any GPA Subsidiary or (B) any method of calculating any bad debt, contingency, IBNR (incurred but not reported claims) or other reserve of GPA or any GPA Subsidiary for accounting or Tax purposes;

(x) any business combination involving GPA or any GPA Subsidiary and any other person (other than with respect to this Agreement or the GPA Stock Exchange Agreement);

(xi) any entering into, amendment, modification, termination (partial or complete) or granting of a waiver under or giving any consent with respect to any Contract which is required (or had it been in effect on the date of this Agreement would have been required) to be disclosed in Section 5.14(ac) of the GPA Disclosure Letter (other than any of the foregoing contemplated by this Agreement);

(xii) any capital expenditures or commitments for additions to property, plant or equipment of GPA or any GPA Subsidiary in an aggregate amount exceeding $200,000; or

(xiii) any other transaction involving or development affecting GPA or any GPA Subsidiary outside the ordinary course of business.

(o) GPA or a GPA Subsidiary either has all right, title and interest in or a valid and binding license to use all of the Intellectual Property used by GPA or any GPA Subsidiary in the conduct of their respective businesses. No other Intellectual Property is used or necessary in the conduct of the business of GPA or any GPA Subsidiary. Except as disclosed in Section 5.14(o) of the GPA Disclosure Letter, (i) all registrations with and applications to Governmental Authorities in respect of such Intellectual Property are valid and in full force and effect, (ii) GPA and the GPA Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of their trade secrets, and (iii) neither GPA nor any GPA Subsidiary is, or has received any notice that it is, in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property. Neither GPA nor any GPA Subsidiary has received notice that GPA or any GPA Subsidiary is infringing any Intellectual Property of any other person, no claim is pending or, to the Knowledge of GPA or any GPA Subsidiary, has been made to such effect that has not been resolved and, to the Knowledge of GPA and each GPA Subsidiary, neither GPA nor any GPA Subsidiary is infringing any Intellectual Property rights of any other person.

(p) Except as set forth in Section 5.14(p) of the GPA Disclosure Letter, and except intercompany agreements and charges between GPA and Buyer, to the Knowledge of GPA or any GPA Subsidiary:

(i) No officer, director or other Affiliate of GPA or any GPA Subsidiary ("GPA Company Affiliate") and no Associate or Family Member of any Company Affiliate has directly or indirectly (i) any interest in any corporation, partnership, limited liability company, proprietorship or other entity which sells to or purchases from GPA or any GPA Subsidiary any products or services, (ii) sells to or purchases from GPA or any GPA Subsidiary any products or services, (iii) any cause of action or claim against GPA or any GPA Subsidiary; or (iv) a beneficial interest in any Contract to which GPA or any GPA Subsidiary is a party or by which it is bound;

(ii) Except as referenced in subparagraph 5.14(ac)(ii), neither GPA nor any GPA Subsidiary is indebted, either directly or indirectly, to any Company Affiliate, or any Associate or Family Member of any Company Affiliate in any amount other than current obligations for payments of salaries, bonuses and other fringe benefits for past services rendered and recorded on the books of GPA.
or a GPA Subsidiary; and

(iii) No Company Affiliate or any Associate or Family Member of a Company Affiliate is indebted to GPA or any GPA Subsidiary.

For purposes of this Section 5.14(p), there shall be disregarded any interest which arises solely from the ownership of less than a five percent equity interest in a corporation whose stock is regularly traded on any national securities exchange or on the NASD National Market System; and the term "Family Member" shall mean a member of an immediate family as the term "immediate family" is defined in the instructions to Item 404 of Regulation S-K under the 1933 Act and the 1934 Act (as defined in the Stock Purchase Agreement).

(q) There are no Benefit Plans or Employment Contracts other than those set forth in Section 5.14(q) of the GPA Disclosure Letter; and no such Benefit Plans or Employment Contracts obligate GPA or any GPA Subsidiary to provide post-retirement health or life insurance benefits to employees or former employees of GPA or any GPA Subsidiary other than continuation coverage provisions under Federal and state law, including with respect to the Consolidated Omnibus Budget Reconciliation Act of 1985.

(r) GPA has furnished or made available to GSHS a true, complete and correct copy of each Benefit Plan and Employment Contract which is set forth in writing and a complete description of each other Benefit Plan and Employment Contract.

(s) Except as set forth in Section 5.14(s) of the GPA Disclosure Letter, no assets have been set aside in a trust or other separate account (other than in a tax-exempt trust or tax-exempt separate account) by GPA or any ERISA Affiliate to pay directly or indirectly any benefits under any Benefit Plan or Employment Contract, and all of the assets of any such tax-exempt trust or separate account are shown on the books and records of such trust or separate account at their current fair market value.

(t) GPA, each GPA Subsidiary and each ERISA Affiliate have established, maintained, administered, reported and disclosed, made contributions to and otherwise performed all their duties and responsibilities under each Benefit Plan and each Employment Contract in compliance with all applicable laws. Neither GPA, any GPA Subsidiary nor any ERISA Affiliate has any duty or obligation to indemnify or hold any other person harmless for any liability attributable to any acts or omissions by such person with respect to any Benefit Plan, Employment Contract or employee or former employee.

(u) Neither GPA, any GPA Subsidiary nor any ERISA Affiliate has any liability for any unpaid Tax or penalty with respect to any Benefit Plan or Employment Contract, including without limitation, any unpaid Tax or penalty under ERISA or under the Code.

(v) There are no claims which have been made or, to the Knowledge of any ERISA Affiliate, threatened under any of the Benefit Plans or Employment Contracts or against GPA or any ERISA Affiliate with respect to any of the Benefit Plans or Employment Contracts (other than routine claims made in the ordinary course of plan or contract operations) or with respect to the employment or termination of employment or treatment of any employee or former employee, and no ERISA Affiliate has any Knowledge of any proposed or actual audit or investigation by any governmental or other law enforcement agency with respect to any Benefit Plan, Employment Contract or the employment or termination of employment or treatment of any employee or former employee.

(w) Except as set forth in Section 5.14(w) of the GPA Disclosure Letter, neither GPA, any GPA Subsidiary nor any ERISA Affiliate is subject to any liabilities (including withdrawal liabilities) with respect to any Benefit Plan or employee benefit plan subject to Title IV of ERISA, including without limitation, any liabilities arising from Title I or Title IV of ERISA, other than the liability to make current contributions when due and to pay current expenses and premiums when due. All such contributions, expenses and premiums
have been paid in full when due.

(x) Except as set forth in Section 5.14(x) of the GPA Disclosure Letter, GPA or a GPA Subsidiary has the right under the terms of each Benefit Plan and under applicable law to terminate such plan at any time exclusively by action of GPA or such GPA Subsidiary, and no additional contributions would be required in order to properly effect the termination of such plan in accordance with the terms of such plan and applicable law.

(y) Neither GPA nor any GPA Subsidiary employs, or has ever employed, or leases, or has ever leased, from another employer, any person who is a member of a collective bargaining unit, and neither GPA nor any GPA Subsidiary makes or has made, or has an obligation to make, or has had an obligation to make, or reimburses or has an obligation to reimburse, or has reimbursed or has had an obligation to reimburse, another employer directly or indirectly for making contributions to an employee benefit plan for the benefit of such a person.

(z) Section 280G of the Code shall not apply to any payments to be made by GPA or any GPA Subsidiary as a result of the transactions contemplated by this Agreement. There are no Parachute Plans to which GPA or any GPA Subsidiary is a party or other payment obligations of GPA or any GPA Subsidiary to an employee or former employee of GPA or a GPA Subsidiary which will be triggered as a result of the change in the control of GPA contemplated by this Agreement and the GPA Stock Exchange Agreement, and which constitute an "excess parachute payment" within the meaning of Section 280G of the Code.

(aa) No employer securities, employer real property or other employer property is included in the assets of any Benefit Plan.

(bb) The tax filings for GPA and each GPA Subsidiary are all made on a consolidated basis with those of Buyer. Neither GPA nor any GPA Subsidiary has received notice from any Governmental Authority in a jurisdiction in which such entity does not file a Tax Return stating that such entity is or may be subject to taxation by that jurisdiction.

(cc) Except for Contracts which are terminable by GPA or any GPA Subsidiary without penalty on 120 days' or less prior written notice, and except for the management and/or service agreements the GPA Subsidiaries have entered into with the professional corporations they manage, Section 5.14(ac) of the GPA Disclosure Letter sets forth each of the following Contracts to which GPA or any GPA Subsidiary is a party: (i) any contract for borrowed money or deferred portion of purchase price equal to or in excess of $500,000 that is secured by an Encumbrance on any property of the Company or any GPA Subsidiary; (ii) any loan agreement, credit agreement, promissory note, guarantee, indenture, subordination agreement, letter of credit, interest rate or foreign currency protection agreement or any other similar type of Contract in each case involving a debt or similar obligation of $500,000 or more; (iii) any consulting or other Contract with attorneys, accountants, actuaries, appraisers, investment bankers, lobbyists, government relations persons or other professional advisers equal to or in excess of $500,000 per year; (iv) any brokerage agreement, marketing agreement, sales agent or consulting agreement providing for the payment of commissions or other compensation with respect to referring or directing business to GPA or any GPA Subsidiary equal to or in excess of $150,000 per year; (v) any Contract which, in whole or in part, (A) presently restricts or precludes GPA or any present or future GPA Subsidiary or Affiliate of GPA from conducting any business anywhere in the world, or (B) upon the occurrence of any event, the giving of notice or the passage of time, by its terms would have such an effect; (vi) any Contract that involves aggregate payments by or to GPA or any GPA Subsidiary in excess of $500,000; (vii) any indemnification agreement (except those entered into in the ordinary course of business), guaranty or power of attorney granted to any person or entity (other than GPA or a GPA Subsidiary); and (viii) any lease with annual rental payments equal to or in excess of $100,000. GPA has delivered or otherwise made available to GSHS true, correct and complete copies of the Contracts set forth in Section 5.14(ac) of the GPA Disclosure Letter, together with all amendments, waivers, modifications, supplements or side letters materially affecting the obligations of any party

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under such Contracts.

(dd) Except as set forth opposite or otherwise as part of the
description of such Contract in Section 5.14(ad) of the GPA Disclosure Letter:

(i) Since January 1, 1995, no party to any such Contract has
given to GPA or any GPA Subsidiary notice of any breach or default
under any such Contract by GPA or a GPA Subsidiary which has not been
cured or waived.

(ii) Neither GPA nor any GPA Subsidiary is in violation,
breach of or default under any such Contract in any material respect
or, with notice of lapse of time or both, would be in violation,
breach of or default under any such Contract; and, to the Knowledge
of GPA and the GPA Subsidiaries no other party to any such Contract
is in violation, breach of or default under any such Contract or,
with notice or lapse of time or both, would be in violation, breach
of or default under any such Contract; and

(iii) No consent by or of any party to any such Contract is
required in order to consummate the transactions contemplated by this
Agreement without causing a breach or violation of or a default under
such Contract.

(ee) Except for a Directors and Officers' liability policy issued to
Orange County Behavioral Management Company, all insurance policies and other
surety arrangements of any kind or nature whatsoever which are in force and to
which GPA or any GPA Subsidiary is a named insured or beneficiary are issued
through Buyer. There are no claims asserting liability of GPA or a GPA
Subsidiary equal to or greater than $500,000 under any such policy.

(ff) Except as set forth in Section 5.14(af) of the GPA
Disclosure Letter:

(i) Neither GPA nor any GPA Subsidiary is a party to any
collective bargaining or similar agreement nor are any of GPA's or
the GPA Subsidiaries' employees currently represented by a labor
organization for purposes of collective bargaining as provided under
the National Labor Relations Act;

(ii) there is no unfair labor practice charge or complaint or
any other matter against or involving GPA or any GPA Subsidiary
pending or, to the Knowledge of GPA or any GPA Subsidiary, threatened
before the National Labor Relations Board or any court of law;

(iii) there is no labor strike, or other dispute, slowdown or
stoppage pending against GPA or any GPA Subsidiary; and

(iv) there are no charges, investigations, administrative
proceedings or formal complaints of discrimination (including
discrimination based upon sex, age, marital status, race, national
origin, sexual preference, disability or veteran status) pending
before the Equal Employment Opportunity Commission or any
Governmental Authority against GPA or any GPA Subsidiary.

(gg) Except as set forth in Section 5.14(ag) of the GPA Disclosure
Letter, GPA and the GPA Subsidiaries collectively own, have a valid leasehold
interest in or have legal right to use without restriction all of the real
property and tangible personal property used in the conduct of their businesses,
free and clear of all Encumbrances, except Permitted Encumbrances and
Encumbrances reflected on the Financial Statements.

(hh) Substantially all fixtures, facilities, computers, computer
hardware and peripheral equipment, personal property and equipment owned or
leased by GPA or any GPA Subsidiary (i) are in good working order, ordinary wear
and tear excepted, and GPA and each GPA Subsidiary has maintained the same in
accordance with sound industry practices (except for equipment awaiting repair in the ordinary course of GPA's or any GPA Subsidiary's business consistent with past practices), and (ii) meet and comply in all material respects with all applicable laws, rules and regulations of any Governmental Authority.

(ii) Since their respective dates of incorporation or acquisition, none of GPA or any GPA Subsidiary, any of their directors, officers or employees has:

(i) given, proposed to give, or agreed to give any material gift or similar material benefit to any customer, supplier or any other person (other than as described in subsection (ii) of this subparagraph 5.14(ai)), for the purpose of furthering the business of GPA or a GPA Subsidiary;

(ii) in connection with the business of GPA or any GPA Subsidiary, used any corporate or other funds for contributions, payments, gifts, or entertainment, or made any expenditures relating to political activities to government employees, officials or others in violation of any applicable law or established or maintained any unlawful or unrecorded funds; or

(iii) offered or paid or solicited or received any remuneration (as such term has been interpreted under 42 U.S.C. ss. 1320a-7b(b)) to induce or in return for any referral of healthcare business or ordering of healthcare items or services in violation of any federal or state civil or criminal law.

To the knowledge of GPA or any GPA Subsidiary, none of GPA, any GPA Subsidiary, any of their respective directors, officers, or employees has accepted or received any unlawful contributions, payments or gifts in connection with the business of GPA and the GPA Subsidiaries.

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ARTICLE 6.

COVENANTS OF SELLERS, BUYER AND GSRS

Section 6.1. Investigation of Business; Access to Properties and Records. (a) Subject to restrictions contained in confidentiality agreements to which such party is subject with respect to any information relating to any third party, prior to the Closing or termination of this Agreement, Sellers shall give and shall cause GSRS to give to Buyer and its legal counsel, accountants, lenders and other representatives reasonable access during normal business hours to all of GSRS's and the Subsidiaries' properties for inspection (including environmental), books, contracts, commitments and records, and shall permit them to consult with management employees of each Seller, GSRS and the Subsidiaries to allow Buyer full opportunity to make such investigations as are necessary to review the affairs of GSRS and the Subsidiaries. If, prior to Closing, Buyer discovers any breach of any representation or warranty contained in this Agreement or any circumstances or condition that, to the Knowledge of Buyer would constitute such a breach, Buyer will use reasonable efforts to notify Sellers promptly of such facts known to Buyer and the nature of the breach. Notwithstanding any other provision of this Agreement, no investigation by one party to this Agreement shall affect the representations and warranties of another party, and each such representation and warranty shall survive any such investigation.

(b) Subject to restrictions contained in confidentiality agreements to which such party is subject with respect to any information relating to any third party, prior to the Closing or termination of this Agreement, Buyer shall give GSRS, Sellers and their respective legal counsel, accountants, lenders and other representatives reasonable access during normal business hours to all of Buyer's and GPA's properties for inspection (including environmental), books, contracts, commitments and records, and shall permit them to consult with management employees of Buyer to allow GSRS or any Seller full opportunity to make such investigations as are necessary to review the affairs of Buyer. If, prior to Closing, GSRS or any Seller discovers any breach of any representation or warranty contained in this Agreement or any circumstances or condition that, to the Knowledge of GSRS or such Seller, would constitute such a breach, GSRS or
such Seller, as the case may be, will use reasonable efforts to notify Buyer promptly of such facts known to GSHS or such Seller, as the case may be, and the nature of the breach. Notwithstanding any other provision of this Agreement, no investigation by one party to this Agreement shall affect the representations and warranties of another party, and each such representation and warranty shall survive any such investigation.

(c) Prior to the Closing Date, Sellers shall cause GSHS to deliver to Buyer, as soon as available but not later than 30 days after the end of the month with respect to monthly financial statements and not later than 45 days after the end of the quarter with respect to quarterly financial statements, unaudited condensed consolidated monthly and quarterly financial statements of GSHS. Such financial statements shall include a balance sheet as of the end of such period and statements of income and cash flows for the period then ended, shall be prepared from and be, in all material respects, in accordance with the books and records of GSHS and its Subsidiaries, shall apply GAAP in a manner consistent with the Audited Financial Statements, and shall otherwise be prepared on a basis consistent with GSHS's past practices with respect to monthly and quarterly financial statements.

(d) Any information provided to or obtained by any party to this Agreement, its legal counsel, accountants, lenders or other representatives pursuant to this Agreement shall be held by such party, its representatives and lenders in accordance with, and shall be subject to the terms of, the Confidentiality Agreement.

Section 6.2. Regulatory and Other Authorizations.

(a) Subject to the limitations set forth in this Section 6.2, Sellers, GSHS and Buyer will use their respective best efforts to obtain all authorizations, consents, orders and approvals of all Governmental Authorities that may be or become necessary for the execution, delivery and the performance of their respective obligations pursuant to this Agreement and the GPA Stock Exchange Agreement and will cooperate fully with one another in promptly seeking to obtain all such authorizations, consents, orders and approvals. Each party to this Agreement agrees to make (if required of such party by the HSR Act) a timely [subject to Section 6.2(b)(i)] and appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated by this Agreement and, if required by the HSR Act, the Exchange Agreement and the GPA Stock Exchange Agreement, to provide information requested by any Governmental Antitrust Authority or the other party and agrees that it will not take any action that will have the effect of delaying, impairing or impeding the receipt of any required approvals.

(b) Notwithstanding anything in Section 6.2(a) to the contrary, Buyer shall coordinate on behalf of all parties and, except as may be required by law, shall determine in its sole judgment and discretion the timing and Buyer and Sellers shall by mutual agreement determine the substance of all communications and filings made by the parties with any Governmental Antitrust Authority regarding the transactions contemplated by this Agreement, including without limitation:

(i) the timing of all HSR filings by Buyer, GSHS and Sellers;

(ii) the extent to which it may be necessary to resolve or settle any concerns on the part of any Governmental Antitrust Authority regarding the legality under any antitrust law of the transactions contemplated by this Agreement, the Exchange Agreement or the GPA Stock Exchange Agreement by entering into negotiations, providing information, making proposals, entering into and performing agreements or submitting to judicial or administrative orders, agreeing to any restrictions on conduct of business after Closing by Buyer, GSHS or any Subsidiary, or selling or otherwise disposing of, or holding separate (through the establishment of a trust or otherwise), particular assets or categories of assets, or businesses, of Buyer (or any Buyer Subsidiaries), including, after the Closing,
GSHS and its Subsidiaries;

(iii) contesting the entry in a judicial or administrative proceeding brought under any antitrust law by any Governmental Antitrust Authority or any other person of any permanent or preliminary injunction or other order that would make consummation of the transactions contemplated by this Agreement, the GPA Stock Exchange Agreement or the Exchange Agreement unlawful or would prevent or delay the transactions, including, without limitation, taking the steps contemplated by Section 6.2(b)(ii);

(iv) if such an injunction or order has been issued in such a proceeding, taking any and all steps, including, without limitation, appeal thereof, the posting of bond or the steps contemplated by Section 6.2(b)(ii), necessary to vacate, modify or suspend such injunction or order so as to permit the consummation of the transaction on the schedule contemplated by this Agreement;

(v) responding to and complying with any request or subpoena for additional information by any Governmental Antitrust Authority;

and

(vi) determining any other appropriate response or initiative to avoid or eliminate impediments under any antitrust law that may be asserted by any Governmental Antitrust Authority or any other person to the consummation of the transactions contemplated by this Agreement, the Exchange Agreement or the GPA Stock Exchange Agreement.

Section 6.3. Best Efforts; Obtaining Consents and Making Notifications; Disclosure of Changes. Subject to the terms and conditions provided in this Agreement, each Seller, GSHS and Buyer each will use their respective best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and to cooperate with one another in connection with the foregoing, including using best efforts:

(a) to obtain all necessary waivers, consents, releases and approvals from other parties to loan agreements, leases, guarantees and other contracts;

(b) to lift or rescind any injunction or restraining order or other order adversely affecting the ability of the parties to this Agreement to consummate the transactions contemplated by this Agreement; and

(c) to fulfill all conditions to this Agreement.

Nothing contained in this Agreement (including but not limited to the term "best efforts" in Section 6.2(a), Section 6.3 and Section 10.1(c)) shall require any party to this Agreement to agree to hold separate or to divest any of the assets, properties or businesses of GSHS, any Subsidiary or Buyer or any Buyer Subsidiary or otherwise agree to the imposition of any restriction on the operations of GSHS or any Subsidiary after the Closing, Buyer or any Buyer Subsidiary or a covenant or agreement that would cause any economic or financial detriment to the ongoing operations of Buyer, Buyer Subsidiaries, GSHS or any Subsidiary after the Closing.

Section 6.4. Further Assurances. Sellers, GSHS and Buyer agree that, from time to time, at or after the Closing Date, each of them will execute and deliver such further instruments of conveyance
Section 6.5. Conduct of Business of GSHS and Subsidiaries. From the date of this Agreement through the Closing, except as otherwise provided by this Agreement or the GPA Stock Exchange Agreement and, except as consented to or approved by Buyer in writing, Sellers and GSHS covenant and agree that:

(a) GSHS and the Subsidiaries shall operate their businesses in the ordinary and usual course in all material respects in accordance with past practices;

(b) GSHS or a Subsidiary (and the Sellers acting with respect to the stock of GSHS) shall not issue, purchase or agree to purchase, sell or agree to issue or sell:
   
   (i) any shares of its capital stock; or
   
   (ii) any securities convertible into or evidencing the right to purchase, or options with respect to, or rights to subscribe for, any shares of its capital stock;

(c) neither GSHS nor a Subsidiary (and the Sellers acting with respect to the stock of GSHS) shall amend its Certificate or Articles of Incorporation or bylaws or declare or pay any dividend (whether in cash or property) or declare or effect any stock split, reclassification or other change in capital structure;

(d) GSHS and the Subsidiaries shall maintain their books and records in the usual, regular and ordinary manner consistent with past practice;

(e) GSHS and the Subsidiaries shall comply in all material respects with all applicable laws; and

(f) neither GSHS nor any Subsidiary shall:

   (i) enter into or consummate any joint venture, partnership or other similar arrangement or form any other new arrangement for the conduct of its business or acquire or enter into any agreement or letter of intent to acquire, by merger, consolidation, or purchase of stock or assets, any business, entity or person;

   (ii) purchase any material assets or securities of any person, except for asset purchases in the ordinary course of its business for individual amounts not in excess of $50,000;

   (iii) enter into any transactions, commitments or obligations outside the ordinary course of business or incur any indebtedness, including notes payable, current maturities of long-term debt or capital lease obligations, except for trade payables and other normal items accrued as current liabilities;

   (iv) take or agree to take any action prohibited by this Section 6.5 or that would otherwise cause any representation or warranty made by Sellers in this Agreement to be untrue or inaccurate at the Closing Date or result in the breach of any covenant or agreement in this Agreement required to be performed by Sellers, any Seller or GSHS on or prior to the Closing Date;

   (v) take any action to amend or terminate any
Benefit Plan or to adopt any other plan, program, arrangement or practice providing benefits for or compensation to or on behalf of its employees or former employees before the Closing Date, except as provided by Section 6.11 with respect to the GSHS Long-Term Compensation Plan or as required by applicable law;

(vi) terminate or cancel any insurance policy that covers GSHS or a Subsidiary;

(vii) increase the base compensation or bonus, incentive, severance or other benefit plan of any employee, consultant or agent whose base annual salary or compensation exceeds $75,000, except for increases in base annual salaries in the ordinary course of business;

(viii) grant any Encumbrance on any asset, except for Permitted Encumbrances;

(ix) enter into any lease for a term of more than two years or an annual rent of more than $25,000;

(x) make any change in any investment, accounting or Tax practice or policy of GSHS or any Subsidiary or any method of calculating any bad debt, contingency, IBNR or other charge or reserve of GSHS or any Subsidiary.

Section 6.6. Preservation of Business. Subject to the terms and conditions of this Agreement and except as otherwise provided by this Agreement, GSHS shall, and Sellers shall cause GSHS and the Subsidiaries to, use reasonable efforts to:

(a) preserve the business of GSHS and the Subsidiaries and keep generally available to GSHS and the Subsidiaries the services of the employees, officers, consultants, contractors and agents of GSHS and the Subsidiaries;

(b) preserve generally the goodwill of customers, suppliers, creditors and others having business relations with GSHS or a Subsidiary; and

(c) continue performance in the ordinary course of their respective obligations under Contracts.

In connection with the operation of the business of GSHS and the Subsidiaries between the date of this Agreement and the Closing, GSHS shall confer in good faith on a regular and frequent basis with one or more designated representatives of Buyer (which representatives shall have been designated by Buyer to GSHS in writing) with respect to material matters affecting or impacting the operations of GSHS and the Subsidiaries and to consult in general with respect to the ongoing operations of GSHS and the Subsidiaries. Sellers acknowledge that Buyer does not and will not waive any rights it may have under this Agreement as a result of such consultations nor shall Buyer be responsible for any decisions made by the officers and directors of GSHS with respect to matters which are the subject of such consultation.

Section 6.7. Public Announcements. Neither Sellers, GSHS, the Subsidiaries or Buyer, any agent nor any Affiliate of such entities shall make any public statements, including, without limitation, any press releases or other public disclosure, with respect to this Agreement and the transactions contemplated by this Agreement without the prior consent of the other parties to this Agreement (which consent may not be unreasonably withheld or delayed), except as required by law and, in the case of Buyer, the American Stock Exchange.
Section 6.8. No Solicitation. From the date of this Agreement to the earlier of (i) the Closing Date or (ii) the termination of this Agreement in accordance with its terms (but not including upon or due to a breach of this Agreement by any Seller or GSHS), Sellers agree that (A) they will not, (B) they will not permit GSHS or any Subsidiary to, and (C) they will not authorize or permit any officer, director or employee of any Seller, GSHS, or any Subsidiary, or any investment banker, attorney, financial advisor, accountant or other person retained by any Seller, GSHS or any Subsidiary, directly or indirectly (including by way of furnishing any information) to: (i) solicit, initiate, assist, encourage or accept any Takeover Proposal or any inquiries relating to a Takeover Proposal or to make any proposals which could reasonably be expected to lead to any Takeover Proposal relating to GSHS or any Subsidiary; (ii) engage in any negotiations with respect to, or otherwise attempt to consummate, a Takeover Proposal; (iii) provide any public or nonpublic information concerning GSHS or any Subsidiary to any person in connection with any Takeover Proposal or to any person whom any Seller, GSHS or any Subsidiary knows or has reason to believe is in the process of planning or considering a Takeover Proposal; or (iv) reach any agreement or understanding for or with respect to any Takeover Proposal. Sellers and GSHS will immediately advise Buyer orally and, within one Business Day, in writing of any such inquiries, requests for information or Takeover Proposals of which any of them has Knowledge. If any Seller, GSHS or any Subsidiary receives from any person any offer, inquiry or informational request referred to above, Sellers will promptly advise such person in writing of the terms of this Section 6.8 and will send Buyer a copy of such notice.

Section 6.9. Right to Update, Cure.

(a) From time to time prior to the Closing, Buyer, GSHS and Sellers shall update or amend their respective disclosure of any matter set forth or required to be set forth in their respective Disclosure Schedules to reflect any changes in (or any inaccuracies in) such Disclosure Schedule. No such update shall be deemed to cure (for purposes of Section 7.1, Section 8.1 or otherwise) any breach of any representation and warranty by Sellers or by Buyer made in this Agreement unless Buyer or Sellers, as the case may be, consent in writing to the update made by the other. Notwithstanding anything in this Agreement to the contrary, any party that receives a proposed amendment or update may defer the Closing Date for up to five Business Days after receipt of such proposed update or amendment.

(b) Each of the parties to this Agreement agrees to notify the other parties promptly in writing of, and contemporaneously will provide the other parties with true and complete copies of, any and all information or documents relating to, and will use all commercially reasonable efforts to cure before Closing, any event, transaction or circumstance occurring after the date of this Agreement that causes or will cause any covenant or agreement under this Agreement to be breached or that renders or will render untrue any representation or warranty contained in this Agreement as if the same were made on or as of the date of such event, transaction or circumstance. Each of the parties to this Agreement also agrees to notify the other parties promptly in writing of, and will use all commercially reasonable efforts to cure, before the Closing, any violation or breach of any representation, warranty, covenant or agreement made in this Agreement, whether occurring or arising before, or after the date of this Agreement. No notice given pursuant to this Section 6.9(b) shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining satisfaction of any condition to Closing or shall in any way limit any party’s right to seek indemnity under this Agreement.

Section 6.10. Conduct of Buyer Business Prior to Closing. Unless the Sellers otherwise agree in writing and except as otherwise set forth in this Agreement, in the Buyer Disclosure Schedule or the GPA Disclosure Letter, between the date of this Agreement and the Closing Date Buyer and Buyer Subsidiaries (including GPA and the GPA Subsidiaries) will conduct their businesses only in the ordinary course. In addition, between the date of this
Agreement and the Closing Date, Buyer shall not take any action that would interfere with the consummation of the transactions contemplated by this Agreement or the GPA Stock Exchange Agreement, make such consummation more difficult or delay the consummation of such transactions.

Section 6.11. GSHS Long-Term Compensation Plan. Sellers covenant and agree with Buyer that, prior to Closing, they shall use their respective best efforts to cause GSHS to terminate or amend (to the reasonable satisfaction of Buyer) the GSHS Long-Term Compensation Plan, as amended (the "GSHS Long-Term Compensation Plan"), for an aggregate cost of not more than the amount set forth in Section 6.11 of the GSHS Disclosure Schedule. Sellers further covenant and agree with Buyer that, prior to Closing, they shall cause GSHS to take all actions that are necessary or appropriate in the reasonable judgment of Buyer to permit all payments under the GSHS Long-Term Compensation Plan to qualify for the exemption provided by Section 280G(b)(5)(A)(i) and (B) of the Code.

Section 6.12. Post-Closing Operations and Events. Sellers, severally and not jointly, covenant and agree with Buyer that from and after the Closing:

(a) Sellers acknowledge that Buyer is obligated upon Closing to grant a security interest in and to pledge Buyer's shares of the capital stock of GSHS to Bankers Trust Company, as Collateral Agent (and its successors and assigns) under the Second Amended and Restated Credit Agreement, dated as of May 2, 1994, among Buyer, Bankers Trust Company, as Agent, First Union National Bank of North Carolina, as Co-Agent, and the Lenders from time to time a party to such credit agreement, as amended through the date of this Agreement and as from time to time hereafter amended, supplemented or otherwise modified (the "Credit Agreement").

(b) Sellers acknowledge that, if and when Buyer or Buyer Subsidiaries together, directly or indirectly, own 80% or more of the voting power and value of the outstanding stock of GSHS, Buyer will be obligated by law to include GSHS and its 80% or more-owned subsidiaries in Buyer's consolidated federal income tax return and, depending on applicable state law, in Buyer's consolidated or unitary state income tax returns. Sellers covenant and agree with Buyer that in such event and for so long as any such consolidated or unitary income tax returns are required by federal or applicable state law, (i) Buyer's inclusion of GSHS and its subsidiaries in any such consolidated or unitary income tax return shall not constitute a breach or violation of or a default under any provision of the New Stockholders' Agreement or any provision of any other agreement among Sellers and Buyer; (ii) Sellers, together with Buyer, shall cause their representatives on the Board of Directors of GSHS to cooperate in the preparation and filing of such tax returns; and (iii) Sellers, together with Buyer, shall cause their representatives on the Board of Directors of GSHS to approve the execution and performance by GSHS of a tax sharing agreement (the "Tax Sharing Agreement"), which Tax Sharing Agreement is required of Buyer by Section 7.8 of the Credit Agreement. The Tax Sharing Agreement shall be equitable to the parties and shall be in customary form for such agreements.

Section 6.13. Registration Statement. (a)(1) Promptly after the Closing, Buyer will file a registration statement (a "Registration Statement") under the 1933 Act, and cause such Registration Statement to become effective as promptly as possible, with respect to the resale by Sellers (other than MSAP and VI) of the shares of Charter Common Stock that may be issued under this Agreement; and, prior to the first date on which shares of Charter Common Stock may be issued under the Exchange Agreement, Buyer will file a registration statement (a "Registration Statement") under the 1933 Act, and cause such Registration Statement to become effective, with respect to the issuance to Sellers (other than MSAP and VI) of the shares of Charter Common Stock that may be issued under the Exchange Agreement.

(2) With respect to each Registration Statement, Buyer shall:

(i) cause the Registration Statement and the related prospectus and any amendment or supplement, (A) to comply in all
material respects with the applicable requirements of the 1933 Act and the rules and regulations promulgated under the 1933 Act and (B) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading;

(ii) prepare and file with the Securities and Exchange Commission such amendments and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to keep the Registration Statement effective, in the case of the Registration Statement relating to the Exchange Agreement, until 40 days after the later of (A) the Last Exchange Closing (as defined in the Exchange Agreement) or (B) the end of the Exchange Period (as defined in the Exchange Agreement) and, in the case of the Registration Statement relating to resales of shares of Common Stock issued pursuant to this Agreement, until the later of (A) the resale of all such shares of Charter Common Stock by Sellers (other than MSAP and VI) or (B) two years after the Closing; and to comply with applicable provisions of the 1933 Act with respect to all shares of Charter Common Stock that may be issuable under this Agreement and under the Exchange Agreement (in each case, the "Registrable Securities"); and will furnish, upon written request, to each Seller (other than MSAP and VI) a copy of any amendment or supplement to the Registration Statement or prospectus prior to filing it after effectiveness and shall not file any such amendment or supplement to which any such Seller shall have reasonably objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the 1933 Act or of the rules or regulations under the 1933 Act;

(iii) furnish to each Seller (other than MSAP and VI) a conformed copy of the Registration Statement and of each amendment and supplement to the Registration Statement (excluding exhibits unless requested in writing), a reasonable number of copies of the prospectus included in the Registration Statement (including each preliminary prospectus and the final prospectus), the documents, if any, incorporated by reference in the Registration Statement or prospectus, and such other documents, as any such Seller may reasonably request;

(iv) use its best efforts to register or qualify all Registrable Securities covered by the Registration Statement under such other securities or blue sky laws of the states of the United States as may be required for the issuance and sale of Registrable Securities, to keep such registration or qualification in effect for so long as the Registration Statement remains in effect, except that Buyer shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction in which it is not and would not, but for the requirements of this Section 6.13, be obligated to be so qualified, or to subject itself to taxation in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(v) promptly notify Sellers (other than MSAP and VI), at any time when a prospectus relating to the Registrable Securities may be required to be delivered by any of them under the 1933 Act, upon discovery that, or upon the happening of any event as a result of which, the prospectus included in the Registration Statement, as then in effect, includes or in the judgment of Buyer may include an untrue statement of a material fact or omits or may omit to state any material fact required to be stated in such prospectus or necessary to make the statements in such prospectus not misleading in the light of the circumstances in which they were made, which circumstance requires amendment of the Registration Statement or supplementation of the prospectus, and shall prepare and file as promptly as reasonably possible a supplement to or an amendment of such prospectus as may be necessary so that, as when delivered (if
required by the 1933 Act) to a purchaser of Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated in such prospectus or necessary to make the statements in such prospectus not misleading in the light of the circumstances in which they were made; (vi) otherwise use its best efforts to comply with all applicable rules and regulations under the 1933 Act and, in its discretion, to make available to its securities holders, as soon as reasonably practicable, an earnings statement, covering the period of at least twelve months, but not more than eighteen months, beginning with the first month of the first fiscal quarter after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the 1933 Act;

(vii) provide and cause to be maintained a transfer agent and registrar for all Registrable Securities covered by the Registration Statement from and after a date not later than the effective date of the Registration Statement; and

(viii) use its best efforts to list all Registrable Securities covered by the Registration Statement on any national securities exchange on which securities of the same class as the Registrable Securities are then listed.

(3) Each Seller (other than MSAP and VI) shall furnish to Buyer such information regarding such Seller as Buyer may from time to time reasonably request in writing and as shall be required by the 1933 Act in connection with such registration.

(4) Buyer shall indemnify and hold harmless each Seller (other than MSAP and VI), its directors, Affiliates and officers, and each other person, if any, who controls such Seller within the meaning of the 1933 Act against any losses, claims, damages, liabilities or expenses (including reasonable fees and expenses of counsel), joint or several, to which such Seller or any such director or officer or participating or controlling person may become subject under the 1933 Act or otherwise in connection with or as a result of a resale by such Seller of shares of Charter Common Stock issued pursuant to this Agreement or the Exchange Agreement, insofar as such losses, claims, damages, liabilities or expenses (or related actions or proceedings) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any preliminary prospectus, final prospectus or summary prospectus contained in the Registration Statement, or any amendment or supplement to the Registration Statement, or (ii) any omission or alleged omission to state in any such document a material fact required to be stated in any such document or necessary to make the statements in any such document not misleading, and Buyer will reimburse such Seller and each such director, Affiliate, officer, participating person and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding, provided that Buyer shall not be liable in any such case to the extent that any such loss, claim, damage, liability or expense (or action or proceeding in respect of any such loss, claim, damage, liability or expense) arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to Buyer by such Seller or any such director, Affiliate, officer, participating person or controlling person for use in the preparation of the Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Seller or any such director, Affiliate, officer, participating person or controlling person and shall survive the transfer of such securities by such Seller.

(5) Each Seller (other than MSAP and VI), severally and not jointly, shall indemnify and hold harmless (in the same manner and to the same extent as
set forth in Section 6.13(a)(4)) Buyer, each director of Buyer, each officer of Buyer who shall sign the Registration Statement and each other person, if any, who controls Buyer within the meaning of the 1933 Act, with respect to any untrue statement in or omission from the Registration Statement, any preliminary prospectus, final prospectus or summary prospectus included in the Registration Statement, or any amendment or supplement to the Registration Statement, but only to the extent that such statement or omission was made in reliance upon and in conformity with written information furnished to Buyer by such Seller for use in the preparation of the Registration Statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of Buyer or any such director, officer or controlling person and shall survive the transfer of such securities by such Seller.

(6) Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in Sections 6.13(a)(4) or (5), such indemnified party will, if a claim is to be made against an indemnifying party, give written notice to the latter of the commencement of such action, provided that the failure of any indemnified party to give notice shall not relieve the indemnifying party of its obligations under Sections 6.13(a)(4) or (5), except to the extent that the indemnifying party is actually materially prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment (i) a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim, or (ii) the indemnified party has available to it reasonable defenses which are different from or additional to those available to the indemnifying party, the indemnifying party shall be entitled to participate in and to assume the defense of such action, jointly with any other indemnifying party similarly notified, to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense of such action, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense of such action other than reasonable costs of investigation. Notwithstanding the foregoing, no indemnified party shall have the right to retain its own counsel but the fees and disbursements of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party shall have failed to retain counsel for the indemnified party, (ii) the indemnifying party and such indemnified party similarly notified, have mutually agreed to the retention of such counsel, or (iii) a conflict of interest arises between such indemnified and indemnifying parties. The indemnifying party shall not, in connection with any action or related actions in the same jurisdiction, be liable for the fees and disbursements of more than one separate firm qualified in such jurisdiction to act as counsel for the indemnified party. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent but if settled with such consent or if there is a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

(7) If the indemnification provided for in this Section 6.13(a)(4) and (5) is unavailable or insufficient to hold harmless an indemnified party in respect of any losses, claims, damages, liabilities or expenses described as indemnifiable pursuant to Sections 6.13(a)(4) or (5), then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party, as a result of such losses, claims, damages, liabilities or expenses in such proportion as appropriate to reflect the relative fault of Buyer, on the one hand, or such Seller, on the other hand, and to the parties' relative intent, knowledge, access to information and opportunity to correct or prevent any untrue statement or omission giving rise to such indemnification obligation. Buyer and Sellers
(other than MSAP or VI) agree that it would not be just and equitable if contributions pursuant to this Section 6.13(a)(7) were determined by pro rata allocation or by any other method of allocation which did not take account of the equitable considerations referred to above in this Section 6.13(a)(7). No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation.

(8) Periodic payments of amounts required to be paid pursuant to Section 6.13(a)(4) and (5) shall be made during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

(9) Except as provided below, Buyer shall bear all registration expenses incurred in connection with the performance of its obligations under Section 6.13(a), including all expenses incurred by Buyer in complying with Section 6.13(a), including, without limitation, all registration and filing fees; printing expenses; fees and disbursements of counsel for Buyer; blue sky fees and expenses; accountants' expenses, including, without limitation, any special audits or reviews incident to any such registration; and fees of transfer agents and registrars. Each Seller (other than MSAP and VI) shall pay commissions upon any resale, transfer taxes and their own counsel fees, if any.

(b) Alternate Proceeding. In lieu of complying with Section 6.13(a), if Buyer reasonably determines that the alternate proceeding described in this Section 6.13(b) is available, Buyer shall cause the shares of Charter Common Stock described in Section 6.13(a) to be issued pursuant to the exemption from registration provided by Section 3(a)(10) of the 1933 Act; and, in such event, Buyer shall (i) initiate an appropriate proceeding under applicable state law and shall obtain all permits or other approvals necessary for the availability of such exemption and (ii) cause the Exchange Agreement to be amended to provide for the commencement of the Exchange Period as of the Closing Date, and the termination of such Exchange Period on the third anniversary of the Closing Date.

Section 6.14. New GSHS Shares. (a) Each Seller, severally and not jointly, covenants and agrees with Buyer that it will take all necessary action to cause GSHS, at or prior to Closing, to amend its Certificate of Incorporation to increase the number of authorized shares of the common stock of GSHS to 15,000, in order that GSHS shall have authority under its Certificate of Incorporation to issue the New GSHS Shares and the shares of the common stock of GSHS to be issued to Buyer under the GPA Stock Exchange Agreement.

(b) Each Seller, severally and not jointly, covenants and agrees with Buyer that it shall, by check payable to GSHS, purchase prior to the Closing, and shall cause GSHS to sell to such Seller, such Seller's portion of the New GSHS Shares in the amounts and for the cash purchase prices set forth below:

<table>
<thead>
<tr>
<th>Seller</th>
<th>No. of Shares</th>
<th>Cash Purchase Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. BCBS</td>
<td>86.14</td>
<td>$1,066,660.49</td>
</tr>
<tr>
<td>2. HCSC</td>
<td>86.14</td>
<td>$1,066,660.49</td>
</tr>
<tr>
<td>3. IBC</td>
<td>86.14</td>
<td>$1,066,660.49</td>
</tr>
<tr>
<td>4. MSAP</td>
<td>86.14</td>
<td>$1,066,660.49</td>
</tr>
<tr>
<td>5. PCMB</td>
<td>86.14</td>
<td>$1,066,660.49</td>
</tr>
<tr>
<td>6. VI</td>
<td>86.14</td>
<td>$1,066,660.49</td>
</tr>
</tbody>
</table>
ARTICLE 7.
CONDITIONS TO BUYER'S OBLIGATION TO CLOSE

Buyer's obligation to consummate the Stock Purchase shall be subject to the satisfaction on or prior to the Closing Date of all of the following conditions (any of which may be waived in writing by Buyer in its sole discretion):

Section 7.1. Representations, Warranties and Covenants of GSHS and Sellers. Subject to the second sentence of this Section 7.1, the representations and warranties of GSHS and Sellers in this Agreement shall be true and correct on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date, except for representations and warranties that speak as of a specific date or time other than the Closing Date (which need only be true and correct as of such date or time). The closing condition contained in this Section 7.1, as it relates to representations and warranties, shall be satisfied unless the inaccuracies in and breaches of such representations and warranties have an adverse effect on GSHS and its Subsidiaries, taken as a whole, or on Buyer's ownership of the GSHS shares, of $5,000,000 or more. The covenants and agreements of GSHS and Sellers and GSHS to be performed on or before the Closing Date in accordance with this Agreement shall have been performed in all material respects.

Section 7.2. Filings; Consents; Waiting Periods. All registrations, filings, applications, notices, consents, approvals, waivers, authorizations, qualifications and orders to be filed, made or obtained by Buyer, GSHS or any Seller in order to consummate the transactions contemplated by this Agreement and the GPA Stock Exchange Agreement and to operate the business of GSHS and the Subsidiaries after Closing in compliance with all applicable laws and regulations shall have been filed, made or obtained. All waiting periods applicable under the HSR Act shall have expired or been terminated. Sellers, GSHS and applicable Subsidiaries shall have obtained the consent of the requisite parties to the agreements identified in Sections 3.6 and 3.16 of the GSHS Disclosure Schedule, which consents shall be in form and substance reasonably satisfactory to Buyer. GSHS shall have obtained written enforceable waivers with respect to all existing breaches and any continuing breaches (including any breaches anticipated to continue in the ordinary course of the business of GSHS and its Subsidiaries after the Closing) of agreements with those customers identified in Section 3.16 of the GSHS Disclosure Schedule, which waivers shall be in form and substance satisfactory to Buyer.

Section 7.3. No Injunction. There shall be no injunction, restraining order or decree of any nature of any Governmental Authority that is in effect that restrains, prohibits or makes illegal (i) the consummation of the Stock Purchase, (ii) imposes conditions on the consummation of the Stock Purchase not otherwise provided for in this Agreement, or (iii) the execution, delivery or performance of the Exchange Agreement, the GPA Stock Exchange Agreement, or the New Stockholders' Agreement.

Section 7.4. Closing Documents. Sellers shall have delivered or caused to be delivered to Buyer the following documents:

(a) True and correct copies of the Certificate of Incorporation of GSHS, certified by the Secretary of State of the State of Delaware as of a date not more than five Business Days preceding the Closing Date (except that Sellers shall only be required to deliver a true and correct copy of the amendment required by Section 6.14(a)), and true and correct copies of the bylaws of GSHS as in effect on the day prior to Closing, certified by the Secretary of GSHS;

(b) Good standing certificates relating to GSHS and each Subsidiary from their respective states of incorporation and each other jurisdiction in which GSHS or any Subsidiary is qualified to do business as a
foreign corporation, and good standing certificates relating to Sellers from their respective states of incorporation;

(c) Resolutions of the Board of Directors or a duly authorized committee of the Board of Directors of each Seller authorizing (to the extent such Seller is a party to the following agreements) the execution, delivery and performance of this Agreement, the Exchange Agreement and the New Stockholders' Agreement by such Seller, the execution, delivery and performance of the GPA Stock Exchange Agreement by GSHS, and authorizing the termination of the Old Shareholders' Agreement, certified by the Secretary of such Seller;

(d) A resolution of the Board of Directors of GSHS authorizing the execution, delivery and performance of this Agreement and the GPA Stock Exchange Agreement by GSHS, certified by the Secretary of GSHS;

(e) A certificate of the Secretary of each Seller attesting to the incumbency of the officers of such Seller executing this Agreement and the other certificates and agreements delivered or executed by such Seller at or prior to the Closing;

(f) A certificate of the Secretary of GSHS attesting to the incumbency of the officers of GSHS executing this Agreement and the GPA Stock Exchange Agreement and the other certificates and agreements delivered by GSHS at the Closing;

(g) A certificate of the Chairman of the Board, President or any Vice President of each Seller attesting on behalf of such Seller to the matters set forth in Section 7.1 with respect to such Seller;

(h) An opinion of counsel to Sellers and GSHS covering customary matters for legal opinions in stock purchase transactions, in form and substance reasonably satisfactory to Buyer and its counsel;

(i) A letter or letters addressed to the lenders under the Credit Agreement attaching the certificates and opinions delivered pursuant to subsections (a) through (h) of this Section 7.4 and authorizing such lenders to rely thereon; and

(j) Each Seller shall have delivered to Buyer the certificates representing the GSHS Shares and the certificates representing the New GSHS Shares, in each case to be sold by such Seller pursuant to this Agreement, free and clear of all liens, charges and encumbrances of any kind or nature and which are not in violation of any pre-emptive rights, and such delivery shall have been made in accordance with Section 2.3(a).

Section 7.5. Absence of Litigation. No claim, action, suit, arbitration, investigation, inquiry or other proceeding by any Governmental Authority with respect to this Agreement or the GPA Stock Exchange Agreement and the transactions contemplated by such agreements shall be pending on the Closing Date and, up to the Closing, no party to this Agreement shall have been advised by any Governmental Authority (which advisory has not been officially withdrawn by such Governmental Authority on or prior to the Closing Date) that such Governmental Authority is reviewing this Agreement or the GPA Stock Exchange Agreement or the transactions contemplated by this Agreement or the GPA Stock Exchange Agreement to determine whether to file or commence any litigation with respect to any aspect of this Agreement or the GPA Stock Exchange Agreement or the transactions contemplated by such agreements.

Section 7.6. Customer Contracts. Except for the Operating Agreement between GSHS and Gateway Health Plan, from the Balance Sheet date to the Closing Date, neither GSHS nor the Subsidiaries shall have suffered the loss of one or more Contracts with customers, whether by the termination or notice of termination of Contracts or by the failure to renew Contracts upon the expiration of such Contracts in accordance with their respective terms, which (i) in the aggregate comprised more than one percent (1%) of the consolidated revenue for GSHS and the Subsidiaries during the twelve-month period ended June
30, 1995; or (ii) in the case of Contracts the performance term of which began or begins after July 1, 1994, are projected to produce in the aggregate revenue in the twelve-month period ending June 30, 1996 of more than $1,000,000.

Section 7.7. Old Shareholders' Agreement. Sellers and GSHS shall have terminated the Old Shareholders' Agreement, effective on or before the Closing Date.

Section 7.8. Exchange Agreement. Sellers (except for MSAP and VI) and Buyer shall have executed and delivered the Exchange Agreement.

Section 7.9. GPA Stock Exchange Agreement. Buyer and GSHS shall have executed the GPA Stock Exchange Agreement on the date of this Agreement and the transaction contemplated by such agreement shall have been closed, such closing to include the delivery by Buyer to GSHS of certificates, duly endorsed for transfer, representing the GPA Common Stock and the delivery by GSHS to Buyer of a certificate representing 969.04 shares of the common stock of GSHS.

Section 7.10. New Stockholders' Agreement. Sellers (except for MSAP and VI), Buyer and GSHS shall have executed and delivered the New Stockholders' Agreement.

Section 7.11. Operating Agreements. Buyer shall have determined, in its reasonable judgment, that Buyer does not anticipate that any customer Contract in existence on the Closing Date between GSHS or a Subsidiary, on the one hand, and a Seller or a subsidiary or Affiliate of a Seller, on the other hand, will not be renewed, extended or replaced with a new Operating Agreement upon the expiration or termination of the Operating Agreement in existence on the Closing Date.

Section 7.12. Purchase of New GSHS Shares. Sellers shall have purchased the New GSHS Shares in accordance with Section 6.14(b).

Section 7.13. GSHS Certificate of Incorporation and Bylaws. The Certificate of Incorporation and bylaws of GSHS shall have been amended to remove any provisions reflecting the Old Shareholders' Agreement and to carry out the provisions of Section 6.14(a).

Section 7.14. Agreement Among Sellers. Any agreement among Sellers, among Sellers and any other person or among some of Sellers proposed by such parties to be entered into before, on or after the Closing Date, relating to the governance or operations of GSHS after the Closing Date shall be in form and substance satisfactory to Buyer, in its sole discretion, and shall, among other things, provide that any amendment is subject to approval by Buyer; provided, however, that this Section 7.14 shall not apply to any agreement with respect to which Buyer's approval is not required under Section 7.5 of the New Stockholders' Agreement.

Section 7.15. Fairness Opinion. Buyer and its Board of Directors shall have received an opinion of Paine Webber Incorporated or other investment banking firm engaged by Buyer to the effect that the transactions contemplated by this Agreement, the Exchange Agreement, the New Stockholders' Agreement and the GPA Stock Exchange Agreement are fair to Buyer and its stockholders from a financial point of view; and such fairness opinion shall be in form and substance satisfactory to Buyer, in its sole discretion.

Section 7.16. Credit Agreement. The Agent (as such term is defined in the Credit Agreement) shall have consented to the final forms of, and the
execution, delivery and performance by Buyer of, this Agreement, the Exchange Agreement and the New Stockholders' Agreement pursuant to the amendment referred to in Section 5.9; such amendment shall be effective on the Closing Date; and such amendment shall be in form and substance satisfactory to Buyer, in its sole discretion.

Section 7.17. Certain Capital Contributions. Each of VI and MSAP shall have made a cash capital contribution to GSHS in the amount of $163,333.

Section 7.18. Board Approvals. The Boards of Directors or authorized committees of such Boards (i) of Buyer and Sellers shall have approved this Agreement, (ii) of Buyer and Sellers (other than MSAP and VI) shall have approved the Exchange Agreement, the New Stockholders' Agreement and the GPA Stock Exchange Agreement (in the case of such Sellers, in their capacities as stockholders of GSHS), and (iii) of GSHS shall have approved the GPA Stock Exchange Agreement and the New Stockholders' Agreement; and the Board of Directors or an authorized committee of such Board of any Seller (other than MSAP and VI) shall not have exercised such Seller's right of termination pursuant to Section 10.1(d).

Section 7.19. GSHS Long-Term Compensation Plan. The GSHS Long-Term Compensation Plan shall have been terminated or amended (to the reasonable satisfaction of Buyer) for a cost of not more than the amount set forth in Section 6.11 of the GSHS Disclosure Schedule.

Section 7.20. Section 6.13. If Buyer, pursuant to the provisions of Section 6.13(b), complies with Section 6.13(b) in lieu of complying with Section 6.13(a), then the proceeding described in Section 6.13(b) shall have been completed and all permits and approvals requested by Buyer pursuant to such proceeding shall have been issued.

ARTICLE 8.
CONDITIONS TO SELLERS' OBLIGATIONS TO CLOSE

Each Seller's obligation to consummate the Stock Purchase is subject to the satisfaction on or prior to the Closing Date of all of the following conditions (any of which may be waived in writing by such Seller, in its sole discretion):

Section 8.1. Representations, Warranties and Covenants of Buyer and GSHS. The representations and warranties of Buyer and GSHS in this Agreement shall be true and correct on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date except for representations and warranties that speak as of a specific date or time other than the Closing Date (which need only be true and correct as of such date or time), and the covenants and agreements of Buyer and GSHS to be performed on or before the Closing Date in accordance with this Agreement shall have been performed in all material respects.

Section 8.2. Filings; Consents; Waiting Periods. All registrations, filings, applications, notices, consents, approvals, waivers, authorizations, qualifications and orders to be filed, made or obtained by Buyer, GSHS or any Seller in order to consummate the transactions contemplated by this Agreement and the GPA Stock Exchange Agreement and to operate the business of GSHS and the Subsidiaries after Closing in compliance with all applicable laws and regulations shall have been filed, made or obtained, and all waiting periods applicable under the HSR Act shall have expired or been terminated. Buyer shall have obtained the consents identified in Section 5.3 of the Buyer Disclosure Schedule and Section 5.14(j) of the GPA Disclosure Letter, which consents shall be in form and substance reasonably satisfactory to Sellers.
Section 8.3. No Injunction. The condition set forth in Section 7.3 shall have been satisfied.

Section 8.4. No Material Adverse Change. There shall not have occurred, alone or in the aggregate, a material adverse change in the business, operations or financial condition of Buyer since June 30, 1995.

Section 8.5. Closing Documents. Buyer shall have delivered or caused to be delivered to each Seller the following documents:

(a) A Secretary's certificate attesting to the incumbency of the officers executing this Agreement and the GPA Stock Exchange Agreement and the other certificates and agreements delivered by Buyer at the Closing;

(b) A certificate of the Chairman of the Board of Buyer attesting on behalf of Buyer to the matters set forth in Section 8.1;

(c) An opinion of counsel to the Buyer covering customary matters for legal opinions in stock purchase transactions, in form and substance reasonably satisfactory to Seller and its counsel;

(d) A resolution of the Board of Directors of Buyer authorizing the execution, delivery and performance by Buyer of this Agreement, the Exchange Agreement, the GPA Stock Exchange Agreement and the New Stockholders' Agreement.

(e) Good standing certificates relating to Buyer in Delaware and Georgia; and

(f) Buyer shall have paid and delivered to each Seller the Purchase Price payable to each Seller pursuant to this Agreement.

Section 8.6. Absence of Litigation. The condition set forth in Section 7.5 shall have been satisfied.

Section 8.7. Execution of Other Agreements. The conditions set forth in Sections 7.8 and 7.10 shall have been satisfied.

Section 8.8. GPA Stock Exchange; New GS HS Shares; GS HS Certificate of Incorporation and Bylaws. The conditions set forth in Sections 7.9, 7.12 and 7.13 shall have been satisfied.

Section 8.9. Credit Agreement. The conditions set forth in Section 7.16 shall have been satisfied.

Section 8.10. Board Approvals. The conditions set forth in Section 7.18 shall have been satisfied.

Section 8.11. Fairness Opinion. Sellers and each of their respective Boards of Directors shall have received an opinion of Dean Witter Reynolds Inc. or other investment banking firm engaged by Sellers or GS HS to the effect that the transactions contemplated by this Agreement, the Exchange Agreement, the New Stockholders' Agreement and the GPA Stock Exchange Agreement are fair to Sellers (to the extent they are parties to such agreements) and their respective stockholders from a financial point of view; and such fairness opinion shall be in form and substance satisfactory to Sellers, in their sole discretion.

Section 8.12. Section 6.13. If Buyer, pursuant to the provisions of
Section 6.13(b), complies with Section 6.13(b), the conditions set forth in Section 7.20 shall have been satisfied.

ARTICLE 9.
SURVIVAL; INDEMNIFICATION

Section 9.1. Survival. The representations and warranties of GSHS, Sellers and Buyer shall survive the Closing, as follows:

(a) indefinitely with respect to the representations and warranties contained in Sections 3.1 (first sentence only), 3.2, 3.3, 3.4(b), 3.22, 4.1, 4.2, 4.3, 5.1 (first sentence only), 5.2, 5.5 and 5.11;

(b) until sixty calendar days after the expiration of all applicable statutes of limitation (including all periods of extension or tolling, whether automatic, permissive or contractual) with respect to matters contained in Sections 3.14 (insofar as it relates to ERISA or the Code) and 3.15;

(c) until one year and 180 days after the Closing in the case of all other representations and warranties.

The covenants and agreements of Sellers and Buyer shall survive the Closing, as follows:

(a) until two years after the Closing in the case of covenants and agreements to be performed under this Agreement on or prior to Closing; and

(b) in the case of each other covenant and agreement to be performed under this Agreement, until 180 days after the last date on which such covenant or agreement is to be performed in accordance with this Agreement or, if no such date is specified, 3 years following the Closing, except that the indemnification provided by Sections 6.13(a)(4) and 5 and Section 9.2(b)(i)(B) shall survive indefinitely.

The survival period of any representation, warranty, covenant or agreement that would otherwise have terminated pursuant to the preceding two sentences shall nonetheless continue to survive if a claim under this Article 9 shall have been timely given with respect to such representation, warranty, covenant or agreement (but only as it relates to the claim) until the claim has been satisfied or otherwise resolved pursuant to this Article 9.

Section 9.2. Indemnification.

(a) Indemnification by Sellers. Subject to Section 9.1, each Seller agrees, severally and not jointly, to indemnify, defend and hold Buyer, its Subsidiaries, its Affiliates and its and their respective officers, directors and employees harmless from and against all Indemnifiable Damages which any of them may suffer or incur by reason of: (i) the breach or failure to perform by such Seller or GSHS of the covenants or agreements made by such Seller or GSHS in this Agreement to be performed at or prior to the Closing and, in the case of Sections 6.4, 6.7, 6.11 and 6.12, to be performed in whole or in part after the Closing; (ii) from and after the Closing: (A) the breach of or inaccuracy in any of the representations and warranties of GSHS or such Seller contained in this Agreement; or (B) any misrepresentation contained in any statement or certificate furnished by GSHS or such Seller to Buyer pursuant to this Agreement; (iii) for a period of five years after the Closing, any and all malpractice or professional liability claims against GSHS or a Subsidiary where the occurrence giving rise to such claim preceded or occurred on the Closing Date (provided, however, that the indemnification obligation of each Seller under this clause (iii) is expressly conditioned on the maintaining by GSHS continuously for a period of five years after the Closing Date of malpractice and professional liability insurance for occurrences through the Closing Date in amounts and on terms that are consistent with and comparable to the malpractice and professional liability policy or policies of GSHS in effect on the date of this Agreement); or (iv) the asset transfer provisions set forth in Section 2.1.1 of the Operating Agreement, dated May 1, 1992, by and between GSHS and Community Mutual Life Insurance Company, to the extent such section is deemed to
be applicable to the assets of any Person other than GSHS and its Subsidiaries existing prior to the Closing; and (v) any obligation of GSHS and its Subsidiaries to Blue Cross and Blue Shield of Maryland, Inc. under Section 7.13 of the Stock Purchase Agreement, dated as of March 19, 1993, by and among VI, HCSC, GS Holding, Inc. and Blue Cross and Blue Shield of Maryland, Inc. in excess of the amount accrued specifically for such liability on the books and records of GSHS as of the Balance Sheet Date.

(b) Indemnification by Buyer. Subject to Section 9.1, Buyer agrees to indemnify, defend and hold GSHS, each Seller, its Affiliates and their respective officers, directors and employees harmless from any and all Indemnifiable Damages which any of them may suffer or incur by reason of (i) (A) the breach of or failure to perform by Buyer of any of the covenants or agreements made by it in this Agreement or (B) any liability for any Tax payable by GPA or a GPA Subsidiary with respect to Tax liability of any member of any affiliated group of corporations filing a consolidated return for Federal income tax purposes, of which GPA or any GPA Subsidiary shall have been a member at any time prior to the Closing, including but not limited to, any liability for Taxes of the Buyer consolidated group for which GPA or a GPA Subsidiary might be liable under Treasury Regulation Section 1.1502-6 (or successor regulation), except for provisions for Taxes accrued on the books of GPA prior to Closing; or (ii) from and after the Closing: (A) the breach of or inaccuracy in any of the representations or warranties of Buyer contained in this Agreement; or (B) any misrepresentation contained in any statement or certificate furnished by Buyer to any Seller, to Sellers or to GSHS pursuant to this Agreement.

(c) Third-Party Claims. If any claim or demand is asserted against the indemnified party by a third party with respect to any matter under the indemnities set forth in Sections 9.2(a) or (b) ("Third Party Claim"), the indemnified party shall promptly give written notice and details thereof, including copies of all pleadings and the pertinent documents, to the indemnifying party, but the indemnifying party's obligations shall not be affected by the failure to give such notice except to the extent that it was materially prejudiced by such failure to give notice. Within thirty days of receipt of such notice, the indemnifying party shall (i) pay the Third Party Claim either in full or upon compromise agreed to by the indemnified party or (ii) notify the indemnified party that the indemnifying party disputes the Third Party Claim and intends to defend against it, and so defend and pay any adverse final judgment or award or settlement amount in regard to such third party claim. Such defense shall be controlled by the indemnifying party, and the cost of such defense shall be borne by it, except that the indemnified party shall have the right to participate in such defense at its own expense, and in such event counsel selected by the indemnified party shall be required to cooperate with such counsel of the indemnifying party in such defense. The indemnified party agrees that it will cooperate in all reasonable respects in the defense of any such claim or demand, including making personnel, books, and records relevant to the claim available to the indemnifying party, without charge, except for reimbursement of reasonable out-of-pocket expenses. The indemnifying party shall have the right to settle or compromise any Third Party Claim of which it has assumed the defense only upon the receipt of written consent to such settlement or compromise from the indemnified party, which consent shall not be unreasonably withheld. If any indemnified party unreasonably withholds consent pursuant to a settlement or compromise of a Third Party Claim of which the sole relief provided is monetary damages only, and such Third Party Claim is subsequently resolved or adjudicated for an amount of consideration which exceeds the amount of the consideration contained in such settlement or compromise, the indemnifying party's obligation with respect to such Third Party Claim shall not exceed the amount of the consideration contained in such settlement or compromise. The indemnified party may, in its sole discretion, withhold its consent to a settlement or compromise (i) if there is a finding or admission (A) of a violation of law by the indemnified party (which finding adversely affects the indemnified party), or (B) of a violation of the rights of any person which is not fully remedied by the payment to be made in settlement or (C) that would have a material adverse effect on any other claims that may be made against the indemnified party; (ii) if the sole relief provided is not monetary damages that are paid in full by the indemnifying party (if such
If the indemnifying party fails to take action within thirty days as set forth above, then the indemnified party shall have the right to pay, compromise or defend any Third Party Claim and to assert the amount of any payment on the Third Party Claim plus the expense of defense or settlement as an indemnity claim. The indemnified party shall also have the right, exercisable in good faith and upon reasonable prior notice to the indemnifying party, to take such action as may be necessary to avoid a default prior to the assumption of the defense of the Third Party Claim by the indemnifying party and any expenses incurred by so acting shall be paid by the indemnifying party.

(d) Payment. Payment of Third Party Claims shall be made in accordance with Section 9.2(c). With respect to all claims other than Third Party Claims, the indemnifying party shall promptly pay or reimburse the indemnified party in respect of liability for Indemnifiable Damages to which the foregoing indemnities relate after receipt of written notice from the indemnified party outlining with reasonable particularity the nature and amount of the claim(s) and accompanied by a reasonable amount of relevant documentation. All claims for indemnity must be submitted by the indemnified party to the indemnifying party within the applicable survival periods set forth above. If the indemnifying party fails or refuses to make payment for such claims within a period of thirty days from the date of notice to the indemnifying party, the indemnified party shall be entitled to exercise all legal means of relief available.

(e) Access and Information. With respect to any claim for indemnification under this Agreement, the indemnified party will give to the indemnifying party and its counsel, accountants and other representatives reasonable access, during normal business hours and upon the giving of reasonable prior notice, to their books and records relating to such claims, and to their employees, accountants, counsel and other representatives, all without charge to the indemnifying party, except for reimbursement of reasonable out-of-pocket expenses. In this regard, after the assertion of a claim for indemnity, the indemnified party agrees to maintain any of its books and records which may relate to the claim for indemnification for such period of time as may be necessary to enable the indemnifying party to resolve such claim.

(f) Monetary Limitations on Indemnification. Sellers shall not be obligated under this Agreement to indemnify Buyer with respect to any liabilities, losses, claims, judgments, damages, expenses and costs as to which Buyer is otherwise entitled to indemnification under Section 9.2(a)(ii) and (iii) unless and until the aggregate amount of indemnification so asserted exceeds the Basket Amount, and thereafter Buyer shall be entitled to indemnity from Sellers under this Agreement only with respect to any amounts in excess of the Basket Amount. Each Seller's obligation to indemnify Buyer pursuant to this Article 9 shall be limited to Twenty-four Million Seven Hundred Sixty-six Thousand and Six Hundred Eighty-five and 79/100 Dollars ($24,766,685.79). Buyer's obligation to indemnify Sellers pursuant to Section 9.2(b)(ii) shall be subject to the same limitation based on the Basket Amount, and claims of individual Sellers shall be aggregated for purposes of determining whether the Basket Amount has been exceeded. No losses shall be asserted with respect to any matter which is covered by insurance to the extent that proceeds of such insurance are received. Each Seller is individually liable for one hundred percent of the Indemnifiable Damages relating to any breach of its own representations, warranties and covenants, and is liable for one-sixth of the Indemnifiable Damages relating to any breach of any representations, warranties and covenants of GSHS and of the matters set forth in clauses (iii) through (v) of Section 9.2(a).

(g) Appointment of Agent for Service of Process; Submission to Jurisdiction. Any legal action or proceeding with respect to this Agreement or any document related to this Agreement may be brought in the courts of the State of Delaware or of the United States of America for the District of Delaware, and, by execution and delivery of this Agreement, Buyer, and each Seller consents, for itself and in respect of its property, to the jurisdiction of the
aforesaid courts solely for the purpose of adjudicating its rights with respect to this Agreement or any document related to this Agreement. Each party, at or prior to Closing, shall designate an agent as the designee, appointee and agent of such party to receive, for and on behalf of such party, service of process in such jurisdictions in any legal action or proceeding with respect to this Agreement or any document related to this Agreement and such service shall, to the extent permitted by applicable law, be deemed completed ten days after delivery thereof to said agent. It is understood that a copy of such process served on such agent will be promptly forwarded by mail to such party at its address set forth in Section 11.6, but the failure of such party to receive such copy shall not, to the extent permitted by applicable law, affect in any way the service of such process. Buyer and each Seller irrevocably waive, to the extent permitted by applicable law, any objection, including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter have to the bringing of any action or proceeding in such respective jurisdictions in respect of this Agreement or any document related to this Agreement. Nothing in this Agreement shall affect the right of any party to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

Section 9.3. Exclusive Remedy.

(a) Buyer and each Seller acknowledge and agree that its sole and exclusive remedy with respect to any and all claims as to any breach of or inaccuracy in the representations and warranties or breach of or failure to perform the covenants or agreements contained in this Agreement shall be pursuant to the indemnification provisions set forth in this Article 9. In furtherance of the preceding sentence, Buyer and each Seller waive, to the fullest extent permitted under applicable law, any and all rights, claims and causes of action it may have against Sellers, a Seller or Buyer, as the case may be, arising under or based upon any federal, state or local statute, law, ordinance, rule or regulation (including, without limitation, any such rights, claims or causes of action arising under or based upon common law or otherwise) with respect to any breach or inaccuracy of the representations and warranties or failure to perform the covenants or agreements contained in this Agreement. The written waiver of a closing condition by any party shall constitute a waiver by such party of any claim under this Section 9 against any other party with respect to the matter or matters covered by such written waiver.

(b) Notwithstanding the foregoing subsection (a), nothing contained in this Section 9.3 shall prevent any party from seeking and obtaining specific performance by the other party of any of its obligations under this Agreement as provided in Section 11.10 or from seeking and obtaining injunctive relief against the other party's activities in breach of this Agreement.

(c) Anything to the contrary in this Agreement notwithstanding, no breach of any representation or warranty or failure to perform a covenant or agreement contained in this Agreement shall give rise to any right on the part of Buyer or any Seller after the Closing to rescind this Agreement or any of the transactions contemplated by this Agreement.

ARTICLE 10.
TERMINATION

Section 10.1. Termination. This Agreement may be terminated at any time prior to Closing by:

(a) the mutual consent of Sellers (acting jointly) and Buyer;

(b) Sellers (acting jointly) or Buyer if the Closing has not occurred by the close of business on February 29, 1996, so long as the failure to consummate the transaction on or before such date did not result from a
breach of this Agreement by the party seeking termination of this Agreement;

(c) at any time before the Closing, by any Seller or Buyer, in the event (i) of a material breach of this Agreement hereof by any non-terminating party if such non-terminating party fails to cure such breach within five Business Days following notification by any one or more of the terminating parties or (ii) upon notification to the non-terminating parties by the terminating party that the satisfaction of any condition to the terminating party's obligations under this Agreement has become impossible or impracticable with the use of best efforts if the failure of such condition to be satisfied is not caused by a breach by the terminating party (and, for purposes of (b) and (c) only, a breach or material breach by any Seller shall constitute a breach or material breach, as the case may be, by Sellers); or

(d) If such termination is required pursuant to any final and nonappealable judgment or order entered in any judicial or administrative proceeding initiated by a Governmental Antitrust Authority.

Section 10.2. Procedure and Effect of Termination. In the event of termination of this Agreement pursuant to Section 10.1, written notice of such termination shall promptly be given by the terminating party to the other party, and this Agreement shall upon that notice terminate and become void and have no effect, and the transactions contemplated by this Agreement shall be abandoned without further action by the parties, except that the provisions of the Confidentiality Agreement and Section 11.5 shall survive the termination of this Agreement, provided, however, that such termination shall not relieve any party of any liability for any breach by it of this Agreement.

ARTICLE 11.
MISCELLANEOUS

Section 11.1. Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party. The execution and delivery of this Agreement by all Sellers shall constitute unanimous GSHS stockholder approval of the execution and delivery of this Agreement by GSHS.

Section 11.2. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware applicable to a contract executed and performed in such state without reference to the choice of law principles of such state.

Section 11.3. No Third Party Beneficiaries. Nothing in this Agreement is intended, nor shall it be construed, to confer any rights or benefits upon any Person (including, but not limited to, any employee or former employee of GSHS or any Subsidiary) other than Sellers and Buyer (and their successors and assigns to the extent specifically permitted by Section 11.7) and no other Person not a party to this Agreement shall have any rights or remedies under this Agreement, except for Persons entitled to indemnification under Article 9 (and such rights and remedies shall be limited solely to those provided by Article 9).

Section 11.4. Entire Agreement. This Agreement, the Buyer Disclosure Schedule, the GPA Disclosure Letter, the GSHS Disclosure Schedule, the Seller Disclosure Schedule, the letter agreement, dated the date of this Agreement, between Buyer and Sellers, the Exchange Agreement, the GPA Stock Exchange Agreement and the New Stockholders' Agreement contain the entire agreement between the parties with respect to the subject matters of this Agreement and such other agreements, and such agreements supersede all prior drafts of such agreements, all prior and contemporaneous agreements, representations, negotiations, discussions, correspondence, communications, the letter of intent, dated September 14, 1995, between Buyer and GSHS, term sheets and understandings
of the parties, except for the Confidentiality Agreement, which agreement is ratified and remains in full force and effect. There are no agreements, understandings, representations and warranties between the parties other than those set forth or referred to in this Agreement and such specifically listed above other agreements.

Section 11.5. Expenses. Except as set forth in this Agreement, whether the Stock Purchase is or is not consummated, all legal and other costs and expenses incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such costs and expenses, except that Sellers and Buyer each shall pay and be responsible for one-half of any stock transfer taxes applicable to the sale of the GSHS Shares.

Section 11.6. Notices. All notices under this Agreement shall be sufficiently given for all purposes under this Agreement if in writing (a) when delivered personally; (b) three Business Days after mailing in the United States Postal Service; (c) one day after sending by documented overnight delivery service; or (d) when receipt is confirmed, by telexcopy, telefax or other electronic transmission service to the appropriate address or number as set forth below.

Notices to Sellers shall be addressed to:

Blue Cross and Blue Shield of New Jersey, Inc.
3 Penn Plaza East
Newark, New Jersey 07105-2200
Attention: Robert J. Pures
Telexcopy: (201) 466-8288

with a copy to:

Blue Cross and Blue Shield of New Jersey, Inc.
3 Penn Plaza East
Newark, New Jersey 07105-2200
Attention: Susan S. Connor, Esq.
Telexcopy: (201) 466-7759

Health Care Service Corporation
233 North Michigan Avenue
Chicago, Illinois 60601
Attention: Sherman Wolff
Telexcopy: (312) 819-1220

with a copy to:

Kirkland & Ellis
200 E. Randolph Drive
Chicago, Illinois 60601
Attention: Robert Kinderman, Esq.
Telexcopy: (312) 861-2200

Independence Blue Cross
1901 Market Street
Philadelphia, Pennsylvania 19103
Attention: Richard J. Neeson
Telexcopy: (215) 241-3527

with copies to:

Independence Blue Cross
1901 Market Street
Philadelphia, Pennsylvania 19103
Attention: Patricia R. Hatler, Esq.
Telexcopy: (215) 241-2426
and

Dilworth, Paxson, Kalish & Kauffman
3200 Mellon Bank Center
1735 Market Street
Philadelphia, Pennsylvania 19103-7596
Attention: Joseph P. Canuso, Esq.

Teletypewriter: (215) 575-7200

Medical Service Association of Pennsylvania, Inc.
1800 Center Street
Camp Hill, Pennsylvania 17089
Attention: Walter F. Froh
Teletypewriter: (717) 731-2362

with a copy to:

Buchanan Ingersoll, P.C.
One Oxford Centre
301 Grant Street, 20th Floor
Pittsburgh, Pennsylvania 15219-1410
Attention: Thomas G. Buchanan, Esq.
Teletypewriter: (412) 562-1041

Pierce County Medical Bureau, Inc.
1501 Market Street
P.O. Box 2354
Tacoma, Washington 98401-2354
Attention: Donald P. Sacco
Teletypewriter: (206) 597-7023

with a copy to:

Karr, Tuttle & Campbell
1201 Third Avenue
Suite 2900
Seattle, Washington 98101
Attention: Walt Maas, Esq.
Teletypewriter: (206) 682-7100

Veritus, Inc.
120 Fifth Avenue Place
Pittsburgh, Pennsylvania 15222
Attention: Neil Hollander
Teletypewriter: (412) 255-8650

with a copy to:

Doepken Keveican Weiss & Medved
37th Floor, USX Tower
600 Grant Street
Pittsburgh, Pennsylvania 15219
Attention: David Hirsch, Esq.
Teletypewriter: (412) 355-2609

and a copy of Notices to any Seller to:
or at such other address and to the attention of such other person as each Seller may designate by written notice to Buyer. Notices to GSHS shall be addressed to:

Green Spring Health Services, Inc.
Clark Building, Suite 500
5565 Sterret Place
Columbia, Maryland 21044-2642
Attention: Joyce N. Fitch, Esq.
Telecopier: (410) 740-2686

with a copy to:

Venable, Baetjer and Howard, LLP
1800 Mercantile Bank and Trust Building
Two Hopkins Plaza
Baltimore, Maryland 21201
Attention: Alan D. Yarbro, Esq.
Telecopier: (410) 244-7742

or at such other address and to the attention of such other person as may designate by written notice to Buyer. Notices to Buyer shall be addressed to:

Charter Medical Corporation
Suite 1400
3414 Peachtree Road, N.E.
Atlanta, Georgia 30326
Attention: Michael Catalano
Telecopier: (404) 814-5797

with copies to:

Charter Medical Corporation
3414 Peachtree Road, N.E.
Atlanta, Georgia 30326
Attention: Cherie M. Fuzzell, Esq.
Telecopier: (404) 814-5795

and

55

King & Spalding
191 Peachtree Street
Atlanta, Georgia 30303
Attention: Robert W. Miller, Esq.
Telecopier: (404) 572-5144

or to such other address and to the attention of such other person as Buyer may designate by written notice to Sellers.

Section 11.7. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns; provided, however, except for the right of Buyer to grant to or for the benefit of the lenders under the Credit Agreement a security interest in its rights under this Agreement pursuant to the Credit Agreement and the documents from time to time securing the same, no party to this Agreement shall have the right to assign its rights or interests in or delegate its obligations under this Agreement without the express prior written
Section 11.8. Headings; Definitions. The section and article headings contained in this Agreement are inserted for convenience and reference only and will not affect the meaning or interpretation of this Agreement. All references to Sections or Articles contained in this Agreement mean Sections or Articles of this Agreement unless otherwise stated. All capitalized terms defined in this Agreement are equally applicable to both the singular and plural forms of such terms.

Section 11.9. Amendments and Waivers. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. Any party to this Agreement may, only by an instrument in writing, waive compliance by the other party to this Agreement with any term or provision of this Agreement. The waiver by any parties to this Agreement of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach.

Section 11.10. Specific Performance. Each of the parties acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement and that irreparable harm would result if this Agreement were not specifically enforced. Therefore, the rights and obligations of the parties under this Agreement shall be enforceable by a decree of specific performance issued by any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection with such decree. A party's right to specific performance shall be in addition to all other legal or equitable remedies available to such party.

Section 11.11. Severability of Provisions. If any provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner adverse to any party. Upon any such determination, the parties to this Agreement shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated to this Agreement are fulfilled to the extent possible.

Section 11.12. Seller Liability. Except as otherwise set forth in this Agreement, any representations or warranties of, any obligations of, or actions required to be taken by, Sellers set forth in this Agreement shall be several and not joint.

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the parties as of the date first above written.

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, INC.

By:         /s/ Robert J. Pures

Title: Senior Vice President -
         Administration, Chief
         Financial Officer and
         Treasurer
HEALTH CARE SERVICE CORPORATION

By: /s/ Sherman R. Wolff
Title: Senior Vice President

INDEPENDENCE BLUE CROSS

By: /s/ G. Fred DiBona, Jr.
Title: President and Chief Executive Officer

MEDICAL SERVICE ASSOCIATION OF PENNSYLVANIA

By: /s/ Samuel D. Ross
Title: President and Chief Executive Officer

PIERCE COUNTY MEDICAL BUREAU

By: /s/ Donald P. Sacco
Title: Chairman

VERITUS, INC.

By: /s/ William M. Lowry
Title: President and Chief Executive Officer

CHARTER MEDICAL CORPORATION

By: /s/ E. M. Crawford
Title: Chief Executive Officer

GREEN SPRING HEALTH SERVICES, INC.

By: /s/ Henry Harbin
Title: President and Chief Executive Officer
GPA STOCK EXCHANGE AGREEMENT

between

GREEN SPRING HEALTH SERVICES, INC.

and

CHARTER MEDICAL CORPORATION

dated

November 14, 1995

CONFORMED COPY

GPA STOCK EXCHANGE AGREEMENT

THIS GPA STOCK EXCHANGE AGREEMENT ("Agreement") dated as of the 14th
day of November, 1995, is made and entered into by and between Charter Medical
Corporation, a Delaware corporation ("Charter") and Green Spring Health
Services, Inc., a Delaware corporation ("GSHS");

WHEREAS, Charter owns of record and beneficially all of the currently
outstanding shares of common stock of Group Practice Affiliates, Inc., a
Delaware corporation and a wholly-owned subsidiary of Charter ("GPA"); and

WHEREAS, GSHS wishes to acquire and Charter wishes to transfer all of
the GPA Common Stock in a transaction intended to qualify as a reorganization
within the meaning of Section 368(a)(1)(B) of the Code (the exchange of such
shares is referred to in this Agreement as the "GPA Stock Exchange");

NOW THEREFORE, upon the terms and subject to the conditions set forth
in this Agreement and the Stock Purchase Agreement (as defined herein), the
parties agree as follows:

ARTICLE I.

TRANSFER OF STOCK; CLOSING

Section 1. Number of Shares. Charter agrees to transfer to GSHS all
of the GPA Common Stock representing all of the issued and outstanding shares of common stock of GPA in exchange for an aggregate of 969.04 shares of voting common stock of GSHS, par value $0.01 per share, to be issued at the Closing to Charter.

Section 2. Transfer and Delivery of the GPA Common Stock and the New GSHS Shares. At the GPA Closing, Charter shall sell, assign, transfer and deliver to GSHS all of the GPA Common Stock by delivery to GSHS of a certificate or certificates representing such GPA Common Stock, duly endorsed for transfer or accompanied by duly executed stock powers. As provided for in the Stock Purchase Agreement, GSHS shall, immediately upon the GPA Closing and the Closing, issue to Charter a certificate or certificates, in the name of Charter, representing the GSHS Shares and the New GSHS Shares.

Section 3. Time and Place of Closing. The closing (the "GPA Closing") of the GPA Stock Exchange will be held at the same time and place as the Closing.

ARTICLE II.
TERMINATION

Section 1. Termination. This Agreement may be terminated at any time prior to the GPA Closing by either party to this Agreement upon the termination of the Stock Purchase Agreement.

Section 2. Procedure and Effect of Termination. In the event of termination of this Agreement pursuant to Section 1 of this Article II, written notice of such termination shall promptly be given by the terminating party to the other party, and this Agreement shall upon that notice terminate and become void and have no effect, and the transactions contemplated by this Agreement shall be abandoned without further action by the parties, except that the provisions of the Confidentiality Agreement and Section 11.5 of the Stock Purchase Agreement shall survive the termination of this Agreement, provided, however, that such termination shall not relieve any party of any liability for any breach by it of this Agreement.

ARTICLE III.
MISCELLANEOUS

Section 1. Stock Purchase Agreement. Capitalized terms used but not otherwise defined in this Agreement shall have the definitions ascribed to such terms in that certain Stock Purchase Agreement, dated as of the 14th day of November, 1995, by and among Blue Cross and Blue Shield of New Jersey, Inc., a New Jersey health service corporation, Health Care Service Corporation, an Illinois legal mutual reserve company, Independence Blue Cross, a Pennsylvania non-profit hospital plan corporation, Medical Service Association of Pennsylvania, a Pennsylvania corporation, Pierce County Medical Bureau, Inc., a Washington non-profit corporation, Veritus, Inc., a Pennsylvania non-profit corporation, GSHS and Charter.

Section 2. Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party.

Section 3. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware applicable to a contract executed and performed in such state without reference to the choice of law principles of such state.

Section 4. No Third Party Beneficiaries. Nothing in this Agreement is intended, nor shall it be construed, to confer any rights or benefits upon any Person (including, but not limited to, any employee or former employee of GSHS or any Subsidiary) other than Charter and GSHS (and their successors and assigns
Section 5. Entire Agreement. This Agreement, the Buyer Disclosure Schedule, the GPA Disclosure Letter, the GSLS Disclosure Schedule, the Seller Disclosure Schedule, the Exchange Agreement, the Stock Purchase Agreement and the New Stockholders' Agreement contain the entire agreement between the parties with respect to the subject matters of this Agreement and such other agreements, and such agreements supersede all prior and contemporaneous agreements, representations, negotiations, discussions, correspondence, communications, term sheets and understandings of the parties, except for the Confidentiality Agreement, which agreement is ratified and remains in full force and effect. There are no agreements, understandings, representations and warranties between the parties other than those set forth or referred to in this Agreement and such specifically listed above other agreements.

Section 6. Notices. All notices under this Agreement shall be sufficiently given for all purposes under this Agreement if in writing (a) when delivered personally; (b) three Business Days after mailing in the United States Postal Service; (c) one day after sending by documented overnight delivery service; or (d) when receipt is confirmed, by telecopy, telefax or other electronic transmission service to the appropriate address or number as set forth below.

Notices to GSHS shall be addressed to:

Green Spring Health Services, Inc.
Clark Building, Suite 500
5565 Sterret Place
Columbia, Maryland 21044-2642
Attention: Joyce N. Fitch, Esq.
Telecopier: (410) 740-2686

CONFORMED COPY

with a copy to:

Venable, Baetjer and Howard, LLP
1800 Mercantile Bank and Trust Building
Two Hopkins Plaza
Baltimore, Maryland 21201
Attention: Alan D. Yarbro, Esq.
Telecopier: (410) 244-7742

or at such other address and to the attention of such other person as may designate by written notice to Charter. Notices to Charter shall be addressed to:

Charter Medical Corporation
Suite 1400
3414 Peachtree Road, N.E.
Atlanta, Georgia 30326
Attention: Michael Catalano
Telecopier: (404) 814-5797

with copies to:

Charter Medical Corporation
3414 Peachtree Road, N.E.
Atlanta, Georgia 30326
Attention: Cherie M. Fuzzell, Esq.
Telecopier: (404) 814-5795

and

King & Spalding
191 Peachtree Street
Atlanta, Georgia 30303
or to such other address and to the attention of such other person as Charter may designate by written notice to GSHE.

Section 7. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns; provided, however, except for the right of Charter to grant to or for the benefit of the lenders under the Credit Agreement a security interest in its rights under this Agreement pursuant to the Credit Agreement and the documents from time to time securing the same, neither party to this Agreement shall have the right to assign its rights or interests in or delegate its obligations under this Agreement without the express prior written consent of the other party to this Agreement.

Section 8. Amendments and Waivers. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. Any party to this Agreement may, only by an instrument in writing, waive compliance by the other party to this Agreement with any term or provision of this Agreement. The waiver by any party to this Agreement of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach.

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the parties as of the date first above written.

CHARTER MEDICAL CORPORATION

By: /s/ E. M. Crawford
    ----------------------------------------
    Title: Chief Executive Officer

GREEN SPRING HEALTH SERVICES, INC.

By: /s/ Henry Harbin
    ----------------------------------------
    Title: President and Chief Executive Officer
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<td>.35</td>
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<tr>
<td><strong>EPS-DILUTED</strong></td>
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