

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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INSPIRE INSURANCE SOLUTIONS INC

CIK: **1042051** | IRS No.: **752595937** | State of Incorporation: **TX** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-23005** | Film No.: **99574449**
SIC: **6411** INSURANCE AGENTS, BROKERS & SERVICE

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 UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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 NUMBER 000-23005

INSPIRE INSURANCE SOLUTIONS, INC.
 (Exact Name of Registrant as Specified in Its Charter)

<TABLE>	
<S>	<C>
TEXAS	73-2595937
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
300 BURNETT STREET	
FORT WORTH, TEXAS	76102
(Address of Principal Executive Offices)	(Zip Code)
</TABLE>	

Registrant's telephone number, including area code: (817) 348-3900

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

<TABLE>	
<CAPTION>	
TITLE OF CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
-----	-----
<S>	<C>
None	N/A
</TABLE>	

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

COMMON STOCK, PAR VALUE \$.01 PER SHARE
 (Title of Class)
 SERIES A JUNIOR PREFERRED STOCK PURCHASE RIGHTS
 (Title of Class)

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

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

As of March 15, 1999, the aggregate market value of voting stock held by non-affiliates was \$216,480,692.

As of March 15, 1999, there were 18,763,558 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the 1999 Annual Meeting is incorporated into Part III of this Form 10-K by reference.

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FORWARD-LOOKING STATEMENTS

This Form 10-K (the "Form 10-K") (including the annual report to shareholders (the "Annual Report") accompanying this Form 10-K) contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). When used in this Form 10-K (including the Annual Report accompanying this Form 10-K), words such as "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to INSpire Insurance Solutions, Inc. ("INSpire" or the "Company") or its management, identify forward-looking statements. These forward-looking statements are based on information currently available to INSpire's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to difficulties associated with growth, INSpire's dependence on major customers and limited operating history, technological change, competitive factors and pricing pressures, product development risks, changes in legal and regulatory requirements, general economic conditions and other factors described in "Item 7 -- Management's Discussion and Analysis of

Financial Condition and Results of Operations." Such statements reflect the current views of INSpire's management with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of INSpire. All subsequent written and oral forward-looking statements attributable to INSpire or persons acting on its behalf are expressly qualified in their entirety by this paragraph. The risk factors set forth in INSpire's Registration Statement on Form S-1 (Registration No. 333-47413), filed with the Securities and Exchange Commission and declared effective on March 27, 1998, are hereby incorporated by reference.

PART I

ITEM 1. BUSINESS

INTRODUCTION

INSpire is a leading provider of policy and claims administration solutions to the property and casualty ("P&C") insurance industry, offering a comprehensive choice of outsourcing services and software and software services. INSpire's outsourcing services, which generally are provided on a percentage of premiums written or claims paid basis, include application of underwriting and rating criteria defined by the insurer, policy issuance, policyholder mailings, customer service, billing and collections, claims adjusting and processing, and information technology ("IT") services. INSpire's software products include policy and claims administration systems, as well as systems that increase the productivity of insurers by automating certain functions, such as workflow management, underwriting rules and guidelines, document production and rating algorithms. These systems, which run on a variety of platforms including IBM AS/400, IBM RS/6000, Windows 3.1, Windows 95 and Windows NT, enable INSpire's customers to conduct their policy and claims administration more efficiently. INSpire's software services include installation, customization, conversion and maintenance of these systems to meet customer specifications.

OVERVIEW OF THE PROPERTY AND CASUALTY INSURANCE INDUSTRY

The P&C insurance industry provides financial protection for individuals, businesses and others against losses of property or losses by third parties for which the insured is liable. P&C insurers underwrite policies that cover various types of risk, which can generally be divided into (i) personal lines of insurance covering individuals and (ii) commercial lines of insurance covering businesses. Personal lines generally include automobile insurance (physical damage and liability insurance) and homeowners' insurance. Commercial lines generally include workers' compensation, business, directors and officers liability, theft and medical malpractice insurance as well as insurance covering other commercial risks.

The P&C insurance industry is highly competitive. Insurance companies compete primarily on the basis of price, consumer satisfaction and claims paying ability. According to A.M. Best Company ("A.M. Best"),

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as of December 31, 1997, there were approximately 3,000 P&C insurance companies in the United States generating approximately \$280 billion in annual premium revenues, of which approximately 42% were written by the top 10 insurers. Based on statistics released by the Insurance Services Office, an industry advisory organization, premium revenues for the P&C insurance industry over the past several years have been increasing approximately 3% annually.

According to a study published by A.M. Best, the 10 largest insured catastrophes have occurred since 1989, including Hurricane Andrew in 1992, the Northridge, California earthquake in 1994 and Hurricane Hugo in 1989. INSpire believes that these catastrophes have caused insurers to decrease their exposure in areas prone to natural disasters. Much of the excess demand created by insurers leaving markets is being met by reinsurers and new market entrants that have not made significant infrastructure investments and do not desire to do so. INSpire believes that its ability to deliver services priced as a percentage of premiums written or claims paid should be attractive to these new entrants because it will enable them to enter new markets without incurring substantial fixed infrastructure costs.

According to the National Association of Independent Insurers, information

systems expenses as a percentage of written premiums increased from 2.5% in 1992 to 3.3% in 1996. INSpire believes that this increasing investment in information systems is indicative of the demand for automation in the P&C insurance industry. This demand promotes the sale of software and software services and represents an opportunity to provide outsourcing services for those insurers that do not wish to make increasing levels of capital expenditures.

NEED FOR INFORMATION MANAGEMENT AND WORK PROCESS AUTOMATION

Technology is a critical element in an insurance company's ability to compete. Insurance companies use technology and information systems as management tools to compete more effectively by improving efficiency, managing costs and increasing customer satisfaction. A highly technical industry has evolved to meet the unique needs of P&C insurers to manage and process large amounts of policyholder data. Insurers are shifting their focus away from finding more efficient means of storing information toward more efficient ways of processing information.

INSpire provides a wide variety of services and products to manage and process policy and claims information more efficiently, including (i) software and software services, (ii) policy administration services, (iii) claims administration services and (iv) IT services. INSpire also provides both policy and claims administration outsourcing services to enable customers to operate as "virtual insurance companies" allowing these customers to eliminate infrastructures necessary for such purposes. INSpire believes there are significant opportunities to market its services and products for the following reasons:

- Economies of Technology. The investment in information systems necessary for P&C insurers to remain competitive is often cost prohibitive, particularly for smaller companies, because of the specialized technical knowledge required to develop, install, operate and maintain sophisticated systems. INSpire's services and products allow insurance companies to take advantage of economies of technology by leveraging INSpire's investment in software systems and productivity tools.
- Trend Toward Direct Sales. Many insurers of personal lines are able to reduce costs and premiums by selling policies directly to policyholders rather than through independent agents. This trend has created opportunities for INSpire to market its services and products to both insurers that sell directly to policyholders and those that continue to sell through independent agents. Automation of the policy and claims administration functions allows insurers selling directly to customers to provide services efficiently that were traditionally performed by agents. Automation also enables insurers that sell through agents to reduce administration costs to compete more effectively with insurers that sell directly to policyholders.
- Year 2000 Issue. The Year 2000 issue manifests itself in the policy and claims administration area. The Year 2000 issue arose because, until recently, most software systems were not programmed to correctly recognize dates beyond December 31, 1999. INSpire believes that many insurance companies

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may resolve the Year 2000 issue by either (i) purchasing new software systems or (ii) entirely outsourcing their policy and claims needs rather than incurring the cost of updating their old systems.

- State Regulation. P&C insurers are subject to supervision and regulation on a state-by-state basis with respect to numerous aspects of their business. State insurance regulators closely regulate the product offerings, claims processes and premium structure of insurance companies. State regulators also require insurance companies to file annual and other reports relating to their financial condition. Policy and claims administration systems can facilitate compliance with numerous regulatory requirements by automating statutory reporting and other compliance tasks.
- Customer Service. As policyholders demand faster, broader and better service, P&C insurers that provide superior customer service enjoy a competitive advantage. Policyholders frequently cite dissatisfaction with

policy or claims handling processes as a cause of policy nonrenewal. By providing good customer service, insurance companies can retain existing policyholders, which is more cost effective than attracting new policyholders away from a competitor. Automation and outsourcing can allow insurance companies to improve customer service while lowering fixed costs.

TREND TOWARD OUTSOURCING

Since the late 1980s, many P&C insurers have sought to use third parties to provide certain functions or services that the insurers historically performed in-house. These companies seek to focus on their core competencies, reduce costs and avoid the significant investment associated with developing, installing, operating and maintaining information management and automation systems. INSpire believes that insurance companies increasingly will conclude that policy and claims administration and regulatory compliance are too complicated, costly and administratively burdensome to be performed in-house. Other factors contributing to the outsourcing trend include the following:

- Need for Flexibility. Many P&C insurers lack the ability to respond rapidly to changing market conditions. Outsourcing enables insurance companies to enter new markets quickly and cost-effectively to take advantage of favorable market conditions without incurring substantial fixed infrastructure costs.
- Need to Diversify Risk. Many P&C insurers are overexposed to risks from natural catastrophes in certain markets. Because many states restrict the ability of insurers to cancel policies or exit particular lines of business, these insurers often cease writing new policies and outsource the administration of their remaining policies and claims ("stranded policies"). Alternatively, insurers may reduce their risk by reinsuring policies with other insurers that do not have a similar geographic concentration or by allowing other insurers to renew the stranded policies. As insurers leave markets, they create demand for outsourcing the policy and claims administration of the stranded policies.
- Desire to Maximize Statutory Surplus. As most state regulations require insurance companies to maintain certain ratios of surplus to premiums, insurance companies that maximize surplus are able to write greater total premiums. Insurance companies cannot capitalize, for statutory-basis financial statement reporting purposes, most of the hardware and software they purchase or develop for policy and claims administration. As a result, an insurance company with a large investment in its policy and claims administration infrastructure generally will experience a lower statutory surplus than it would if it were to outsource its policy and claims administration.
- Virtual Insurance Companies. Regulatory changes have permitted new companies that are not traditional insurance companies to enter the P&C insurance industry. Banks, credit unions and other financial services companies are beginning to underwrite P&C insurance. These new entrants often do not have policy and claims administration infrastructure or expertise in place and are natural candidates for outsourcing. INSpire facilitates the creation of these "virtual insurance companies" by providing policy and claims administration and related back office administration to new entrants that desire to focus their resources on core marketing, underwriting and financial aspects of the P&C insurance business.

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THE INSPIRE STRATEGY

INSpire's objective is to become the leading provider of policy and claims administration solutions to the P&C insurance industry. INSpire's strategy to achieve this objective involves the following elements:

- Offer a Comprehensive Choice of Solutions. INSpire offers an "a la carte" menu of services and products that is attractive to a wide variety of potential customers. This comprehensive and flexible approach enhances customer stability and increases opportunities for new sales by allowing INSpire to sell multiple services and products to both existing and new customers.

- Focus Sales Efforts. INSpire believes that specialized sales teams dedicated to INSpire's principal markets of outsourcing services and software and systems sales can most effectively relate to each type of customer. INSpire's outsourcing marketing group concentrates on marketing INSpire's claims administration, policy administration and IT services to established P&C insurance companies as well as new entrants in the P&C industry, such as banks, credit unions and other financial services companies. INSpire's software and systems marketing group uses dedicated sales teams to focus on larger accounts (generally defined as insurance companies with annual premiums in excess of \$250 million). INSpire believes that this sales strategy allows it to capitalize on its ability to offer a comprehensive choice of solutions to a wide variety of customers.
- Generate Recurring Revenues. INSpire's services and products generate revenues based on events that occur in the normal course of a customer's business. Policy administration and IT services generate recurring revenues because INSpire earns a percentage of each premium written by the insurance company. Claims administration services generate recurring revenues because INSpire earns a percentage of either each claim paid or each premium earned by the insurance company. Software licensing generates recurring revenues because most of INSpire's customers enter into systems support, maintenance or enhancement agreements to purchase additional services and software enhancements throughout the life of their systems.
- Displacement Sales. INSpire intends to continue seeking opportunities to acquire existing policy and claims administration facilities and to enter into long term contracts to provide outsourcing services to the seller of such facilities or affiliates thereof. By converting these facilities onto its systems, INSpire can more efficiently administer policies and claims for such customer, thereby increasing its capacity for new business growth. INSpire utilized this strategy in 1998 when it purchased Arrowhead Claims Management, Inc. ("ACM") and converted it into INSpire's West Coast facility. See "-- Arrowhead Acquisition."
- Enhance Product Capabilities. Maintaining technological leadership is critical to remaining competitive in INSpire's industry. INSpire plans to continuously enhance its existing services and products and develop entirely new services and products to respond to constantly changing customer requirements.
- Pursue Strategic Acquisitions. INSpire intends to consider potential acquisition candidates that offer opportunities to increase market share and expand INSpire's line of outsourcing services and software and software services.

SERVICES AND PRODUCTS

INSpire offers a range of services and products that are capable of providing a complete turnkey solution to all of a P&C insurer's policy and claims administration needs. INSpire installs, enhances and maintains a variety of policy and claims administration software systems and offers outsourcing of policy and claims administration. In 1998 and 1997, outsourcing services provided 58.4% and 57.4%, respectively, of INSpire's total revenues and software and software services provided 39.0% and 37.3%, respectively, of INSpire's total revenues. Outsourcing services provided 100% of INSpire's total revenues in 1996.

Outsourcing Services. INSpire's outsourcing services include application of underwriting and rating criteria defined by the insurer, policy issuance, policyholder mailings, customer service, billing and collections, claims adjusting and processing, and IT services. The customer determines the extent to which it uses

INSpire's services. A team of INSpire and customer personnel work closely together to ensure the seamless integration of the customer's outsourced and in-house activities. INSpire's outsourcing services include the following:

- Policy Administration. INSpire offers a suite of services to customers

that are considering outsourcing their policy administration. The customer retains all of the financial risk and works with INSpire to provide underwriting and rating guidelines. The customer typically pays INSpire a percentage of premiums written for policy administration services, which include the following:

- Direct, agency and internet marketing support
- Policy issuance and acceptance
- Application of underwriting and rating criteria defined by the insurer
- Customer service phone center for policyholders and agents
- Accounting, billing and collections
- Commission calculation and disbursement
- Statutory reporting and regulatory compliance
- Comprehensive management and service bureau reporting
- Claims Administration. Claims administration describes the management of appraising, qualifying and settling P&C insurance claims. INSpire maintains a staff of claims adjusters and examiners and also uses independent claims adjusters. INSpire reviews insurance coverage, performs a claim analysis and prepares a check for payment of the claim, if warranted. The customer typically pays INSpire on either a percentage of premiums earned or claims paid basis.
- IT Outsourcing. INSpire offers services to assist customers in operating, maintaining and enhancing information systems. INSpire migrates the customer's current system platform to INSpire's processing platform, including the installation of all necessary hardware components, depending on the customer's needs. After such migration, the customer administers its policies and claims internally by utilizing INSpire's systems and other software productivity tools. The customer typically pays INSpire on a percentage of premiums written basis, subject to a minimum fee.

Software Products. INSpire sells information processing systems and software productivity tools that automate policy and claims administration. The information processing systems are designed to run on a variety of platforms, including IBM AS/400, IBM RS/6000, Windows 3.1, Windows 95 and Windows NT. INSpire's software productivity tools add functionality and flexibility to base systems. These productivity modules can be sold in conjunction with INSpire's base systems or as add-ons to other vendors' base systems.

- Information Processing Systems

- Policy and Claims Administration System. The Policy and Claims Administration System ("PCA") is an integrated system that offers policy and claims administration, billing and collections, financial administration, and management and statistical bureau reporting. PCA runs on the IBM AS/400 and IBM RS/6000 platforms. PCA was originally introduced in 1988 and the current version was introduced in 1995.
- Windows into Property and Casualty System. Functionally comparable to PCA, Windows into Property and Casualty System ("WPC") is an integrated system that performs functions from submission tracking to policy and claims administration to management and bureau reporting. WPC runs on a PC platform in a client/server environment and on most major PC network operating systems, including Novell Netware and Microsoft Windows NT. WPC was introduced in 1992.

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- ValueRate Policy Administration System. In October 1997, INSpire entered into a five-year agreement with Cover-All Systems, Inc. ("Cover-All") to license Cover-All's commercial lines rating, policy issue and forms solutions for use in INSpire's products and services. This system, called ValueRate, is a commercial lines policy administration system designed to automate policy processing and

improve customer service. ValueRate's functionality includes rating new applications, policy issuance, mid-term changes, cancellations, reinstatements and renewals. ValueRate also prints multiple recipient copies of all relevant documentation for each of these transactions, including quote summaries, declarations pages and mandatory and optional manuscript forms. ValueRate, which was recently interfaced, is now being used at a beta test site and continues to be modified for interface into the base WPC product and PCA.

- Software Productivity Tools

- EmPower. EmPower is an automated workflow management system designed for the personal lines policy administration needs of P&C insurers. EmPower interfaces with PCA, other vendors' systems or insurers' proprietary systems to provide imaging and workflow management technology. EmPower automatically processes the flow of information in a paperless environment, substantially reducing manual activities through the integration of voice, data, image and text into one system. EmPower was introduced in 1996 and operates in a client/server environment using Microsoft Windows. INSpire plans to enhance EmPower to support claims administration and commercial lines policy administration software and to interface EmPower with WPC client/server based policy and claims administration systems.
- Underwriting Expert System. The Underwriting Expert System ("UES") automates underwriting rules and guidelines to mirror a client's underwriting process. UES enhances consistency of review and streamlines customer service and operations departments by reducing the need for manual underwriting review. UES uses a relational database to store and report statistics concerning underwriting efficiency and results of the review process. UES was introduced in 1993 and operates in a client/server environment and interfaces with PCA and WPC, as well as most systems sold by other vendors or insurers' proprietary systems.
- Policy Set Production. Policy Set Production ("PSP") allows for laser quality printing of policy declarations, booklets, forms, endorsements, billing notices and letters. PSP manages the logistics of producing the appropriate documents necessary for each policyholder. Introduced in 1995, PSP operates in a client/server environment and interfaces with PCA and WPC, as well as most systems sold by other vendors or insurers' proprietary systems.
- Visual Rater. Visual Rater is a productivity tool using object oriented programming technology that allows nontechnical users to create, build, test and maintain the rating components of insurance processing. With Visual Rater's "point and click" rating construction and maintenance interface, reusable rating components become simple icons that are used as building blocks to create rating algorithms. Visual Rater was introduced in 1995 and generally is sold with WPC.
- Transfluent. Transfluent is a data translation software product that enables insurance companies to map data from external agencies to internal systems. In addition to selling Transfluent, INSpire uses it to automatically translate data from the dissimilar systems or diverse platforms of customer insurance companies into a format readable by INSpire's information processing systems. INSpire acquired all the rights to Transfluent through its acquisition of Paragon Interface, Inc. ("Paragon") in 1998.

Software Services. INSpire customizes all of its software products to meet customer specifications. The initial license fee paid to INSpire gives the customer the right to use the software, but does not cover customization, conversion, enhancements or upgrades. INSpire provides systems installation, customization, conversion and maintenance on a time-and-materials basis. Bureau reporting services are provided on either a fixed fee or time-and-materials basis. Future enhancements and upgrades to a system are provided for an

annual fee equal to a percentage of the initial license fee and installation of upgrades and enhancements are provided on a time-and-materials basis.

PRODUCT DEVELOPMENT

The market for INSpire's products is characterized by rapidly changing technology, evolving industry standards and frequent introductions of new products and enhancements. INSpire's future success depends in part on its ability to enhance its existing services and products and develop new services and products to meet changing customer requirements. INSpire's development efforts focus on enhancement of existing services and products, expansion of operating system compatibility and development of new applications for emerging insurance markets. In addition, INSpire has acquired new services and products through the acquisition of complementary businesses and may continue to do so in the future. Currently, major areas of development emphasis are (i) the expansion of EmPower to include claims administration and commercial lines policy administration, (ii) integrating ValueRate into PCA and WPC, (iii) interfacing EmPower with WPC client/ server based policy and claims administration systems, (iv) adding extensive Internet based functionality and (v) the expansion of software applications to address additional P&C insurance markets.

Since inception, INSpire has made substantial investments in enhancement and development of its services and products. INSpire incurred research and development costs of approximately \$6.3 million in 1998 and \$3.0 million in 1997 (which includes approximately \$250,000 incurred from January 1, 1997 to March 11, 1997 by Strategic Data Systems, Inc. ("SDS"), which INSpire acquired on March 12, 1997 (the "SDS Acquisition")). As of December 31, 1998, INSpire had approximately 58 employees that performed product development and quality assurance, as well as participated in the initial installations of new products. INSpire cannot assure that it will be successful in developing and marketing new or enhanced services or products.

CUSTOMER SUPPORT AND OPERATIONS

INSpire provides policy and claims administration and IT outsourcing services at its service center in Fort Worth, Texas. INSpire maintains a customer service phone center for policyholders and agents five days a week. INSpire employs approximately 211 people in this service center.

INSpire provides policy and claims administration and IT outsourcing services at its service centers in San Diego, California; Sacramento, California; Portland, Oregon; Phoenix, Arizona; and Dallas, Texas. INSpire employs approximately 476 people in these service centers.

INSpire provides claims administration outsourcing services at its service centers in Laguna Hills, California; Troy, Michigan; Burlington, North Carolina and St. Petersburg, Florida. INSpire employs approximately 55 people in these service centers.

INSpire provides software development, installation, maintenance and enhancement services at its facilities in Sheboygan, Wisconsin; Columbia, South Carolina; and Roswell, Georgia. INSpire employs approximately 286 people who provide software services and maintains a customer help line five days a week.

SALES AND MARKETING

INSpire has built a seven person sales team dedicated solely to outsourcing sales. This sales team is conducting strategic marketing to a target base of customers identified on the basis of detailed customer criteria developed by INSpire's marketing personnel. INSpire believes that this targeted marketing approach should increase its customer success rate and generate additional outsourcing services revenues.

INSpire also markets its outsourcing services through insurance brokers, industry consultants, managing general agents and reinsurers. When one of these sources identifies an opportunity and a request for proposal is received, INSpire prepares and submits a comprehensive proposal directly to the prospective customer. The prospective customer is then invited to Fort Worth to tour INSpire's service center and discuss the customer's requirements in detail. In early 1999, INSpire developed an on-site customer training room at its service center in Fort Worth that enables INSpire personnel to work with and train both prospective and current customers on INSpire's services and products. If INSpire is selected to be the outsourcing service provider, a

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cycle varies from customer to customer, it typically ranges from three to twelve months.

INSpire's software and software services are marketed through a direct sales force located in Sheboygan, Wisconsin; Columbia, South Carolina; Fort Worth, Texas; and Roswell, Georgia. To support its sales force of 17 people, INSpire conducts marketing programs that include direct mail, trade shows, public relations, advertising and ongoing customer communication programs. INSpire also maintains strategic relationships with industry consultants who frequently assist insurance companies in identifying vendors. While the software systems sales cycle varies from customer to customer, it typically ranges from six to twelve months.

INSpire believes that specialized sales teams dedicated to either outsourcing services or software and systems sales can most effectively relate to each type of customer. INSpire concentrates on marketing its claims administration, policy administration and IT services to established P&C insurance companies as well as new entrants in the P&C industry, such as banks, credit unions and other financial services companies. INSpire's software and systems sales teams focus on larger accounts (generally defined as insurance companies with annual premiums in excess of \$250 million).

COMPETITION

The markets for policy and claims administration services and products are highly competitive. INSpire competes in the following markets serving the P&C insurance industry: (i) outsourcing of policy administration, (ii) outsourcing of claims administration, (iii) outsourcing of IT services and (iv) software and software services.

The policy administration and IT services outsourcing markets are dominated by a few large companies, including Policy Management Systems Corporation ("PMSC"). INSpire competes for these outsourcing customers on the basis of customer service, performance, product features and price. The claims administration outsourcing market is highly fragmented, with competition from a large number of claims administration companies of varying size as well as independent contractors. Competition in the claims administration market is principally price driven. Two of the larger competitors in this market are Lindsey Morden Claim Services Inc. and Crawford & Company, Inc. INSpire competes for software customers on the basis of customer service, performance, product features, ability to tailor products and services to specific customer requirements, timely delivery and price. Competitors include PMSC, Computer Sciences Corporation, The Freedom Group, Inc., Insurance Management Solutions Group, Inc. and The Wheatley Group, Ltd.

INSpire believes, however, that its most significant competition for outsourcing services and software sales comes from policy and claims administration and information systems development performed in-house by insurance companies. Insurers that fulfill some or all of their policy and claims administration needs in-house typically have made a significant investment in their information processing systems and may be less likely to utilize INSpire's services. In addition, insurance company personnel have a vested interest in maintaining these responsibilities in-house.

Many of INSpire's competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than INSpire, including name recognition with current and potential customers. As a result, these competitors may devote more resources to the development, promotion and sale of their services or products than INSpire and respond more quickly to emerging technologies and changes in customer requirements. In addition, current and potential competitors may establish cooperative relationships among themselves or with third parties to increase the ability of their services and products to address customer needs. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. INSpire cannot assure that it will be able to compete successfully against current and future competitors, or that competitive pressure faced by INSpire will not have a material adverse effect on its business, financial condition and results of operations.

INSpire currently provides outsourcing services to insurance companies, reinsurers and managing general agents. INSpire provides outsourcing services to The Millers Mutual Fire Insurance Company ("Millers Mutual"), which owned approximately 25% of the outstanding common stock, par value \$0.01 per share (the "Common Stock"), of INSpire as of December 31, 1998, and its subsidiaries (the "Millers Group"), Clarendon National Insurance Company ("Clarendon") through contracts with various subsidiaries of E.W. Blanch Holdings Company, Inc. ("Blanch"), and approximately 14 other customers. Effective December 1, 1998, INSpire entered into a ten-year agreement to provide policy administration services, and INSpire Claims Management, Inc., a wholly-owned subsidiary of INSpire ("ICM"), entered into a ten-year agreement to provide claims administration services, to Arrowhead General Insurance Agency, Inc. ("AGIA"), a managing general agent generating approximately \$200 million in annual premium revenues. See "-- Arrowhead Acquisition." INSpire believes it can successfully obtain new customers with existing books of business under long term contracts by purchasing such customers' (or affiliates thereof) processing facilities.

INSpire currently has approximately 70 software and software services customers, including Motors Insurance Company, Zurich-American Insurance Group, Sul America Terrestres, Acceptance Insurance Companies and Guaranty National Insurance Company. INSpire intends to pursue software sales opportunities with larger insurance companies in the future.

The Millers Group and Clarendon accounted for approximately 32% and 13%, respectively, of INSpire's total revenues in 1998 and approximately 32% and 16%, respectively, of INSpire's total revenues in 1997. In addition, AGIA accounted for approximately 3% of INSpire's total revenues in 1998 despite the fact that INSpire and ICM provided outsourcing services to AGIA in December 1998 only. See "-- Arrowhead Acquisition." Any loss of or material decrease in the business from any of these customers could have a material adverse effect on INSpire's business, financial condition and results of operations.

EMPLOYEES

As of January 1, 1999, INSpire had 1,157 full-time employees, of whom 24 were employed in sales and marketing functions, 67 in finance and administration, 58 in research and development, 777 in outsourcing operations and 231 in software and software services functions. INSpire's employees are not represented by any collective bargaining organization and none of its employees are covered by a collective bargaining agreement. INSpire believes that it has a good relationship with its employees. INSpire regularly seeks to identify skilled software engineers and other potential employee candidates and experiences intense competition for personnel in the software industry. INSpire believes that its ability to recruit and retain highly skilled technical, sales and marketing and management personnel will be critical to INSpire's future success. INSpire cannot assure that it will be able to hire a sufficient number of employees with the skills necessary to enable INSpire to attain its objective of becoming the leading provider of policy and claims administration solutions to the P&C insurance industry.

INTELLECTUAL PROPERTY

INSpire licenses its software systems to customers under nonexclusive and nontransferable license agreements, which generally provide for a paid-up license fee or a license fee payable in installments. The initial license fee grants the customer the right to use the version of the software system existing at the time the license is granted and does not cover upgrades or enhancements.

INSpire relies on contract rights and copyright and other intellectual property laws to protect its products, including software source code, as trade secrets and confidential proprietary information. INSpire's agreements with its current and prospective customers prohibit disclosure of INSpire's trade secrets and proprietary information to third parties without the consent of INSpire and generally restrict the use of INSpire's products to the customers' operations. INSpire also informs its employees of the proprietary nature of its products and typically obtains from them agreements not to disclose trade secrets and proprietary information. Notwithstanding these restrictions, INSpire cannot assure that its competitors could not obtain unauthorized

access to INSpire's software source code and other trade secrets and proprietary information. INSpire owns and uses common law trademarks, copyrights and service marks in connection with its business, none of which are registered.

INSpire is not engaged in any material disputes with other parties with respect to the ownership or use of INSpire's proprietary technology. INSpire cannot assure however, that third parties will not assert technology infringement claims against INSpire in the future. The litigation of such claims may involve significant expense and management time. In addition, if any such claim were successful, INSpire could be required to pay monetary damages, refrain from distributing or using the alleged infringing product, or obtain a license from the party asserting the claim, which could be unavailable on commercially reasonable terms. The absence of federal or state registrations for its intellectual property could be detrimental to INSpire in any infringement litigation or other disputes regarding intellectual property.

ARROWHEAD ACQUISITION

As of December 1, 1998, pursuant to that certain Stock Purchase Agreement, dated October 29, 1998 by and among INSpire, ACM, and all the shareholders of ACM (the "Stock Purchase Agreement"), INSpire purchased all the outstanding shares of capital stock of ACM for an aggregate purchase price of \$13.5 million (the "ACM Acquisition"). The assets acquired by INSpire through the acquisition of ACM include assets for performing claims administration services. INSpire changed the name of ACM to "INSpire Claims Management, Inc." and intends to use ICM and its assets to provide claims administration services.

Also, as of December 1, 1998, pursuant to that certain Asset Purchase Agreement, dated October 29, 1998, by and between INSpire and AGIA (the "Asset Purchase Agreement"), INSpire purchased from AGIA certain assets relating to its policy administration services for P&C insurers (this purchase, along with the ACM Acquisition, the "Arrowhead Acquisition"). INSpire paid AGIA an aggregate purchase price of \$6.5 million plus an option to purchase up to 299,466 shares of Common Stock pursuant to an Option Agreement, dated as of December 1, 1998, between INSpire and AGIA (the "Option Agreement"). INSpire intends to use the newly-acquired assets for policy administration services for various lines of insurance.

Effective December 1, 1998, INSpire entered into a ten year policy administration services agreement with AGIA and ICM entered into a ten year claims administration services agreement with AGIA. Also, in connection with the Arrowhead Acquisition, INSpire and AGIA entered into a registration rights agreement pursuant to which INSpire granted certain registration rights to AGIA.

RECENT EVENTS

Follow-on Public Offering. On March 27, 1998, INSpire's follow-on public offering of 3,967,500 shares of Common Stock became effective. Pursuant to this offering, INSpire sold 2,700,000 shares of Common Stock. In addition, certain shareholders sold 1,267,500 shares of Common Stock. The shares of Common Stock were sold at a price of \$21.00 per share, which resulted in net proceeds to INSpire of approximately \$53 million. INSpire intends to use such net proceeds for general corporate purposes, including working capital, product development and acquisitions. Pending such uses, INSpire has invested the net proceeds in short-term, investment grade, interest-bearing securities. The above amounts and prices related to the Common Stock have been adjusted to give effect to the Stock Dividend (as defined below).

Acquisition of Paragon. On April 20, 1998, INSpire acquired all of the outstanding shares of common stock of Paragon for \$4.25 million and costs and expenses of approximately \$100,000 (the "Paragon Acquisition"). This acquisition enabled INSpire to acquire all of Paragon's rights to the Transfluent software productivity tool. This acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their relative fair market values. Paragon was merged with and into INSpire on May 1, 1998.

Stock Split. On July 21, 1998, the Board of Directors approved a three-for-two stock split. The stock split was effected in the form of a stock dividend (the "Stock Dividend"), which was paid on August 17, 1998 to shareholders of record as of the close of business on July 31, 1998.

Amendment to Rights Agreement. On December 18, 1998, INSpire and U.S. Trust Company of Texas, N.A. entered into an Amended and Restated Rights Agreement to

amend and restate that certain Rights Agreement dated as of July 30, 1997, as amended by the First Amendment to Rights Agreement, dated as of April 7, 1998. The Amended and Restated Rights Agreement was entered into to, among other things, eliminate all "Continuing Director" provisions.

AVAILABLE INFORMATION

INSpire files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any document INSpire files at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. INSpire's SEC filings are also available to the public at INSpire's web site at <http://www.nspr.com> or at the SEC's web site at <http://www.sec.gov>.

ITEM 2. PROPERTIES

The following table sets forth certain information with respect to the principal facilities used in INSpire's operations, all of which are leased:

<TABLE>
<CAPTION>

LOCATION	FUNCTION	CURRENT MONTHLY LEASE RATE	APPROXIMATE SQ. FT.	LEASE EXPIRATION DATE
<S>	<C>	<C>	<C>	<C>
Fort Worth, Texas.....	Headquarters and policy and claims administration	\$64,100	96,000	November 2008
San Diego, California.....	Policy and claims administration	86,600(1)	93,000	March 2007
Columbia, South Carolina.....	Software and software services	36,600	29,400	August 2002
Sheboygan, Wisconsin.....	Software and software services	20,700	28,100	February 2007

</TABLE>

(1) The rights, duties and obligations under the lease covering this property have been assigned to INSpire by AGIA in connection with the Arrowhead Acquisition.

The aggregate monthly lease rate for the properties listed above is \$208,000. INSpire also leases satellite facilities with an aggregate monthly lease rate of \$63,500.

INSpire believes that its existing facilities are adequate to meet its requirements for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

INSpire is not a party to any legal proceedings that it believes could have a material adverse effect on its business, financial condition or operating results.

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

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Amounts and prices related to shares of Common Stock in this Part II have been adjusted to give effect to the Stock Dividend.

PRICE RANGE OF COMMON STOCK

The Common Stock is traded on the Nasdaq National Market under the trading symbol NSPR. The following table sets forth the high and low closing sales

prices as reported by the Nasdaq National Market for the Common Stock for the periods indicated. On August 22, 1997, INSpire completed an initial public offering of the Common Stock at an initial price to the public of \$8.00 per share.

<TABLE>
<CAPTION>

1997	HIGH	LOW
----	-----	-----
<S>	<C>	<C>
Third Quarter.....	\$12.5000	\$11.0833
Fourth Quarter.....	\$13.9167	\$11.5000

</TABLE>

<TABLE>
<CAPTION>

1998	HIGH	LOW
----	-----	-----
<S>	<C>	<C>
First Quarter.....	\$22.8333	\$13.1667
Second Quarter.....	\$23.8333	\$18.9167
Third Quarter.....	\$27.7500	\$18.3750
Fourth Quarter.....	\$35.2500	\$15.5000

</TABLE>

As of March 15, 1999, there were approximately 25 record holders and 3,200 beneficial holders of the Common Stock.

DIVIDEND POLICY

INSpire has never declared or paid any cash dividends on the Common Stock. INSpire intends to retain any future earnings to fund growth and does not anticipate paying any cash dividends in the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES

Since January 1, 1998, INSpire issued and sold the following unregistered securities:

(1) On December 1, 1998, in connection with the Arrowhead Acquisition, INSpire issued to AGIA an option to purchase 299,466 shares of Common Stock. The exercise price of this option is \$.01 per share of Common Stock. This option vests according to the terms of the Option Agreement. This issuance was exempt from registration under Section 4(2) of the Exchange Act.

USE OF PROCEEDS

Pursuant to a Registration Statement on Form S-1 (Registration No. 333-31173), which became effective on August 22, 1997, filed in connection with the initial public offering (the "IPO") of the Common Stock and the related Series A Junior Preferred Stock Purchase Rights, INSpire sold 4,786,875 shares of Common Stock and Millers Mutual sold 4,700,625 shares of Common Stock.

Net offering proceeds of the IPO were used to repay approximately \$2.8 million in borrowings from Millers Mutual and approximately \$7.2 million in borrowings from NationsBank of Texas, N.A. ("NationsBank"). During the nine months ended September 30, 1998, INSpire used approximately \$6.5 million of net offering proceeds of the IPO for general corporate purposes, including working capital and purchases of property and equipment. During the three months ended December 31, 1998, INSpire used the remaining net offering proceeds of the IPO, which were \$18.1 million, to help fund the Arrowhead Acquisition. Except for compensation and reimbursement of expenses paid to directors and officers of

INSpire, none of such net offering proceeds used during the three months ended December 31, 1998 was paid directly or indirectly to directors or officers of INSpire, general partners of INSpire or their associates, persons owning 10% or more of any class of equity securities of INSpire, or to affiliates of INSpire.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data of INSpire presented below as of December 31,

1998, 1997, 1996 and 1995, and for the years ended December 31, 1998, 1997 and 1996 and the period April 28, 1995 through December 31, 1995 have been derived from the audited financial statements of INSpire. The selected financial data should be read in conjunction with "Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations" and INSpire's Consolidated Financial Statements. The results of operations presented below are not necessarily indicative of the results of operations that may be achieved in the future.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			PERIOD
	1998 (1)	1997 (2)	1996	APRIL 28, 1995 THROUGH DECEMBER 31, 1995 (3)
	(IN THOUSANDS, EXCEPT SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:				
Revenues:				
Outsourcing services.....	\$ 50,901	\$ 32,458	\$ 13,653	\$ 3,907
Software and software services.....	33,988	21,101	--	--
Other.....	2,290	3,010	--	--
Total revenues.....	87,179	56,569	13,653	3,907
Expenses:				
Cost of outsourcing services.....	26,303	20,798	10,543	4,885
Cost of software and software services.....	19,120	10,681	--	--
Cost of other revenues.....	1,606	2,413	--	--
Selling, general and administrative....	14,701	8,714	--	--
Research and development.....	2,983	1,190	--	--
Depreciation and amortization.....	6,210	4,001	787	33
In-process research and development....	500	3,000	--	--
Deferred compensation.....	155	3,949	--	--
Management fees to shareholder.....	--	1,290	3,100	600
Total expenses.....	71,578	56,036	14,430	5,518
Operating income (loss).....	15,601	533	(777)	(1,611)
Other income (expense).....	2,675	1,984	(2)	--
Income (loss) before income tax.....	18,276	2,517	(779)	(1,611)
Income tax benefit (expense).....	(6,706)	(801)	264	349
Net income (loss).....	\$ 11,570	\$ 1,716	\$ (515)	\$ (1,262)
Net income (loss) per share (basic).....	\$ 0.65	\$ 0.14	\$ (0.05)	\$ (0.12)
Net income (loss) per share (diluted)....	\$ 0.58	\$ 0.13	\$ (0.05)	\$ (0.12)
Weighted average shares (basic).....	17,854,390	12,206,055	10,500,000	10,500,000
Weighted average shares (diluted).....	19,838,583	13,173,746	11,623,832	11,623,832

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<TABLE>
<CAPTION>

	DECEMBER 31,			
	1998	1997	1996	1995
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:				
Cash and cash equivalents.....	\$ 27,600	\$28,039	\$ 363	\$ 22
Working capital.....	68,387	30,375	(2,550)	(1,072)
Total assets.....	132,808	67,897	5,232	2,817
Current portion of long-term debt.....	383	610	2,500	--
Due to shareholder.....	--	--	996	1,569

Long-term debt, excluding current portion.....	--	373	--	--
Shareholders' equity.....	120,345	48,766	606	1,121

- (1) Includes \$500,000 of in-process research and development expenses relating to the Paragon Acquisition. Excluding the effect of such unusual charges, historical operating expenses, operating income and net income would have been \$71.1 million, \$16.1 million and \$12.1 million, respectively, and historical net income per share (basic) would have been \$0.68 and historical net income per share (diluted) would have been \$0.61.
- (2) Includes \$3.0 million of in-process research and development expenses relating to the SDS Acquisition, \$3.9 million of deferred compensation expense relating to the grant of stock options to executive officers and \$1.6 million of other income attributable to the gain on sale of Applied Quoting Systems, Inc. ("AQS"), a wholly-owned subsidiary of INSpire that was sold by INSpire on September 15, 1997. Excluding the effect of such one-time items, historical operating expenses, operating income and net income would have been \$49.1 million, \$7.5 million and \$5.1 million, respectively, and historical net income per share (basic) would have been \$0.42 and historical net income per share (diluted) would have been \$0.39.
- (3) INSpire was incorporated April 28, 1995 and commenced operations July 1, 1995.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

INSpire's revenues are derived principally from (i) outsourcing services and (ii) software and software services. Revenues from outsourcing services are derived from policy administration services, claims administration services and IT services. Revenues from software and software services are derived from contracts that grant customers a license to use INSpire's software products and contracts that provide for installation, customization, enhancement, conversion and maintenance services. Other revenues principally represent hardware sold in connection with software installations.

Revenues from outsourcing services are recognized as services are rendered. INSpire is typically paid a percentage of premiums written for policy administration services, a percentage of premiums earned or claims paid for claims administration services and a percentage of premiums written subject to a minimum fee for IT services. Outsourcing services contracts generally are for terms of two to ten years. Due to the ongoing nature of these outsourcing services and the length of the terms of the service contracts, outsourcing services generate recurring revenues. Initial installations of software systems generally include a one-time license fee and a contract for the installation and customization of the system to meet the customer's specifications, which INSpire bills at an hourly rate. Amounts charged for the initial license and the installation and customization of systems are recognized as revenue during the installation period in proportion to the hours expended for installation compared to the total hours projected for installation. In other instances, revenues are recognized based on performance milestones specified in the contract. INSpire recognizes the annual fee charged for maintenance of the customer's system as revenue as hours are expended over the maintenance contract period. Revenues from computer hardware and equipment sales, included in other revenues, are recognized when INSpire receives notification that the equipment has been shipped by the manufacturer and title has passed to the customer. Changes in estimates of percentage of completion or losses, if any, associated with outsourcing

or software services are recognized in the period in which they are determined. Unearned revenues consist of payments by customers in advance of revenues recognized on such services. Unbilled receivables consist of revenues recognized in advance of billings due to timing differences related to billing schedules specified in contracts.

INSpire incurs research and development costs that relate primarily to the development of new products and major enhancements to existing services and products. Research and development costs are comprised primarily of salaries. INSpire expenses or capitalizes, as appropriate, these research and development costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." All research and development costs incurred prior to the time management believes a project has reached "technological feasibility" are expensed. Software production costs incurred subsequent to reaching technological feasibility are capitalized, if material, and reported at the lower of unamortized cost or net realizable value. Capitalized costs are amortized over the expected service life of the related software, generally five to seven years, using the straight-line method. The cost and related accumulated amortization of projects are written off as they become fully amortized.

RECENT DEVELOPMENTS

Arrowhead Acquisition. On December 1, 1998, INSpire acquired all of the outstanding capital stock of ACM for \$13.5 million in cash and certain assets of AGIA related to its policy administration services for \$6.5 million in cash and an option to purchase up to 299,466 shares of Common Stock. In addition, pursuant to ten-year outsourcing agreements, INSpire agreed to provide policy administration services to, and ICM agreed to provide claims administration services to, AGIA. See "Business -- Arrowhead Acquisition."

Follow-on Public Offering. On March 27, 1998, INSpire's follow-on public offering of 3,967,500 shares of Common Stock became effective. Pursuant to this offering, INSpire sold 2,700,000 shares of Common Stock. In addition, certain shareholders sold 1,267,500 shares of Common Stock. The shares of Common Stock were sold at a price of \$21.00 per share, which resulted in net proceeds to INSpire of approximately \$53 million. Pending use of such proceeds, INSpire has invested the net proceeds in short-term, investment grade, interest-bearing securities. See "Business -- Recent Events."

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RESULTS OF OPERATIONS

The following table sets forth, with respect to INSpire and for the periods indicated, the percentage of total revenues represented by certain revenue, expense and income items:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			PERIOD
	1998	1997	1996	APRIL 28, 1995 THROUGH DECEMBER 31, 1995 (1)
<S>	<C>	<C>	<C>	<C>
Revenues:				
Outsourcing services.....	58.4%	57.4%	100.0%	100.0%
Software and software services.....	39.0	37.3	--	--
Other.....	2.6	5.3	--	--
Total revenues.....	100.0	100.0	100.0	100.0
Expenses:				
Cost of outsourcing services.....	30.2	36.8	77.2	125.0
Cost of software and software services.....	21.9	18.9	--	--
Cost of other revenues.....	1.8	4.3	--	--
Selling, general and administrative....	16.9	15.4	--	--
Research and development.....	3.4	2.1	--	--
Depreciation and amortization.....	7.1	7.0	5.8	0.8
In-process research and development....	0.6	5.3	--	--
Deferred compensation.....	0.2	7.0	--	--
Management fees to shareholder.....	--	2.3	22.7	15.4
Total expenses.....	82.1	99.1	105.7	141.2
Operating income (loss).....	17.9	0.9	(5.7)	(41.2)

Other income (expense).....	3.1	3.5	--	--
	----	----	----	----
Income (loss) before income tax.....	21.0	4.4	(5.7)	(41.2)
Income tax benefit (expense).....	(7.7)	(1.4)	1.9	8.9
	----	----	----	----
Net income (loss).....	13.3%	3.0%	(3.8)%	(32.3)%
	=====	=====	=====	=====

</TABLE>

(1) INSpire was incorporated April 28, 1995 and commenced operations July 1, 1995.

COMPARISON OF THE YEARS ENDED DECEMBER 31, 1998 AND 1997

Revenues. INSpire's total revenues were \$87.2 million for the year ended December 31, 1998 compared to \$56.6 million for the year ended December 31, 1997, an increase of \$30.6 million or 54.1%. Outsourcing revenues were \$50.9 million for 1998 compared to \$32.5 million for 1997, an increase of 56.6%. This increase was attributable primarily to revenues from 13 new outsourcing contracts entered into during 1998, including the outsourcing agreements entered into with AGIA in connection with the Arrowhead Acquisition. Software and software services revenues were \$34.0 million for 1998 compared to \$21.1 million for 1997, an increase of 61.1%. This increase was attributable primarily to increased licensing of software products resulting from intensified marketing efforts in 1998 and increased installation, customization and modification services performed for customers.

Cost of Revenues. Total cost of revenues was \$47.0 million for the year ended December 31, 1998 compared to \$33.9 million for the year ended December 31, 1997, an increase of \$13.1 million or 38.6%. This increase was primarily a result of (i) increased personnel costs of the software division to support increased implementation and consulting services and (ii) the costs associated with the performance of services under the 13 new outsourcing contracts described above. Cost of revenues as a percentage of total revenues decreased to 53.9% for 1998 from 59.9% for 1997. Cost of outsourcing revenues as a percentage of outsourcing revenues decreased to 51.7% for 1998 from 64.0% for 1997. This decrease was primarily a result of economies of scale associated with spreading certain fixed costs over a larger revenue base and lower personnel and

equipment costs as a percentage of revenues. Cost of software and software services revenues as a percentage of software and software services revenues increased to 56.2% for 1998 from 50.7% for 1997. This increase resulted primarily from an increase in the number of software and software services personnel and a lower utilization rate for such personnel during 1998.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$14.7 million for the year ended December 31, 1998 compared to \$10.0 million (including management fees paid to shareholder) for the year ended December 31, 1997, an increase of \$4.7 million or 47.0%. This increase was primarily due to additional executive management, staffing, office space and computer equipment and software required to expand the infrastructure to support INSpire's growth.

Research and Development. Research and development expense was \$3.0 million, net of capitalized research and development costs of \$2.0 million, for the year ended December 31, 1998 compared to \$1.2 million, net of capitalized research and development costs of \$800,000, for the year ended December 31, 1997, an increase of \$1.8 million or 150.0%. This expense was comprised primarily of personnel, equipment and occupancy costs related to software development. The increase in this expense was due to the further development of such existing products as WPC, EmPower and Value Rate into new platforms and integration within product lines.

Depreciation and Amortization. Depreciation and amortization expense was \$6.2 million for the year ended December 31, 1998 compared to \$4.0 million for the year ended December 31, 1997, an increase of \$2.2 million or 55.0%. This increase was primarily attributable to (i) amortization of goodwill and capitalized software recorded in connection with the Paragon Acquisition, (ii) amortization of goodwill recorded in connection with the Arrowhead Acquisition,

and (iii) acquisitions of depreciable property and equipment of \$7.8 million in the aggregate since December 31, 1997 as a result of the expansion in infrastructure to support INSpire's growth.

Nonrecurring Expenses. In connection with the Paragon Acquisition, \$500,000 of in-process research and development expenses was charged to operations in April 1998. In the purchase price allocation of the SDS Acquisition, \$3.0 million was assigned to in-process research and development. This amount was charged to operations in March 1997. In addition, \$3.9 million was charged to operations as deferred compensation associated with stock options granted to executive officers during 1997.

Other Income. Other income increased to \$2.7 million for the year ended December 31, 1998 from \$2.0 million for the year ended December 31, 1997, an increase of 35.0%. Other income for the year ended December 31, 1998 was primarily attributable to interest income from cash equivalents and investments on funds received as a result of the IPO in August 1997 and the follow-on public offering in March 1998. Other income for the year ended December 31, 1997 was primarily attributable to a gain on the sale of a subsidiary, AQS.

Net Income. Net income was \$11.6 million, or \$.58 per diluted share (\$.65 per basic share), for the year ended December 31, 1998 compared to net income of \$1.7 million, or \$.13 per diluted share (\$.14 per basic share), for the year ended December 31, 1997. Excluding the impact on net income resulting from the \$500,000 write-off of in-process research and development expenses associated with the Paragon Acquisition, net income would have been \$12.1 million, or \$.61 per diluted share (\$.68 per basic share), for the year ended December 31, 1998. In 1997, excluding the impact on net income resulting from the charge to operations of \$3.9 million of deferred compensation associated with stock options granted to executive officers, the write-off of in-process research and development of \$3.0 million recorded in connection with the SDS Acquisition, the gain on the sale of AQS of \$1.6 million, and the tax effects thereof, net income would have been \$5.1 million, or \$.38 per diluted share (\$.42 per basic share).

COMPARISON OF THE YEARS ENDED DECEMBER 31, 1997 AND 1996

Revenues. INSpire's total revenues were \$56.6 million for the year ended December 31, 1997 compared to \$13.7 million for the year ended December 31, 1996, an increase of \$42.9 million or 313%. This increase is attributable primarily to (i) the SDS Acquisition and (ii) revenues from three significant outsourcing

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contracts entered into in mid-1996 under which INSpire performed outsourcing services during all of 1997. These three contracts included a claims administration agreement with HOW Insurance Company, Home Warranty Corporation and Home Owners Warranty Corporation and a policy administration agreement and a claims administration agreement with Blanch whereby services are provided to Clarendon.

Cost of Revenues. Total cost of revenues was \$33.9 million for the year ended December 31, 1997 compared to \$10.5 million for the year ended December 31, 1996, an increase of \$23.4 million or 223%, primarily as a result of (i) the SDS Acquisition and (ii) the costs associated with the performance of services under the three significant outsourcing contracts described above. Cost of revenues as a percentage of total revenues decreased to 60% for the year ended December 31, 1997 from 77% for the year ended December 31, 1996. This decrease was primarily a result of economies of scale associated with spreading certain fixed costs over a larger revenue base and lower personnel and equipment costs as a percentage of revenues.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, including management fees paid to shareholder, were \$10.0 million for the year ended December 31, 1997 compared to \$3.1 million for the year ended December 31, 1996, an increase of \$6.9 million or 223%. This increase was primarily due to (i) the SDS Acquisition and (ii) additional staffing, office space and computer equipment and software required to expand the infrastructure to support INSpire's growth. Selling, general and administrative expenses as a percentage of total revenues decreased to 18% for the year ended December 31, 1997 from 23% for the year ended December 31, 1996. This decrease was primarily a result of economies of scale associated with spreading certain fixed costs over a larger revenue base and lower personnel and

equipment costs as a percentage of revenues.

Research and Development. Research and development expense was \$1.2 million, net of capitalized research and development costs of \$800,000, for the year ended December 31, 1997. This expense was comprised primarily of personnel, equipment and occupancy costs related to software development. Prior to the SDS Acquisition, INSpire did not incur any significant research and development expenses.

Depreciation and Amortization. Depreciation and amortization expense was \$4.0 million for the year ended December 31, 1997 compared to \$787,000 for the year ended December 31, 1996, an increase of \$3.2 million or 408%. This increase is primarily attributable to (i) Millers Mutual's capital contribution of approximately \$1.3 million in depreciable property and equipment to INSpire in January 1997 and (ii) amortization of goodwill recorded in connection with the SDS Acquisition.

Nonrecurring Expenses. In the purchase price allocation of the SDS Acquisition, \$3.0 million was assigned to in-process research and development. This amount was charged to operations in March 1997. In addition, \$3.9 million was charged to operations as deferred compensation associated with stock options granted to executive officers during 1997.

Other Income. Other income for the year ended December 31, 1997 includes a \$1.6 million gain on the sale of AQS. Interest income, attributable primarily to short-term investments purchased with unused proceeds from the IPO, was \$681,000 for the year ended December 31, 1997. During 1996, INSpire did not have investments that earned interest income. Interest expense, attributable primarily to a bank credit facility with NationsBank, was approximately \$304,000 for the year ended December 31, 1997. INSpire did not have any interest-bearing debt during 1996.

Net Income. In 1997, excluding the impact on net income resulting from the charge to operations of \$3.9 million of deferred compensation associated with stock options granted to executive officers, the write-off of in-process research and development of \$3.0 million recorded in connection with the SDS Acquisition, the gain on the sale of AQS of \$1.6 million, and the tax effects thereof, net income would have been \$5.1 million, or \$.39 per diluted share (\$.42 per basic share). There were no such unusual charges during 1996.

LIQUIDITY AND CAPITAL RESOURCES

Prior to the IPO in August 1997 and its follow-on public offering in March 1998, INSpire funded its operations through cash generated from operations, as well as borrowings and capital contributions from Millers Mutual. Net cash provided by operating activities was \$4.3 million for the year ended December 31,

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1998 compared to \$4.5 million for the year ended December 31, 1997. In 1998, cash flow provided by operating activities included depreciation and amortization expense of approximately \$6.2 million and the charge-off of in-process research and development expenses of \$500,000, which was offset by an increase in accounts receivable of approximately \$7.3 million and an increase in prepaid expenses and other current assets of approximately \$3.1 million. Net cash used in investing activities was \$58.0 million for the year ended December 31, 1998, primarily attributable to investments made by INSpire, the Paragon Acquisition and the Arrowhead Acquisition, compared to \$19.1 million for the year ended December 31, 1997. Net cash provided by financing activities was \$53.2 million for the year ended December 31, 1998, primarily due to INSpire's follow-on public offering, compared to \$42.3 million for the year ended December 31, 1997, primarily due to the IPO.

INSpire entered into a bank credit facility with NationsBank (the "NationsBank Facility") on March 12, 1997, pursuant to which INSpire borrowed \$5.0 million under a term credit facility and \$2.5 million under a \$4.0 million revolving credit facility, subject to a borrowing base formula, to finance in part the SDS Acquisition. INSpire used a portion of the net proceeds of the IPO to repay these amounts. On July 3, 1998, INSpire terminated the NationsBank Facility.

INSpire believes that cash generated from operations and the net proceeds from its follow-on public offering in March 1998 will satisfy INSpire's

anticipated working capital requirements for at least one year. INSpire, however, may require substantial additional funds for potential acquisitions and expansion. In the normal course of business, INSpire evaluates acquisitions of businesses, products and technologies that complement its business. INSpire has no present commitments or understandings with respect to any such transaction. INSpire, however, may acquire businesses, products or technologies in the future.

YEAR 2000 ISSUES

INSpire is continuing its assessment of Year 2000 issues and taking steps to prevent these issues from adversely affecting its future operating results. This readiness process includes, but is not limited to, preparing an inventory of potential Year 2000 issues, determining functions affected, performing remediation as necessary, developing testing and recording results.

In its assessment of Year 2000 issues, INSpire is specifically focusing on its software applications and associated software products, hardware, facilities, communications equipment and security systems. INSpire has not yet completed its Year 2000 compliance testing of, and remediation efforts on, if necessary, these items. There can be no assurance that these items will be Year 2000 compliant by December 31, 1999. If any of these items are not Year 2000 compliant by December 31, 1999, then the Year 2000 issue could have a material adverse effect on the financial condition and results of operations of INSpire. INSpire has, however, made upgrades to its facilities, communications equipment, and security systems that, it believes, will make them completely operational after December 31, 1999.

In addition to evaluating its own systems for Year 2000 compliance, INSpire is also communicating with its significant suppliers and customers to determine the extent to which interfaces with such entities are vulnerable to Year 2000 issues and the extent to which any products purchased by or from, or internal systems of, such entities are vulnerable to Year 2000 issues. There can be no assurance that such entities, or interfaces with or products purchased from such entities, will not be vulnerable to Year 2000 issues or that such vulnerability will not have a material adverse effect on the financial condition or results of operations of INSpire.

Total costs associated with INSpire's Year 2000 readiness process, consisting of both internal and external resources, are expected to range between \$2.0 and \$2.5 million. INSpire anticipates financing these costs with cash generated from operations. INSpire has not yet fully completed its Year 2000 assessment and remediation efforts. The estimated time to complete assessment, testing and full compliance is June 30, 1999. INSpire will develop contingency plans as it finds that, through compliance testing, any of its applications, products, hardware, facilities, communication equipment or security systems are not Year 2000 compliant or that any of its significant suppliers or customers are significantly vulnerable to Year 2000 issues, and that such noncompliance or vulnerability cannot be remedied in a timely manner.

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RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," ("SFAS 130") which establishes standards for reporting and display of comprehensive income and its components, as defined. SFAS 130 requires that all items that must be recognized under accounting standards as components of comprehensive income be reported in a financial statement displayed with the same prominence as other financial statements. Comprehensive income is defined as the total of net income and all other non-owner charges in equity. In addition, SFAS 130 requires that an enterprise classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a balance sheet. SFAS 130 is effective for fiscal years beginning after December 15, 1997. The Company adopted SFAS 130 during 1998 and comprehensive income does not differ from net income (loss) as reported in INSpire's Consolidated Statements of Operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," ("SFAS 131") which requires public enterprises to report certain financial and descriptive information about operating segments, as defined, in annual financial statements and selected

information in condensed financial statements for interim periods issued to shareholders, if practical. INSpire adopted SFAS 131 in 1998, and management has determined that the disclosures in INSpire's Consolidated Financial Statements are adequate.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 is effective for fiscal years beginning after June 15, 1999. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if so designed, the type of hedge transaction. INSpire does not expect that the adoption of SFAS 133 will have a material impact on its financial statements because INSpire does not currently hold any derivative instruments.

In October 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"). SOP 97-2 is effective for transactions entered into in fiscal years beginning after December 15, 1997. The adoption of SOP 97-2 did not have a material effect on INSpire's financial position, results of operations or cash flows.

In February 1998, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 is effective for transactions entered into in fiscal years beginning after December 31, 1998. INSpire believes the adoption of SOP 98-1 will not have a material effect on its financial position, results of operations or cash flows.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 is effective for INSpire's fiscal year ending December 31, 1999. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. INSpire believes the adoption of SOP 98-5 will not have a material effect on its financial position, results of operations or cash flows.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INSpire maintains a short-term investment portfolio consisting mainly of government and corporate bonds purchased with an average maturity of less than one year. These available-for-sale securities include both fixed and floating rate securities. The fixed rate securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 100 basis points from levels at December 31, 1998, the fair value of the portfolio would decrease by an immaterial amount. INSpire generally has the ability to hold its fixed income investments until maturity. The floating rate securities carry a degree of interest rate risk and may produce less interest income than expected if interest rates decrease. INSpire does not expect its financial position, results of operations or cash flows to be materially affected by the effect of a sudden change in market interest rates on the portfolio.

Other than these short-term investments, INSpire does not engage in trading market risk sensitive instruments and does not purchase as investments, as hedges, or for purposes "other than trading" instruments that are likely to expose INSpire to market risk, whether it be from interest rate, foreign currency exchange, commodity price or equity price risk. INSpire has issued no debt instruments, entered into no forward or futures contracts, purchased no options and entered into no swaps.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of INSpire appear at pages F-1 to F-18.

QUARTERLY RESULTS OF OPERATIONS ON A HISTORICAL BASIS

The following table sets forth certain unaudited historical quarterly financial data for each of the eight consecutive quarters in fiscal 1998 and 1997. This information is derived from unaudited financial statements that include, in the opinion of INSpire, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation when read in conjunction with INSpire's Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-K.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED				
	DECEMBER 31, 1998	SEPTEMBER 30, 1998	JUNE 30, 1998	MARCH 31, 1998	DECEMBER 31, 1997
	(IN THOUSANDS, EXCEPT SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Outsourcing services....	\$ 16,055	\$ 13,314	\$ 11,400	\$ 10,132	\$ 9,885
Software and software services.....	9,124	8,347	8,892	7,625	6,830
Other.....	599	423	669	599	1,413
Total revenues.....	25,778	22,084	20,961	18,356	18,128
Expenses:					
Cost of outsourcing services.....	9,098	5,705	5,867	5,634	5,634
Cost of software and software services....	4,740	5,458	4,845	4,077	3,471
Cost of other revenues.....	456	284	441	425	1,376
Selling, general and administrative.....	3,606	4,044	3,807	3,244	3,106
Research and development.....	1,087	797	676	422	299
Depreciation and amortization.....	1,939	1,635	1,423	1,213	1,184
In-process research and development.....	--	--	500 (2)	--	--
Deferred compensation...	155	--	--	--	--
Management fees to shareholder.....	--	--	--	--	45
Total expenses.....	21,081	17,923	17,560	15,015	15,115
Operating income (loss).....	4,697	4,161	3,401	3,341	3,013
Other income (expense)...	596	820	859	400	412
Income (loss) before income tax.....	5,293	4,981	4,260	3,741	3,425
Income tax benefit (expense).....	(1,853)	(1,743)	(1,689)	(1,422)	(1,309)
Net income (loss).....	\$ 3,440	\$ 3,238	\$ 2,571	\$ 2,319	\$ 2,116
Net income (loss) per share (basic).....	\$ 0.18	\$ 0.18	\$ 0.14	\$ 0.15	\$ 0.14
Net income (loss) per share (diluted).....	\$ 0.17	\$ 0.16	\$ 0.13	\$ 0.13	\$ 0.12
Weighted average shares (basic).....	18,628,967	18,358,416	18,258,996	15,462,000	15,286,875
Weighted average shares (diluted).....	20,537,682	20,353,515	20,203,316	17,581,500	17,072,505

<CAPTION>

	THREE MONTHS ENDED		
	SEPTEMBER 30, 1997	JUNE 30, 1997	MARCH 31, 1997 (1)
	(IN THOUSANDS, EXCEPT SHARE DATA)		
<S>	<C>	<C>	<C>

Revenues:			
Outsourcing services....	\$ 8,178	\$ 7,658	\$ 6,737
Software and software services.....	6,710	6,482	1,079
Other.....	294	928	375
	-----	-----	-----
Total revenues.....	15,182	15,068	8,191
	-----	-----	-----
Expenses:			
Cost of outsourcing services.....	5,066	5,207	4,891
Cost of software and software services....	4,288	2,182	740
Cost of other revenues.....	341	514	182
Selling, general and administrative.....	2,180	3,169	259
Research and development.....	211	554	126
Depreciation and amortization.....	1,122	1,160	535
In-process research and development.....	--	--	3,000 (3)
Deferred compensation...	--	884 (4)	3,065 (4)
Management fees to shareholder.....	45	574	626
	-----	-----	-----
Total expenses.....	13,253	14,244	13,424
	-----	-----	-----
Operating income (loss).....	1,929	824	(5,233)
Other income (expense)...	1,731 (5)	(108)	(51)
	-----	-----	-----
Income (loss) before income tax.....	3,660	716	(5,284)
Income tax benefit (expense).....	(1,204)	(77)	1,789
	-----	-----	-----
Net income (loss).....	\$ 2,456	\$ 639	\$ (3,495)
	=====	=====	=====
Net income (loss) per share (basic).....	\$ 0.20	\$ 0.06	\$ (0.33)
	=====	=====	=====
Net income (loss) per share (diluted).....	\$ 0.18	\$ 0.05	\$ (0.33)
	=====	=====	=====
Weighted average shares (basic).....	12,498,000	10,500,000	10,500,000
Weighted average shares (diluted).....	13,891,002	11,623,832	11,623,832

</TABLE>

(1) INSpire acquired SDS on March 12, 1997.

(2) Represents \$500,000 of in-process research and development expenses relating to the Paragon Acquisition.

(3) Represents \$3.0 million of in-process research and development expenses relating to the SDS Acquisition.

(4) Represents \$3.9 million of deferred compensation expense relating to the grant of stock options to executive officers.

(5) Primarily attributable to the gain on sale of AQS of \$1.6 million.

The following table sets forth, for the periods indicated, the percentage of net sales represented by the indicated items:

<TABLE>

<CAPTION>

	THREE MONTHS ENDED					
	DECEMBER 31, 1998	SEPTEMBER 30, 1998	JUNE 30, 1998	MARCH 31, 1998	DECEMBER 31, 1997	SEPTEMBER 30, 1997
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:						
Outsourcing services.....	62.3%	60.3%	54.4%	55.2%	54.5%	53.9%
Software and software services.....	35.4	37.8	42.4	41.5	37.7	44.2
Other.....	2.3	1.9	3.2	3.3	7.8	1.9
	----	----	----	----	----	----
Total revenues.....	100.0	100.0	100.0	100.0	100.0	100.0
	----	----	----	----	----	----
Expenses:						
Cost of outsourcing services....	35.3	25.8	28.0	30.7	31.1	33.4
Cost of software and software services.....	18.4	24.7	23.1	22.2	19.2	28.2
Cost of other revenues.....	1.8	1.3	2.1	2.3	7.6	2.2
Selling, general and administrative.....	14.0	18.3	18.2	17.7	17.1	14.4
Research and development.....	4.2	3.6	3.2	2.3(2)	1.7	1.4
Depreciation and amortization...	7.5	7.4	6.8	6.6	6.5	7.4
In-process research and development.....	--	--	2.4	--	--	--
Deferred compensation.....	0.6	--	--	--	--	--
Management fees to shareholder.....	--	--	--	--	0.2	0.3
	----	----	----	----	----	----
Total expenses.....	81.8	81.2	83.8	81.8	83.4	87.3
	----	----	----	----	----	----
Operating income (loss).....	18.2	18.8	16.2	18.2	16.6	12.7
Other income (expense).....	2.3	3.8	4.1	2.2	2.3	11.4(5)
	----	----	----	----	----	----
Income (loss) before income tax...	20.5	22.6	20.3	20.4	18.9	24.1
Income tax benefit (expense).....	(7.2)	(7.9)	(8.0)	(7.8)	(7.2)	(7.9)
	----	----	----	----	----	----
Net income (loss).....	13.3%	14.7%	12.3%	12.6%	11.7%	16.2%
	=====	=====	=====	=====	=====	=====

<CAPTION>

	THREE MONTHS ENDED	
	JUNE 30, 1997	MARCH 31, 1997(1)
<S>	<C>	<C>
Revenues:		
Outsourcing services.....	50.8%	82.2%
Software and software services.....	43.0	13.2
Other.....	6.2	4.6
	----	----
Total revenues.....	100.0	100.0
	----	----
Expenses:		
Cost of outsourcing services....	34.5	59.7
Cost of software and software services.....	14.5	9.0
Cost of other revenues.....	3.4	2.2
Selling, general and administrative.....	21.0	3.3
Research and development.....	3.7	1.5
Depreciation and amortization...	7.7	6.5
In-process research and development.....	--	36.6(3)
Deferred compensation.....	5.9(4)	37.4(4)
Management fees to shareholder.....	3.8	7.7
	----	----
Total expenses.....	94.5	163.9
	----	----
Operating income (loss).....	5.5	(63.9)
Other income (expense).....	(0.7)	(0.6)
	----	----

Income (loss) before income tax...	4.8	(64.5)
Income tax benefit (expense).....	(0.5)	21.8
	-----	-----
Net income (loss).....	4.3%	(42.7)%
	=====	=====

</TABLE>

- (1) INSpire acquired SDS on March 12, 1997.
- (2) Represents \$500,000 of in-process research and development expenses relating to the Paragon Acquisition.
- (3) Represents \$3.0 million of in-process research and development expenses relating to the SDS Acquisition.
- (4) Represents \$3.9 million of deferred compensation expense relating to the grant of stock options to executive officers.
- (5) Primarily attributable to the gain on sale of AQS of \$1.6 million.

INSpire has experienced in the past and will experience in the future quarterly variations in net revenues and net income. Thus, operating results for any particular quarter are not necessarily indicative of results for any future period. Factors that have affected quarterly operating results include the introduction of new or enhanced services and products by INSpire or its competitors, customer acceptance or rejection of new services and products, product development expenses, the timing of significant orders, the timing of large scale catastrophes, the volume of usage of INSpire's services and products, acquisitions, competitive conditions in its industry, general economic conditions and the level of selling and administrative expenses.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Information concerning a change of accountants was previously reported in the Registration Statement on Form S-1, effective August 22, 1997 (Registration No. 333-31173).

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is hereby incorporated by reference from the Registrant's Proxy Statement for the 1999 Annual Meeting of Shareholders (the "1999 Proxy Statement") under the captions "Proposal 1 -- Election of Directors -- Nominees," "-- Other Directors," "-- Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from the 1999 Proxy Statement under the caption "Management."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is hereby incorporated by reference from the 1999 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is hereby incorporated by reference from the 1999 Proxy Statement under the caption "Certain Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) The following documents are filed as part of this report:

- (1) Consolidated Financial Statements:
 Independent Auditors' Report
 Consolidated Balance Sheets as of December 31, 1998 and 1997
 Consolidated Statements of Operations for each of the three years in the period ended December 31, 1998
 Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 1998
 Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1998
 Notes to the Consolidated Financial Statements.

(2) Financial Statement Schedules

None.

Schedules not listed above have been omitted because they are not required or are not applicable.

(3) Exhibits

The information required by this Item 14(a) (3) is set forth in the Exhibit Index immediately following INSpire's Consolidated Financial Statements. The exhibits listed herein will be furnished upon written request to the Investor Relations Department of INSpire located at INSpire's headquarters and payment of a reasonable fee that will be limited to INSpire's reasonable expense in furnishing such exhibits.

(b) The following report was filed on Form 8-K during the three months ended December 31, 1998, including the date and description of such report. A Form 8-K/A was filed on February 16, 1999 and on March 26, 1999 amending the Form 8-K as described below.

<TABLE>

<CAPTION>

DATE OF REPORT

DESCRIPTION

<S>

<C>

December 1, 1998	On December 1, 1998, INSpire consummated the Arrowhead Acquisition. Pursuant to the Stock Purchase Agreement, INSpire purchased all of the outstanding shares of capital stock of ACM for an aggregate purchase price of \$13.5 million. Pursuant to the Asset Purchase Agreement, INSpire purchased from AGIA certain assets related to its policy administration services for an aggregate purchase price of \$6.5 million plus an option to purchase shares of Common Stock valued at \$7.0 million on October 29, 1998, which such shares are subject to vesting according to the terms of the Option Agreement. Also on December 1, 1998, ICM entered into a claims administration services agreement with AGIA and INSpire entered into a policy administration services agreement with AGIA.
------------------	---

A Form 8-K/A was filed on February 16, 1999 to amend Item 7 of the Form 8-K dated December 1, 1998. The Form 8-K/A included the financial statements of ACM, as well as pro forma condensed consolidated financial statements of INSpire.

A Form 8-K/A was filed on March 26, 1999 to amend Item 7 of the Form 8-K dated December 1, 1998, as amended by the Form 8-K/A filed on February 16, 1999. The Form 8-K/A includes the financial statements of ACM, as well as restated pro forma condensed consolidated financial statements of INSpire.

</TABLE>

SIGNATURES

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

Date March 25, 1999

INSPIRE INSURANCE SOLUTIONS, INC.

By: /s/ F. GEORGE DUNHAM, III

 Name: F. George Dunham, III
 Title: Chief Executive Officer and
 Director

Each person whose signature appears below hereby constitutes and appoints F. George Dunham, III and William J. Smith, III, or either of them, his true and lawful attorney-in-fact, for him and in his name, place and stead, to sign any and all amendments to this Report and to cause the same to be filed with the Securities and Exchange Commission, hereby granting to said attorneys-in-fact full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things that said attorneys-in-fact may do or cause to be done by virtue of these presents.

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

<TABLE> <CAPTION>	SIGNATURE -----	TITLE -----	DATE ----
<C>		<S>	<C>
	/s/ F. GEORGE DUNHAM, III ----- F. George Dunham, III	Chief Executive Officer (principal executive officer) and Director	March 25, 1999
	/s/ KENNETH J. MEISTER ----- Kenneth J. Meister	Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 25, 1999
	/s/ HARRY E. BARTEL ----- Harry E. Bartel	Director	March 25, 1999
	/s/ R. EARL COX, III ----- R. Earl Cox, III	Director	March 25, 1999
	/s/ WILLIAM J. SMITH, III ----- William J. Smith, III	Director	March 25, 1999
	/s/ MITCH S. WYNNE ----- Mitch S. Wynne	Director	March 25, 1999

</TABLE>

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 Consolidated Balance Sheets..... F-3
 Consolidated Statements of Operations..... F-4
 Consolidated Statements of Shareholders' Equity..... F-5
 Consolidated Statements of Cash Flows..... F-6
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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
 INSpire Insurance Solutions, Inc.
 Fort Worth, Texas

We have audited the accompanying consolidated balance sheets of INSpire Insurance Solutions, Inc. and subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of INSpire Insurance Solutions, Inc. and subsidiary at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Fort Worth, Texas
 February 25, 1999

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INSPIRE INSURANCE SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS

<TABLE>
 <CAPTION>

	DECEMBER 31,	
	1998	1997
	-----	-----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 27,599,967	\$ 28,039,323
Investments.....	20,494,443	--
Accounts receivable, net.....	18,601,724	10,976,672
Income taxes receivable.....	1,830,868	149,041
Deferred income taxes.....	1,176,686	1,434,000
Prepaid expenses and other current assets.....	7,279,985	4,154,417
	-----	-----
Total current assets.....	76,983,673	44,753,453
Accounts receivable, excluding current portion.....	--	74,258
Property and equipment, net.....	11,824,787	6,029,973
Intangibles and other assets, net.....	43,999,890	17,039,634

TOTAL.....	\$132,808,350	\$ 67,897,318
------------	---------------	---------------

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable.....	\$ 1,386,440	\$ 834,418
Accrued payroll and compensation.....	632,691	633,252
Other accrued expenses.....	2,455,309	1,485,543
Unearned revenue.....	1,831,406	5,053,165
Deferred compensation.....	1,907,389	2,699,000
Income taxes payable.....	--	3,063,000
Current portion of long-term debt.....	383,402	609,658

Total current liabilities.....	8,596,637	14,378,036
Deferred compensation.....	260,047	1,657,017
Long-term debt.....	--	373,151
Deferred income taxes.....	3,606,945	2,723,000

Commitments and contingencies (Note 15)

SHAREHOLDERS' EQUITY:

Preferred stock, \$1.00 par value; 1,000,000 shares authorized, none issued and outstanding.....	--	--
Common stock, \$.01 par value; 50,000,000 shares authorized and 18,685,813 issued and outstanding in 1998; 15,286,875 shares issued and outstanding in 1997.....	186,858	101,913
Additional paid-in capital.....	108,710,195	48,725,299
Retained earnings (accumulated deficit).....	11,447,668	(61,098)
Total shareholders' equity.....	120,344,721	48,766,114

TOTAL.....	\$132,808,350	\$ 67,897,318
------------	---------------	---------------

</TABLE>

See accompanying notes to consolidated financial statements.

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INSPIRE INSURANCE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
REVENUES:			
Outsourcing services.....	\$50,900,998	\$32,458,600	\$13,653,003
Software and software services.....	33,987,807	21,100,899	--
Other.....	2,289,797	3,009,960	--
Total revenues.....	87,178,602	56,569,459	13,653,003
EXPENSES:			
Cost of outsourcing services, net.....	26,302,637	20,797,969	10,543,077
Cost of software and software services.....	19,120,468	10,680,787	--
Cost of other revenues.....	1,605,708	2,413,170	--
Selling, general and administrative.....	14,700,610	8,714,192	--
Research and development.....	2,983,228	1,190,114	--
Depreciation and amortization.....	6,210,231	4,001,260	786,768
In-process research and development.....	500,000	3,000,000	--
Deferred compensation.....	154,938	3,949,000	--
Management fees.....	--	1,290,000	3,100,000
Total expenses.....	71,577,820	56,036,492	14,429,845
OPERATING INCOME (LOSS).....	15,600,782	532,967	(776,842)
OTHER INCOME (EXPENSE):			
Interest income.....	2,734,328	680,508	--
Interest expense.....	(58,852)	(348,007)	(2,245)
Other.....	--	1,651,830	--

Total other income (expense).....	2,675,476	1,984,331	(2,245)
INCOME (LOSS) BEFORE INCOME TAX.....	18,276,258	2,517,298	(779,087)
INCOME TAX BENEFIT (EXPENSE).....	(6,706,431)	(801,218)	263,888
NET INCOME (LOSS).....	\$11,569,827	\$ 1,716,080	\$ (515,199)
NET INCOME (LOSS) PER SHARE (BASIC).....	\$ 0.65	\$ 0.14	\$ (0.05)
NET INCOME (LOSS) PER SHARE (DILUTED).....	\$ 0.58	\$ 0.13	\$ (0.05)

</TABLE>

See accompanying notes to consolidated financial statements.

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INSPIRE INSURANCE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL
<S>	<C>	<C>	<C>	<C>
Balance, January 1, 1996.....	\$ 1	\$ 2,383,417	\$ (1,261,979)	\$ 1,121,439
Net loss.....	--	--	(515,199)	(515,199)
Balance, December 31, 1996.....	1	2,383,417	(1,777,178)	606,240
Shareholder's contribution of fixed assets.....	--	1,308,191	--	1,308,191
Shareholder's contribution of additional paid-in capital.....	--	10,500,000	--	10,500,000
Stock dividend to shareholder of 64,900 shares.....	649	(649)	--	--
Stock dividend to shareholder of 6,935,000 shares.....	69,350	(69,350)	--	--
Initial public offering of 3,191,250 shares.....	31,913	34,603,690	--	34,635,603
Net Income.....	--	--	1,716,080	1,716,080
Balance, December 31, 1997.....	101,913	48,725,299	(61,098)	48,766,114
Shares issued for exercise of 450,500 options.....	5,884	3,702,330	--	3,708,214
Shares purchased for employee stock purchase plan 17,413, net.....	--	(218,671)	--	(218,671)
Income tax effect related to stock options.....	--	3,538,424	--	3,538,424
Public offering of 1,800,000 shares.....	18,000	52,962,813	--	52,980,813
Effect of 3-for-2 stock split.....	61,061	--	(61,061)	--
Net Income.....	--	--	11,569,827	11,569,827
Balance, December 31, 1998.....	\$186,858	\$108,710,195	\$11,447,668	\$120,344,721

</TABLE>

See accompanying notes to consolidated financial statements.

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INSPIRE INSURANCE SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31,

	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income (loss).....	\$ 11,569,827	\$ 1,716,080	\$ (515,199)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	6,210,231	4,001,260	786,768
Deferred income taxes.....	1,141,259	(2,429,531)	(62,500)
In-process research and development.....	500,000	3,000,000	--
Loss/(gain) on sale of subsidiary.....	--	(1,634,291)	12,639
Changes in operating assets and liabilities (net of effects of acquisitions):			
Accounts receivable.....	(7,319,726)	(5,744,286)	(1,168,148)
Prepaid expenses and other current assets.....	(3,055,858)	(3,570,937)	(5,397)
Other assets.....	(448,446)	(468,530)	--
Accounts payable.....	539,495	(1,766,791)	1,066,013
Accrued payroll and compensation.....	(261,865)	(324,320)	--
Other accrued expenses.....	612,037	1,222,702	--
Unearned revenue.....	(3,318,634)	3,736,856	--
Income taxes payable.....	(1,709,602)	2,821,062	--
Deferred compensation.....	(148,619)	3,949,000	(573,402)
Net cash provided by (used in) operating activities.....	4,310,099	4,508,274	(459,226)
INVESTING ACTIVITIES:			
Proceeds from sale of subsidiary, net of cash relinquished.....	--	2,499,262	--
Purchases of property and equipment, net.....	(7,809,653)	(2,060,125)	(1,699,244)
Purchases of investments.....	(20,494,443)	--	--
Purchase of software licensing agreement.....	--	(1,623,750)	--
Capitalized research and development costs.....	(1,997,837)	(819,105)	--
Deferred contract costs.....	(3,432,064)	--	--
Acquisition of subsidiary, net of cash acquired.....	(24,237,161)	(17,118,849)	--
Net cash used in investing activities.....	(57,971,158)	(19,122,567)	(1,699,244)
FINANCING ACTIVITIES:			
Proceeds from borrowings.....	--	8,677,503	2,500,000
Repayment of borrowings.....	(1,128,434)	(10,792,589)	--
Repayment of borrowings to shareholder.....	--	(995,706)	--
Contribution from shareholder.....	--	10,500,000	--
Issuance of common stock, net of issuance costs paid....	52,980,813	34,635,603	--
Proceeds from exercises under stock plans, net.....	1,369,324	--	--
Bank overdrafts.....	--	265,407	--
Net cash provided by investing activities.....	53,221,703	42,290,218	2,500,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(439,356)	27,675,925	341,530
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	28,039,323	363,398	21,868
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 27,599,967	\$ 28,039,323	\$ 363,398
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid.....	\$ 56,682	\$ 360,083	\$ 2,245
Income taxes paid (refunded).....	\$ 7,463,624	\$ (48,686)	\$ (336,939)
Noncash investing activities -- contribution of fixed assets from shareholder.....	\$ --	\$ 1,308,191	\$ --

</TABLE>

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General -- INSpire Insurance Solutions, Inc. and subsidiary ("INSpire" or the "Company") is a provider of policy and claims administration and information technology ("IT") outsourcing services to the property and casualty ("P&C") insurance industry. The Company also develops, markets, licenses and supports computer software and related services to the P&C insurance industry. The Company sells its products directly to the customer. The majority of sales are in North America. Prior to the initial public offering of common stock on August 22, 1997, the Company was a wholly owned subsidiary of The Millers Mutual Fire Insurance Company ("Millers Mutual").

Arrow Claims Management, Inc. and Certain Assets of Arrowhead General Insurance Agency, Inc. Acquisition -- Effective December 1, 1998 the Company entered into a stock purchase agreement (the "Stock Purchase Agreement") dated as of October 29, 1998, with the shareholders of Arrow Claims Management, Inc. ("ACM"), pursuant to which the Company agreed to acquire from such shareholders all of the outstanding capital stock of ACM for \$13.5 million in cash. The Company also entered into an asset purchase agreement (the "Asset Purchase Agreement"), dated as of October 29, 1998, with Arrowhead General Insurance Agency, Inc. ("AGIA"), pursuant to which the Company agreed to acquire substantially all of those assets of AGIA related to its policy administration operations for \$6.5 million in cash and an option to purchase up to 299,466 shares of common stock, par value \$.01 per share ("Common Stock"), of the Company subject to achieving certain performance objectives. The acquisition was funded through the use of offering proceeds.

The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their relative fair market values.

As of the acquisition date, assets acquired and liabilities assumed were as follows (in thousands):

<TABLE>	
<S>	<C>
Purchase price.....	\$20,000
Fair values of net assets acquired:	
Tangible assets.....	1,117
Liabilities.....	(280)

	837

Goodwill.....	\$19,164
	=====
</TABLE>	

Unaudited pro forma data reflecting results of the Company as if the acquisition was effective at January 1, 1997 follows (in thousands, except share data):

<TABLE>		
<CAPTION>		
	YEAR ENDED	
	DECEMBER 31,	
	-----	-----
	1998	1997
	-----	-----
<S>	<C>	<C>
Total Revenues.....	\$111,888	\$83,428
	-----	-----
Operating Income.....	\$ 20,338	\$ 5,783
	-----	-----
Net Income.....	\$ 13,716	\$ 3,718
	=====	=====
Net Income per share (basic).....	\$ 0.77	\$ 0.22
	=====	=====
Net Income per share (diluted).....	\$ 0.69	\$ 0.21
	=====	=====
Weighted average shares (basic).....	17,854	16,554
Weighted average shares (diluted).....	19,839	17,844
</TABLE>		

Pro forma results are unaudited and are based on historical results, adjusted for the impact of certain acquisition related adjustments, such as:

of goodwill and the related income tax effects. Pro forma results do not reflect any synergies that might be achieved from combined operations and, therefore, in management's opinion, are not indicative of what actual results would have been if the acquisitions had occurred at January 1, 1997. In addition, such pro forma results are not intended to be a projection of future results.

The operating results of the acquired business are included from December 1, 1998, the date of acquisition.

Basis of Presentation -- The consolidated financial statements include the financial statements of INSpire and its wholly owned subsidiary, INSpire Claims Management, Inc. All significant intercompany balances and transactions have been eliminated in the consolidation.

Property and Equipment -- The Company records property and equipment at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method based on the estimated useful lives of assets, which range from three to seven years. Leasehold expenses are amortized over the lease term or the estimated useful life, whichever is less. Repairs and maintenance are charged to operating expenses as incurred.

Revenue Recognition -- Revenues from outsourcing services are recognized as services are rendered. INSpire is typically paid a percentage of premiums written for policy administration services, a percentage of premiums earned or claims paid for claims administration services and a percentage of premiums written, subject to a minimum fee, for IT services. Outsourcing services contracts generally are for terms of two to ten years. Due to the ongoing nature of these outsourcing services and the length of the terms of the service contracts, outsourcing services generate recurring revenues. Initial installations of software systems generally include a one-time license fee and a contract for the installation and customization of the system to meet the customer's specifications, which INSpire bills at an hourly rate. Amounts charged for the initial license and the installation and customization of systems are recognized as revenue during the installation period in proportion to the hours expended for installation compared to the total hours projected for installation. In other instances, revenues are recognized based on performance milestones specified in the contract. INSpire recognizes the annual fee charged for maintenance of the customer's system as revenue as hours are expended over the maintenance contract period. Revenues from computer hardware and equipment sales, included in other revenues, are recognized when INSpire receives notification that the equipment has been shipped by the manufacturer and title has passed to the customer. Changes in estimates of percentage of completion or losses, if any, associated with software services are recognized in the period in which they are determined. Losses, if any, associated with outsourcing services are recognized in the period in which they are determined. Unearned revenues consist of payments by customers in advance of revenues recognized on such services. Unbilled receivables consist of revenues recognized in advance of billings due to timing differences related to billing schedules specified in contracts.

Income Taxes -- Prior to the initial public offering on August 22, 1997, Millers Mutual and its subsidiaries, including the Company, filed a consolidated federal income tax return. In accordance with federal income tax regulations, all corporations included in a consolidated tax return were jointly and severally liable for all tax liabilities. A tax sharing agreement among Millers Mutual, the Company and the other subsidiaries of Millers Mutual (the "Tax Allocation Agreement") provided that taxes on income were charged to profitable subsidiaries as if they were filing their own separate returns. Subsidiaries with losses were given credit for tax benefits of their losses to the extent utilized to reduce the consolidated tax liability or to the extent the benefits are funded currently. Subsidiaries received the benefit of all tax credits. Intercompany tax balances were settled annually. Effective August 23, 1997, the Tax Allocation Agreement was terminated as it related to the Company. The agreement to terminate the Tax Allocation Agreement provides that the Company will indemnify the other members of the Millers Mutual consolidated tax group for any of the group's income taxes and related expenses attributable to the Company and Millers Mutual will indemnify the Company for any income taxes and related expenses attributable to any members of the tax group other than the Company's.

The Company uses the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the

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financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the year in deferred tax assets and liabilities.

Industry Concentration -- The Company's revenues and accounts receivable are derived primarily from the United States P&C insurance industry.

Research and Development -- INSpire incurs research and development costs that relate primarily to the development of new products and major enhancements to existing services and products. Research and development costs are comprised primarily of salaries. INSpire expenses or capitalizes, as appropriate, these research and development costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." All research and development costs incurred prior to the time management believes a project has reached "technological feasibility" are expensed. Software production costs incurred subsequent to reaching technological feasibility are capitalized, if material, and reported at the lower of unamortized cost or net realizable value. Capitalized costs are amortized over the expected service life of the related software, generally five to seven years, using the straight-line method. The cost and related accumulated amortization of projects are written off as they become fully amortized.

The Company assesses the recoverability of these costs by determining whether the amortization of the capitalized costs over the remaining life of the projects can be recovered through undiscounted future operating cash flows.

Cash and Cash Equivalents -- For the purposes of reporting cash flows, cash and cash equivalents include investments readily convertible to cash with remaining maturities at date of purchase of three months or less.

Intangibles and Other Assets -- Goodwill is amortized over a period of five to ten years using the straight-line method. Acquired software and other intangibles are amortized over a period of three to five years using the straight-line method. Deferred contract costs are comprised of the incremental fees and direct costs associated with long-term outsourcing service agreements and are amortized over the related contract period of up to ten years using a units of production method based on the total premiums or claims processed under the terms of the respective agreements. The realizability of intangibles and other assets is evaluated periodically and, if warranted, an impairment would be recognized.

Financial Instruments -- The Company does not have any derivative financial instruments as of December 31, 1998. However, the Company is exposed to interest rate risk. The Company employs established policies and procedures to manage its exposure to changes in the market risk of its marketable securities, which are classified as available for sale securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 1998, the costs of the securities approximate their fair market value. The Company believes that the market risk arising from holdings of its financial instruments is not material. Information relating to quantitative and qualitative disclosure about market risk is set forth below. The carrying amounts for the Company's cash, investments, and accounts receivable approximate fair value at December 31, 1998.

Concentrations of Credit Risk -- Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of its holdings of cash and marketable securities. The Company's credit risk is managed by investing its cash and marketable securities in high-quality money market instruments and securities of the U.S. government and its agencies and high-quality corporate issuers. At December 31, 1998, the Company had no significant concentrations of credit risk.

Net Income (Loss) Per Share -- Net income (loss) per share (basic) of the Company is computed by dividing net income or loss by the weighted average number of shares outstanding. The weighted average number of shares (basic) was 17,854,390 in 1998, 12,206,055 in 1997 and 10,500,000 in 1996 after giving

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effect to the stock dividends paid in August 1998 and May and June 1997. The weighted average number of shares (diluted) was 19,838,583 in 1998, 13,173,746 in 1997 and 11,623,832 in 1996.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Basic			
Average shares outstanding.....	17,854	12,206	10,500
Net income (loss).....	\$11,570	\$ 1,716	\$ (515)
Per share amount.....	\$ 0.65	\$ 0.14	\$ (0.05)
Diluted			
Average shares outstanding.....	17,854	12,206	10,500
Net effect of dilutive stock options based on the treasury stock method using the average market price.....	1,984	968	1,124
Total.....	19,839	13,174	11,624
Net income (loss).....	\$11,570	\$ 1,716	\$ (515)
Per share amount.....	\$ 0.58	\$ 0.13	\$ (.05)

</TABLE>

Accounting Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these amounts.

Certain Reclassifications -- Certain reclassifications have been made to the prior period statements to conform them to the current year classifications.

Recently Issued Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," ("SFAS 130") which establishes standards for reporting and display of comprehensive income and its components, as defined. SFAS 130 requires that all items that must be recognized under accounting standards as components of comprehensive income be reported in a financial statement displayed with the same prominence as other financial statements. Comprehensive income is defined as the total of net income and all other non-owner charges in equity. In addition, SFAS 130 requires that an enterprise classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a balance sheet. SFAS 130 is effective for fiscal years beginning after December 15, 1997. The Company adopted SFAS 130 during 1998 and comprehensive income does not differ from net income (loss) as reported in the Consolidated Statements of Operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," ("SFAS 131") which requires public enterprises to report certain financial and descriptive information about operating segments, as defined, in annual financial statements and selected information in condensed financial statements for interim periods issued to shareholders, if practical. The Company adopted SFAS 131 in 1998 and management

has determined that the disclosures in the accompanying consolidated financial statements are adequate.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 is effective for fiscal years beginning after June 15, 1999. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair

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value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if so designed, the type of hedge transaction. The Company does not expect that the adoption of SFAS 133 will have a material impact on its financial statements because the Company does not currently hold any derivative instruments.

In October 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"). SOP 97-2 is effective for transactions entered into in fiscal years beginning after December 15, 1997. The adoption of SOP 97-2 did not have a material effect on the Company's financial position, results of operations or cash flows.

In February 1998, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 is effective for transactions entered into in fiscal years beginning after December 31, 1998. The Company believes the adoption of SOP 98-1 will not have a material effect on the Company's financial position, results of operations or cash flows.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 is effective for the Company's fiscal year ending December 31, 1999. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. The Company believes the adoption of SOP 98-5 will not have a material effect on the Company's financial position, results of operations or cash flows.

2. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Accounts receivable -- trade.....	\$12,886,475	\$ 9,957,538
Accounts receivable -- unbilled.....	5,915,907	1,161,634
Other.....	293,884	160,063
	19,096,266	11,279,235
Allowance for doubtful accounts.....	494,542	302,563
	18,601,724	10,976,672
Noncurrent -- accounts receivable.....	--	74,258
	\$18,601,724	\$11,050,930
	=====	=====

</TABLE>

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997

<S>	<C>	<C>
Computer equipment.....	\$ 16,583,024	\$11,948,671
Office equipment.....	3,923,522	1,938,491
Automobiles.....	228,287	242,710
Airplanes.....	3,167,581	--
Leasehold improvements.....	1,601,695	114,615
	-----	-----
	25,504,109	14,224,487
Accumulated depreciation.....	(13,679,322)	(8,214,514)
	-----	-----
	\$ 11,824,787	\$ 6,026,973
	=====	=====

</TABLE>

Depreciation expense was \$3,179,163, \$2,263,087, and \$786,768 for 1998, 1997 and 1996, respectively.

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4. RESEARCH AND DEVELOPMENT

Research and development costs were approximately \$6,306,000 and \$2,975,000 for the years ended December 31, 1998 and 1997, respectively, including capitalized software costs of approximately \$2,000,000 and \$819,000 and amortization expense of approximately \$1,325,000 and \$966,000 relating to acquired software costs. The Company had no significant research and development activities for the year ended December 31, 1996.

5. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consist of the following:

<TABLE>

<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Goodwill, net of accumulated amortization of \$2,119,520 and \$748,567.....	\$29,896,217	\$ 8,530,173
Acquired software, net of accumulated amortization of \$2,290,500 and \$966,000.....	4,609,500	5,034,000
Capitalized research and development costs, net of accumulated amortization of \$311,058 and \$26,513.....	2,505,884	792,592
Other intangibles, net of accumulated amortization of \$95,270.....	314,730	--
Software license agreement.....	1,623,750	1,623,750
Cash surrender value of life insurance.....	489,897	409,898
Deferred contract costs.....	3,432,063	--
Other.....	1,127,848	649,221
	-----	-----
	\$43,999,890	\$17,039,634
	=====	=====

</TABLE>

Amortization expense was \$3,031,068 and \$1,738,173 for 1998 and 1997 respectively. No amortization expense was recorded for 1996 as there were no intangible assets recognized for the year.

6. LONG-TERM DEBT

The Company had a bank line of credit of \$4.0 million which was terminated by the Company on July 3, 1998. The bank line of credit agreement contained certain restrictive covenants. These covenants required that the Company meet certain requirements such as maintenance of a minimum net worth and did not allow additional borrowings, dividends or other distributions without prior consent of the bank. As of December 31, 1997, the Company had no borrowings outstanding under the bank line of credit.

On August 22, 1997, the Company entered into a note agreement with a financial institution to pay the cost of three-year professional liability and

directors and officers insurance policies. The note is payable in monthly principal and interest installments of \$54,424 through July 1999 and had a balance of \$383,402 and \$982,809 at December 31, 1998 and 1997, respectively. The note bears interest at an annual rate of 6.25%.

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7. INCOME TAXES

Federal income tax benefit (expense) consists of the following components:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ (2,019,220)	\$ (3,048,994)	\$ 201,388
State and local.....	(278,329)	(634,881)	--
Tax deduction credited to paid in capital from exercise of stock options.....	(3,538,424)	--	--
Deferred:			
Federal.....	(758,861)	2,554,340	62,500
State and local.....	(111,597)	328,317	--
	=====	=====	=====
	\$ (6,706,431)	\$ (801,218)	\$ 263,888

</TABLE>

A reconciliation of income tax expense computed by applying the federal statutory tax rate of 34% to income before income taxes, to the reported income taxes is as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Income tax benefit (expense).....	\$ (6,213,928)	\$ (855,881)	\$ 264,889
State income taxes, net of federal income tax benefit.....	(295,294)	(91,000)	--
Valuation of temporary differences.....	--	277,000	--
Tax-exempt interest.....	555,765	--	--
Goodwill.....	(369,367)	(254,512)	--
Research and development credits.....	100,000	100,000	--
Other.....	(483,607)	23,175	(1,001)
	=====	=====	=====
	\$ (6,706,431)	\$ (801,218)	\$ 263,888

</TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Deferred income tax assets:		
Current:		
Accounts receivable.....	\$ 154,000	\$ 118,000
Accrued expenses.....	1,023,000	1,316,000
	-----	-----
	1,177,000	1,434,000
Noncurrent:		

Accrued expenses.....	--	203,000
	-----	-----
Total deferred income tax assets.....	--	203,000
	-----	-----
Deferred income tax liabilities:		
Noncurrent:		
Property and equipment.....	463,000	650,000
Capitalized research and development.....	977,000	393,000
Acquired software.....	2,167,000	1,883,000
	-----	-----
Total deferred income tax liabilities.....	3,607,000	2,926,000
	-----	-----
Net deferred income tax liabilities.....	\$ (2,430,000)	\$ (1,289,000)
	=====	=====
Represented on the balance sheet as:		
Current deferred income tax assets.....	\$ 1,177,000	\$ 1,434,000
Noncurrent deferred income tax liabilities.....	(3,607,000)	(2,723,000)
	-----	-----
	\$ (2,430,000)	\$ (1,289,000)
	=====	=====

</TABLE>

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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods with respect to which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

8. RELATED PARTY TRANSACTIONS

The Company provided policy and claims administration services, data processing services and software services to Millers Mutual and The Millers Casualty Insurance Company ("Millers Casualty"), under the terms of various agreements. Total fees earned were approximately \$25,750,000, \$18,864,000, and \$7,557,000 in 1998, 1997, and 1996, respectively.

From July 1, 1995 through December 31, 1997, the Company has had various agreements with Millers Mutual to provide the Company management and administrative services. Total fees paid by the Company in 1997 and 1996 were approximately \$1,290,000, and \$3,100,000, respectively. Effective January 1, 1998, a new agreement was entered into, whereby the Company provides benefits administration services to Millers Mutual and Millers Casualty for a monthly fee of \$15,000. Total fees earned under this contract for 1998 were \$180,000.

Beginning May 1, 1996, the Company incurred rental expenses to Millers Mutual for office space, totaling approximately \$273,000, \$316,500 and \$297,000 for 1998, 1997, and 1996, respectively. In November 1998, Millers Mutual sold the building in which INSpire's headquarters is located to a partnership which is 100% owned by certain members of the Company's board of directors and the Company's chief executive officer. For the year ended December 31, 1998, INSpire incurred approximately \$138,000 of rental expense under this agreement.

There was a net receivable due from Millers Mutual of approximately \$1,996,000 and \$1,301,000 at December 31, 1998 and 1997, respectively.

9. EMPLOYEE BENEFIT PLANS

Prior to August 1997, substantially all of the Company's employees were covered by a defined benefit pension plan (the "Pension Plan") sponsored by Millers Mutual that provided retirement, death and disability benefits for full-time employees completing at least 1,000 hours of service. The Company made annual contributions to the Pension Plan equal to the amounts accrued for pension expense, including amortization of past service cost over 30 years. Contributions to the Pension Plan were determined by consulting actuaries based upon future periodic payments, including lump-sum distributions that were

attributable under the Pension Plan's provisions to the service employees had rendered. No expense was incurred relative to the Pension Plan during 1997 or 1996, as the pension plan was over-funded. In addition, the Company participated in a defined contribution profit sharing plan sponsored by Millers Mutual that covered substantially all of its employees (the "Profit Sharing Plan"). There were no contributions made by the Company to the Profit Sharing Plan in 1997 or 1996. In July 1997, the Board of Directors approved the termination of the Company's participation in the Pension Plan and the Profit Sharing Plan. The effects of termination of the Company's participation in the Pension Plan and the Profit Sharing Plan were immaterial to the Company's financial position, results of operations and cash flows.

In July 1997, the Company adopted a 401(k) plan (the "Plan") covering all employees who meet certain minimum age and length of service requirements. The Plan provides for payment of the employee's vested portion of the Plan upon retirement, termination, disability or death. Discretionary contributions may be made to the Plan under the direction of the Company's Board of Directors. The Company made contributions of approximately \$592,000 and \$434,000 and incurred expenses of approximately \$19,000 and \$8,000 related to the Plan for the years ended December 31, 1998 and 1997.

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10. EMPLOYEE AND DIRECTOR STOCK OPTION PLANS

As of December 31, 1998, the Company's employee and director stock option plans have authorized the grant of options to employees and outside directors for up to 4,575,000 shares of the Company's Common Stock. The Company adopted the Second Amended and Restated 1997 Stock Option Plan (the "Stock Option Plan") in February 1998, which was approved by the shareholders in April 1998 and which provides for the grant of incentive and nonqualified options to purchase up to 4,500,000 shares of Common Stock subject to certain adjustments as described in the Stock Option Plan. Stock options are issuable only to eligible directors, officers and employees of the Company. All options granted have 10 year terms and vest over a period ranging from immediately to six years of continued employment or service to the Company.

The per share exercise price of an incentive option may not be less than the greater of par value or 100% of the fair value of the Common Stock on the date the option is granted. Incentive options granted to an employee who owns in excess of 10% of the voting stock of the Company must have an exercise price of at least 110% of the fair value of the Common Stock at the date of grant. Options may be exercised only if the option holder remains continuously associated with the Company from the date of grant to the date of exercise, subject to certain conditions as specified in the Stock Option Plan. An option granted under the Stock Option Plan cannot be exercised later than ten years from the date of the grant. Any options that expire unexercised or that terminate upon an optionee's ceasing his or her association with the Company become available once again for issuance.

On July 30, 1997, the Board of Directors adopted the Director Stock Option Plan, which was amended by the Board of Directors in February 1998, and was approved by the shareholders in April 1998 ("Director Plan"). The Director Plan provides that each current nonemployee director be granted options to purchase 3,750 shares of Common Stock as of the effective date of the initial public offering at an exercise price equal to the initial public offering price. Such options became immediately exercisable as of the date of the initial public offering. A total of 75,000 shares has been reserved for issuance pursuant to the Director Plan. Each new nonemployee director who is elected (or appointed to fill any vacancy) as a director of the Company will be granted options under the Director Plan to purchase 3,750 shares of Common Stock at the fair market value of the Common Stock on the date of grant. Also, each nonemployee director who has previously been granted options under the Director Plan will be granted additional options under the Director Plan to purchase 3,750 shares of Common Stock on the day immediately after each annual meeting of shareholders of the Company subsequent to the time at which such nonemployee director is first elected or appointed as a director of the Company if such nonemployee director continues to serve as a director on such date of grant. The options under the Director Plan will vest and be exercisable as of the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model using a risk-free interest rate of 5.5%, an expected life of five years and a volatility factor of 58.0%.

The following table summarizes the stock option activity under the Stock Option Plan and Director Plan for the year ended December 31, 1998:

	NUMBER OF SHARES	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>
Options outstanding as of December 31, 1997.....	1,998,979	\$ 0.87-\$ 8.00	\$ 5.03
Effect of stock split.....	999,490		
Options granted.....	1,233,615	\$13.96-\$26.50	\$21.31
Options exercised.....	(698,958)	\$ 0.87-\$ 8.00	\$ 2.23
Options cancelled.....	(308,279)	\$ 0.87-\$22.00	\$ 6.39

Options outstanding as of December 31, 1998.....	3,224,847	\$ 0.87-\$26.50	\$11.67
	=====		
Exercisable as of December 31, 1998.....	1,080,841	\$ 0.87-\$23.33	\$ 6.48
	=====		
Options available for grant.....	651,196		
	=====		

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The weighted average fair value of options granted during the year ended December 31, 1998 was \$14.56 compared to \$3.04 for the year ended December 31, 1997. Included in the above options granted for 1998 there were no options granted at a value less than market value on the date of grant. All options granted expire six years from date of grant.

Under Accounting Principles Board Opinion No. 25, the Company recognized no compensation expense for the year ended December 31, 1998 as all stock options granted under the terms of the Stock Option Plan were at an exercise price equivalent to the estimated fair market value of the Common Stock at the date of grant. For the year ended December 31, 1997, the Company recognized \$3,949,000 of compensation expense relating to stock options as the stock options granted were at an exercise price that was less than the estimated fair market value of the Common Stock at the date of grant. Had the Company implemented SFAS 123, the Company's compensation expense would have increased by approximately \$8.2 million and \$126,000 for the years ended December 31, 1998 and 1997, respectively. The Company's pro forma net income, net income per share (basic) and net income per share (diluted), considering the effects of implementing SFAS No. 123, net of tax effects, would have been approximately \$6,104,000 and \$1,633,000, \$0.34 and \$0.13, \$0.31 and \$0.13, respectively, for the years ended December 31, 1998 and 1997.

11. EMPLOYEE STOCK PURCHASE PLAN

In July 1997 the Board of Directors adopted the Employee Stock Purchase Plan (the "Stock Purchase Plan"), under which a total of 637,500 shares of Common Stock has been reserved for issuance. The Board of Directors has appointed a committee to administer the Stock Purchase Plan. Any employee who has been employed by the Company for 90 days is eligible to participate in offerings under the Stock Purchase Plan.

The Stock Purchase Plan was initially implemented by an offering of 37,500 shares of Common Stock from October 1, 1997 to December 31, 1997. Pursuant to such offering, 9,360 shares of Common Stock were purchased by participants under the Stock Purchase Plan. During 1998, offerings of 75,000 shares each were made on January 1 and July 1, respectively. As a result of these offerings, participants purchased 11,173 and 13,741 shares, respectively, of Common Stock. The Company anticipates that the Stock Purchase Plan will be further implemented by six additional semiannual offerings of Common Stock beginning on January 1 and July 1 for each of the years 1999, 2000 and 2001. The maximum number of shares issued in each semi-annual offering will be 75,000 shares plus the cumulative number of unissued shares from prior offerings under the Stock Purchase Plan.

On the commencement date of each offering under the Stock Purchase Plan, a participating employee will be deemed to have been granted an option to purchase

a maximum number of shares of Common Stock equal to: (i) the percentage of the employee's base pay that such employee has elected to be withheld (not to exceed 10%), (ii) multiplied by such employee's base pay during the period of such offering and (iii) divided by the lower of 85% of the closing market price of the Common Stock on the applicable offering commencement date or 85% of the closing market price of the Common Stock on the offering termination date. Options held by a participant shall be exercisable only by that participant.

No employee may be granted options to participate in the Stock Purchase Plan if, as a result of such grant, such employee would (i) own stock or hold options to purchase stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or (ii) have rights to purchase stock under all employee stock purchase plans of the Company that accrue at a rate in excess of \$25,000 in fair market value for any calendar year.

Unless a participant gives written notice to the Company, such participant's option for the purchase of Common Stock with payroll deductions made during an offering shall be deemed to have been exercised automatically on the offering termination date applicable to such offering, for the purchase of the number of full shares of Common Stock that the accumulated payroll deductions at that time will purchase at the applicable option price. A participant may withdraw payroll deductions credited to his account under the Stock Purchase Plan at any time.

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12. SHAREHOLDERS' EQUITY

On June 12, 1997, the Board of Directors and the shareholder of the Company approved an amendment to the Articles of Incorporation of the Company providing for an increase in the number of authorized shares of Common Stock from 1,000 shares to 14,000,000 shares. On July 30, 1997, the Board of Directors and the shareholder of the Company approved an amendment to the Articles of Incorporation of the Company providing for an increase in the number of authorized shares of Common Stock from 14,000,000 shares to 50,000,000 shares.

On July 30, 1997, the Board of Directors authorized 300,000 shares of Series A Junior Preferred Stock, par value \$1.00 per share, adopted the Rights Agreement ("Rights Agreement") and authorized and declared a dividend distribution of one right (a "Right") for each outstanding share of Common Stock to Millers Mutual under the terms of the Rights Agreement. One Right will thereafter be issued for each share of Common Stock that was outstanding between the date of adoption of the Rights Agreement and the earlier of the date the Rights become exercisable or are redeemed and the termination of the Rights Agreement. Accordingly, one right has been issued for each share of Common Stock outstanding. Each Right represents the right to purchase one one-hundredth of a share of Series A Junior Preferred Stock at a price of \$100.00, subject to adjustment. The Rights are exercisable only in the event that a person or group (with certain exceptions) becomes the beneficial owner of shares representing 15% or more of the voting power of the Company, or announces or commences a tender or exchange offer that would result in the acquisition of such number of shares. The Rights Agreement expires ten years from the date of adoption.

On December 18, 1998, the Board of Directors authorized 100,000 shares of Common Stock to be awarded under the Executive Performance Stock Incentive Plan ("Performance Plan"). Shares under the Performance Plan shall be restricted shares under the terms of the Securities Act of 1933, as amended (the "Securities Act"). Participants in the Performance Plan include directors and certain officers of INSpire or its subsidiaries. An eligible participant may participate for a specified performance period by timely filing with INSpire an election to defer base compensation for that performance period. The participant may elect to forego 10%, 15%, 20%, or 25% of his or her base compensation (which includes the participant's base salary without regard to any bonuses or annual incentive plan compensation), or such other percentage as the Compensation Committee of the Board of Directors may permit. If the participant makes such an election for a performance period, the participant shall receive the right to an award of Common Stock subject to the award, issuance and forfeiture provisions of the Performance Plan. The amount of performance stock awarded will depend on whether INSpire achieves the target performance goal designated by the Compensation Committee for the particular performance period. The maximum number of shares to be issued pursuant to the Performance Plan during one year is 100,000. This plan is subject to approval by the shareholders of the Company.

13. TRANSACTIONS WITH MAJOR CUSTOMERS

In addition to the outsourcing revenues derived from Millers Mutual and Millers Casualty (see Note 8), for the years ended December 31, 1998, 1997 and 1996 one customer accounted for approximately 13%, 16% and 21% of revenues, respectively.

14. SALE OF SUBSIDIARY

On September 15, 1997, the Company sold Applied Quoting Systems, Inc. ("AQS"), a wholly-owned subsidiary of INSpire, for \$2,500,000. The sale resulted in a gain of approximately \$1,634,000, which is included in other income. For the period from March 12, 1997 (the date of acquisition) through September 15, 1997 (date of sale), AQS had revenues of approximately \$2,535,000 and net income of approximately \$376,000. Net income per common share from the separate operations of AQS for the period of March 12, 1997 through September 15, 1997 was \$.05. Total assets and total liabilities of AQS on the date of sale were approximately \$1,228,000 and \$412,000, respectively.

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15. COMMITMENTS AND CONTINGENCIES

Operating Leases -- The Company leases certain office space and equipment under operating leases and a sublease for periods ranging from one to ten years. Rentals on operating leases (exclusive of real estate taxes, insurance and other expenses payable under the leases) amounted to approximately \$5,660,000 and \$3,818,000 for the years ended December 31, 1998 and 1997, respectively. The Company incurred no significant rental expense in 1996. These leases generally contain optional renewal provisions for one or more periods. Future annual minimum lease payments for each of the next five years and in the aggregate are:

<TABLE>	
<S>	<C>
1999.....	\$ 4,776,442
2000.....	3,984,542
2001.....	3,050,051
2002.....	2,394,284
2003.....	2,056,770
Thereafter.....	7,176,679

	\$23,438,769
	=====

</TABLE>

Employment Agreements -- The Company has employment agreements with certain key officers that provide for minimum annual salaries and benefits aggregating approximately \$1,830,000 and an annual bonus based on the Company's operating performance.

Other -- The Company participates in a self-insurance program for certain of its employees that provides for the payment of employee health claims. The program provides for specific excess loss reinsurance for aggregate claims greater than a specified amount for any one claimant. The Company accrues the estimated liabilities for the ultimate costs of both reported claims and incurred but not reported claims.

In addition, the Company is involved in various other legal proceedings arising in the normal course of business. Management believes the outcome of these matters will not materially affect the financial position, results of operations or cash flows of the Company.

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EXHIBIT INDEX

<TABLE>	
<CAPTION>	
EXHIBIT NO.	DESCRIPTION
-----	-----
<C>	<S>

- 2.1 -- Stock Purchase Agreement, dated as of October 29, 1998, by and among INSpire, ACM and the shareholders of ACM (Incorporated by reference to Exhibit 2.1 of INSpire's Form 8-K, dated December 1, 1998 and filed on December 14, 1998).
- 2.2 -- Asset Purchase Agreement, dated as of October 29, 1998, by and between INSpire and AGIA (Incorporated by reference to Exhibit 2.2 of INSpire's Form 8-K, dated December 1, 1998 and filed on December 14, 1998).
- 2.3 -- Form of Stock Purchase Agreement, dated April 20, 1998, by and among INSpire, Paragon and the shareholders of Paragon (Incorporated by reference to Exhibit 2.1 of INSpire's Form 10-Q for the three months ended March 31, 1998, filed on May 14, 1998).
- 3.1 -- Restated Articles of Incorporation of INSpire and Articles of Amendment No. 1 thereto (Incorporated by reference to Exhibit 3.1 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 3.2 -- Amended and Restated Bylaws of INSpire (Incorporated by reference to Exhibit 3.2 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 3.3 -- Form of First Amendment to the Bylaws of INSpire (Incorporated by reference to Exhibit 3.3 of INSpire's Form 10-Q for the three months ended March 31, 1998, filed on May 14, 1998).
- 4.1 -- Specimen Certificate for shares of Common Stock of INSpire (Incorporated by reference to Exhibit 4.1 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 4.2 -- Form of Amended and Restated Rights Agreement, by and between INSpire and U.S. Trust Company of Texas, N.A., dated as of December 18, 1998.
- 10.1 -- Benefits Administration Contract, dated as of July 1, 1997, by and between INSpire and Millers Mutual (Incorporated by reference to Exhibit 10.1 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.2 -- Amended Service Contract, dated as of July 1, 1997, by and among INSpire, Millers Mutual and Millers Casualty (Incorporated by reference to Exhibit 10.2 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.3 -- Amended Information Services Contract, dated as of July 1, 1997, by and among INSpire, Millers Mutual and Millers Casualty (Incorporated by reference to Exhibit 10.3 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.4 -- Form of Agreement to Lease Office Space, effective as of May 1, 1996, by and between INSpire and Millers Mutual (Incorporated by reference to Exhibit 10.4 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.5 -- Form of Sublease Agreement, effective as of January 1, 1997, by and between INSpire and Millers Mutual (Incorporated by reference to Exhibit 10.5 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.6 -- Claims Life Cycle Services Agreement, effective as of August 15, 1996, by and among INSpire, Blanch Wholesale Insurance Services, Inc. and Blanch Insurance Services, Inc. (Incorporated by reference to Exhibit 10.6 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NO. -----	DESCRIPTION -----
10.7	-- Amendment No. 1 to Claims Life Cycle Services Agreement,

<C>

<S>

dated as of June 27, 1997 (Incorporated by reference to Exhibit 10.7 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).

- 10.8 -- Policy Life Cycle Services Agreement, effective as of August 15, 1996, by and among INSpire, Blanch Wholesale Insurance Services, Inc., and Blanch Insurance Services, Inc. (Incorporated by reference to Exhibit 10.8 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.9 -- Form of Amendment No. 1 to Policy Life Cycle Services Agreement, effective as of August 15, 1996 (Incorporated by reference to Exhibit 10.9 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.10 -- Administration Services Agreement, effective as of March 12, 1996, by and among State Corporation Commission of the Commonwealth of Virginia as Deputy Receiver for HOW Insurance Company, Home Warranty Corporation, and Home Owners Warranty Corporation, In Receivership, and INSpire (Incorporated by reference to Exhibit 10.10 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.11 -- Form of Indemnification Agreement with a schedule of director signatories (Incorporated by reference to Exhibit 10.11 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.12 -- Employment Agreement, effective as of July 1, 1997, by and between INSpire and F. George Dunham, III (Incorporated by reference to Exhibit 10.12 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.13 -- Employment Agreement, dated and effective as of March 12, 1997, by and between SDS and Robert K. Agazzi (Incorporated by reference to Exhibit 10.14 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.14 -- Form of License Agreement (Incorporated by reference to Exhibit 10.24 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.15 -- Building Lease, dated March 12, 1997, between SDS and Riverview Building, LLC (Incorporated by reference to Exhibit 10.15 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.16 -- Form of System Support Agreement (Incorporated by reference to Exhibit 10.25 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.17 -- Form of Implementation Support Agreement (Incorporated by reference to Exhibit 10.26 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.18 -- Form of Accelerated Enhancement Plan Agreement (Incorporated by reference to Exhibit 10.27 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.19 -- Form of Stock Option Agreement (Incorporated by reference to Exhibit 10.29 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.20 -- Consolidated Federal Income Tax Allocation Agreement effective January 1, 1994 by and between INSpire and Millers Mutual, as amended by Addendum No. 1 and Addendum No. 2 thereto (Incorporated by reference to Exhibit 10.30 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
- 10.21 -- Form of Policy Life Cycle Services Agreement, effective as of May 1, 1997, by and between INSpire and Millers Casualty (Incorporated by reference to Exhibit 10.31 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).

</TABLE>

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<TABLE>
<CAPTION>

EXHIBIT NO.

DESCRIPTION

<C>	<S>
10.22	-- Form of Claims Life Cycle Services Agreement, effective as of June 1, 1997, by and between INSpire and Millers Casualty (Incorporated by reference to Exhibit 10.32 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.23	-- Form of Employment Agreement, effective as of July 1, 1997, by and between INSpire and Ronald O. Lynn (Incorporated by reference to Exhibit 10.34 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.24	-- Form of Employment Agreement, effective as of July 1, 1997, by and between INSpire and Jeffrey W. Robinson (Incorporated by reference to Exhibit 10.35 of INSpire's Registration Statement on Form S-1, Registration No. 333-1173).
10.25	-- Director Stock Option Plan (Incorporated by reference to Exhibit 10.36 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.26	-- Form of Director Stock Option Agreement (Incorporated by reference to Exhibit 10.37 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.27	-- Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.38 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.28	-- Claims Administration Agreement, effective April 1, 1997, by and between INSpire and the Specialty Personal Lines Division of Millers Mutual (Incorporated by reference to Exhibit 10.39 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.29	-- Form of Management Agreement, effective as of January 1, 1996, by and between INSpire and Millers Mutual (Incorporated by reference to Exhibit 10.40 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.30	-- Service Contract, effective as of January 1, 1996, by and between INSpire, Millers Mutual and Millers Casualty (Incorporated by reference to Exhibit 10.41 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.31	-- Form of Service Contract, effective as of December 1, 1996, by and between INSpire, Millers Mutual and Millers Casualty (Incorporated by reference to Exhibit 10.42 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.32	-- Form of Information Services Contract, effective as of October 1, 1996, by and between INSpire, Millers Mutual and Millers Casualty (Incorporated by reference to Exhibit 10.43 of INSpire's Registration Statement on Form S-1, Registration No. 333-31173).
10.33	-- Software License and Support Services Agreement, dated October 29, 1997, between INSpire and Cover-All Systems, Inc. (Incorporated by reference to Exhibit 10.44 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.34	-- Form of Contract to Provide Services and Acquire License to Use Software, dated December 29, 1997, between INSpire and Sul America Cia Nacional de Seguros (Incorporated by reference to Exhibit 10.45 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.35	-- Form of Consulting Agreement, effective March 15, 1998, between INSpire and Stuart Warrington (Incorporated by reference to Exhibit 10.46 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).

</TABLE>

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<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION
-----	-----

<C>	<S>
10.36	-- Form of Amendment No. 1 to Employment Agreement, dated and effective as of January 1, 1998, for each of F. George Dunham, III, Ronald O. Lynn, and Jeffrey W. Robinson (Incorporated by reference to Exhibit 10.47 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.37	-- 1998 Annual Bonus Plan (Incorporated by reference to Exhibit 10.48 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.38	-- Form of Claims Administration Services Agreement, effective as of October 1, 1997, by and between INSpire, Millers Mutual and Millers Casualty (Incorporated by reference to Exhibit 10.49 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.39	-- Form of Policy Administration Services Agreement, effective as of October 1, 1997, by and between INSpire, Millers Mutual and Millers Casualty (Incorporated by reference to Exhibit 10.50 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.40	-- Form of Second Amended Information Services Contract, effective as of October 1, 1997, by and between INSpire, Millers Mutual and Millers Casualty (Incorporated by reference to Exhibit 10.51 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.41	-- Form of Amendment No. 1 to the Policy Life Cycle Services Agreement, effective October 1, 1997, by and between INSpire and Millers Casualty (Incorporated by reference to Exhibit 10.52 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.42	-- Form of Amended and Restated Benefits Administration Contract, effective as of January 1, 1998, by and between INSpire and Millers Mutual (Incorporated by reference to Exhibit 10.54 of INSpire's Registration Statement on Form S-1, Registration No. 333-47413).
10.43	-- Employment Agreement, dated and effective as of April 28, 1998, by and between INSpire and William J. Smith, III (Incorporated by reference to Exhibit 10.1 of INSpire's Form 10-Q for the three months ended March 31, 1998, filed on May 14, 1998).
10.44	-- Second Amended and Restated 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.2 of INSpire's Form 10-Q for the three months ended March 31, 1998, filed on May 14, 1998).
10.45	-- Form of First Amendment to the Director Stock Option Plan (Incorporated by reference to Exhibit 10.3 of INSpire's Form 10-Q for the three months ended March 31, 1998, filed on May 14, 1998).
10.46	-- Form of executive employment agreement.
10.47	-- Registration Rights Agreement, dated as of December 1, 1998 between INSpire and AGIA (Incorporated by reference to Exhibit 10.2 of INSpire's Form 8-K dated December 1, 1998 and filed on December 14, 1998).
10.48	-- Option Agreement, dated as of December 1, 1998, between INSpire and AGIA (Incorporated by reference to Exhibit 10.1 of INSpire's Form 8-K dated December 1, 1998 and filed on December 14, 1998).
10.49	-- Form of INSpire's Executive Performance Stock Incentive Plan, dated and effective as of January 1, 1999.
10.50	-- Commercial Lease Agreement, dated November 13, 1998, between IIS Realty Ltd. and INSpire.
10.51	-- Lease, dated April 10, 1996, between ADI Arrow Partners, L.P. and AGIA.

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10.52	-- Office Lease, dated October 18, 1996, between Dr. Peter
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Schmalisch and SDS.

- 11 -- Statement regarding Computation of Per Share Earnings.
- 21 -- Subsidiaries of the Registrant.
- 23 -- Consent of Deloitte & Touche LLP.
- 24 -- Power of Attorney (included on signature page of this Form 10-K).
- 27 -- Financial Data Schedule (included in SEC-filed copy only).

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AMENDED AND RESTATED
RIGHTS AGREEMENT

by and between

INSPIRE INSURANCE SOLUTIONS, INC.

and

U.S. TRUST COMPANY OF TEXAS, N.A.

as Rights Agent

Dated as of

December 18, 1998

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AMENDED AND RESTATED RIGHTS AGREEMENT

Amended and Restated Rights Agreement, dated as of December 18, 1998, by and between INSpire Insurance Solutions, Inc., a Texas corporation (the "Company"), and U.S. Trust Company of Texas, N.A. (the "Rights Agent").

W I T N E S S E T H:

WHEREAS, on July 30, 1997, the Board of Directors of the Company authorized the issuance and declared a dividend of one right (a "Right") for

each share of the Company's Common Stock, par value \$0.01 per share (the "Common Stock"), outstanding as of the close of business on August 1, 1997 (the "Record Date"), each such Right representing the right to purchase one one-hundredth of a share of Series A Junior Preferred Stock of the Company (the "Preferred Stock"), upon the terms and subject to the conditions set forth in that certain Rights Agreement, dated as of July 30, 1997 between the Company and the Rights Agent, as amended by the First Amendment to Rights Agreement effective as of April 7, 1998 (as so amended, the "Original Rights Agreement"); and

WHEREAS, the Board of Directors of the Company has further authorized the issuance of one Right (subject to adjustment) with respect to each share of Common Stock that may become outstanding (whether originally issued or delivered from the Company's treasury) between the Record Date and the earlier to occur of the Redemption Date or the Final Expiration Date (as such terms are hereinafter defined); and

WHEREAS, the Board of Directors of the Company has determined that it is desirable and in the best interests of the Company to amend and restate the Original Rights Agreement and the Rights;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the Original Rights Agreement is hereby amended and restated as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms shall have the meanings indicated:

(a) "Acquiring Person" shall mean any Person (as such term is hereinafter defined) who or which, together with all Affiliates (as such term is hereinafter defined) and Associates (as such term is hereinafter defined) of such Person, shall be the Beneficial Owner (as such term is hereinafter defined) of 15% or more of the Voting Stock (as such term is hereinafter defined) of the Company then outstanding; provided that an Acquiring Person shall not include (i) an Exempt Person (as such term is hereinafter defined) or (ii) any Person, together with all Affiliates and Associates of such Person, who or which would be an Acquiring Person solely by reason of (A) being the Beneficial Owner of shares of Voting Stock of the Company, the Beneficial Ownership of which was acquired by such Person pursuant to any action or transaction or series of related actions or transactions approved by the Board of Directors before

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such Person otherwise became an Acquiring Person, or (B) a reduction in the number of issued and outstanding shares of Voting Stock of the Company pursuant to a transaction or a series of related transactions approved by the Board of Directors of the Company; provided further that in the event the Person described in this clause (ii) does not become an Acquiring Person by reason of subclause (A) or (B) of this clause (ii), such Person shall nonetheless become an Acquiring Person upon its becoming the Beneficial Owner, together with all Affiliates and Associates of such Person, of an additional 1% of more of the Company's Voting Stock unless such additional 1% or more Beneficial Ownership will not result in such Person becoming an Acquiring Person by reason of subclause (A) or (B) of this clause (ii). Notwithstanding the foregoing, if the Board of Directors of the Company determines in good faith that a Person who

would otherwise be an "Acquiring Person" as defined pursuant to the foregoing provisions of this paragraph (a) has become such inadvertently, and such Person divests itself as promptly as practicable (as determined in good faith by the Board of Directors of the Company), but in any event within five Business Days, following receipt of written notice from the Company of such event, of a sufficient number of shares of Voting Stock so that such Person would no longer be an "Acquiring Person" as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed an "Acquiring Person" for any purposes of this Rights Agreement.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date of this Rights Agreement.

(c) A Person shall be deemed the "Beneficial Owner" of, or to "Beneficially Own", any securities (and correlative terms shall have correlative meanings):

(i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, "beneficially owns" (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date hereof); or

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time or the fulfillment of a condition or both) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, other rights (other than these Rights), warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "Beneficially Own", securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange, or (B) the right to vote, alone or in concert with others, pursuant to any agreement, arrangement or understanding (whether or not in writing); provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "Beneficially Own", any securities if the agreement, arrangement or understanding to vote such securities (1) arises solely from a revocable proxy or consent given in response to a proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations

under the Exchange Act, and (2) is not at the time reportable by such Person on a Schedule 13D report under the Exchange Act (or any comparable or successor report), other than by reference to a proxy or consent solicitation being conducted by such Person; or

(iii) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's

Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except as described in clause (B) of subparagraph (ii) of this paragraph (c)) or disposing of any securities of the Company; provided, however, that for purposes of determining Beneficial Ownership of securities under this Rights Agreement, officers and directors of the Company solely by reason of their status as such shall not constitute a group (notwithstanding that they may be Associates of one another or may be deemed to constitute a group for purposes of Section 13(d) of the Exchange Act) and shall not be deemed to own shares owned by another officer or director of the Company.

Notwithstanding anything in this paragraph (c) to the contrary, a Person shall not be deemed the "Beneficial Owner" of, or to "Beneficially Own," any security beneficially owned by another Person solely by reason of an agreement, arrangement or understanding with such other Person for the purposes of: (x) soliciting the Company's shareholders for the election of director nominees or any other shareholder resolution, the formation of and membership on any committee for the purpose of promoting or opposing any shareholder resolution or for electing a slate of nominees to the Company's Board of Directors, service on such a slate of nominees, or agreement to a slate of director nominees, provided that such other Person retains the right at any time to withdraw as a nominee or member of any such committee, and to withhold or revoke any vote or proxy for or against any such shareholder resolution or for such slate of nominees; (y) entering into revocable voting agreements or the granting or solicitation of revocable proxies with respect to any of the matters described in the foregoing clause (x); or (z) the sharing of expenses and the indemnification against expenses and liabilities by any such other Person with respect to expenses incurred or conduct occurring during the time such other Person is a nominee or a member of any such committee described in the foregoing clause (x). Further, notwithstanding anything in this paragraph (c) to the contrary, a Person engaged in the business of underwriting securities shall not be deemed the "Beneficial Owner" of, or to "Beneficially Own," any securities acquired in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

Notwithstanding anything in this paragraph (c) to the contrary, the phrase "then outstanding," when used with reference to a Person's Beneficial Ownership of securities of the Company, shall mean the number of such securities then issued and outstanding together with the number of such securities not then actually issued and outstanding which such Person would be deemed to own beneficially hereunder.

(d) "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in the State of Texas are authorized or obligated by law or executive order to close.

(e) "Close of Business" on any given date shall mean 5:00 P.M. Fort Worth, Texas time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., Fort Worth, Texas time, on the next succeeding Business Day.

(f) "Common Stock" when used with reference to the Company shall mean the Common Stock (presently par value \$0.01 per share) of the Company. "Common Stock" when used with reference to any Person other than the Company which shall be organized in corporate form shall mean the capital stock or other equity security with the greatest per share voting power of such Person or, if such Person is a Subsidiary of another Person, the Person or Persons which ultimately control such first-mentioned Person. "Common Stock" when used with reference to any Person other than the Company which shall not be organized in corporate form shall mean units of beneficial interest which shall represent the right to participate in profits, losses, deductions and credits of such Person and which shall be entitled to exercise the greatest voting power per unit of such Person or, if such other Person is a Subsidiary of another Person, the Person or Persons which ultimately control such first-mentioned Person.

(g) "Company" shall mean INSpire Insurance Solutions, Inc., a Texas corporation.

(h) "Distribution Date" shall have the meaning set forth in Section 3(b) hereof.

(i) "Exchange Act" shall have the meaning set forth in Section 1(b) hereof.

(j) "Exempt Person" shall mean (i) the Company, (ii) any Subsidiary of the Company, (iii) any employee benefit plan or employee stock plan of the Company or any Subsidiary of the Company, or any trust or other entity organized, appointed, established or holding Common Stock for or pursuant to the terms of any such plan; (iv) The Millers Mutual Fire Insurance Company and its Affiliates and Associates; (v) F. George Dunham, III ("Dunham") and any descendant of Dunham, or any spouse, widow or widower of Dunham or of any such descendant (Dunham and any such descendants, spouses, widows and widowers collectively defined as the "Family Members"); (vi) any trust of which Dunham is a trustee; (vii) any estate of a Family Member, or any trust established by or for the benefit directly or indirectly of one or more Family Members provided that one or more Family Members or charitable organizations which qualify as exempt organizations under Section 501(c) of the Internal Revenue Code of 1986, as amended ("Charitable Organizations") collectively are the beneficiaries of at least 50% of the actuarially-determined beneficial interest in such estate or trust; (viii) any Charitable Organization which is established by one or more Family Members (a "Family Charitable Organization"); (ix) any corporation of which a majority of the voting power or a majority of the equity interest is held, directly or indirectly, by or for the benefit of one or more Family Members, estates or trusts described in clause (vii) above, or Family Charitable Organizations; (x) any partnership, limited liability company or other entity or arrangement of which a majority of the voting interest or a majority of the economic interest is held, directly or indirectly, by or for the benefit of one or more Family Members, estates or trusts described in clause (vii) above, or Family Charitable Organizations; (xi) any trustee, executor, director or indirect managing or general partner or other Person who has or shares voting and/or investment power over Common Stock beneficially owned by any of the foregoing Persons solely in their

capacities as such; or (xiii) any Person designated as such an "Exempt Person" by the Board of Directors of the Company (prior to such time as any Person becomes an Acquiring Person); provided, however, that the Board of Directors may determine (prior to such time as any Person becomes an Acquiring Person) by a two-thirds (2/3) majority vote that a Person previously designated as an "Exempt Person" shall no longer be designated as such an "Exempt Person" with effect on the date of such vote.

(k) "Exercise Price" shall have the meaning set forth in Sections 4 and 7(b) hereof.

(l) "Fair Market Value" of any property shall mean the fair market value of such property as determined in accordance with Section 11(d) hereof.

(m) "Final Expiration Date" shall have the meaning set forth in Section 7(a) hereof.

(n) "Person" shall mean an individual, corporation, partnership, limited liability company, business trust, association, estate, trust, foundation or other entity and shall include any successor (by merger or otherwise) of such entity.

(o) "Preferred Stock" shall mean shares of Series A Junior Preferred Stock, \$1.00 par value, of the Company and, to the extent that there is not a sufficient number of shares of Series A Junior Preferred Stock authorized to permit the full exercise of the Rights, any other series of Preferred Stock, \$1.00 par value, of the Company designated for such purpose containing terms substantially similar to the terms of the Series A Junior Preferred Stock.

(p) "Principal Party" shall have the meaning set forth in Section 13(b) hereof.

(q) "Qualifying Tender Offer" shall mean a tender or exchange offer for all outstanding shares of Common Stock of the Company which, prior to its consummation, is approved by a majority of the Board of Directors, after taking into account the potential long-term value of the Company and all other factors that they consider relevant.

(r) "Record Date" shall have the meaning set forth in the recitals to this Rights Agreement.

(s) "Redemption Date" shall have the meaning set forth in Section 7(a) hereof.

(t) "Redemption Price" shall have the meaning set forth in Section 23(a) hereof.

(u) "Right Certificate" shall have the meaning set forth in Section 3(d) hereof.

(v) "Rights Agent" shall mean U.S. Trust Company of Texas, N.A.

(w) "Rights Agreement" shall mean the Rights Agreement, dated as of July 30, 1997, by and between the Company and the Rights Agent, as amended and/or restated from time

to time (including this Amended and Restated Rights Agreement, dated as of December ___, 1998).

(x) "Securities Act" shall have the meaning set forth in Section 7(c) hereof.

(y) "Spread" shall have the meaning set forth in Section 11(a)(iii) hereof.

(z) "Stock Acquisition Date" shall mean the first date on which there shall be a public announcement by the Company or an Acquiring Person that an Acquiring Person has become such (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act).

(aa) "Subsidiary" of a Person shall mean any corporation or other entity of which securities or other ownership interests having voting power sufficient to elect a majority of the board of directors or other persons performing similar functions are beneficially owned, directly or indirectly, by such Person or by any corporation or other entity that is otherwise controlled by such Person.

(bb) "Summary of Rights" shall have the meaning set forth in Section 3(a) hereof.

(cc) "Trading Day" shall have the meaning set forth in Section 11(d) hereof.

(dd) "Transfer Tax" shall mean any tax or charge, including any documentary stamp tax, imposed or collected by any governmental or regulatory authority in respect of any transfer of any security, instrument or right, including Rights, shares of Common Stock and shares of Preferred Stock.

(ee) "Triggering Event" shall mean any event described in Section 11(a)(ii) or Section 13(a).

(ff) "Voting Stock" shall mean (i) the Common Stock of the Company, and (ii) any other shares of capital stock of the Company entitled to vote generally in the election of directors or entitled to vote together with the Common Stock in respect of any merger, consolidation, sale of all or substantially all of the Company's assets, liquidation, dissolution or winding up. For purposes of this Rights Agreement, a stated percentage of the Voting Stock shall mean a number of shares of the Voting Stock as shall equal in voting power that stated percentage of the total voting power of the then outstanding shares of Voting Stock in the election of a majority of the Board of Directors or in respect of any merger, consolidation, sale of all or substantially all of the Company's assets, liquidation, dissolution or winding up.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such

Section 3. Issuance of Right Certificates

(a) Reserved.

(b) Until the Close of Business on the day which is the earlier of (i) the tenth day after the Stock Acquisition Date, or (ii) the tenth business day (or such later date as may be determined by action of the Board of Directors prior to such time as any Person becomes an Acquiring Person) after the date of the commencement by any Person (other than an Exempt Person) of, or the first public announcement of the intent of any Person (other than an Exempt Person) to commence, a tender or exchange offer within the meaning of Rule 14d-2(a) of the General Rules and Regulations under the Exchange Act upon the successful consummation of which such Person, together with its Affiliates and Associates, would be the Beneficial Owner of 15% or more of the then outstanding shares of Voting Stock of the Company (irrespective of whether any shares are actually purchased pursuant to any such offer) (the earlier of such dates being herein referred to as the "Distribution Date"), (x) the Rights shall be evidenced by the certificates for Common Stock registered in the name of the holders of Common Stock and not by separate Right Certificates and the record holders of such certificates for Common Stock shall be the record holders of the Rights represented thereby, and (y) each Right shall be transferable only simultaneously and together with the transfer of a share of Common Stock (subject to adjustment as hereinafter provided), including a transfer to the Company, except pursuant to the provisions of Section 23 or Section 24. Until the Distribution Date (or, if earlier, the Redemption Date or Final Expiration Date), the surrender for transfer of any certificate for Common Stock shall constitute the surrender for transfer of the Right or Rights associated with the Common Stock evidenced thereby, whether or not accompanied by a copy of the Summary of Rights.

(c) Rights shall be issued in respect of all shares of Common Stock that become outstanding after the Record Date but prior to the earliest of the Distribution Date, the Redemption Date or the Final Expiration Date and, in certain circumstances provided in Section 22 hereof, may be issued in respect of shares of Common Stock that become outstanding after the Distribution Date. Certificates for Common Stock (including, without limitation, certificates issued upon original issuance, disposition from the Company's treasury or transfer or exchange of Common Stock) after the Record Date but prior to the earliest of the Distribution Date, the Redemption Date, or the Final Expiration Date (or, in certain circumstances as provided in Section 22 hereof, after the Distribution Date) shall have impressed, printed, written or stamped thereon or otherwise affixed thereto the following legend:

This certificate also evidences and entitles the holder hereof to the same number of Rights (subject to adjustment) as the number of shares of Common Stock represented by this certificate, such Rights being on the terms provided under the Rights Agreement between INSpire Insurance Solutions, Inc. and U.S. Trust Company of Texas, N.A. (the "Rights Agent"), dated as of July 30, 1997, as it may be amended from time to time (the "Rights Agreement"), the terms of which are incorporated herein by reference and a copy of which is on file at the

principal executive offices of INSpire Insurance Solutions, Inc. Under certain circumstances, as set forth in the Rights Agreement, such Rights

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shall be evidenced by separate certificates and shall no longer be evidenced by this certificate. INSpire Insurance Solutions, Inc. shall mail to the registered holder of this certificate a copy of the Rights Agreement without charge within five days after receipt of a written request therefor. Under certain circumstances as provided in Section 7(e) of the Rights Agreement, Rights issued to or Beneficially Owned by Acquiring Persons or their Affiliates or Associates (as such terms are defined in the Rights Agreement) or any subsequent holder of such Rights shall be null and void and may not be transferred to any Person.

(d) As soon as practicable after the Distribution Date, the Company will prepare and execute, the Rights Agent will countersign, and the Company will send or cause to be sent (and the Rights Agent will, if requested, send), by first class mail, postage prepaid, to each record holder of the Common Stock as of the Close of Business on the Distribution Date, as shown by the records of the Company, at the address of such holder shown on such records, a certificate in the form provided by Section 4 hereof (a "Right Certificate"), evidencing one Right (subject to adjustment as provided herein) for each share of Common Stock so held. As of and after the Distribution Date, the Rights shall be evidenced solely by Right Certificates and may be transferred by the transfer of the Right Certificate as permitted hereby, separately and apart from any transfer of one or more shares of Common Stock.

Section 4. Form of Right Certificates. The Right Certificates (and the forms of election to purchase shares, certificate and assignment to be printed on the reverse thereof), when, as and if issued, shall be substantially in the form set forth in Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Common Stock or the Rights may from time to time be listed or as the Company may deem appropriate to conform to usage or otherwise and as are not inconsistent with the provisions of this Rights Agreement. Subject to the provisions of Section 22 hereof, Right Certificates evidencing Rights whenever issued, (i) shall be dated as of the date of issuance of the Rights they represent, and (ii) subject to adjustment from time to time as provided herein, on their face shall entitle the holders thereof to purchase such number of one one-hundredths of a share (including fractional shares which are integral multiples of one-hundredth of a share) of Preferred Stock as shall be set forth therein at the price payable upon exercise of a Right provided by Section 7(b) hereof as the same may from time to time be adjusted as provided herein (the "Exercise Price").

Section 5. Countersignature and Registration.

(a) Each Right Certificate shall be executed on behalf of the Company by its Chairman of the Board, President or any Vice President, either manually

or by facsimile signature, and have affixed thereto the Company's seal or a facsimile thereof which shall be attested by the Secretary or any Assistant Secretary of the Company, either manually or by facsimile signature. Each Right Certificate shall be countersigned by the Rights Agent either manually or by facsimile signature and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any Right Certificate

shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery of the certificate by the Company, such Right Certificate, nevertheless, may be countersigned by the Rights Agent and issued and delivered with the same force and effect as though the person who signed such Right Certificates had not ceased to be such officer of the Company. Any Right Certificate may be signed on behalf of the Company by any person who, on the date of the execution of such Right Certificate, shall be a proper officer of the Company to sign such Right Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its principal office or one or more offices designated as the appropriate place for surrender of Right Certificates upon exercise or transfer, and in such other locations as may be required by law, books for registration and transfer of the Right Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Right Certificates, the number of Rights evidenced on its face by each of the Right Certificates and the date of each of the Right Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates.

(a) Subject to the provisions of Sections 7(e), 7(f), 14 and 24 hereof, at any time after the Close of Business on the Distribution Date, and at or prior to the Close of Business on the earlier of the Redemption Date or the Final Expiration Date, any Right Certificate may be (i) transferred, or (ii) split up, combined or exchanged for one or more other Right Certificates, entitling the registered holder to purchase a like number of shares of Preferred Stock as the Right Certificate or Right Certificates surrendered then entitled such holder to purchase. Any registered holder desiring to transfer any Right Certificate shall surrender the Right Certificate at the office of the Rights Agent designated for the surrender of Right Certificates with the form of certificate and assignment on the reverse side thereof duly endorsed (or enclosed with such Right Certificate a written instrument of transfer in form satisfactory to the Company and the Rights Agent), duly executed by the registered holder thereof or his attorney duly authorized in writing, and with such signature duly guaranteed. Any registered holder desiring to split up, combine or exchange any Right Certificate shall make such request in writing delivered to the Rights Agent, and shall surrender the Right Certificate to be split up, combined or exchanged at the office of the Rights Agent designated therefor. Thereupon, the Rights Agent shall countersign and deliver to the person entitled thereto a Right Certificate or Right Certificates, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any Transfer Tax that may be imposed in connection with any transfer,

split up, combination or exchange of any Right Certificates.

(b) Subject to the provisions of Sections 7(e), 7(f), 14 and 24 hereof, upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Right Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them and, if requested by the Company, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, or upon surrender to the Rights Agent and cancellation of the Right Certificate if mutilated, the Company shall issue and deliver a new Right Certificate of like tenor to the Rights Agent for delivery to the registered owner in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Exercise Price; Expiration Date of Rights.

(a) The Rights shall not be exercisable until, and shall become exercisable on, the Distribution Date (unless otherwise provided herein, including, without limitation, the restrictions on exercisability set forth in Sections 7(e), 23(b) and 24 hereof). Except as otherwise provided herein, the Rights may be exercised, in whole or in part, at any time commencing with the Distribution Date upon surrender of the Right Certificate, with the form of election to purchase and certificate on the reverse side thereof duly executed (with signatures duly guaranteed), to the Rights Agent at the principal office of the Rights Agent, in Dallas, Texas, together with payment of the Exercise Price for each Right exercised, subject to adjustment as hereinafter provided, at or prior to the Close of Business on the earliest of (i) August 1, 2007 (the "Final Expiration Date"), (ii) the date on which the Rights are redeemed as provided in Section 23 hereof (the "Redemption Date"), (iii) the date on which such Rights expire pursuant to Section 13(e) hereof, or (iv) the date on which the Rights are exchanged as provided in Section 24 hereof.

(b) The Exercise Price shall initially be \$100.00 for each one one-hundredth (1/100) of a share of Preferred Stock issued pursuant to the exercise of a Right. The Exercise Price and the number of shares of Preferred Stock or other securities to be acquired upon exercise of a Right shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof. The Exercise Price shall be payable in lawful money of the United States of America, in accordance with paragraph (c) below.

(c) Except as otherwise provided herein, upon receipt of a Right Certificate representing exercisable Rights with the form of election to purchase duly executed, accompanied by payment by certified check, cashier's check, bank draft or money order payable to the Company or the Rights Agent of the Exercise Price for the shares to be purchased and an amount equal to any applicable Transfer Tax required to be paid by the holder of the Right Certificate in accordance with Section 9(e) hereof, the Rights Agent shall thereupon promptly (i) requisition from any transfer agent of the Preferred Stock of the Company one or more certificates representing the number of shares of Preferred Stock to be so purchased, and the Company hereby authorizes and directs such transfer agent to comply with all such requests, (ii) as provided in Section 14(b) hereof, at the election of the Company, cause depository

receipts to be issued in lieu of fractional shares of Preferred Stock, (iii) if the election provided for in the immediately preceding clause (ii) has not been made, requisition from the Company the amount of cash to be paid in lieu of the issuance of fractional shares in accordance with Section 14(b) hereof, (iv) after receipt of such Preferred Stock certificates and, if applicable, depositary receipts, cause the same to be delivered to or upon the order of the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder, and (v) when appropriate, after receipt, promptly deliver such cash to or upon the order of the registered holder of such Right Certificate; provided, however, that in the case of a purchase of securities, other than Preferred Stock, pursuant to Section 13 hereof, the Rights Agent shall promptly take the appropriate actions corresponding in such case to that referred to in the foregoing clauses (i) through (v) of this Section 7(c). Notwithstanding the foregoing provisions

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of this Section 7(c), the Company may suspend the exercisability of the Rights for a reasonable period, not in excess of 90 days, during which the Company seeks to register under the Securities Act of 1933, as amended (the "Securities Act"), and any applicable securities law of any other jurisdiction, the shares of Preferred Stock to be issued pursuant to the Rights.

(d) In case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Right Certificate or his assign, subject to the provisions of Section 14(b) hereof.

(e) Notwithstanding any provision of this Rights Agreement to the contrary, from and after the time (the "invalidation time") when any Person first becomes an Acquiring Person, other than pursuant to a Qualifying Tender Offer, any Rights that are beneficially owned by (x) such Acquiring Person (or any Associate or Affiliate of such Acquiring Person), (y) a transferee of such Acquiring Person (or any such Associate or Affiliate) who becomes a transferee after the invalidation time, or (z) a transferee of such Acquiring Person (or any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the invalidation time pursuant to either (I) a transfer from the Acquiring Person to holders of its equity securities or to any Person with whom it has any continuing agreement, arrangement or understanding regarding the transferred Rights, or (II) a transfer which the Board of Directors has determined is part of a plan, arrangement or understanding which has the purpose or effect of avoiding the provisions of this Section 7(e), and subsequent transferees of such Persons referred to in clause (y) and (z) above, shall be void without any further action and any holder of such Rights shall thereafter have no rights whatsoever with respect to such Rights under any provision of this Rights Agreement. The Company shall use all reasonable efforts to ensure that the provisions of this Section 7(e) are complied with, but shall have no liability to any holder of Right Certificates or any other Person as a result of its failure to make any determination with respect to an Acquiring Person or its Affiliates, Associates or transferees hereunder. No Right Certificate shall be issued pursuant to Section 3 hereof that represents Rights Beneficially Owned by an Acquiring Person whose Rights would be void pursuant to the provisions of this Section 7(e) or any Associate or Affiliate thereof; no Right Certificate shall be issued at any time upon the transfer of

any Rights to an Acquiring Person whose Rights would be void pursuant to the provisions of this Section 7(e) or any Associate or Affiliate thereof or to any nominee of such Acquiring Person, Associate or Affiliate; and any Right Certificate delivered to the Rights Agent for transfer to an Acquiring Person whose Rights would be void pursuant to the provisions of this Section 7(e) shall be canceled.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder upon the occurrence of any purported exercise as set forth in this Section 7 unless such record holder shall have (i) completed and signed the certificate following the form of election to purchase set forth on the reverse side of the Right Certificate surrendered for such exercise, and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

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Section 8. Cancellation and Destruction of Right Certificates. All Right Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Right Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Rights Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall cancel and retire, any Right Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Right Certificates to the Company, or shall, at the written request of the Company, destroy such canceled Right Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Shares of Preferred Stock.

(a) The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued shares of Preferred Stock or out of authorized and issued shares of Preferred Stock held in its treasury, such number of shares of Preferred Stock as will from time to time be sufficient to permit the exercise in full of all outstanding Rights and, after the occurrence of a Triggering Event, shall, to the extent reasonably practicable, so reserve and keep available a sufficient number of shares of Common Stock (and/or other securities) which may be required to permit the exercise in full of all outstanding Rights.

(b) If the Preferred Stock (or, following the occurrence of a Triggering Event, the Common Stock and/or other securities) is at any time listed on a national securities exchange or included for quotation on any transaction reporting system, then so long as the Preferred Stock (and, following the occurrence of any such Triggering Event, Common Stock and/or other securities) issuable and deliverable upon exercise of the Rights may be listed on such exchange or included for quotation on any such transaction reporting system, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable (but only to the extent that it is reasonably likely that the Rights will be exercised), all shares reserved

for such issuance to be listed on such exchange or included for quotation on any such transaction reporting system upon official notice of issuance upon such exercise.

(c) The Company covenants and agrees that it will take all such action as may be necessary to insure that all shares of Preferred Stock delivered upon exercise of Rights (or, following the occurrence of a Triggering Event, shares of Common Stock and/or other securities) shall, at the time of delivery of the certificates for such shares or other securities (subject to payment of the Exercise Price in respect thereof), be duly and validly authorized and issued and fully paid and nonassessable.

(d) The Company shall use its best efforts to (i) file, as soon as practicable following the occurrence of the event described in Section 11(a)(ii) hereof, or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Securities Act, with respect to the securities purchasable upon exercise of the Rights on an appropriate form, (ii) cause such registration statement to become effective as soon as practicable after such filing, and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the earlier of (A) the

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date as of which the Rights are no longer exercisable for such securities, and (b) the date of the expiration of the Rights. The Company may temporarily suspend, for a period of time not to exceed 90 days, exercisability of the Rights in order to prepare and file a registration statement under the Securities Act and permit it to become effective. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction unless the requisite qualification in such jurisdiction shall have been obtained and until a registration statement under the Securities Act (if required) shall have been declared effective.

(e) The Company covenants and agrees that it will pay when due and payable any and all U.S. federal and state Transfer Taxes which may be payable in respect of the issuance or delivery of the Right Certificates or of any shares of Preferred Stock (or, following the occurrence of a Triggering Event, Common Stock and/or other securities) issued or delivered upon the exercise of Rights. The Company shall not, however, be required to pay any Transfer Tax which may be payable in respect of any transfer or delivery of a Right Certificate to a Person other than, or the issuance or delivery of certificates for Preferred Stock (or, following the occurrence of a Triggering Event, Common Stock and/or other securities) upon exercise of Rights in a name other than that of, the registered holder of the Right Certificate, and the Company shall not be required to issue or deliver a Right Certificate or certificate for Preferred Stock (or, following the occurrence of a Triggering Event, Common Stock and/or other securities) to a Person other than such registered holder until any such Transfer Tax shall have been paid (any such Transfer Tax being payable by the holder of such Right Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such Transfer Tax is due.

Section 10. Preferred Stock Record Date. Each Person in whose name any certificate for shares of Preferred Stock (or Common Stock and/or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the securities represented thereby on, and such certificate shall be dated as of, the date upon which the Right Certificate evidencing such Rights was duly surrendered and payment of the Exercise Price (and any applicable Transfer Taxes) was made; provided, however, that, if the date of such surrender and payment is a date upon which the Preferred Stock (or Common Stock and/or other securities, as the case may be) transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such securities on, and such certificate shall be dated as of, the next succeeding Business Day on which the applicable transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Right Certificate, as such, shall not be entitled to any rights of a shareholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Exercise Price, Number and Kind of Shares or Number of Rights. The Exercise Price, the number and kind of shares which may be purchased upon exercise of a Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

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(a) (i) In the event the Company shall at any time after the date of this Rights Agreement (A) declare or pay any dividend on the Preferred Stock payable in shares of Preferred Stock, (B) subdivide or split the outstanding shares of Preferred Stock into a greater number of shares, (C) combine or consolidate the outstanding shares of Preferred Stock into a smaller number of shares or effect a reverse split of the outstanding shares of Preferred Stock, or (D) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a), the Exercise Price in effect at the time of the record date for such event, and the number and kind of shares of capital stock issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive the aggregate number and kind of shares of capital stock which, if such Right had been exercised immediately prior to such date and at a time when the Preferred Stock transfer books of the Company were open, he would have owned upon such exercise and been entitled to receive by virtue of such event; provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. If an event occurs which would require an adjustment under both this Section 11(a)(i) and Section 11(a)(ii) hereof, the adjustment provided for in this Section 11(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii) hereof.

(ii) Subject to Section 23 and Section 24 of this Rights Agreement, in the event that any Person (other than an Exempt Person), alone or together with its Affiliates and Associates, shall become an Acquiring Person, except pursuant to a Qualifying Tender Offer, then, except as otherwise provided in this Section 11, each holder of a Right, except as provided in Section 7(e) hereof, shall thereafter have the right to receive upon exercise of such Right at a price equal to the then current Exercise Price multiplied by the number of one one-hundredths of a share of Preferred Stock for which a Right is then exercisable, in accordance with the terms of this Rights Agreement and in lieu of Preferred Stock, such number of shares of Common Stock of the Company as shall equal the result obtained by (x) multiplying the then current Exercise Price by the number of one one-hundredths of a share of Preferred Stock for which a Right is then exercisable and dividing that product by (y) 50% of the Fair Market Value of the Company's Common Stock (determined pursuant to Section 11(d) hereof) on the date of the occurrence of such event; provided, however, that if the transaction that would otherwise give rise to the foregoing adjustment is also subject to the provisions of Section 13 hereof, then only the provisions of Section 13 hereof shall apply and no adjustment shall be made pursuant to this Section 11(a) (ii).

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(iii) In the event that the number of shares of Common Stock which are authorized by the Company's Articles of Incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit the exercise in full of the Rights, the Company shall: (A) determine the excess of (1) the value of the Common Stock issuable upon the exercise of a Right (the "Current Value") over (2) the Exercise Price (such excess being referred to as the "Spread") and (B) with respect to each Right, make adequate provision to substitute for such Common Stock, upon exercise of the Rights, (1) cash, (2) a reduction in the Exercise Price, (3) other equity securities of the Company (including, without limitation, shares or units of shares of any series of preferred stock which the Board of Directors of the Company has deemed to have the same value as Common Stock (such shares or units of shares of preferred stock are herein called "common stock equivalents")), (4) debt securities of the Company, (5) other assets or (6) any combination of the foregoing, having an aggregate value equal to the Current Value, where such aggregate value has been determined by the Board of Directors of the Company; provided, however, if the Company shall not have made adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the occurrence of an event described in Section 11(a) (ii), then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Exercise Price, Common Stock (to the extent available), and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. If the Board of Directors shall determine in good faith that it is likely that sufficient additional Common Stock could be authorized for issuance upon exercise in full of the Rights, the thirty (30) day period set forth above may be extended to the extent necessary, but not more than ninety (90) days after the occurrence of an event described in Section 11(a) (ii), in order that

the Company may seek shareholder approval for the authorization of such additional shares. To the extent that the Company determines that some action need be taken pursuant to the preceding sentences of this Section 11(a)(iii), the Company may suspend the exercisability of the Rights until the expiration of any such period, as extended, in order to seek any authorization of additional shares and/or to decide the appropriate form of distribution to be made pursuant to this Section 11(a)(iii) and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect and shall promptly notify the Rights Agent of such suspension. For purposes of this Section 11(a)(iii), the value of the Common Stock shall be the Fair Market Value (as determined pursuant to Section 11(d) hereof) per share of the Common Stock at the Close of Business on the date of the occurrence of one of the events described in Section 11(a)(ii) and the value of any "common stock equivalent" shall be deemed to have the same value as the Common Stock on such date.

(b) In the event that the Company shall, after the Record Date, fix a record date for the issuance of rights, options or warrants to all holders of Preferred Stock entitling them

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(for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Preferred Stock (or shares having the same rights, privileges and preferences as the Preferred Stock ("equivalent preferred stock")) or securities convertible into Preferred Stock or equivalent preferred stock at a price per share of Preferred Stock or equivalent preferred stock (or having a conversion price per share, if a security convertible into Preferred Stock or equivalent preferred stock) less than the Fair Market Value per share of the Preferred Stock (as defined in Section 11(d)) on such record date, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Preferred Stock outstanding on such record date plus the number of shares of Preferred Stock which the aggregate offering price of the total number of shares of Preferred Stock and/or the equivalent preferred stock so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such Fair Market Value and the denominator of which shall be the number of shares of Preferred Stock outstanding on such record date plus the number of additional shares of Preferred Stock and/or equivalent preferred stock to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible); provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. Preferred Stock owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such rights, options or warrants are not so issued, the Exercise Price shall be adjusted to be the Exercise Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for the making of a distribution to all holders of the Preferred Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) or evidences of indebtedness or assets (other than a regular quarterly cash dividend or a dividend payable in Preferred Stock) or subscription rights or warrants (excluding those referred to in Section 11(b) hereof), the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the Fair Market Value per share of the Preferred Stock on such record date, less the Fair Market Value of the portion of the assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to one share of Preferred Stock and the denominator of which shall be the Fair Market Value per share of the Preferred Stock; provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company to be issued upon exercise of one Right. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Exercise Price shall again be adjusted to be the Exercise Price which would then be in effect if such record date had not been fixed.

(d) For the purpose of this Rights Agreement, the "Fair Market Value" of any share of Preferred Stock, Common Stock or any other stock or any Right or other security or any other property on any date shall be determined as provided in this Section 11(d). In the case of a publicly-traded stock or other security, the Fair Market Value on any date shall be deemed to be

the average of the daily closing prices per share of such stock or per unit of such other security for the 30 consecutive Trading Days (as such term is hereinafter defined) immediately prior to such date; provided, however, that in the event that the Fair Market Value per share of any security is determined during a period which includes any date that is within 30 Trading Days after (i) the ex-dividend date for a dividend or distribution on such security payable in shares of such security or securities convertible into shares of such security, or (ii) the effective date of any subdivision, split, combination, consolidation, reverse stock split or reclassification of such security, then, and in each such case, the Fair Market Value shall be appropriately adjusted by the Board of Directors of the Company to take into account ex-dividend or post-effective date trading. The closing price for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way (in either case, as reported in the applicable transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange), or, if the securities are not listed or admitted to trading on the New York Stock Exchange, as reported in the applicable transaction reporting system with respect to securities listed on the principal national securities exchange on which such security is listed or admitted to trading; or, if not listed or admitted to trading on any national securities exchange, the last quoted price (or, if not so quoted, the average of the high bid and low asked prices) in the over-the-counter market, as reported by The Nasdaq Stock Market or such other system then in use; or, if no bids for such security are quoted

by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such security selected by the Board of Directors of the Company. The term "Trading Day" shall mean a day on which the principal national securities exchange on which such security is listed or admitted to trading is open for the transaction of business or, if such security is not listed or admitted to trading on any national securities exchange, a Business Day. If a security is not publicly held or not so listed or traded, "Fair Market Value" shall mean the fair value per share of stock or per other unit of such other security, as determined in good faith by the Board of Directors of the Company; provided, however, that if the Preferred Stock is not publicly traded, the Fair Market Value of a share of Preferred Stock shall be conclusively deemed to be the Fair Market Value of a share of Common Stock (appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof), multiplied by one hundred. In the case of property other than securities, the "Fair Market Value" thereof shall be determined in good faith by the Board of Directors of the Company. Any such determination of Fair Market Value shall be described in a statement filed with the Rights Agent and shall be binding upon the Rights Agent and the holders of the Rights.

(e) All calculations under this Section 11 shall be made to the nearest cent or to the nearest one one-hundredth of a share, as the case may be. No adjustment in the Exercise Price shall be required unless adjustment would require an increase or decrease of at least 1% in such price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. Notwithstanding the preceding sentence, any adjustment required by this Section 11 shall be made no later than the earlier of (i) three years from the date of the transaction which mandates the adjustment or (ii) the date of the expiration of the right to exercise the Rights.

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(f) Irrespective of any adjustment or change in the Exercise Price or the number of shares of Preferred Stock issuable upon the exercise of the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Exercise Price and the number of shares to be issued upon exercise of the Rights as in the initial Right Certificates issued hereunder but, nevertheless, shall represent the Rights as so adjusted.

(g) Before taking any action that would cause an adjustment reducing the purchase price per whole share of Preferred Stock upon exercise of the Rights below the then par value, if any, of the shares of Preferred Stock, the Company shall use its best efforts to take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of such Preferred Stock at such adjusted purchase price per share.

(h) If as a result of an adjustment made pursuant to Section 11(a) or Section 13(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than Preferred Stock, thereafter the number of such other shares so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Stock contained in Sections 11(a), (b), (c), (e), (f),

(g), (i), (j) and (k), and the provisions of Sections 7, 9, 10, 13 and 14 with respect to the Preferred Stock shall apply on like terms to any such other shares.

(i) Unless the Company shall have exercised its election as provided in Section 11(j), upon each adjustment of the Exercise Price as a result of the calculations made in Sections 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Exercise Price, that number of one one-hundredths of a share of Preferred Stock (calculated to the nearest one one-hundred thousandth of a share) obtained by (i) multiplying (x) the number of one one-hundredths of a share covered by a Right immediately prior to this adjustment by (y) the Exercise Price in effect immediately prior to such adjustment of the Exercise Price and (ii) dividing the product so obtained by the Exercise Price in effect immediately after such adjustment of the Exercise Price.

(j) The Company may elect on or after the date of any adjustment of the Exercise Price to adjust the number of Rights, in substitution for any adjustment in the number of one one-hundredths of a share of Preferred Stock purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one one-hundredth) obtained by dividing the Exercise Price in effect immediately prior to adjustment of the Exercise Price by the Exercise Price in effect immediately after adjustment of the Exercise Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Exercise Price is adjusted or any day thereafter, but, if the Right Certificates have been issued, shall be at least 10 days later than the date of the public announcement. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(j), the

Company shall, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date Right Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein and shall be registered in the names of the holders of record of Rights Certificates on the record date specified in the public announcement.

(k) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Exercise Price, in

addition to those adjustments expressly required by this Section 11, as and to the extent that it, in its sole discretion, shall determine to be advisable in order that any consolidation or subdivision of the Preferred Stock, issuance wholly for cash of any Preferred Stock at less than the current market price, issuance wholly for cash of Preferred Stock or securities which by their terms are convertible into or exchangeable for Preferred Stock, dividends on Preferred Stock payable in Preferred Stock or issuance of rights, options or warrants referred to hereinabove in Section 11(b), hereafter made by the Company to holders of its Preferred Stock shall not be taxable to such shareholders.

(1) In the event that at any time after the date of this Rights Agreement and prior to the Distribution Date, the Company shall (i) declare or pay any dividend on the Common Stock payable in Common Stock or (ii) effect a subdivision, combination or consolidation of the Common Stock (by reclassification or otherwise than by payment of dividends in Common Stock) into a greater or lesser number of shares of Common Stock, then in any such case (A) the number of one one-hundredths of a share of Preferred Stock purchasable after such event upon proper exercise of each Right shall be determined by multiplying the number of one one-hundredths of a share of Preferred Stock so purchasable immediately prior to such event by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately before such event and the denominator of which is the number of shares of Common Stock outstanding immediately after such event, and (B) each share of Common Stock outstanding immediately after such event shall have issued with respect to it that number of Rights which each share of Common Stock outstanding immediately prior to such event had issued with respect to it. The adjustments provided for in this Section 11(1) shall be made successively whenever such dividend is declared or paid or such a subdivision, combination or consolidation is effected.

Section 12. Certification of Adjusted Exercise Price or Number of Shares. Whenever an adjustment is made as provided in Section 11 or Section 13, the Company shall (a) promptly prepare a certificate setting forth such adjustment, and a brief statement of the facts giving rise to such adjustment, (b) promptly file with the Rights Agent and with each transfer agent for the Preferred Stock a copy of such certificate, and (c) mail a brief summary thereof to each holder of a Right Certificate in accordance with Section 25 hereof. Notwithstanding the foregoing sentence, the failure of the Company to make such certification or give such notice shall not affect the validity of or the force or effect of the requirement for such adjustment. Any

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adjustment to be made pursuant to Section 11 or Section 13 of this Rights Agreement shall be effective as of the date of the event giving rise to such adjustment. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained and shall not be deemed to have knowledge of any adjustment unless and until it shall have received such certificate.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power.

(a) In the event that, directly or indirectly, at any time after a

Person (other than an Exempt Person) has become an Acquiring Person, (x) the Company shall, directly or indirectly, consolidate with, or merge with and into, any other Person or Persons (other than an Exempt Person) and the Company shall not be the surviving or continuing corporation of such consolidation or merger, or (y) any Person or Persons (other than an Exempt Person) shall, directly or indirectly, consolidate with, or merge with and into, the Company, and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such consolidation or merger, all or part of the outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other Person (other than an Exempt Person) or of the Company or cash or any other property, or (z) the Company or one or more of its Subsidiaries shall, directly or indirectly, sell or otherwise transfer to any other Person or any Affiliate or Associate of such Person, in one or more transactions, or the Company or one or more of its Subsidiaries shall sell or otherwise transfer to any Persons in one or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole), then, on the first occurrence of any such event (except as may be contemplated by Section 13(e) hereof), proper provision shall be made so that (i) each holder of record of a Right, except as provided in Section 7(e) hereof, shall thereafter have the right to receive, upon the exercise thereof and payment of the Exercise Price in accordance with the terms of this Rights Agreement, such number of shares of validly issued, fully paid, non-assessable and freely tradable Common Stock of the Principal Party (as defined herein), not subject to any liens, encumbrances, rights of first refusal or other adverse claims, as shall, based on the Fair Market Value of the Common Stock of the Principal Party on the date of the consummation of such consolidation, merger, sale or transfer, equal twice the Exercise Price; (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such consolidation, merger, sale or transfer, all the obligations and duties of the Company pursuant to this Rights Agreement; (iii) the term "Company" for all purposes of this Rights Agreement shall thereafter be deemed to refer to such Principal Party; (iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its Common Stock in accordance with the provisions of Section 9 hereof) in connection with such consummation as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its shares of Common Stock thereafter deliverable upon the exercise of the Rights; and (v) the provisions of Section 11(a)(ii) hereof shall be of no effect following the occurrence of any event described in clause (x), (y) or (z) above of this Section 13(a). The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers.

(b) "Principal Party" shall mean

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(i) in the case of any transaction described in clause (x) or (y) of the first sentence of Section 13(a) hereof: (A) the Person that is the issuer of the securities into which shares of Common Stock of the Company are changed or otherwise exchanged or converted in such merger, consolidation or other fundamental transaction, or, if there is more than one such issuer, the issuer the Common Stock of which has the greatest market value or (B) if no securities are so issued, (x)

the Person that is the other party to the merger, consolidation or other fundamental transaction and that survives such merger, consolidation or other fundamental transaction, or, if there is more than one such Person, the Person the Common Stock of which has the greatest market value or (y) if the Person that is the other party to the merger, consolidation or other fundamental transaction does not survive the merger, consolidation or other fundamental transaction, the Person that does survive the merger, consolidation or other fundamental transaction (including the Company if it survives); and

(ii) in the case of any transaction described in clause (z) of the first sentence in Section 13(a), the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions, or, if each Person that is a party to such transaction or transactions receives the same portion of the assets or earning power so transferred or if the Person receiving the greatest portion of the assets or earning power cannot be determined, whichever of such Persons is the issuer of Common Stock having the greatest market value of shares outstanding; provided, however, that in any such case, if the Common Stock of such Person is not at such time and has not been continuously over the preceding 12-month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another Person the Common Stock of which is and has been so registered, the term "Principal Party" shall refer to such other Person, or if such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Stocks of all of which are and have been so registered, the term "Principal Party" shall refer to whichever of such Persons is the issuer of the Common Stock having the greatest market value of shares outstanding.

(c) The Company shall not consummate any consolidation, merger, other fundamental transaction or sale or transfer of assets or earning power referred to in Section 13(a) unless the Principal Party shall have a sufficient number of authorized shares of its Common Stock that have not been issued or reserved for issuance to permit exercise in full of all Rights in accordance with this Section 13 and unless prior thereto the Company and the Principal Party involved therein shall have executed and delivered to the Rights Agent an agreement confirming that the Principal Party shall, upon consummation of such consolidation, merger, other fundamental transaction or sale or transfer of assets or earning power, assume this Rights Agreement in accordance with Section 13(a) hereof and that all rights of first refusal or preemptive rights in respect of the issuance of shares of Common Stock of the Principal Party upon exercise of outstanding Rights have been waived and that such transaction shall not result in a default by the Principal Party under this Rights Agreement, and further providing that, as soon as practicable after the date of any consolidation, merger, other fundamental transaction or sale or transfer of assets or earning power referred to in Section 13(a) hereof, the Principal Party will:

(i) prepare and file a registration statement under the Securities Act with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form, use

its best efforts to cause such registration statement to become effective as soon as practicable after such filing and use its best efforts to cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the date of expiration of the Rights, and similarly comply with applicable state securities laws;

(ii) use its best efforts to list (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on a national securities exchange or to meet the eligibility requirements for quotation on The Nasdaq Stock Market; and

(iii) deliver to holders of the Rights historical financial statements for the Principal Party which comply in all respects with the requirements for registration on Form 10 (or any successor form) under the Exchange Act.

In the event that any of the transactions described in Section 13(a) hereof shall occur at any time after the occurrence of a transaction described in Section 11(a)(ii) hereof, the Rights which have not theretofore been exercised shall, subject to the provisions of Section 7(e) hereof, thereafter be exercisable in the manner described in Section 13(a) hereof.

(d) In case the Principal Party which is to be a party to a transaction referred to in this Section 13 has a provision in any of its authorized securities or in its Articles of Incorporation, Certificate of Incorporation, By-laws, or other instrument governing its corporate affairs, which provision would have the effect of (i) causing such Principal Party to issue, in connection with, or as a consequence of, the consummation of a transaction referred to in this Section 13, shares of Common Stock of such Principal Party at less than the then Fair Market Value per share (determined pursuant to Section 11(d) hereof) or securities exercisable for, or convertible into, Common Stock of such Principal Party at less than such then Fair Market Value (other than to holders of Rights pursuant to this Section 13) or (ii) providing for any special tax or similar payment in connection with the issuance to any holder of a Right of Common Stock of such Principal Party pursuant to the provisions of this Section 13, then, in such event, the Company shall not consummate any such transaction unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing that the provision in question of such Principal Party shall have been canceled, waived or amended, or that the authorized securities shall be redeemed, so that the applicable provision will have no effect on the benefits intended to be afforded by the Rights in connection with, or as a consequence of, the consummation of the proposed transaction.

(e) Notwithstanding anything in this Agreement to the contrary, Section 13 shall not be applicable to a transaction described in subparagraphs (x) and (y) of Section 13(a) if (i) such transaction is consummated with a Person or Persons (or a wholly-owned subsidiary of

any such Person or Persons) who acquired shares of Common Stock pursuant to a Qualifying Tender Offer, (ii) the price per share of Common Stock offered in

such transaction is not less than the price per share of Common Stock paid to all holders of Common Stock whose shares were purchased pursuant to such Qualifying Tender Offer and (iii) the form of consideration being offered to the remaining holders of shares of Common Stock pursuant to such transaction is the same as the form of consideration paid pursuant to such Qualifying Tender Offer. Upon consummation of any such transaction contemplated by this Section 13(d), all Rights hereunder shall expire.

Section 14. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights or to distribute Right Certificates which evidence fractional Rights (i.e., Rights to acquire less than one one-hundredth of a share of Preferred Stock). If the Company shall determine not to issue such fractional Rights, then, in lieu of such fractional Rights, there shall be paid to the holders of record of the Right Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the Fair Market Value of a whole Right.

(b) The Company shall not be required to issue fractions of shares of Preferred Stock (other than fractions which are integral multiples of one one-hundredth of a share) upon exercise of the Rights or to distribute certificates which evidence fractional shares (other than fractions which are integral multiples of one one-hundredth of a share). In lieu of issuing fractions of shares of Preferred Stock, the Company may, at its election, issue depositary receipts evidencing fractions of shares pursuant to an appropriate agreement between the Company and a depositary selected by it, provided that such agreement shall provide that the holders of such depositary receipts shall have all of the rights, privileges and preferences to which they would be entitled as owners of the Preferred Stock. With respect to fractional shares that are not integral multiples of one one-hundredth of a share, if the Company does not issue such fractional shares or depositary receipts in lieu thereof, there shall be paid to the holders of record of Right Certificates at the time such Right Certificates are exercised as herein provided an amount in cash equal to the same fraction of the Fair Market Value of a share of Preferred Stock.

(c) Following the occurrence of a Triggering Event, the Company shall not be required to issue fractions of shares of Common Stock upon exercise of the Rights or to distribute certificates which evidence fractional shares of Common Stock. In lieu of fractional shares of Common Stock, the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the fair market value of one (1) share of Common Stock. For purposes of this Section 14(c), the fair market value of one share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to Section 11(d) hereof) for the Trading Day immediately prior to the date of such exercise.

(d) The holder of a Right by the acceptance of a Right expressly waives his right to receive any fractional Right or any fractional shares of Preferred Stock (other than fractions which are integral multiples of one one-hundredths of a share) upon exercise of a Right.

Section 15. Rights of Action. All rights of action in respect of this Rights Agreement, except the rights of action given to the Rights Agent in Section 18 hereof, are vested in the respective registered holders of the Right Certificates (and, prior to the Distribution Date, the holders of record of the Common Stock); and any holder of record of any Right Certificate (or, prior to the Distribution Date, of the Common Stock), without the consent of the Rights Agent or of the holder of any other Right Certificate (or, prior to the Distribution Date, of the Common Stock), may, in his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Right Certificate in the manner provided in such Right Certificate and in this Rights Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Rights Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of, the obligations of any Person subject to this Rights Agreement.

Section 16. Agreement of Right Holders. Each holder of a Right, by accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights shall be evidenced by the certificates for Common Stock registered in the name of the holders of Common Stock (together, as applicable, with the Summary of Rights), which certificates for Common Stock shall also constitute certificates for Rights, and not by separate Right Certificates, and each Right shall be transferable only simultaneously and together with the transfer of shares of Common Stock;

(b) after the Distribution Date, the Right Certificates are transferable only on the registry books of the Rights Agent if surrendered at the office of the Rights Agent designated for such purpose, duly endorsed or accompanied by a proper instrument of transfer;

(c) the Company and the Rights Agent may deem and treat the person in whose name the Right Certificate (or, prior to the Distribution Date, the associated Common Stock certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Right Certificates or the associated Common Stock certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary; and

(d) notwithstanding anything in this Rights Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Rights Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation.

Section 17. Right Certificate Holder Not Deemed a Shareholder. No holder, as such, of any Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose

the holder of Preferred Stock or any other securities which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right Certificate, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 25 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Right Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent.

(a) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Rights Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted to be done by the Rights Agent in connection with the acceptance and administration of this Rights Agreement, including the cost and expenses of defending against any claim of liability relating to the Rights or this Rights Agreement.

(b) The Rights Agent shall be protected against, and shall incur no liability for or in respect of, any action taken, suffered or omitted by it in connection with its administration of this Rights Agreement in reliance upon any Right Certificate or certificate for Preferred Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.

Section 19. Merger or Consolidation of, or Change in Name of, the Rights Agent.

(a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust or stock transfer business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Rights Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created by this Rights Agreement any of the Rights Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights

Agent and deliver such Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Rights Agreement.

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(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; in case at that time any of the Right Certificates shall not have been countersigned, the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name; in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Rights Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Rights Agreement upon the following terms and conditions, by all of which the Company and the holders of Right Certificates by their acceptance thereof shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Rights Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, the President or any Vice President and by the Treasurer, the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent. Any such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Rights Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Rights Agreement or in the Right Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Rights Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any

covenant or condition contained in this Rights Agreement or in any Right Certificate; nor shall it be responsible for any adjustment required under the provisions of Section 11 or 13 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect

to the exercise of Rights evidenced by Right Certificates after receipt of a certificate describing any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Preferred Stock to be issued pursuant to this Rights Agreement or any Right Certificate or as to whether any shares of Preferred Stock will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of the Rights Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, the President or any Vice President or the Secretary or the Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Rights Agent and any shareholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not the Rights Agent under this Rights Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise or transfer, the certificate following the form of election to purchase set forth on the reverse side of such Rights Certificate has either not been completed or indicates an affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take further action with respect to the requested exercise or transfer without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Rights Agreement upon 30 days' notice in writing mailed to the Company and to each transfer agent of the Common Stock and the Preferred Stock by registered or certified mail. The Company may remove the Rights Agent or any successor Rights Agent (with or without cause) upon 30 days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock and the Preferred Stock by registered or certified mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. Notwithstanding the foregoing provisions of this Section 21, in no

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event shall the resignation or removal of a Rights Agent be effective until a successor Rights Agent shall have been appointed and have accepted such appointment. If the Company shall fail to make such appointment within a period of 30 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right Certificate for inspection by the Company), then the incumbent Rights Agent or the holder of record of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be (a) a corporation organized and doing business under the laws of the United States or of any state thereof, in good standing, which is authorized under such laws to exercise corporate trust or stock transfer powers and is subject to supervision or examination in the conduct of its corporate trust or stock transfer business by federal or state authorities and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$5,000,000, or (b) an Affiliate controlled by a corporation described in clause (a) of this sentence. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed, but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Stock and Preferred Stock, and mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be. Notwithstanding the foregoing provisions, in the event of resignation, removal or incapacity of the Rights Agent, the Company shall have the authority to act as the Rights Agent until a successor Rights Agent shall have assumed the duties of the Rights Agent hereunder.

Section 22. Issuance of New Right Certificates. Notwithstanding any of the provisions of this Rights Agreement or of the Rights to the contrary, the Company may, at its option, issue new Right Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Exercise Price per share and the number or kind or

class of shares of stock or other securities or property purchasable under the Right Certificates made in accordance with the provisions of this Rights Agreement.

Section 23. Redemption.

(a) The Board of Directors of the Company may, at its option, at any time prior to such time as any Person becomes an Acquiring Person, redeem all but not less than all the then outstanding Rights at a redemption price of \$0.01 per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price").

(b) Without any further action and without any notice, the right to exercise the Rights will terminate effective at the effective time of the action of the Board of Directors ordering the redemption of the Rights and the only right thereafter of the holders of Rights shall

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be to receive the Redemption Price. Within 10 days after the effective time of the action of the Board of Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the holders of the then outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Stock. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice; provided, however, that the failure to give, or any defect in, any such notice shall not affect the validity of such redemption. Each notice of redemption will state the method by which the payment of the Redemption Price will be made. At the option of the Board of Directors, the Redemption Price may be paid in cash to each Rights holder or by the issuance of shares (and, at the Company's election pursuant to Section 14(b) hereof, cash or depositary receipts in lieu of fractions of shares other than fractions which are integral multiples of one one-hundredth (1/100) of a share) of Preferred Stock or Common Stock having a Fair Market Value equal to such cash payment.

Section 24. Exchange.

(a) By the vote of a majority of the Board of Directors, the Company may, at its option, at any time after any Person becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights which have become void pursuant to Section 7(e) hereof) for shares of Common Stock at an exchange rate of one share of Common Stock per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (the "Exchange Ratio"). Notwithstanding the foregoing, the Board of Directors shall not be empowered to effect such exchange at any time after any Person (other than an Exempt Person), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of any class of Voting Stock of the Company then outstanding.

(b) Without any further action and without any notice, the right to exercise the Rights to be so exchanged will terminate at the effective time of

the action of the Board of Directors ordering the exchange and the only right thereafter of each holder of such Rights shall be to receive that number of shares of Common Stock equal to the number of such rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly give notice of the exchange to the holders of such Rights then outstanding by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Stock. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice; provided, however, that the failure to give, or any defect in, any such notice shall not affect the validity of such exchange. Each such notice shall state the method by which the exchange for Rights will be effected and, in the event of a partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to Section 7(e) hereof) held by each holder of Rights.

(c) In the event that there shall not be sufficient shares of Common Stock issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with this Section 24, the Company shall take all such action as may

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be necessary to authorize additional shares of Common Stock for issuance upon exchange of the Rights. In the event the Company shall, after good faith effort, be unable to take all such action as may be necessary to authorize such additional shares of Common Stock, the Company shall substitute, for each share of Common Stock that would otherwise be issuable upon exchange of a Right, a number of shares of Preferred Stock or fraction thereof such that the Fair Market Value of one share of Preferred Stock multiplied by such number or fraction is equal to the Fair Market Value of one share of Common Stock as of the date of issuance of such shares of Preferred Stock or fraction thereof.

(d) The Company shall not be required to issue fractions of shares of Common Stock or to distribute certificates which evidence fractional shares of Common Stock. In lieu of such fractional shares of Common Stock, the Company shall pay to each registered holder of a Right Certificate with regard to which a fractional share of Common Stock would otherwise be issuable, an amount in cash equal to the same fraction of the fair market value of a whole share of Common Stock. For the purposes of this paragraph (e), the fair market value of a whole share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to Section 11(d) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24.

Section 25. Notice of Proposed Actions.

(a) In case the Company, after the Distribution Date, shall propose (i) to pay any dividend payable in stock of any class to the holders of its Preferred Stock or to make any other distribution to the holders of its Preferred Stock (other than a regular quarterly cash dividend), (ii) to offer to the holders of record of its Preferred Stock rights or warrants to subscribe for or to purchase shares of Preferred Stock or shares of stock of any class or any other securities, rights or options, (iii) to effect any reclassification of its Preferred Stock (other than a reclassification involving only the

subdivision of outstanding Preferred Stock), (iv) to effect any consolidation or merger with or into, or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one or more transactions, of more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to, any other Person or Persons, or (v) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of record of a Right Certificate, in accordance with Section 26 hereof, notice of such proposed action, which shall specify the record date for the purposes of such stock dividend or distribution of rights or warrants, or the date on which such reclassification, consolidation, merger, sale or transfer of assets, liquidation, dissolution, or winding up is to take place and the record date for determining participation therein by the holders of record of Common Stock or Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least 10 days prior to the record date for determining holders of record of the Preferred Stock for purposes of such action, and in the case of any such other action, at least 10 days prior to the date of the taking of such proposed action or the date of participation therein by the holders of record of Common Stock or Preferred Stock, whichever shall be the earlier. The failure to give notice required by this Section 25 or any defect therein shall not affect the legality or validity of the action taken by the Company or the vote upon any such action.

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(b) In case any event described in Section 11(a)(ii) hereof shall occur, then the Company shall, as soon as practicable thereafter, give to each holder of a Right Certificate, in accordance with Section 26 hereof, a notice of the occurrence of such event, which notice shall describe such event and the consequences of such event to holders of Rights under Section 11(a)(ii) hereof.

Section 26. Notices. Notices or demands authorized by this Rights Agreement to be given or made by the Rights Agent or by the holder of record of any Right Certificate or Right to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

INSpire Insurance Solutions, Inc.
300 Burnett Street
Fort Worth, Texas 76102
Attention: General Counsel

With a copy to:
Akin, Gump, Strauss, Hauer & Feld, L.L.P.
1700 Pacific Avenue
Suite 4100
Dallas, Texas 75201
Attention: Terry M. Schpok, P.C.

Subject to the provisions of Section 21 hereof, any notice or demand authorized by this Rights Agreement to be given or made by the Company or by the holder of record of any Right Certificate or Right to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as

follows:

U.S. Trust Company of Texas, N.A.
2001 Ross Avenue
Suite 2700
Dallas, Texas 75201
Attention: Mr. Bill Barber
Telephone: (214) 754-1255
Telecopier: (214) 754-1303

Notices or demands authorized by this Rights Agreement to be given or made by the Company or the Rights Agent to the holder of record of any Right Certificate or Right shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. Supplements and Amendments. The Company may from time to time supplement or amend this Agreement without the approval of any holders of Rights Certificates in order to cure any ambiguity, to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, or to make any other provisions with respect to the Rights which the Company may deem necessary or desirable, any

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such supplement or amendment to be evidenced by a writing signed by the Company and the Rights Agent; provided, however, that from and after such time as any Person becomes an Acquiring Person, this Agreement shall not be amended in any manner which would adversely affect the interests of the holders of Rights.

Section 28. Successors. All of the covenants and provisions of this Rights Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Benefits of this Rights Agreement. Nothing in this Rights Agreement shall be construed to give to any person or corporation other than the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, the holders of Common Stock in their capacity as holders of the Rights) any legal or equitable right, remedy or claim under this Rights Agreement; but this Rights Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the holders of record of the Right Certificates (and, prior to the Distribution Date, the holders of Common Stock in their capacity as holders of the Rights).

Section 30. Determinations and Actions by the Board; etc. The Board of Directors shall have the exclusive power and authority to administer this Rights Agreement and to exercise all rights and powers specifically granted to the Board, or to the Company, or as may be necessary or advisable in the administration of this Rights Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement. All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board of Directors in good faith in accordance with the preceding sentence, shall (x) be final, conclusive and

binding on the Company, the Rights Agent, the holders of the Rights and all other parties and (y) not subject any director to any liability to the holders of the Rights.

Section 31. Texas Contract. This Rights Agreement and each Right Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Texas and for all purposes shall be governed by and construed and enforced in accordance with the laws of such state applicable to contracts to be made and performed entirely within such state.

Section 32. Counterparts. This Rights Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 33. Descriptive Headings. Descriptive headings of the several Sections of this Rights Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 34. Severability. If any term, provision, covenant or restriction of this Rights Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Rights

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Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

[The remainder of this page is intentionally left blank.]

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IN WITNESS WHEREOF, the parties hereto have caused this Rights Agreement to be duly executed, all as of the day and year first above written.

INSPIRE INSURANCE SOLUTIONS, INC.

Attest:

(SEAL)

By:

Name: F. George Dunham, III
Title: Chief Executive Officer

U.S. TRUST COMPANY OF TEXAS, N.A.

Attest:

(SEAL)

By:

Name: _____
Title: _____

EXHIBIT B

[Form of Right Certificate]

Certificate No. R-

_____ Rights

NOT EXERCISABLE AFTER AUGUST 1, 2007 OR EARLIER IF REDEMPTION OR EXCHANGE OCCURS. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AT \$0.01 PER RIGHT (SUBJECT TO ADJUSTMENT), AND TO EXCHANGE ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES AS PROVIDED IN THE RIGHTS AGREEMENT (AS REFERRED TO BELOW), RIGHTS ISSUED TO OR BENEFICIALLY OWNED BY ACQUIRING PERSONS OR THEIR AFFILIATES OR ASSOCIATES (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) OR ANY SUBSEQUENT HOLDER OF SUCH RIGHTS SHALL BE NULL AND VOID AND MAY NOT BE TRANSFERRED TO ANY PERSON.

Right Certificate

INSPIRE INSURANCE SOLUTIONS, INC.

This certifies that _____, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement dated as of July 30, 1997 (as amended and/or restated from time to

time, the "Rights Agreement") between INSpire Insurance Solutions, Inc., a Texas corporation (the "Company"), and U.S. Trust Company of Texas, N.A. (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date (as such term is defined in the Rights Agreement) and prior to 5:00 P.M. Fort Worth, Texas time on August 1, 2007 at the office of the Rights Agent designated in the Rights Agreement for such purpose, or its successor as Rights Agent, one one-hundredth (1/100) of a fully paid nonassessable share of Series A Junior Preferred Stock (the "Preferred Stock") of the Company at a purchase price of \$100.00, as the same may from time to time be adjusted in accordance with the Rights Agreement (the "Exercise Price"), upon presentation and surrender of this Right Certificate with the Form of Election to Purchase attached hereto duly executed.

As provided in the Rights Agreement, the Exercise Price and the number of shares of Preferred Stock which may be purchased upon the exercise of the Rights evidenced by this Right Certificate are subject to modification and adjustment upon the happening of certain events and, upon the happening of certain events, securities other than shares of Preferred Stock, or other property, may be acquired upon exercise of the Rights evidenced by this Right Certificate, as provided in the Rights Agreement.

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This Right Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities of the Rights Agent, the Company and the holders of record of Right Certificates. Copies of the Rights Agreement are on file at the principal executive office of the Company.

This Right Certificate, with or without other Right Certificates, upon surrender at the office of the Rights Agent designated in the Rights Agreement for such purpose, may be exchanged for another Right Certificate or Right Certificates of like tenor and date evidencing Rights entitling the holder of record to purchase a like aggregate number of shares of Preferred Stock as the Rights evidenced by the Right Certificate or Right Certificates surrendered shall have entitled such holder to purchase. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof, another Right Certificate or Right Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate (i) may be redeemed by the Company at a redemption price of \$0.01 per Right, subject to adjustment or (ii) may be exchanged in whole or in part for shares of the Company's Common Stock, par value \$0.01 per share, or shares of Preferred Stock.

No fractional shares of Preferred Stock (other than fractions which are integral multiples of one one-hundredth (1/100) of a share) are required to be issued upon the exercise of any Right or Rights evidenced hereby, and in lieu thereof the Company may cause depositary receipts to be issued and/or a cash payment may be made, as provided in the Rights Agreement.

No holder of this Right Certificate, as such, shall be entitled to vote

or receive dividends or be deemed for any purpose the holder of Preferred Stock or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at meeting thereof, or to give or withhold consent to any corporate action or to receive notice of meetings or other actions affecting shareholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right Certificate shall have been exercised as provided in the Rights Agreement.

This Right Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal. Dated as of _____.

ATTEST: INSPIRE INSURANCE SOLUTIONS, INC.

[Secretary or Assistant
Secretary]

By: _____
Name:
Title:

Countersigned:

U.S. TRUST COMPANY OF TEXAS, N.A.
As Rights Agent

By:
Name:
Title:

[Form of Reverse Side of Right Certificate]

FORM OF ASSIGNMENT
(To be executed by the registered holder if such holder desires to transfer the Right Certificate)

FOR VALUE RECEIVED

hereby sells, assigns and transfers unto

(Please print name and address of transferee)

Rights evidenced by this Right Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney to transfer the within Right Certificate on the books of the within-named Company, with full power of substitution.

Dated: _____

Signature
(Signature must conform in all respects to name of holder as specified on the face of the Right Certificate)

Signature Guaranteed:

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Certificate

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Right Certificate [] is [] is not being sold, assigned or transferred by or on behalf of a Person who is or was an Acquiring Person or an Associate or an Affiliate thereof (as such terms are defined in the Rights Agreement); and

(2) after due inquiry and to the best knowledge of the undersigned, it [] did [] did not acquire the Rights evidenced by this Right Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate thereof (as such terms are defined in the Rights Agreement).

Dated: _____

Signature
(Signature must conform in all respects to name of holder as specified on the face of this Right Certificate)

FORM OF ELECTION TO PURCHASE
(To be executed if registered holder
desires to exercise the Right Certificate)

TO INSPIRE INSURANCE SOLUTIONS, INC.:

The undersigned hereby irrevocably elects to exercise _____
Rights represented by this Right Certificate to purchase the shares of Preferred
Stock (or other securities) issuable upon the exercise of such Rights and
requests that certificates for such share(s) be issued in the following name:

Please insert social security
or other identifying number:

(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this
Right Certificate, a new Right Certificate for the balance remaining of such
Rights shall be registered in the name of and delivered to:

Please insert social security
or other identifying number:

(Please print name and address)

Dated: _____ .

Signature
(Signature must conform in all
respects to name of holder as
specified on the face of this
Right Certificate)

Signature Guaranteed:

CERTIFICATE

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Rights Certificate [] is [] is not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Associate or an Affiliate thereof (as such terms are defined in the Rights Agreement); and

(2) after due inquiry and to the best knowledge of the undersigned, it [] did [] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate thereof (as such terms are defined in the Rights Agreement).

Dated:

Signature
(Signature must conform in all respects to name of holder as specified on the face of this Rights Certificate)

EXHIBIT C

FORM OF
STATEMENT OF RESOLUTION
FOR
SERIES A PREFERRED STOCK
OF
INSPIRE INSURANCE SOLUTIONS, INC.

PURSUANT TO ARTICLE 2.13 OF THE TEXAS
BUSINESS CORPORATION ACT

I, F. George Dunham, III, President of INSpire Insurance Solutions, Inc., a corporation organized and existing under the Texas Business Corporation Act (the "Company"), DO HEREBY CERTIFY that at a meeting of the Board of Directors on July 30, 1997, at which meeting a quorum was present, the following resolutions were adopted:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Company in accordance with the provisions of Article 4 of the Company's Restated Articles of Incorporation, as amended, a series of Preferred Stock, par value \$1.00 per share ("Preferred Stock"), of the Company be, and hereby is, created, and the designations, preferences, and relative rights of

the shares of such series, and the qualifications, limitations or restrictions thereof, be, and hereby are, as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting such series initially shall be 300,000. Notwithstanding the foregoing, however, if more than a total of 300,000 shares of Series A Preferred Stock shall be issuable upon the exercise of Rights (the "Rights") issued pursuant to the Rights Agreement, dated as of July 30, 1997, between the Company and U.S. Trust Company of Texas, N.A., as Rights Agent (as such agreement may be amended from time to time, the "Rights Agreement"), the Board of Directors of the Company shall direct by resolution or resolutions that the total number of shares of Series A Preferred Stock authorized to be issued be increased (to the extent that the Articles of Incorporation, as amended and/or restated, then permits) to the largest number of whole shares (rounded up to the nearest whole number) issuable upon exercise of such Rights.

Section 2. Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock, par value \$.01 per share (the "Common Stock"), of the Company, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on

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the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (x) \$1.00 or (y) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Company shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (y) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Company shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provisions for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Company. In the event the Company shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or a combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in the Company's Restated Articles of Incorporation, in each case as the same may be restated or amended, in any other Statement of Resolutions creating a series of Preferred Stock or any similar stock, or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the

Company having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Company.

(C) Except as set forth herein, or as otherwise required by the Company's Restated Articles of Incorporation, in each case as the same may be restated or amended, or as otherwise required by law, holders of Series A Preferred Stock shall have no other special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for the taking of any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, and in addition to any and all other rights which any holder of shares of Series A Preferred Stock may have in such circumstances, the Company shall not:

(i) declare or pay dividends on, or make any other distributions on, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends on, or make any other distributions on, any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

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(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Company may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Company ranking junior (both as to dividends and upon liquidation, dissolution or winding up) to the Series A Preferred Stock; or

(iv) redeem, purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Company shall not permit any Subsidiary (as hereinafter defined) of the Company to purchase or otherwise acquire for consideration any

shares of stock of the Company unless the Company could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner. A "Subsidiary" of the Company shall mean any corporation or other entity of which securities or other ownership interests having ordinary voting power sufficient to elect a majority of the board of directors of such corporation or other entity or other persons performing similar functions are beneficially owned, directly or indirectly, by the Company or by any corporation or other entity that is otherwise controlled by the Company.

Section 5. **Reacquired Shares.** Any shares of Series A Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares upon their retirement and cancellation shall become authorized but unissued shares of Preferred Stock, without designation as to series, and such shares may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors.

Section 6. **Liquidation, Dissolution or Winding Up.**

(A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received an amount per share (the "Series A Liquidation Preference") equal to the higher of (i) \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of shares of Common Stock; or (2) to the holders of shares of

stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Company shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other classes and series of stock of the Corporation, if any, that rank on a parity with the Series A Preferred Stock in respect thereof, then the assets available for such distribution shall be

distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other corporation into or with the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6.

Section 7. Consolidation, Merger, etc. In case the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Company shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series A Preferred Stock shall not be redeemable at the option of the Company or any holder thereof. Notwithstanding the

foregoing sentence of this Section, the Company may acquire shares of Series A Preferred Stock in any other manner permitted by law, and the provisions hereof and the Restated Articles of Incorporation of the Company, in each case as the same may be restated or amended.

Section 9. Ranking. Unless otherwise provided in a Statement of Resolution relating to a subsequent series of preferred stock of the Company, the Series A Preferred Stock shall rank junior to all other series of the Company's preferred stock as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up and senior to the Common Stock.

Section 10. Amendment. The provisions hereof and the Restated Articles of Incorporation, as restated or amended, of the Company shall not be amended in any manner which would adversely affect the rights, privileges or powers of the Series A Preferred Stock without, in addition to any other vote of shareholders required by law, the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series A Preferred Stock, voting together as a single class.

Section 11. Fractional Shares. Series A Preferred Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Stock. Notwithstanding the foregoing, fractions of shares of Preferred Stock (other than fractions which are integral multiples of one one-hundredth of a share) may, at the election of the Company, be evidenced by depositary receipts. The Company may also issue cash in lieu of fractional shares which are not integral multiples of one one-hundredth of a share.

[The remainder of this page is intentionally left blank]

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IN WITNESS WHEREOF, I have executed and subscribed this Statement of Resolution and do affirm the foregoing as true under the penalties of perjury this 30th day of July, 1997.

By:

Name: F. George Dunham, III
Title: President

ATTEST:

By:

Name:

Title: Secretary

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FORM OF
EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), made and entered into this ___ day of _____, to be effective on _____ (the "Effective Date"), by and between INSpire Insurance Solutions, Inc., a Texas corporation ("Employer"), and _____, a resident of _____ ("Employee").

W I T N E S S E T H:

WHEREAS, Employer is a corporation engaged in business in the State of Texas and throughout the United States;

WHEREAS, Employer desires to employ Employee in the capacity of _____, upon the terms and conditions hereinafter set forth; and

WHEREAS, Employee is willing to enter into this Agreement with respect to his employment and services upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, Employer hereby employs Employee and Employee hereby accepts such employment upon the terms and conditions hereinafter set forth:

1. Term of Employment. The term of employment under this Agreement shall be for a period of approximately three (3) years, commencing on the Effective Date and terminating on _____, unless such employment is terminated or extended prior to the expiration of said period as hereinafter provided.

2. Duties of Employee. Employee agrees that during the term of this Agreement, he will devote his full professional and business-related time, skills and best efforts to the businesses of Employer in the capacity of _____, or such other capacity as Employer and Employee may agree upon. In addition, Employee shall devote all necessary time and his best efforts in the performance of any other duties as may be assigned to him from time to time by the Board of Directors of Employer including, but not limited to, serving on Employer's Board of Directors if elected. Employee shall devote his full professional and business skills to Employer as his primary responsibility. Employee may engage in personal, passive investment activities provided such activities do not interfere with the performance of his duties

hereunder and violate the noncompetition and nondisclosure provisions set forth herein.

3. Compensation.

(a) Base Salary. Employer shall pay Employee an annual base salary of _____ dollars (\$ _____) per annum (or fraction for portions of a

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year). Such base salary will be adjusted from time to time in accordance with then current standard salary administration guidelines of Employer. Employee's salary shall be subject to all appropriate federal and state withholding taxes and shall be payable in accordance with the normal payroll procedures of Employer.

(b) Annual Bonus. In addition to the salary set forth in Section 3(a) hereof, Employee shall be entitled to participate in the INSpire Insurance Solutions, Inc. 1998 Annual Bonus Plan each year during the term of this Agreement.

(c) Stock Options. Employee shall be granted stock options for shares of common stock of Employer pursuant to the terms of a Stock Option Agreement granted under the INSpire Insurance Solutions 1997 Second Amended and Restated Stock Option Plan, as amended, a copy of which has been provided to Employee. The number of shares of common stock, exercise price and date of grant for such options is set forth in such Stock Option Agreement.

4. Fringe Benefits. The terms of this Agreement shall not foreclose Employee from participating with other employees of Employer in such fringe benefit or incentive compensation plans as may be authorized and adopted from time to time by Employer; provided, however, that Employee must meet any and all eligibility provisions required under said fringe benefit or incentive compensation plans. Employee may be granted such other fringe benefits or perquisites as Employee and Employer may from time to time agree upon.

5. Vacations. Employee shall be entitled to the number of paid vacation days in each calendar year as shall be determined by the Board of Directors of Employer from time to time. In no event, however, shall Employee be entitled to less than three weeks paid vacation during each calendar year.

6. Reimbursement of Expenses. Employer recognizes that Employee will incur legitimate business expenses in the course of rendering services to Employer hereunder. Accordingly, Employer shall reimburse Employee, upon presentation of receipts or other adequate documentation, for all necessary and

reasonable business expenses incurred by Employee in the course of rendering services to Employer under this Agreement.

7. Working Facilities. Employee shall be furnished an office and such other facilities and services suitable to his position and adequate for the performance of his duties, which shall be consistent with the policies of Employer.

8. Termination. The employment relationship between Employee and Employer created hereunder shall terminate before the expiration of the stated term of this Agreement upon the occurrence of any one of the following events:

(a) Death or Permanent Disability. The death or permanent disability of Employee. For the purpose of this Agreement, the "permanent disability" of Employee shall mean Employee's inability, because of his injury, illness, or other incapacity (physical or mental), to perform the essential functions of the position contemplated herein, with or

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without reasonable accommodation to Employee with respect to such injury, illness or other incapacity, for a continuous period of 150 days or for 180 days out of a continuous period of 360 days. Such permanent disability shall be deemed to have occurred on the 150th consecutive day or on the 180th day within the specified period, whichever is applicable.

(b) Termination for Cause. The following events, which for purposes of this Agreement shall constitute "cause" for termination:

(1) The willful breach by Employee of any provision of Sections 2, 11, 12, or 13 hereof (including but not limited to a refusal to follow lawful directives of the Board of Directors of Employer) after notice to Employee of the particular details thereof and a period of 10 days thereafter within which to cure such breach and the failure of Employee to cure such breach within such 10 day period;

(2) Any act of fraud, misappropriation or embezzlement by Employee with respect to any aspect of Employer's business;

(3) The illegal use of drugs by Employee during the term of this Agreement that, in the determination of the Board of Directors of Employer, substantially interferes with Employee's performance of his duties hereunder;

(4) Substantial failure of performance by Employee that is

repeated or continued after 30 day written notice to Employee of such failure and that is reasonably determined by the Board of Directors of Employer to be materially injurious to the business or interests of Employer and which failure is not cured by Employee within such 30 day period; or

(5) Conviction of Employee by a court of competent jurisdiction of a felony or of a crime involving moral turpitude.

Any notice of discharge shall describe with reasonable specificity the cause or causes for the termination of Employee's employment, as well as the effective date of the termination (which effective date may be the date of such notice). If Employer terminates Employee's employment for any of the reasons set forth above, Employer shall have no further obligations hereunder from and after the effective date of termination (other than as set forth below) and shall have all other rights and remedies available under this or any other agreement and at law or in equity.

(c) Termination by Employee with Notice. Employee may terminate this Agreement without liability to Employer arising from the resignation of Employee upon one (1) year written notice to Employer. Employer retains the right after proper notice of Employee's voluntary termination to require Employee to cease employment immediately; provided, however, in such event, Employer shall remain obligated to pay Employee his salary during the one (1) year notice period or the remaining term of this Agreement, whichever is less. During such one (1) year notice period, Employee shall provide such

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consulting services to Employer as Employer may reasonably request and shall assist Employer in training his successor and generally preparing for an orderly transition.

(d) Termination by Employer with Notice. Employer may terminate this Agreement at any time upon one (1) year written notice to Employee; provided, however, upon such notice Employee shall not be required to perform any services for Employer other than during the period of three (3) months immediately following the receipt of such notice of termination in which Employee shall assist Employer in training his successor and generally preparing for an orderly transition.

9. Compensation Upon Termination.

(a) General. Upon the termination of Employee's employment under this Agreement before the expiration of the stated term hereof for any

reason, Employee shall be entitled to (i) the salary earned by him before the effective date of termination, as provided in Section 3(a) hereof, prorated on the basis of the number of full days of service rendered by Employee during the year to the effective date of termination, (ii) any accrued, but unpaid, vacation or sick leave benefits, (iii) any authorized but unreimbursed business expenses, and (iv) any accrued, but unpaid annual bonus.

(b) Termination For Other Than Cause. If such termination is the result of the discharge of Employee by Employer for any reason other than (i) his death or permanent disability, (ii) by Employer or Employee with notice pursuant to Section 8(d) or 8(c), respectively, or (iii) for cause (as defined in Section 8(b) hereof), then Employee shall be entitled to receive as a severance payment an amount equal to the salary (excluding bonuses) that Employee would have received for the remainder of the term of this Agreement in accordance with the regular payroll periods during the remainder of the term of this Agreement. If Employee's employment hereunder terminates because of the death of Employee, all amounts that may be due to him under the terms of this Agreement shall be paid to his administrators, personal representatives, heirs and legatees, as may be appropriate.

(c) Termination For Cause. If the employment relationship hereunder is terminated by Employer for cause (as defined in Section 8(b) hereof), Employee shall not be entitled to any severance compensation, except as provided in Section 9(a) above.

(d) Termination by Employer with Notice. If the employment relationship is terminated by Employer other than for cause or the permanent disability of Employee, then Employee shall be entitled to receive as a severance payment and as compensation for all services performed hereunder pursuant to Section 8(d) hereof an amount equal to the salary that Employee would have received for the remainder of the term of this Agreement or one (1) year, whichever is less, in accordance with the regular payroll periods of Employer during the applicable period.

(e) Termination by Employee with Notice. If the employment relationship is terminated by Employee pursuant to the provisions of Section 8(c) hereof, Employee shall

be entitled to receive as a severance payment and as compensation for all services performed hereunder pursuant to Section 8(c) hereof the salary that Employee would have received for the remainder of the term of this Agreement or one (1) year, whichever is less, in accordance

with the regular payroll period of Employer during the applicable period.

(f) Survival. The provisions of Sections 9, 11, 12, and 13 hereof shall survive the termination of the employment relationship hereunder and this Agreement to the extent necessary or reasonably appropriate to effect the intent of the parties hereto as expressed in such provisions.

10. Other Agreements. This Agreement shall be separate and apart from, and shall be deemed to alter the terms of, any executive compensation agreements, deferred compensation agreements, bonus agreements, general employment benefits plans, stock option plans and any other plans or agreements entered into between Employee and Employer pursuant to which Employee has been granted specific rights, benefits or options.

11. Noncompetition. Employee agrees that, during his employment with Employer and for a period of three (3) years from the date of termination of his employment with Employer, he will not directly or indirectly compete with Employer by engaging in the activities set forth on Exhibit A attached hereto and incorporated herein by reference (the "Prohibited Activities") within the geographic area that is set forth on Exhibit B attached hereto (the "Restricted Area"). For purposes of this Section 11, Employee recognizes and agrees that Employer conducts and will conduct business in the entire Restricted Area and that Employee will perform his duties for Employer within the entire Restricted Area. Employee shall be deemed to be engaged in and carrying on the Prohibited Activities if he engages in the Prohibited Activities in any capacity whatsoever, including, but not limited to, by or through a partnership of which he is a general or limited partner or an employee engaged in such activities, or by or through a corporation or association of which he owns five percent (5%) or more of the stock or of which he is an officer, director, employee, member, representative, joint venturer, independent contractor, consultant or agent who is engaged in such activities. Employee agrees that during the three (3) year period described above, he will notify Employer of the name and address of each employer with whom he has accepted employment during such period. Such notification shall be made in writing within five (5) days after Employee accepts any employment or new employment by certified mail, return receipt requested.

12. Confidential Data. Employee further agrees that, during his employment with Employer and thereafter, he will keep confidential and not divulge to anyone, disseminate nor appropriate for his own benefit or the benefit of another any confidential information described in Exhibit C attached hereto and incorporated by reference herein (the "Confidential Data"). Employee hereby acknowledges and agrees that this prohibition against disclosure of Confidential Data is in addition to, and not in lieu of, any rights or remedies that Employer may have available pursuant to the laws of any jurisdiction or at common law to prevent the disclosure of trade secrets, and the enforcement by Employer of

its rights and remedies pursuant to this Agreement shall not be construed as a waiver of any other rights or available remedies that it may possess in law or equity absent this Agreement.

13. Nonsolicitation of Employees. Employee covenants that, during his employment with Employer and for a period of one (1) year from the date of termination of his employment with Employer, he will not (i) directly or indirectly induce or attempt to induce any employee of Employer to terminate his or her employment or (ii) without prior written consent of Employer, offer employment either on behalf of himself or on behalf of any other individual or entity to any employee of Employer or to any terminated employee of Employer.

14. Property of Employer. Employee acknowledges that from time to time in the course of providing services pursuant to this Agreement he shall have the opportunity to inspect and use certain property, both tangible and intangible, of Employer and Employee hereby agrees that such property shall remain the exclusive property of Employer, and Employee shall have no right or proprietary interest in such property, whether tangible or intangible, including, without limitation, Employee's customer and supplier lists, contract forms, books of account, computer programs and similar property.

15. Equitable Relief. Employee acknowledges that the services to be rendered by him are of a special, unique, unusual, extraordinary, and intellectual character, which gives them a peculiar value, and the loss of which cannot reasonably or adequately be compensated in damages in an action at law, and that a breach by him of any of the provisions contained in this Agreement will cause Employer irreparable injury and damage. Employee further acknowledges that he possesses unique skills, knowledge and ability and that competition by him in violation of this Agreement or any other breach of the provisions of this Agreement would be extremely detrimental to Employer. By reason thereof, Employee agrees that Employer shall be entitled, in addition to any other remedies it may have under this Agreement or otherwise, to injunctive and other equitable relief to prevent or curtail any breach of this Agreement by him.

16. "Change of Control". In the event (each such event, a "Change of Control"): (1) Employer becomes a subsidiary of another corporation or entity or is merged or consolidated into another corporation or entity or substantially all of the assets of Employer are sold to another corporation or entity; or (2) any person, corporation, partnership or other entity, either alone or in conjunction with its "affiliates," as that term is defined in Rule 405 of the General Rules and Regulations under the Securities Act of 1933, as amended, or other group of persons, corporations, partnerships or other entities who are not "affiliates" but who are acting in concert, becomes the owner of record or beneficially of securities of Employer that represent thirty-three and one-third percent (33 1/3%) or more of the combined voting power of Employer's then

outstanding securities entitled to elect Directors; or (3) the Board of Directors of Employer or a committee thereof makes a determination in its reasonable judgment that a "Change of Control" of Employer has taken place; the term during which this Agreement shall be effective shall include the remaining term of this Agreement following the date of the Change of Control plus two (2) years, and Employee's

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compensation for such period shall be based on the following formula, shall be subject to the following conditions, and shall be in lieu of the compensation provided for under Section 3 of this Agreement and in lieu of the compensation upon termination provided for under Section 9 of this Agreement (except for Section 9(a), which shall still apply):

(a) Employee shall be paid an annual salary for the remaining term of this Agreement plus two (2) years consisting of one hundred percent (100%) of the average annual amount of total cash compensation, excluding payments made under tax benefit bonuses paid upon the lapse of resale restrictions on common stock for certain officers, of Employee for the two (2) calendar years (or period of employment with Employer if less than 2 years) prior to the Change of Control.

(b) Employee shall be paid an annual amount for the remaining term of this Agreement plus two (2) years in consideration of the noncompetition covenant of Section 11 of this Agreement consisting of fifty percent (50%) of the average annual amount of total cash compensation, excluding payments made under tax benefit bonuses paid upon the lapse or resale restrictions on common stock for certain officers, of Employee for the two (2) calendar years (or period of employment with Employer if less than 2 years) prior to the Change of Control. Such annual amounts shall be paid quarterly in advance.

(c) Notwithstanding any of the provisions of this Agreement, the amount of all payments to be made pursuant to this Section 16 after a Change of Control shall not exceed one dollar (\$1.00) less than that amount that would cause any such payment to be deemed a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and as Section 280G of the Code is then in effect at the time of such payment.

(d) Any payments made to Employee following a Change of Control that shall be disallowed, in whole or in part, as a deductible expense to Employer for Federal income tax purposes by the Internal Revenue Service on the basis that Section 280G of the Code prohibits such deduction shall be reimbursed by Employee to the full extent of such disallowance within six (6) months after the date of which the amount

of such disallowance has been finally determined and Employer has paid the deficiency with respect to such disallowance. Employer shall legally defend any proposed disallowance by the Internal Revenue Service and the amount required to be reimbursed by Employee shall be the amount determined by an appropriate court in a final, nonappealable decision that is actually disallowed as a deduction. In lieu of payment to Employer by Employee, Employer may, in its discretion, withhold amounts from Employee's future compensation payments until the amount owed to Employer has been fully recovered. No such withholding shall occur prior to the date on which Employee would be required to make reimbursement as provided herein.

(e) If the limitation set forth in this Section 16(c) may at any time become applicable to the amounts otherwise due pursuant to paragraphs (a) and (b) of Section 16, then Employer shall continue to pay Employee all amounts as provided under

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paragraphs (a) and (b) of Section 16 until such time as cumulative payments equal the aggregate amount as limited by paragraph (c), and Employee may terminate his employment relationship with Employer on three (3) months notice at any time within the last twelve (12) months of the time period during which the payments described in this Section 16(e) will be paid without affecting his rights to receive such payments.

(f) Employer shall have no obligation to pay the amounts set forth in paragraphs (a) and (b) of Section 16 as limited by paragraph (c) if there is reasonable proof that the noncompetition or confidential data provisions of Sections 11 and 12, respectively, of this Agreement are being violated.

(g) In the event the employment relationship is terminated for cause (pursuant to Section 8(b) hereof) following a Change of Control, Employer shall not be obligated to make any further payments of the compensation amounts provided for in this Agreement, except as provided in Section 9(a) above. Notwithstanding any other provision of this Agreement, except for paragraphs (e) and (j) of this Section 16, which shall control in the event Employee terminates employment as provided in paragraphs (e) and (j), in the event Employee voluntarily terminates employment following a Change of Control for other than Good Reason, as defined hereinafter, compensation amounts set forth in paragraphs (a) and (b) shall be payable only for a one (1) year period following termination of employment.

"Good Reason" to terminate employment with Employer occurs if: (1)

duties are assigned that are materially inconsistent with previous duties; (2) duties and responsibilities are substantially reduced; (3) base compensation is reduced not as part of an across the board reduction for all senior officers or executives; (4) participation under compensation plans or arrangements generally made available to persons at Employee's level of responsibility at Employer is denied; (5) a successor fails to assume this Agreement; or (6) termination is made without compliance with prescribed procedures.

(h) In the event Employee is involuntarily terminated by Employer without cause, Employee voluntarily terminates employment for Good Reason or the employment relationship is terminated by death or permanent disability of Employee, Employer's obligation to pay the compensation amounts provided in this Section 16 shall survive termination of employment.

(i) In the event of termination of employment during the pendency of a "Potential Change of Control", as hereinafter defined, paragraphs (g) and (h) of this Section 16 shall apply as if an actual Change of Control had taken place. A "Potential Change of Control" shall be deemed to have occurred if: (1) Employer has entered into an agreement or letter of intent the consummation of which would result in a Change of Control; (2) any person publicly announces an intention to take or to consider taking actions that, if consummated, would constitute a Change of Control; or (3) the Board of Directors of Employer or a committee thereof in its reasonable judgment makes a determination that a Potential Change of Control for purposes of this Agreement has occurred. A Potential Change of Control remains pending for purposes of receiving

payments under this Agreement until the earlier of the occurrence of a Change of Control or a determination by the Board of Directors or a committee thereof (at any time) that a Change of Control is no longer reasonably expected to occur.

(j) Notwithstanding anything contained in this Agreement to the contrary, Employee and Employer, or the person, corporation, partnership or other entity acquiring control of Employer pursuant to this Section 16, with the concurrence of the Chief Executive Officer and Compensation Committee of the Board of Directors of Employer, may mutually agree that Employee, with three (3) months' notice, may terminate his employment and receive a lump sum payment equal to the present value of remaining payments under this Agreement discounted by the then current Treasury Bill rate for the remaining term of this Agreement.

17. Successors Bound. This Agreement shall be binding upon Employer and Employee, their respective heirs, executors, administrators or successors in interest, including without limitation, any corporation, partnership or other entity acquiring control of Employer pursuant to Section 16 hereof.

18. Severability and Reformation. The parties hereto intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. If, however, any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future law, such provision shall be fully severable, and this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision were never a part hereof, and the remaining provisions shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance.

19. Integrated Agreement. This Agreement constitutes the entire Agreement between the parties hereto with regard to the subject matter hereof, and there are no agreements, understandings, specific restrictions, warranties or representations relating to said subject matter between the parties other than those set forth herein or herein provided for.

20. Attorneys' Fees. If any action at law or in equity, including any action for declaratory or injunctive relief, is brought to enforce or interpret the provisions of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees from the nonprevailing party, which fees may be set by the court in the trial of such action, or may be enforced in a separate action brought for that purpose, and which fees shall be in addition to any other relief which may be awarded.

21. Notices. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, mailed by certified mail (return receipt requested) or sent by overnight delivery service, cable, telegram, facsimile transmission or telex to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice:

(a) If to Employer: INSpire Insurance Solutions, Inc.
 300 Burnett Street
 Fort Worth, Texas 76102-2799
 Attention: F. George Dunham, III
 Facsimile No.: (800) 826-9865

(b) If to Employee: -----

Notice so given shall, in the case of notice so given by mail, be deemed to be given and received on the fourth calendar day after posting, in the case of notice so given by overnight delivery service, on the date of actual delivery and, in the case of notice so given by cable, telegram, facsimile transmission, telex or personal delivery, on the date of actual transmission or, as the case may be, personal delivery.

22. Further Actions. Whether or not specifically required under the terms of this Agreement, each party hereto shall execute and deliver such documents and take such further actions as shall be necessary in order for such party to perform all of his or its obligations specified herein or reasonably implied from the terms hereof.

23. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAW, AND NOT THE LAW OF CONFLICTS, OF THE STATE OF TEXAS.

24. Assignment. This Agreement is personal to Employee and may not be assigned in any way by Employee without the prior written consent of Employer. This Agreement shall not be assignable or delegable by Employer, other than to an affiliate of Employer, except if there is a Change of Control as defined in Section 16, Employer may assign its rights and obligations hereunder to the person, corporation, partnership or other entity that has gained such control.

25. Counterparts. This Agreement may be executed in counterparts, each of which will take effect as an original and all of which shall evidence one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

INSPIRE INSURANCE SOLUTIONS, INC.

By: _____

Name: _____

Title: _____

EXHIBIT A

PROHIBITED ACTIVITIES

Acting in any capacity, either individually or with any corporation, partnership or other entity, directly or indirectly, in providing, or proposing to provide, data processing software systems, related automation support services and information services to the insurance industry, including, but not limited to, application software, processing, consulting and related services, in the performance of any of the following types of duties in any part of the insurance industry:

1. The performance of the sales and marketing functions.
2. The responsibility for sales revenue generation.
3. The responsibility for customer satisfaction.
4. The responsibility for research and development of insurance data base products.
5. The responsibility for the research and development of information data processing systems and services.
6. The providing of input to pricing of products.
7. The planning and management of data processing services resources.
8. The coordination of the efforts of the various aspects of computer systems services organizations with other functions.
9. The planning and management of information services resources.
10. The providing and management of an operations staff to support the above listed activities.

EXHIBIT B

RESTRICTED AREA

Fifty mile radius of the city limits of the following cities and any additional cities where Employer or any subsidiary of Employer maintains an office at any time during which Employee is employed by Employer:

Fort Worth, Texas	Milwaukee, Wisconsin
Dallas, Texas	Sheboygan, Wisconsin
Boston, Massachusetts	
Columbia, South Carolina	

EXHIBIT C

CONFIDENTIAL INFORMATION

1. All software/systems (including all present, planned and future software), whether licenses or unlicensed, developed by or on behalf of or otherwise acquired by INSpire Insurance Solutions, Inc. or any of its subsidiaries.

"All software/system" shall mean:

- o all code in whatever form
- o all data pertaining to the architecture and design of such software systems
- o all documentation in whatever form
- o all flowcharts
- o any reproduction or recreation in whole or in part of any of the above in whatever form.

2. All business plans and strategies including:

- o strategic plans
- o product plans
- o marketing plans
- o financial plans
- o operating plans

- o resource plans
- o all research and development plans including all data produced by such efforts.

3. Internal policies, procedures, methods and approaches which are unique to INSpire Insurance Solutions, Inc. and are not public.

4. Any information relating to the employment, job responsibility, performance, salary and compensation of any present or future officer or employee of INSpire Insurance Solutions, Inc.

INSPIRE INSURANCE SOLUTIONS, INC.
EXECUTIVE PERFORMANCE STOCK INCENTIVE PLAN

Section 1. Purposes.

The INSpire Insurance Solutions, Inc. Executive Performance Stock Incentive Plan (the "Plan") was established by the Board of Directors of INSpire Insurance Solutions, Inc. (the "Company"), effective as of January 1, 1999, subject to approval by the shareholders of the Company. The purpose of the Plan is to provide incentivized, at-risk compensation for a select group of management or highly compensated employees of the Company or its Subsidiaries whom the Company believes can contribute materially to the continued growth, development and success of the Company.

Section 2. Definitions.

As used in this Plan, the following terms shall have the meanings indicated below:

- (a) "Base Award" shall mean a Base Award as described in Section 4 hereto.
- (b) "Base Compensation" shall mean the Participant's base salary payable by the Company or its Subsidiaries, without regard to any bonuses or incentive plan compensation, and prior to the Elective Deferral the Participant agrees to the terms of this Plan.
- (c) "Committee" shall mean the Compensation Committee of the Company's Board of Directors.
- (d) "Designated Beneficiary" shall mean a beneficiary or beneficiaries designated by a Participant, in accordance with the terms and conditions of Section 15 of the Plan, to receive the Participant's Plan Account in the event of the Participant's death, or in the absence of an effective designation by the Participant, the Participant's surviving spouse, or if there is no surviving spouse, the Participant's estate.
- (e) "Election to Defer Base Compensation" shall mean that written election (documented by a form adopted from time-to-time by the Company's management or the Committee) which documents a Participant's annual and irrevocable election to participate in the Plan and to defer his or her Base Compensation in accordance with the terms and conditions of the Plan.
- (f) "Elective Deferral" shall mean the portion of a Participant's Base Compensation that the Participant elects to forego with

respect to a Performance Period in accordance with the terms and conditions of the Plan.

(g) "Fair Market Value" shall mean Fair Market Value as defined in the Inspire Insurance Solutions, Inc. Second Amended and Restated 1997 Stock Option Plan.

(h) "Participant" shall mean a participant as described in Section 3 hereof.

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(i) "Performance Period" shall mean the period during which the achievement of the Target Performance Goal(s) selected by the Committee with respect to any award pursuant to the Plan is to be measured.

(j) "Performance Stock" shall mean shares of Common Stock of the Company, par value \$.01 per share that are awarded pursuant to this Plan.

(k) "Plan Account" shall mean a general ledger account established for a Participant in accordance with the terms and conditions of Section 11 of the Plan.

(l) "Securities Act" shall mean the Securities Act of 1933, as amended from time to time.

(m) "Subsidiaries" shall mean those corporations, more than 50% of whose outstanding voting securities the Company has the right, directly or indirectly, to vote for the elections of directors, and who are identified by the Committee to be covered by this Plan.

(n) "Success Award" shall mean a Success Award as described in Section 4 hereto.

(o) "Target Performance Goal(s)" shall mean a performance goal established by the Committee, at any time ending on or before the 90th day of the applicable Performance Period (but in no event after 25% of the Performance Period has elapsed), based on any or all of the following business criteria, which may apply to the individual in question, an identifiable business unit or the Company as a whole: stock price, market share, sales, earnings per share, return on equity or costs, return on invested capital or net assets employed, cumulative total return to shareholders, whether compared to preselected peer groups or not, consolidated pre-tax earnings, net revenues, net earnings, operating income, earnings before interest and taxes, and cash flow, for the applicable performance period, all as computed in accordance with generally accepted accounting principles as in effect from time to time and as applied by the Company in the preparation of its financial statements and subject to such other special rules and conditions as the Committee may establish at any time

ending on or before the deadline described above for the establishment of the Performance Goal. The foregoing shall constitute the sole business criteria upon which the performance goals under this Plan shall be based.

Section 3. Eligibility and Participation.

Participants in the Plan shall include (i) directors of the Company and (ii) employees of the Company and its Subsidiaries if they hold an officer position of Vice President or higher in the Company or its Subsidiaries. Participants may participate in the Plan for a specified Performance Period by timely filing with the Company an Election to Defer Base Compensation for that Performance Period.

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Section 4. Plan Benefits.

Prior to each Performance Period, each Participant will be given the right to file an Election to Defer the Base Compensation in which he or she may designate a percentage of his or her Base Compensation that constitutes his or her Elective Deferral for that Performance Period. The Participant may elect to forego 10%, 15%, 20% or 25% of his or her Base Compensation, or such other percentage as may be permitted by the Committee. The period of time in which the Participant actually foregoes the designated percentage of his or her Base Compensation with respect to a Performance Period need not coincide exactly with the Performance Period, but shall begin no earlier than one month prior to the beginning, and end no later than one month after the end, of the Performance Period.

If the Participant makes such an election for a Performance Period, the Participant shall receive the right to an award of Performance Stock, subject to the award, vesting and forfeitures provisions of this Plan. The transfer and issuance of such Performance Stock to a Participant pursuant to the Plan shall constitute the payment of the Participant's Elective Deferrals relating to the Performance Period. The amount of Performance Stock awarded will depend on whether the Company achieves the Target Performance Goal(s) designated by the Committee for the Performance Period in issue. If the designated Target Performance Goal(s) is achieved, the Participant will be awarded a number of shares of Performance Stock (a "Success Award") valued at two-times the amount of Base Compensation the Participant deferred with respect to that Performance Period, based on the Fair Market Value of the Company's stock on the April 1 in or nearest (in the event a Performance Period does not span an April 1) that Performance Period (to the next full share). If the designated Target Performance Goal(s) is not achieved, each Participant will be awarded a number of shares of Performance Stock (a "Base Award") valued at 50% of the amount of Base Compensation the Participant deferred with respect to that Performance Period, based on the Fair Market Value of the Company's stock on the April 1 in

or nearest (in the event a Performance Period does not span an April 1) that Performance Period (to the next full share). Shares of awarded Performance Stock shall be paid and transferred to a Participant as follows:

(a) Performance Shares comprising a Base Award shall be transferred and issued to the Participant within five business days of the April 1 immediately following the Performance Period.

(b) 50% of the Performance Shares comprising a Success Award shall be transferred and issued to a Participant within five business days of the April 1 immediately following the Performance Period and the remaining 50% shall be transferred and issued within five business days of April 1 of the next following year.

Section 5. Provisions Related to Section 162(m).

(a) The maximum number of shares of Performance Stock which may be granted to any Participant in any one year shall not exceed 100,000 shares.

(b) The Committee shall designate all Participants for a Performance Period by the deadline for establishing the Target Performance Goal for that Performance Period.

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(c) Following the close of each Performance Period and prior to the payment of any amount to any Participant under the Plan, the Committee must certify in writing as to the attainment of all Target Performance Goals (including the performance goals for a Participant) upon which any awards to a Participant for that Performance Period are to be based.

(d) Each of the foregoing provisions and all of the other terms and conditions of the Plan shall be interpreted in such a fashion so as to qualify all compensation paid hereunder as "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

(e) No shares of Performance Stock shall be awarded under the Plan and this Plan shall be null and void and have no effect whatsoever unless the Plan shall have been approved by the shareholders of the Company at the 1999 annual meeting of shareholders of the Company.

Section 6. Termination of Participation.

A Participant's participation shall terminate before the end of the Performance Period, in the event of his or her termination of employment with the Company for any reason, including death or disability. When a Participant's

participation terminates before the end of the Performance Period due to involuntary termination of employment, retirement, death or disability, the amount of any Base Compensation foregone by that employee as to such Performance Period shall be reimbursed by the Company to the Participant or his/her Designated Beneficiary.

Section 7. Transfer and Issuance of Performance Stock.

When Performance Stock attributable to a Success Award or a Base Award is transferred and issued pursuant to Section 4 of this Plan, the Committee shall then cause stock certificates registered in the name of the Participant (or the Designated Beneficiary) to be issued and delivered to the Participant (or the Designated Beneficiary) free of any and all restrictions or conditions.

Section 8. SEC Restrictions.

Each certificate representing Performance Stock shall bear such legends as the Committee determines appropriate under the Securities Act and any related legislation or regulations. The Company agrees, however, to take those steps necessary to register such shares under the Securities Act, prior to the issuance of those shares under the Plan.

Section 9. Plan Account.

A separate Plan Account shall be established on the Company's books for each Participant for the purpose of accounting for all Elective Deferrals made and Performance Stock rights earned pursuant to the terms and conditions of this Plan.

Neither the Plan nor any award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other

person. To the extent that any person acquires a right to receive payments of cash or Performance Stock from the Company or any Subsidiary pursuant to the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company. None of the rights or benefits provided under the Plan shall be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of during the time in which the requirement of continued employment or attainment of performance objectives has not been achieved.

Section 10. Tax Withholding.

Notwithstanding any other provision of the Plan, the Company or a Subsidiary, as appropriate, shall have the right to deduct from all Success Awards and Base Awards all federal, state or local taxes as required by law to

be withheld with respect to such awards, and the Participant or other person receiving such Performance Stock may be required to pay to the Company or a Subsidiary, as appropriate prior to delivery of such Performance Stock, the amount of any such taxes which the Company or Subsidiary is required to withhold, if any, with respect to such Performance Stock. If such payment is not received, the Company may withhold an appropriate number of shares in payment of such withholding tax obligations or withhold through any other lawful means.

Section 11. Designation and Change of Designated Beneficiary.

Each Participant may file with the Committee a written designation of one or more persons as the Designated Beneficiary who shall be entitled to receive (in the order and/or portions indicated) the Performance Stock, if any, due under the Plan upon his death. A Participant may, from time to time, revoke or change his beneficiary designation without the consent of any prior beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt.

Section 12. No Guarantee of Employment.

Nothing contained in the Plan shall be interpreted as a contract of employment between the Company, or any of its Subsidiaries, and a Participant, as establishing the right of a Participant to be continued in the employment of the Company or any of its Subsidiaries to discharge a Participant, with or without cause.

Section 13. Other Benefit Programs.

Participation in the Plan is in addition to and not in lieu of any other qualified or non-qualified employee benefit plans or programs in which a Participant is or may become eligible to participate by reason of employment with the Company. Except as otherwise provided herein or in such other plans or programs, participation in the Plan and receipt of any benefits hereunder shall be disregarded under such other plans or programs. Notwithstanding the foregoing, a Participant's benefits under all non-qualified employee benefit plans or programs maintained by the Company shall be determined as if the Participant had not made an Election To Defer Base Compensation. With respect to the Company's qualified retirement plan, in the

event that a Participant's contribution to that plan, or benefits or account balance therein, is affected in any manner by the Participant having made an Election to Defer Base Compensation pursuant to the Plan, then such Participant shall receive an additional current payment in an amount equal to that

percentage of the compensation deferred pursuant to the Participant's Election to Defer Base Compensation that would have otherwise been taken into account as a contribution to, benefit or credit to an account balance pursuant to such qualified retirement plan.

Section 14. Amendment and Termination.

Notwithstanding any provision of the Plan, the Company reserves the right, in its sole and absolute discretion, to modify, amend, suspend or terminate the Plan at any time and for any reason, with or without notice; provided, however that no such modification, amendment, suspension or termination shall reduce the balance of any Participant's Plan Account determined as of the date any such action is taken.

COMMERCIAL LEASE AGREEMENT

THIS LEASE AGREEMENT made and entered into by and between IIS REALTY LTD., a Texas limited partnership hereinafter referred to as "Landlord," and INSPIRE INSURANCE SOLUTIONS, INC. hereinafter referred to as "Tenant;"

WITNESSETH:

Landlord hereby leases to Tenant, and Tenant hereby takes from Landlord the following described premises (hereinafter referred to as the "demised premises" or "premises") situated within the County of Tarrant, State of Texas:

The entire first (1st), second (2nd) and third (3rd) floors of that certain building located at 300 Burnett Street, Fort Worth, Texas, comprising approximately 96,160 rentable square feet,

together with all rights, privileges, easements and appurtenances belonging to or in any way pertaining to the demised premises and together with the building and other improvements now situated or to be erected upon the demised premises.

TO HAVE AND TO HOLD the same for a term of ten (10) years beginning on 11-13-98, upon the following terms, conditions and covenants:

(a) RENT: Tenant agrees to pay the Landlord, without offset or deduction, rent for the demised premises at the rate of (i) Eight Dollars (\$8.00) per rentable square foot, totaling Sixty-four Thousand One Hundred Six and 66/100 Dollars (\$64,106.66) per month in advance, for the first five (5) years of the term and (ii) Nine and 00/100 Dollars (\$9.00) per rentable square foot, totaling Seventy-two Thousand One Hundred Twenty and 00/100 Dollars (\$72,120.00) per month in advance for the remaining five (5) years of the term. One such monthly installment shall be due and payable on or before the beginning date of this lease, and a like monthly installment shall be due and payable on or before the first day of each succeeding calendar month during the term hereof; provided that, in the event the term hereof shall commence or end during a calendar month, the rent for any fractional calendar month following the commencement or preceding the end of the term of this lease shall be pro rated by days.

Tenant has deposited with Landlord, upon delivery of this lease, One Hundred Twenty-eight Thousand Two Hundred Thirteen and 32/100 Dollars (\$128,213.32) to be applied as follows:

(b) \$64,106.66 for rent for the first month of the term of this lease.

(c) \$64,106.66 as a security deposit. Such security deposit shall be held by Landlord without interest as security for the performance by Tenant of Tenant's covenants and obligations under this lease. The security deposit is not an advance payment of rental or the full measure of liquidated damages in case of default by Tenant. Upon the occurrence of any event of default, Landlord may, from time to time, without prejudice to any other remedy provided herein or provided by law, use the security deposit to the extent necessary to make good any arrears of rent

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and any other damage, injury, expense or liability caused to Landlord by such event of default. Following any such application of the security deposit, Tenant shall pay to Landlord, on demand, the amount so applied in order to restore the security deposit to its original amount. If Tenant is not in default, any remaining balance of such deposit shall be returned by Landlord to Tenant upon expiration or termination of this lease.

1. ACCEPTANCE OF PREMISES:

Tenant acknowledges that it has fully inspected the demised premises and accepts the demised premises, and any buildings and improvements situated thereon, as suitable for the purposes for which the same are leased in their present condition.

2. USE OF PREMISES:

The demised premises shall be used and occupied only for the purpose of conducting Tenant's business and not otherwise. Tenant shall, at its own expense, obtain any and all governmental licenses and permits necessary for such use.

3. COMPLIANCE WITH LAW:

Tenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the demised premises, and shall promptly comply with all governmental orders and directives for the correction, prevention and abatement of nuisances in or upon, or connected with the demised premises, all at Tenant's sole expense.

4. REAL ESTATE TAXES:

(a) Tenant agrees to pay before they become delinquent all taxes (both general and special), assessments or governmental charges of any kind and nature whatsoever (hereinafter collectively referred to as the "taxes"), levied or

assessed against the premises or any part thereof. Tenant shall furnish to Landlord not later than twenty (20) days before the date any such taxes become delinquent, official receipts of the appropriate taxing authority or other evidence satisfactory to Landlord evidencing payment thereof. If Tenant shall fail to pay any taxes, assessments, or governmental charges required to be paid by Tenant hereunder, in addition to any other remedies provided herein, Landlord may, if it so elects, pay such taxes, assessments, and governmental charges. Any sums so paid by Landlord shall be deemed to be additional rental owing by Tenant to Landlord and due and payable on written demand by Landlord together with interest thereon at the rate of ten percent (10%) per annum from the date paid by Landlord to the date of repayment by Tenant.

(b) All real estate taxes and assessments on the demised premises shall be prorated between Landlord and Tenant with respect to the tax years in which this lease commences or terminates. Tenant shall pay that part of the real estate taxes attributable to the portion of the tax year covered by this lease.

(c) In the event the premises constitute a portion of a multiple occupancy building, in lieu of Tenant paying the "taxes" as above provided, Landlord agrees to pay before they become delinquent all "taxes" lawfully levied or assessed against such building and the grounds, parking

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areas, driveways and alleys around the said building, and Tenant agrees to pay to landlord upon written demand the amount of Tenant's "proportional share" of all such "taxes" paid by Landlord. Tenant's "proportionate share," as used throughout this lease, shall mean a fraction, the numerator of which is the space occupied by Tenant and the denominator of which is the entire gross space contained in the building.

(d) Tenant may, alone or together with any other tenants of said building, at its or their sole cost and expense, in its or their own name(s) and/or in the name of the Landlord, dispute and contest any "taxes" by appropriate proceedings diligently conducted in good faith, but only after Tenant and all other tenants, if any, joining with Tenant in such contest have deposited with Landlord the amount so contested and unpaid, or their proportionate share thereof as the case may be, which shall be held by landlord without obligations for interest until the termination of the proceedings, at which time the amount(s) deposited shall be applied by Landlord toward the payment of the items held valid (plus any court costs, interest, penalties and other liabilities associated with the proceedings), and Tenant's share of any excess shall be returned to Tenant. Tenant further agrees to pay to Landlord upon demand Tenant's share (as among all tenants who participated in the contest) of all court costs, interest, penalties and other liabilities relating to such proceedings. Tenant hereby indemnifies and agrees to hold harmless the Landlord from and against any cost, damage or expense, including attorney's

fees, in connection with any such proceedings.

(e) If any time during the term of this Lease, the present method of taxation shall be changed so that in lieu of the whole or any part of any taxes, assessments, levies or charges levied, assessed or imposed on real estate and the improvements thereon there shall be levied, assessed or imposed on Landlord a capital levy or other tax directly on the rents received therefrom and/or a franchise tax, assessments, levies or charges, or the part thereof so measured or based, shall be deemed to be included within the term "taxes" for the purpose hereof.

5. REPAIRS AND MAINTENANCE.

(a) Tenant shall, at its sole cost and expense, keep, maintain and take good care of the premises and make all necessary repairs thereof, interior and exterior, structural and non-structural, ordinary and extraordinary, and shall suffer no waste or nuisance; provided, however, that the cost of maintenance and repair of any common party wall (any wall, divider, partition or any other structure separating the premises from any adjacent premises occupied by other tenants) shall be shared equally by Tenant and the tenant occupying adjacent premises. Tenant shall not damage any party wall or disturb the integrity and support provided by any party wall and shall, at its sole cost and expense, promptly repair any damage or injury to any party wall caused by Tenant or its employees, agents or invitees. At the end of the term or other termination of this lease, Tenant shall deliver the premises with all improvements thereon in good repair and condition, reasonable wear and tear only excepted.

(b) In the event the premises constitute a portion of a multiple occupancy building, Tenant and its employees, customers, and licensees shall have the nonexclusive right to use, in common with the other parties occupying said building, the parking areas, driveways and alleys adjacent to said building, subject to such reasonable rules and regulations as Landlord may from time to time prescribe, and Tenant shall be liable for its proportionate share of the cost and expense of the care for the grounds around the said building, including but not limited to, the mowing of

grass, care of shrubs, general landscaping, and maintenance of parking areas, driveways and alleys. Tenant shall, at Landlord's option, either (i) pay its proportionate share of such costs and expenses along with the other tenants of the building directly to the persons performing such work, or (ii) reimburse Landlord upon demand for the amount of its proportionate share of such costs and expenses in the event Landlord elects to perform or cause to be performed such work.

6. ALTERATIONS, ADDITIONS AND IMPROVEMENTS

Tenant shall not create any openings in the roof or exterior walls, or make any alterations, additions or improvements to the demised premises without the prior written consent of Landlord. Consent for non-structural alterations, additions or improvements shall not be unreasonably withheld by Landlord. Tenant shall have the right, without the prior consent of Landlord, to erect or install shelves, bins, machinery, air conditioning or heating equipment and trade fixtures, provided that Tenant complies with all applicable governmental laws, ordinances and regulations. At the expiration or termination of this lease, Tenant shall have the right to remove such item so installed, provided Tenant is not in default at the time of such removal and provided further that Tenant shall, at the time of removal of such items, repair in a good and workmanlike manner any damages caused by installation or removal thereof.

Tenant shall pay for all costs incurred or arising out of alterations, additions or improvements in or to the demised premises and shall not permit a mechanic's or materialman's lien to be asserted against the demised premises. Upon request by Landlord, Tenant shall deliver to Landlord proof of payment reasonably satisfactory to Landlord of all costs incurred or arising out of any such alterations, additions or improvements.

All alterations, additions or improvements in or to the demised premises shall become the property of Landlord at the expiration or termination of this lease; however, Landlord may direct the removal of alteration, additions or improvements by giving written notice to Tenant prior to the expiration or termination of this lease. At the direction of Landlord, Tenant shall promptly remove all alterations, additions and improvements and any other property placed in the demised premises by Tenant, and Tenant shall repair in a good and workmanlike manner any damage caused by such removal.

7. SIGNS:

Tenant shall not place or affix any signs or other objects upon or to the roof or exterior walls of the demised premises or paint or otherwise deface the exterior walls of the demised premises without the prior written consent of Landlord. Any signs installed by Tenant shall conform with applicable laws, deeds and other restrictions. Tenant shall remove all signs at the termination of this lease and shall repair any damage and close any holes caused or revealed by such removal.

8. INSURANCE, FIRE AND CASUALTY DAMAGE:

(a) Landlord agrees to maintain insurance covering the building of which the demised premises are a part in an amount not less than 90% (or such greater percentage as may be necessary to comply with the provisions of any co-insurance clauses of the policy) of the "replacement cost" thereof, including, without limitation, insurance against the perils of Fire, Lightning, Extended

Coverage, Vandalism and Malicious Mischief, extended by Special Extended Coverage Endorsement to insure against all other Risks of Direct Physical Loss, such coverages and endorsements to be as defined, provided and limited in the standard bureau forms prescribed by the insurance regulatory authority for the State in which the demised premises are situated for use by insurance companies admitted in such State for the writing of such insurance on risks located within such State. Subject to the provisions of subparagraphs 8(b) and 8(c) below, such insurance shall be for the sole benefit of Landlord and under its sole control. Tenant agrees to pay Landlord's cost of maintaining such insurance on said building (or, in event the premises constitute a portion of a multiple occupancy building, Tenant's full proportionate share of such cost). Said payments shall be made to Landlord within ten (10) days after presentation to Tenant of Landlord's statement setting forth the amount due. Any payment to be made pursuant to this subparagraph (a) with respect to the year in which this lease commences or terminates shall bear the same ratio to the payment which would be required to be made for the full year as that part of such year covered by the terms of this lease bears to a full year.

(b) If the buildings situated upon the premises should be damaged or destroyed by any peril covered by the insurance to be provided by Landlord under subparagraph 8(a) above, Tenant shall give immediate notice thereof to Landlord, and Landlord shall, at its sole cost and expense, thereupon proceed with reasonable diligence to rebuild and repair such buildings to substantially the condition in which they existed prior to such damage or destruction, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, additions or other improvements which may have been placed in, on or about the premises by Tenant and except that Tenant shall pay to Landlord upon demand any applicable deductible amounts specified under Landlord's insurance. The rent payable hereunder shall in no event abate by reason of any damage or destruction.

(c) If the buildings situated upon the premises should be damaged or destroyed by a casualty other than a peril covered by the insurance to be provided by Landlord under subparagraph 8(a) above, or if any other improvements situated on the demised premises should be in any manner damaged or destroyed, Tenant shall at its sole cost and expense thereupon proceed with reasonable diligence to rebuild and repair such buildings and/or improvements to substantially the condition in which they existed prior to such damage or destruction, subject to Landlord's approval of the plans and specifications for such rebuilding and repairing, which approval shall not be unreasonably withheld. Tenant's obligation hereunder shall not include destruction of the premises by war, riot, civil disobedience or flood.

(d) Tenant covenants and agrees to maintain insurance on all alterations, additions, partitions and improvements erected by, or on behalf of, Tenant in, on or about the demised premises in an amount not less than 90% (or

such greater percentage as may be necessary to comply with the provisions of any co-insurance clause of the policy) of the "replacement cost" thereof. Such insurance shall insure against the perils and be in form, including stipulated endorsements, as provided in subparagraph 8(a) hereof. Such insurance shall be for the sole benefit of Tenant and under its sole control. All such policies shall be procured by Tenant from responsible insurance companies satisfactory to Landlord. Certified copies of policies of such insurance, together with evidence of payment of premiums therefor shall be delivered to Landlord prior to the commencement date of this lease. Not less than fifteen (15) days prior to the expiration date of any such policies, certified copies of renewals thereof (bearing notations evidencing the payment of

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renewal premiums) shall be delivered to Landlord. Such policies shall further provide that not less than thirty (30) days written notice shall be given to Landlord before such policy may be cancelled or changed to reduce insurance provided thereby.

(e) Notwithstanding anything herein to the contrary, in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the premises required that the insurance proceeds be applied to such indebtedness then the Landlord shall have the right to terminate this lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made by any such holder, whereupon all rights and obligations hereunder shall cease and terminate.

9. WAIVER OF SUBROGATION:

Each party hereto waives any and every claim which arises or may arise in its favor against the other party hereto during the term of this lease or any renewal or extension thereof for any and all loss of, or damage to, any of its property located within or upon, or constituting a part of the demised premises, which loss or damage is covered by valid and collectible fire and extended coverage insurance policies, to the extent that such loss or damage is recoverable under such insurance policies. Such mutual waivers shall be in addition to, and not in limitation or derogation of, any other waiver or release contained in this lease with respect to any loss of, or damage to, property of the parties hereto. Inasmuch as such mutual waivers will preclude the assignment of any aforesaid claim by way of subrogation or otherwise to an insurance company (or any other person), each party hereby agrees immediately to give to each insurance company which has issued to it policies of fire and extended coverage insurance, written notice of the terms of such mutual waivers, and to cause such insurance policies to be properly endorsed, if necessary, to prevent the invalidation of such insurance coverages by reason of such waivers.

Landlord and its authorized agents shall have the right, during normal

business hours, to enter the demised premises (i) to inspect the general condition and state of repair thereof, (ii) to make repairs required or permitted under this lease, (iii) to show the premises to any prospective tenant or purchaser or (iv) for any other reasonable purpose.

10. UTILITY SERVICES:

Tenant shall pay the cost of all utility services, including but not limited to initial connection charges, all charges for gas, water and electricity used on the demised premises, and for all electric lights, lamps and tubes.

11. ASSIGNMENT AND SUBLEASING:

Tenant shall not, without the prior written consent of Landlord, assign this lease or sublet the demised premises or any portion thereof. Any assignment or subletting shall be expressly subject to all terms and provisions of this lease, including the provisions of paragraph 2 pertaining to the use of the demised premises. In the event of any assignment or subletting, Tenant shall remain fully liable for the full performance of all Tenant's obligations under this lease. Tenant shall not assign its rights hereunder or sublet the premises without first obtaining a written agreement from sublessee whereby assignee or sublessee agrees to be bound by the terms of this lease. No such assignment or subletting shall constitute a novation. In the event of the

occurrence of an event of default while the demised premises are assigned or sublet, Landlord, in addition to any other remedies provided herein or by law, may, at Landlord's option, collect directly from such assignee or subtenant all rents becoming due under such assignment or subletting and apply such rent against any sums due to Landlord hereunder. No direct collection by Landlord from any such assignee or subtenant shall release Tenant from the performance of its obligations hereunder.

12. INDEMNITY AND PUBLIC LIABILITY INSURANCE:

(a) Landlord shall not be liable to Tenant or Tenant's employees, agents, patrons or visitors, or to any other person whomsoever, for any injury to person or damage to property on or about the premises caused by the negligence or misconduct of Tenant, its agents, servants or employees, or any other person entering upon the premises under express or implied invitation of Tenant, or caused by the buildings and improvements located on the premises becoming out of repair, or caused by leakage of gas, oil, water or steam or by electricity emanating from the premises, or due to any cause whatsoever, and Tenant agrees to indemnify Landlord and hold it harmless from any loss, expenses or claims including attorney's fees, arising out of any such damage or injury;

except injury to persons or damage to property the sole cause of which is the negligence of the Landlord.

(b) Tenant shall procure and maintain throughout the term of this lease a policy or policies of insurance, at its sole cost and expense, insuring both Landlord and Tenant against all claims, demands, or actions arising out of or in connection with: (i) the premises; (ii) the condition of the premises, the limits of such policy or policies to be in the amount of not less than \$500,000 per person and \$2,000,000 per occurrence in respect of injury to persons (including death), and in the amount of not less than \$100,000 per occurrence in respect to property damage or destruction, including loss of use thereof. All such policies shall be procured by Tenant from responsible insurance companies satisfactory to Landlord. Certified copies of such policies, together with receipt evidencing of premiums therefor, shall be delivered to Landlord prior to the commencement date of this lease. Not less than fifteen (15) days prior to the expiration date of any such policies, certified copies of the renewals thereof (bearing notations evidencing the payment of renewal premiums) shall be delivered to Landlord. Such policies shall further provide that not less than thirty (30) days written notice shall be given to Landlord before such policy may be cancelled or changed to reduce insurance provided thereby.

(c) If Tenant should fail to comply with the foregoing requirements relating to insurance, Landlord may obtain such insurance, and Tenant shall pay to Landlord on demand, as additional rental hereunder, the premium cost thereof plus interest at the rate of ten percent (10%) per annum from the date of payment by Landlord until repaid by Tenant.

13. CONDEMNATION:

(a) If, during the term of this lease or any extension or renewal thereof, all or a substantial part of the demised premises should be taken for any public or quasi-public use under any governmental law, ordinance, regulation or by right of eminent domain, or should be sold to the condemning authority under threat of condemnation, this lease shall terminate and the rent shall be

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abated during the unexpired portion of this lease, effective from the date of taking of the demised premises by the condemning authority.

(b) If less than a substantial part of the demised premises is taken for public or quasi-public use under any governmental law, ordinance or regulation, or by right of eminent domain, or is sold to the condemning authority under threat of condemnation, Landlord, at its option, may by written notice, terminate this lease or shall forthwith at its sole expense restore and reconstruct the buildings and improvements (other than leasehold improvements made by Tenant or any assignee, subtenant or other occupant of the demised

premises) in order to make the same reasonably tenantable and suitable for the uses for which the demised premises are leased as defined in paragraph 2. The rent payable hereunder during the unexpired portion for this lease shall be adjusted equitably.

(c) Landlord and Tenant shall be entitled to receive and retain such separate awards and portions of lump sum awards as may be allocated to their respective interests in any condemnation proceedings. The termination of this lease shall not affect the rights of the respective parties to such awards.

14. HOLDING OVER:

Should Tenant, or any of its successors in interest, fail to surrender the demised premises, or any part thereof, on the expiration of the term of this lease, such holding over shall constitute a tenancy from month to month, at a monthly rental equal to 110% of the rent paid for the last month of the term of this lease unless otherwise agreed in writing by Landlord and Tenant.

15. DEFAULT BY TENANT:

The following events shall be deemed to be events of default under this lease:

(a) Failure of Tenant to pay any installment of the rent or other sums payable to Landlord hereunder on the date that same is due and such failure shall continue for a period of 10 days.

(b) Failure of Tenant to comply with any term, condition or covenant of this lease, other than the payment of rent or other sum of money, and such failure shall not be cured within 30 days after written notice thereof to Tenant.

(c) Insolvency, the making of a transfer in fraud of creditors, or the making of an assignment for the benefit of creditors by Tenant or any guarantor of Tenant's obligations.

(d) Filing of a petition under any section or chapter of the United States Bankruptcy Code, as amended, or under any similar law or statute of the United States or any State thereof by Tenant or any guarantor of Tenant's obligations or adjudication as a bankrupt or insolvent in proceedings filed against Tenant or such guarantor.

(e) Appointment of a receiver or trustee for all or substantially all of the assets of Tenant or any guarantor of Tenant's obligations hereunder.

(f) Abandonment by Tenant of any substantial portion of the demised premises or cessation of the use of the demised premises for the purpose leased.

16. REMEDIES OF LANDLORD:

Upon the occurrence of any of the events of default listed in Section 15, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever:

(a) Terminate this lease, in which event Tenant shall immediately surrender the demised premises to Landlord. If Tenant fails to so surrender such premises, Landlord may, without prejudice to any other remedy which it may have for possession of the demised premises or arrearages in rent, enter upon and take possession of the demised premises and expel or remove Tenant and any other person who may be occupying such premises or any part thereof, by force if necessary, without being liable for prosecution or any claim for damages therefor. Tenant shall pay to Landlord on demand the amount of all loss and damage which Landlord may suffer by reason of such termination, whether through inability to relet the demised premises on satisfactory terms or otherwise.

(b) Enter upon and take possession of the demised premises, by force if necessary, without terminating this lease and without being liable for prosecution or for any claim or damages therefor, and expel or remove Tenant and any other person who may be occupying such premises or any part thereof. Landlord may relet the demised premises and receive the rent therefor. Tenant agrees to pay to Landlord monthly or on demand from time to time any deficiency that may arise by reason of any such reletting. In determining the amount of such deficiency, the brokerage commission, attorney's fees, remodeling expenses and other costs of reletting shall be subtracted from the amount of rent received under such reletting.

(c) Enter upon the demised premises, by force if necessary, without terminating this lease and without being liable for any prosecution or for any claim for damages therefor, and do whatever Tenant is obligated to do under the terms of this lease. Tenant agrees to pay Landlord on demand for expenses which Landlord may incur in effecting compliance with Tenant's obligations under this lease, together with interest thereon at the rate of 10% per annum from the date expended until paid. Landlord shall not be liable for any damages resulting to the Tenant from such action, whether caused by the negligence of Landlord or otherwise.

Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any other remedies provided by law, nor shall pursuit of any remedy herein provided constitute forfeiture or waiver of any rent due to Landlord hereunder or of any damages accruing to Landlord by reason of the violation of any of the terms, conditions and covenants herein contained.

17. LANDLORD'S LIEN:

In addition to the statutory Landlord's lien, Tenant hereby grants to

Landlord a security interest to secure payment of all rent and other sums of money becoming due hereunder from Tenant, upon all goods, wares, equipment, fixtures, furniture and other personal property of Tenant situated in or upon the demised premises, together with the proceeds from the sale or

lease thereof. Such property shall not be removed without the consent of Landlord until all arrearages in rent and other sums of money then due to Landlord hereunder shall first have been paid and discharged. Upon the occurrence of any event of default, Landlord may, in addition to any other remedies provided herein or by law, enter upon the demised premises and take possession of any and all goods, wares, equipment, fixtures, furniture and other personal property of Tenant situated on the premises without liability for trespass or conversion, and sell the same at public or private sale, with or without having such property at the sale, after giving Tenant reasonable notice of the time and place of any such sale. Unless otherwise required by law, notice to Tenant of such sale shall be deemed sufficient if given in the manner prescribed in this lease at least 10 days before the time of the sale. Any public sale made under this paragraph shall be deemed to have been conducted in a commercially reasonable manner if held in the demised premises or where the property is located, after the time, place and method of sale and a general description of the types of property to be sold have been advertised in a daily newspaper published in Tarrant County, Texas, for five consecutive days before the date of the sale. Landlord or its assigns may purchase at a public sale and, unless prohibited by law, at a private sale. The proceeds from any disposition dealt with in this paragraph, less any and all expenses connected with the taking of possession, holding and selling of the property (including reasonable attorneys' fees and legal expenses), shall be applied as a credit against the indebtedness secured by the security interest and granted herein. Any surplus shall be paid to Tenant or as otherwise required by law; Tenant shall pay any deficiencies forthwith. Upon request by Landlord, Tenant agrees to execute and deliver to Landlord a financing statement in form sufficient to perfect the security interest of Landlord in the aforementioned property and proceeds thereof under the provisions of the Business and Commerce Code in force in the State of Texas. The statutory lien for rent is expressly reserved; the security interest herein grant is in addition and supplementary thereto.

18. ATTORNEYS' FEES:

If, on account of any breach or default by Landlord or Tenant of their respective obligations under this lease, it shall become necessary for the other to employ an attorney to enforce or defend any of its rights or remedies hereunder, and should such party prevail, it shall be entitled to any reasonable attorneys' fees incurred in such connection.

19. QUIET ENJOYMENT:

Landlord warrants that it has full right and power to execute and perform this lease and to grant the estate demised herein and that Tenant, on payment of rent and performing the covenants herein contained, shall peaceably and quietly have, hold and enjoy the demised premises during the full term of this lease and any extension or renewal hereof; provided, however, that Tenant accepts this lease subject and subordinate to any recorded mortgage, deed of trust or other lien presently existing upon the demised premises. Landlord is hereby irrevocably vested with full power and authority to subordinate Tenant's interest hereunder to any mortgage, deed of trust or other lien hereafter placed on the demised premises, and Tenant agrees upon demand to execute such further instruments subordinating this lease as Landlord may request, provided such further subordination shall be upon the express condition that this lease shall be recognized by the mortgagee and that the rights of Tenant shall remain in full force

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and effect during the term of this lease so long as Tenant shall continue to perform all of the covenants of this lease.

20. WAIVER OF DEFAULT:

No waiver by the parties hereto of any default or breach of any term, condition or covenant of this lease shall be deemed to be a waiver of any subsequent default or breach of the same or any other term, condition or covenant contained herein.

21. CERTIFICATE OF OCCUPANCY:

Tenant may, prior to the commencement of the term of this lease, apply for a Certificate of Occupancy to be issued by the municipality in which the demised premises are located, but this lease shall not be contingent upon issuance thereof. Nothing herein contained shall obligate Landlord to install any additional electrical wiring, plumbing or plumbing fixtures which are not presently existing in the demised premises, or which have not been expressly agreed upon by Landlord in writing.

22. FORCE MAJEURE:

In the event performance by Landlord of any term, condition or covenant in this lease is delayed or prevented by any Act of God, strike, lockout, shortage of material or labor restriction by any governmental authority, civil riot, flood, or any other cause not within the control of Landlord, the period for performance of such term, condition or covenant shall be extended for a period of time equal to the period of time Landlord is delayed or hindered.

23. RIGHT OF FIRST REFUSAL:

Upon termination of that certain Lease Agreement (the "Millers Lease") of even date herewith by and between Landlord and The Millers Mutual Fire Insurance Company, Tenant shall have the right to lease the space covered by the Miller Lease on the same terms, conditions and covenants as are contained in this lease, at the same rate per rentable square foot as Tenant shall pay for the demised property. Landlord shall notify Tenant of the Termination of the Millers Lease not less than thirty (30) days prior to the expiration or prior termination of the Millers Lease and Tenant shall be entitled to exercise its right of first refusal for a period of sixty (60) days following receipt of such notice. Upon exercise of its right of first refusal, the premises covered by the Miller Lease shall become and be including within the demised premises.

24. USE OF LANGUAGE:

Words of any gender used in this lease shall be held and construed to include any other gender, and words in the singular shall be held to include the plural unless the context otherwise requires.

25. CAPTIONS:

The captions or headings of paragraphs in this lease are inserted for convenience only and shall not be considered in construing the provisions hereof if any question of intent should arise.

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26. SUCCESSORS:

The terms, conditions and covenants contained in this lease shall apply to, inure to the benefit of, and be binding upon the parties hereto and their respective successors in interest and legal representatives, except as otherwise herein expressly provided. All rights, powers, privileges, immunities and duties of Landlord under this lease, including, but not limited to, any notices required or permitted to be delivered by Landlord to Tenant hereunder, may, at Landlord's option, be exercised or performed by Landlord's agent or attorney.

27. RENEWAL OPTION:

Tenant shall have a one (1) time right to renew this Lease in accordance with Exhibit A attached hereto.

28. SEVERABILITY:

If any provision in this lease should be held to be invalid or

unenforceable, the validity and enforceability of the remaining provisions of this lease shall not be affected thereby.

29. NOTICES:

Any notice or document required or permitted to be delivered hereunder may be delivered in person or shall be deemed to be delivered, whether actually received or not, when deposited in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed to the parties at the addresses indicated below, or at such other addresses as may have theretofore been specified by written notice delivered in accordance herewith.

LANDLORD: IIS Realty, Ltd.
300 Burnett Street
Fort Worth, TX 76102-2799
Attn: Chief Financial Officer

TENANT: INSpire Insurance Solutions, Inc.
300 Burnett Street
Fort Worth, TX 76102-2799
Attn: Chief Financial Officer

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EXECUTED the 13th day of November, 1998.

LANDLORD:

IIS Realty, Ltd., a Texas limited partnership

By: Dunham Solutions, L.L.C., a Texas
limited liability company

By: /s/ F. GEORGE DUNHAM, III

Name: F. George Dunham, III
Title: Managing Member

TENANT:

INSpire Insurance Solutions, Inc.

By: /s/ TERRY GAINES

Name: Terry Gaines

Title: EVP - CFO

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EXHIBIT A

"RENEWAL OPTION: Provided that at the end of the primary term of this lease Tenant shall not be in default of any term, condition or covenant contained in this lease, Tenant (but not any assignee of subtenant) shall have the right and option to renew this lease, by written notice delivered to Landlord no later than 180 days prior to the expiration of the primary term, for the additional term of five (5) years, under the same terms, conditions, and covenants contained herein, except:

A. Tenant shall have no further renewal options unless expressly granted by Landlord in writing; and

B. The rental for the renewal term shall be at the rate of \$10.00 per rentable square foot, totalling \$80,133.33 per month in advance.

C. Upon notification from Tenant of the exercise of this renewal option, Landlord shall within 15 days thereafter notify Tenant in writing of the proposed rental for the renewal term; Tenant shall with 15 days following receipt of same notify Landlord in writing of the acceptance or rejection of the proposed rental. In event of rejection by Tenant, the renewal rental shall be determined as follows:

Within 15 days following notification of rejection, Landlord and Tenant shall each appoint a disinterested and qualified appraiser. If these two appraisers cannot agree upon a renewal rental within 30 days following their appointment, the two appointees shall forthwith select a third disinterested and qualified appraiser, and the decision of any two appraisers shall be binding. Notification in writing of this decision shall be made by the appraisers to Landlord and Tenant within 30 days following the selection of the third appraiser. Landlord and Tenant shall bear the expense of the appraiser appointed by each, and the expense of the third appraiser shall be shared equally by both parties."

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LEASE

ADI ARROW PARTNERS, L.P.
a California limited partnership

LANDLORD

ARROWHEAD GENERAL INSURANCE AGENCY, INC.,
a Minnesota corporation

TENANT

LEASE

This Lease ("Lease"), made this 10th day of April, 1996, by and between ADI ARROW PARTNERS, L.P., a California limited partnership ("Landlord"), and ARROWHEAD GENERAL INSURANCE AGENCY, INC., a Minnesota corporation ("Tenant").

WITNESSETH

"Land" means that approximately 6.10 acre-sized (266,000 square feet) parcel of land situated in San Diego County, California, together with any appurtenant easements, described in said Exhibit "A" attached hereto and made a part hereof.

"Building" means the commercial office building, which will be used as Tenant's corporate headquarters, of approximately 93,000 square feet in size, which will be constructed on the Land by Landlord in accordance with the Final Plans and Specifications, as that term is defined in Section 2.2 below.

"Improvements" means the building and all Improvements, machinery, equipment, fixtures and other property, real, personal or mixed (except Tenant's trade fixtures, machinery and equipment) installed or constructed on the Land or in the Building by Landlord, together with all additions, alterations and replacements thereof.

"Demised Premises" means the Land and the Improvements.

Landlord, for and in consideration of the rents, covenants and agreements hereinafter reserved, mentioned and contained on the part of Tenant, its successors and assigns, to be paid, kept, observed and performed under this Lease, hereby leases, rents, lets and demises to Tenant, and upon and subject to the conditions and limitations expressed in this Lease, Tenant takes and hires from Landlord, the Demised Premises.

ARTICLE I TERM OF LEASE

SECTION 1.1. INITIAL TERM. This Lease shall be effective and binding upon the parties hereto upon mutual execution hereof (the "Effective Date"). The term of this Lease (the "Term") shall commence upon mutual execution hereof and shall end ten (10) years (120 months) after the Substantial Completion (as defined in Section 2.3, below) of the Improvements, which is currently anticipated to be March 31, 1997 (the "Initial Term"). The date upon which Substantial Completion occurs is sometimes referred to in this Lease as the "Commencement Date." Assuming Substantial Completion of the Improvements by the currently anticipated date of March 31, 1997 (the "Target Completion Date"), the Term of this Lease will end on March 31, 2007. Under no circumstances shall the Commencement Date occur or be deemed to occur prior to March 31, 1997.

SECTION 1.2. OPTION TO EXTEND. Tenant shall have two (2) options to extend (the "Extension Option") the Term for periods of five (5) years each (the foregoing option terms (or either of them) shall be referred to hereinafter sometimes individually or collectively as the "Option Term"), by delivering a binding written notice of exercise to Landlord ("Extension Notice"), so that Landlord receives the Extension Notice with respect to the first Option Term at least three hundred sixty (360) days prior to the commencement of the first Option Term and so that Landlord receives the Extension Notice with respect to the second Option Term at least one hundred eighty (180) days prior to the commencement of the second Option Term. Tenant may exercise the Extension Option only if this Lease is in full force and effect

and there is no uncured Event of Default, or any event the occurrence or existence which, with the passage of time or the giving of notice, or both, would constitute an Event of Default (an "Incipient Default"), at the time of exercise of the right of renewal and at the time of the commencement of the Option Term, but Landlord shall have the right at its sole discretion to waive the nondefault conditions herein; provided, however, that if an Event of Default or Incipient Default exists at the time Tenant exercises the Extension option and Landlord does not elect to waive, Landlord shall provide written notice to Tenant of the existence and nature of such Event of Default or Incipient Default and Tenant shall be allowed an amount of time to cure such Event of Default or Incipient Default as is otherwise provided for curing

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defaults of that type under this Lease, and, if timely cured, Tenant's exercise of the Extension Option shall be reinstated effective as of the time of exercise. The Initial Term, together with any Option Terms is referred to in this Lease as the "Term".

ARTICLE II CONSTRUCTION OF IMPROVEMENTS

SECTION 2.1. THE IMPROVEMENTS. Landlord agrees to furnish, at Landlord's sole cost and expense, all of the material, labor and equipment for the construction of the Improvements which are preliminarily described in the site and floor plans and outline specifications (including certain specified expense allowances) of the Building dated as of January 11, 1996 and revised as of April 10, 1996, and which have been previously provided to and reviewed and approved by Tenant prior to the Effective Date, and which are attached to this Lease as Exhibit "B" (the "Preliminary Plans and Specifications"). The Improvements shall be constructed by Landlord in a good and workmanlike manner in conformance with the Final Plans and Specifications (as defined in, and developed pursuant to, Section 2.2, below) and in compliance with all covenants, conditions and restrictions to which the Land is subject and all applicable building laws, ordinances, orders, rules, regulations and requirements of all federal, state and municipal governments the jurisdiction or which the Land is subject. A portion of the Improvements described in the Preliminary Plans and Specifications includes relocation, repair and refurbishment of certain of Tenant's existing trade fixtures (i.e. system furniture). To the extent Landlord elects to do so, Tenant shall reasonably cooperate with Landlord in the creation and perfection of a security interest in such Tenant trade fixtures to secure Tenant's obligations to Landlord under this Lease (i.e. execution of a separate security agreement and filing of UCC-1 financing statement).

SECTION 2.2. FINAL PLANS AND SPECIFICATIONS. The Final Plans and Specifications shall be developed in substantial conformance with the Preliminary Plans and Specifications as follows:

(a) As used in this Lease, the term "Final Plans and Specifications" shall mean collectively the "Preliminary Plans and Specifications," the "Schematic Design Drawings," "Design Development Drawings", the "Construction Drawings" (all as defined herein), and all related plans, drawings, specifications and notes. The Final Plans and Specifications shall be prepared by Landlord in all related knowledge of and compliance with this Lease, and all city, county, state and federal ordinances, rules and regulations relating to the construction of the Improvements, including, without limitation, the energy conservation and handicap access requirements of Title 24 of the California Administrative Code ("Title 24"), and the Americans With Disabilities Act and federal regulations promulgated thereunder.

(b) As soon as is reasonably possible following execution of this Lease, Landlord shall submit to Tenant fully detailed and dimensioned 1/8 scale preliminary schematic design drawings ("Schematic Design Drawings") for the Demised Premises consistent with the Preliminary Plans and Specifications. This preliminary submittal shall include the following: three (3) sets of prints and one (1) sepia which show fully developed floor plans. Within ten (10) business days after Landlord delivers to Tenant the Schematic Design Drawings, Tenant shall deliver to Landlord written notice of its approval or disapproval of the Schematic Design Drawings. Tenant shall not be unreasonable in granting or withholding its consent to the Schematic Design Drawings or use the approval process as a vehicle for expanding the scope of the Improvements. If Tenant disapproves any portion of the Schematic Design Drawings, then Tenant shall specifically and in writing (a) approve those portions which are acceptable to Tenant and (b) disapprove those portions which are not acceptable to Tenant, specifying the reasons for such disapproval and describing in detail the change Tenant requests for each item disapproved ("Requested Change"). Landlord shall cause Requested Changes reasonably acceptable to Landlord to be made to the Schematic Design Drawings. With respect to any item Tenant disapproves, Landlord and Tenant shall meet and confer within three (3) business days after delivery of Tenant's notice disapproving the Schematic Design Drawings and shall attempt in good faith to reach agreement on the Schematic Design Drawings. In the event the Schematic Design Drawings have not been fully approved by Tenant, and Tenant and Landlord are unable to resolve the basis for Tenant's disapproval after good faith efforts to do so over a period of ten (10) days after delivery of Tenant's notice disapproving the Schematic Design Drawings, Landlord shall have the right to terminate this Lease by giving Tenant written notice of its election to do so.

(c) As soon as is reasonably possible following approval of the Schematic Design Drawings, Landlord shall submit to Tenant three (3) sets of the preliminary construction drawings for the Improvements for the Demised Premises ("Design Development Drawings"). Within ten (10) business days after Tenant receives the Design

Development Drawings, Tenant shall deliver to Landlord written notice or Tenant's approval or disapproval of the Design Development Drawings. Tenant

shall not be unreasonable in granting or withholding its consent to the Design Development Drawings or use the approval process as a vehicle for expanding the scope of the Improvements. If Tenant disapproves any portion of the Design Development Drawings, then Tenant shall specifically and in writing (a) approve those portions which are acceptable to Tenant and (b) disapprove those portions which are not acceptable to Tenant, specifying the reasons for such disapproval and describing in detail the Requested Change(s) for each item disapproved. Landlord shall cause Requested Changes reasonably acceptable to Landlord to be made to the Design Development Drawings. With respect to any item Tenant disapproves, Landlord and Tenant shall meet and confer within three (3) business days after delivery of Tenant's notice disapproving the Design Development Drawings and shall attempt in good faith to reach agreement on the Design Development Drawings. In the event the Design Development Drawings have not been fully approved by Tenant, and Tenant and Landlord are unable to resolve the basis for Tenant's disapproval after good faith efforts to do so over a period of ten (10) days after delivery of Tenant's notice disapproving the Design Development Drawings, Landlord shall have the right to terminate this Lease by giving Tenant written notice or its election to do so.

(d) As soon as is reasonably possible following approval of the Design Development Drawings, Landlord shall submit to Tenant three sets of prints and one (1) sepia of fully detailed and dimensioned 1/4 or 1/8 scale construction drawings for the Demised Premises ("Construction Drawings"). These Construction Drawings shall include all information reasonably necessary to construct the Improvements, including, without limitation, the following: (a) plan views of the entry and partitions, and along the longitudinal axis; door, finish and color schedules; and final design drawings for the Building and entry signs; (b) electrical drawings prepared by an electrical engineer, including circuitry plans, panel schedules, riser diagrams, load calculations and all Title 24 calculations and completed forms; (c) mechanical drawings prepared by a mechanical engineer, including heating, ventilating and air conditioning design calculations, equipment schedule and specifications, air distribution ductwork system, plumbing fixtures and piping, and all required Title 24 calculations and completed forms. As part of the Construction Drawings, Landlord shall submit a schedule of specifications completed by mechanical and electrical engineers including heating, ventilating and air conditioning requirements. Within ten (10) business days after Tenant receives the Construction Drawings, Tenant shall deliver to Landlord written notice of Tenant's approval or disapproval of the Construction Drawings. Tenant shall not be unreasonable in granting or withholding its consent to the Construction Drawings or use the approval process as a vehicle for expanding the scope of the Improvements. If Tenant disapproves any portion of the Construction Drawings, then Tenant shall specifically and in writing (a) approve those portions which are acceptable to Tenant and (b) disapprove those portions which are not acceptable to Tenant, specifying the reasons for such disapproval and describing in detail the Requested Change(s) for each item disapproved. Landlord shall cause Requested Changes reasonably acceptable to Landlord to be made to the Construction Drawings. With respect to any item Tenant disapproves, Landlord and Tenant shall meet and confer within three (3) business days after delivery of Tenant's notice disapproving the Construction Drawings and shall attempt in good faith to reach agreement on the Construction Drawings. In the event the Construction Drawings have not been

fully approved by Tenant, and Tenant and Landlord are unable to resolve the basis for Tenant's disapproval after good faith efforts to do so over a period of ten (10) days after delivery of Tenant's notice disapproving the Construction Drawings, Landlord shall have the right to terminate this Lease by giving Tenant written notice of its election to do so.

(e) Upon approval of the Construction Drawings, the Final Plans and Specifications shall be deemed approved by Landlord and Tenant and shall, thereafter, be the Final Plans and Specifications for the construction of the Improvements.

(f) Any subsequent changes, modifications or alterations to the Final Plans and Specifications requested by Tenant after Landlord's and Tenant's approval thereof and before completion of the Improvements shall be processed as an alteration to the Demised Premises under Section 19(b) of this Lease and subject to adjustments in Base Rent pursuant to Article III of this Lease.

(g) If this Lease is ultimately terminated by Landlord as a result of the failure of Landlord and Tenant to reach agreement on the Final Plans and Specifications, as described above, then Tenant shall pay one-half of all third-party expenses incurred by Landlord in connection with the preparation of this Lease and the preparation of the Final Plans and Specifications, including, without limitation, architectural, real estate and mortgage brokers' and attorneys' fees; provided, however, that Tenant's liability under this subsection (g) shall not exceed Two Hundred Thousand Dollars (\$200,000.00).

SECTION 2.3. SUBSTANTIAL COMPLETION OF THE IMPROVEMENTS.

(a) "SUBSTANTIAL COMPLETION" of the Improvements shall be deemed to have occurred on the earlier to occur of when (i) Tenant can physically and legally occupy the Demised Premises (e.g. a temporary or permanent Certificate of Occupancy (or similar document) (the "Certificate of Occupancy") has been issued for the Demised Premises by the City of San Diego (the "City"), (ii) or Tenant's legal occupancy under a Certificate of Occupancy would have been available but for delays caused by Tenant. Landlord shall deliver to Tenant a copy of any Certificate of Occupancy issued by City for the Demised Premises promptly upon receipt. Notwithstanding the foregoing, the failure of Landlord to secure such certificate or action shall not be a condition to payment of rent or commencement of the term if such failure is caused by the act or neglect of Tenant.

(b) Tenant shall not be liable to Landlord for the payment of Base Rent, Additional Rent (as hereinafter defined) or any other obligation to be paid by Tenant under this Lease until the Commencement Date. The failure of

Tenant to take possession of or to occupy the Demised Premises on or after the Commencement Date or following Substantial Completion of the Improvements shall not serve to relieve Tenant of its obligations or delay payments by Tenant to Landlord.

(c) Landlord and Tenant acknowledge the importance of adherence to the schedule for the completion of the Improvements in order to achieve Substantial Completion by the Target Completion Date. If Substantial Completion of the Improvements is not achieved by the Target Completion Date, as such Target Completion Date may be extended pursuant to Section 2.2 hereof), except as provided in Section 2.4, below, Landlord shall not be liable for any damages caused thereby and this Lease shall remain in full force.

SECTION 2.4. DELAYS IN SUBSTANTIAL COMPLETION.

(a) Excused Delay. Landlord shall diligently proceed with the construction of the Improvements and complete the same and deliver possession thereof to Tenant on or before March 31, 1997 (the "Target Commencement Date"), provided, however, if delay is caused or contributed to by act or neglect of Tenant or those acting for or under Tenant (excluding Landlord), labor disputes, casualties, governmental embargo restrictions, shortages of fuel, labor, or building materials, action or nonaction of public utilities, or of local, state or federal governments affecting the Improvements, or other causes beyond Landlord's reasonable control, then the Target Commencement Date shall be extended for the additional time caused by such delay. Such a delay is hereinafter referred to as an "Excused Delay." In addition, the Target Commencement Date shall be extended by the number of days (i) after March 31, 1996 (the "Target Execution Date"), this Lease is fully executed by Tenant and Landlord, or (ii) after June 30, 1996 (the "Target Permit Date"), Landlord obtains all governmental approvals and permits necessary for the construction of the Improvements, unless the delay in obtaining such governmental approvals and permits is caused by Landlord.

(b) Delay Penalty. If the Commencement Date has not occurred (or been deemed to have occur) on or before the Target Commencement Date, plus up to an additional thirty (30) days for Excused Delays, as the Target Commencement Date may have been extended for delays beyond the Target Execution Date and the Target Permit Date, and provided such delay has not been caused by Tenant, Landlord shall pay to Tenant, as liquidated damages, the sum of One Thousand Dollars (\$1,000) per day, until the Commencement Date, or until this Lease is terminated pursuant to subsection (c) below, for each day the Commencement Date is delayed beyond the Target Commencement Date

(c) Length of Delay: Tenant's Right to Terminate. In the event the Commencement Date has not occurred (or been deemed to have occurred) on or before the date six (6) months after the Target Commencement Date, plus up to an additional thirty (30) days for Excused Delays, as the Target Commencement Date may have been extended for delays beyond the Target Execution Date and the Target Permit Date, and provided (i) such delay has not been caused by Tenant, and (ii) no Event of Default then exists, Tenant may, at any time thereafter, give Landlord written notice that it desires to terminate this Lease, in which

case this Lease shall terminate immediately without prejudice to Tenant or Landlord; provided, however, if Substantial Completion occurs by the end of the thirty (30) day period following notice to Landlord, and such additional delay has been the result of Excused Delays, this Lease shall remain in full force and effect. If Tenant does not terminate the Lease pursuant to this subsection (c) at the end of such 6-month period, (i) Landlord's liability for such delay in Substantial Completion shall be limited to the liquidated damages provided under subsection (b), above, payable for such 6-month delay, (ii) Landlord shall not be liable for any additional

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liquidated damage payments, and (iii) Landlord shall have no liability for damages related to the additional delay to the extent such delay is due to Excused Delays.

SECTION 2.5. BUILDING PERMIT FOR THE IMPROVEMENTS. Landlord shall be responsible for obtaining from any governmental authority necessary (generally the "Authority"), a building permit for the construction of the improvements (the "Building Permit") and shall pursue obtaining such Building Permit in good faith and with commercially reasonable diligence. If the Final Plans and Specifications are rejected by the Authority, thereby preventing the issuance of a Building Permit, Landlord shall immediately make all necessary corrections required. If a change to the Final Plans and Specifications is required by the Authority (an "Authority-Required Change"), the Authority-Required Change shall be made to the Final Plans and Specifications by Landlord. Any delay incurred as a result of such Authority-Required Change shall be an Excused Delay and Tenant shall not unreasonably withhold its consent to any Authority-Required Change.

SECTION 2.6. CONSTRUCTION WARRANTIES. Landlord shall assign to Tenant (or, should Tenant not be legally capable of doing so itself, at Tenant's expense, prosecute on Tenant's behalf) all statutory and contractual warranties to which Landlord is entitled in connection with the Improvements, express or implied, including, without limitation any warranties arising under any construction contract between Landlord and Landlord's contractors. Other than the assignment to Tenant of such warranties, or as otherwise specifically provided in this Lease, Landlord shall have no obligation or responsibility to Tenant, or its successors, with respect to any condition of the Improvements. Landlord, at no cost or expense to Landlord, shall cooperate with Tenant in the enforcement by Tenant, at Tenant's sole cost and expense, of any such warranties or guaranties.

SECTION 2.7. REPAIR AND MAINTENANCE.

(a) Tenant's Obligations. Except to the extent specifically identified as Landlord's responsibility in subsection (b), below, Tenant shall, at its own expense, keep the Demised Premises, and every part thereof,

including, but not by way of limitation, the grounds, landscaped areas, truck parking and loading and dock areas, the roof and roof membrane, drainage swales, gutters, downspouts, glass, interior and exterior portions of the Building, and the plumbing, heating, air-conditioning, wiring, elevators and other mechanical systems therein, the facilities thereof and ail sidewalks, parking areas, driveways, passageways and alleys adjacent thereto and other appurtenances thereunto belonging, in good order, appearance, condition and repair (reasonable wear and tear excepted), free of obstructions, dirt, and rubbish, and so as so comply fully and at all times with all Applicable Laws consistent with other first-class business and industrial parks in the northern portions of San Diego County. Tenant agrees to make all replacements and repairs to the Demised Premises necessary to maintain the Demised Premises in the condition described in the preceding sentence. Tenant, at its own expense, shall also seal (paint) the exterior of the Building periodically during the Term (including the Option Terms) of this Lease in accordance with the recommendations of the manufacturer of the material used for the exterior of said Building. All repairs, replacements and renewals shall be at least equal in quality and class to the original work. Any and all warranties to which Landlord is entitled in connection with the development and construction of the Demised Premises, shall be assigned to Tenant when and where appropriate, on a non-exclusive basis, for the Term of this Lease. Because Tenant is undertaking the responsibility for most aspects of the ongoing maintenance of the Demised Premises, Tenant waives the provisions of California Civil Code Sections 1941 and 1942 with respect to Landlord's obligations for tenantability of the Demised Premises and Tenant's right to make repairs and deduct the expenses of such repairs from Rent.

(b) Landlord's Obligations. Landlord shall, at its own expense, keep the structural elements of all exterior walls (except for painting of the exterior walls, which shall be Tenant's responsibility), the Building foundation and all underground utilities, in good order, condition and repair.

(c) Condition of Demised Premises: Limited Warranty. Landlord makes no warranties or representations with regard to any portion of the Demised Premises, and Tenant shall accept the Demised Premises in the condition they are in on the Commencement Date (subject to the completion of minor "punch-list" items that may still need to be corrected), except that (i) the Demised Premises shall be constructed in substantial compliance with the Improvement Plans, and (ii) for the Term of this Lease, the Improvements shall be free of latent defects in construction, workmanship and materials, and Landlord shall be responsible, at Landlord's sole cost and expense, or the prompt and diligent repair of any such latent defects which manifest themselves during the Term.

(d) Sharing of Certain Long-Term Expenses. Notwithstanding the foregoing, Landlord and Tenant shall share the expenses associated with certain items of repair and maintenance which, although considered normal maintenance or

operating expenses would, under generally acceptable accounting principles consistently applied, be considered related to capital improvements, the reasonable useful (i.e. depreciable) life of which would extend beyond the end of the Term (a "Long-Term Item"), as follows:

i) Tenant shall pay all expenses related to Long-Term Items.

ii) At any time Tenant intends to incur an expense related to a Long-Term Item, Tenant shall notify Landlord, in writing, and Landlord shall approve such expenditure, which approval shall not be unreasonably withheld or delayed. Landlord shall not be required to approve any expenditure which is not required under this Section 2.7 for the maintenance and operation of the Demised Premises.

iii) At that time, Landlord and Tenant shall also agree on the "useful" (i.e. depreciable) life of the Long-Term Item and shall determine a per-year useful life allocation (the "Useful Life Allocation") of financial responsibility for that Long-Term Item. By way of example only, financial responsibility for a Long-Term Item which requires the expenditure of \$50,000 and which has a five-year "useful" life would be assigned a \$10,000 per year Useful Life Allocation.

iv) The Useful Life Allocation will be applied to the item of expense related to the Long-Term Item, until the full amount of such expense has been amortized.

v) If, at the end of the Term, there remains any unamortized Useful Life Allocation(s), Landlord shall, within thirty (30) days after the end of the Term, refund to Tenant, such unamortized Useful Life Allocations, in cash.

ARTICLE III RENT

SECTION 3.1. BASE RENT. In consideration of the lease of the Demised Premises evidenced by this Lease, Tenant covenants to pay Landlord, without previous demand therefor and without any right of setoff or deduction whatsoever, at the office of Landlord at:

The Allen Group
4370 La Jolla Village Drive, Suite 220
San Diego, CA 92122-1252
Attention: Mr. Steven L. Black

or at such other place as Landlord may from time to time designate in writing, a rental for the Initial Term of this Lease as hereinafter set forth, subject to Section 3.1 (b) hereof, payable monthly, in advance, in equal installments as hereinafter set forth, commencing on the Commencement Date, and continuing on the first day of each month thereafter for the succeeding months during the balance of the Term, the amount of Eighty Eight Thousand Two Hundred Twenty

Eight Dollars and Thirty-Three Cents (\$88,228.33) (the "Base Rent"), subject to the provisions of Sections 3.1(c) and (d), below.

SECTION 3.2. CHANGES IN BASE RENT DUE TO CHANGES IN SCOPE. The Base Rent is based on the assumption that the scope of the Improvements will be as described in the Preliminary Plans and Specifications (the "Initial Scope"). Changes in the Initial Scope of the Improvements shall result in adjustments to the Base Rent as follows:

(a) "EXPANDED SCOPE COSTS" means the direct and indirect costs incurred by Landlord in connection with the construction of the Improvements as a result of any expansion in the scope of the Improvements beyond the Initial Scope as a result of either (i) changes requested by Tenant, or (ii) Excused Delays, provided, however, that costs which are the result of Excused Delays which are not in the control of either Tenant or Landlord (i.e. resulting from "force majeure") shall first be applied against the Contingency described in subsection (e), below, and to

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the extent such Contingency is insufficient in amount, when taken together with all other items applied to such Contingency, to fully cover such additional costs, only fifty percent (50%) of such costs shall be considered Expanded Scope Costs.

(b) "REDUCED SCOPE SAVINGS" means the reduction, if any, in the direct and indirect costs incurred by Landlord in connection with the construction of the Improvements resulting from reductions which are requested by Tenant in the scope of the interior portion of the Improvements below the Initial Scope. A reduction in the Initial Scope shall include any savings experienced in the cost of a particular item for which an allowance is provided in the Preliminary Plans and Specifications (e.g. floor coverings) from the allowance amount provided.

(c) Base Rent, effective as of the Commencement Date, shall be increased by an amount determined by the following formula:

$$(\text{Expanded Scope Costs} \times .12) / 12 = \text{Increase in Base Rent}$$

In determining Expanded Scope Costs for the purposes of the foregoing calculation, Reduced Scope Savings shall be credited against Expanded Scope Costs to the extent such Expanded Scope Costs have been incurred in connection with Improvements to the interior of the building which are permanent or affixed in character (i.e. not Tenant's trade fixtures) and which have been approved in advance by Landlord. Any Reduced Scope Savings which are not applied to Expanded Scope Costs shall be added to the Contingency described in subsection (e), below.

By way of example only, if Expanded Scope Costs of \$100,000 are incurred (\$50,000 of which are for permanent Improvements), and Reduced Scope Savings of \$60,000 obtained, then the Base Rent shall increase by \$500 ($[(\$100,000 - \$50,000) \times .12] / 12$) and the Contingency shall be increased by \$10,000. Base Rent shall not be decreased as a result of Reduced Scope Savings, except as provided in subsection (e) below.

(d) Landlord shall deliver written notice to Tenant when and if it is determined that Expanded Scope Costs have been incurred or Reduced Scope Savings have been obtained and, as a result, the Base Rent shall increase pursuant to this Section 3.2. Should Tenant dispute Landlord's calculation of Expanded Scope Costs, Landlord and Tenant shall meet and endeavor, in good faith, to resolve their differences. If, after fifteen (15) days following delivery to Tenant of Landlord's calculation, Landlord and Tenant have not resolved their differences, they shall immediately submit their differences to binding arbitration in accordance with the Construction Industry Arbitration Rules of the American Arbitration Association, and judgment upon the determination of the arbitrator may be entered in any court having jurisdiction thereof. At the commencement of such an arbitration, Landlord and Tenant shall each submit to the arbitrator a written statement of what they contend is the proper calculation of Expanded Scope Costs and Reduced Scope Savings. The arbitrator's sole responsibility shall be to determine which of the two calculations is most accurate and may select only Landlord's calculation or Tenant's calculation. Whichever party's calculation is accepted shall be considered the prevailing party and the losing party shall bear all costs associated with such arbitration, including the other party's reasonable legal expenses and reasonable expenses of other appropriate third party professional advisors not affiliated with either party (e.g. accountants, auditors). Since Expanded Scope Costs and Reduced Scope Savings may not be finally determined until after Substantial Completion, if after such determination, the Base Rent increases pursuant to this Section 3.2, Tenant shall, together with the next regularly scheduled payment of the adjusted Base Rent, remit to Landlord an equal to the product of (i) the amount of the increase in the Base Rent, and (ii) the number of payments of the original Base Rent made by Tenant since the Commencement Date. Notwithstanding the foregoing, if Expanded Scope Costs (as may be reduced by Reduced Scope Savings which are applicable against Expanded Scope Costs) are incurred in an amount which exceed Ninety Three Thousand Dollars (\$93,000), such Expanded Scope Costs shall be paid to Landlord by Tenant in full (i) upon the commencement of construction, if they have been identified prior to that time, (ii) when such Expanded Scope Costs are identified (e.g. when a change is requested by Tenant or when an Excused Delay occurs), if identified after the commencement of construction, or (iii) when Landlord's construction lender requires, whichever is sooner.

(e) Landlord has allocated One Hundred Eighty Seven Thousand Three Hundred Eighty Seven Dollars (\$187,387) of its budget for the construction of the Improvements to "Contingency." To the extent Landlord reasonably determines that there are savings in other elements of its costs associated with the construction of the Improvements, these savings will, during the course of construction of the Improvements, be transferred to

"Contingency." To the extent Landlord reasonably determines that any portion of the allocated "Contingency" was not needed to complete construction of the Improvements, the Base Rent shall decrease by an amount equal to the product of (i) the unexpended portion of the "Contingency and (ii) .0048 (.115 / 2 / 12). Landlord shall make that determination and notify Tenant of its conclusion within seventy-five (75) days following Substantial Completion of the Improvements. Any reduction in Base Rent which would have been applicable to Base Rent already paid by Tenant shall be credited by Landlord against the next payment of Base Rent due.

(f) Prior to the Commencement Date, Landlord shall make its books and records regarding the costs of completing the Improvements available for review by Tenant during normal business hours at Landlord's principal place of business.

SECTION 3.3. INCREASE IN BASE RENT DURING TERM. On each of the 31st, 61st and 91st month of the Term, the Base Rent, as adjusted pursuant to this Section 3.2, shall be increased to an amount equal to 106.5% of the then applicable Base Rent, as may have been previously adjusted.

SECTION 3.4. BASE RENT DURING OPTION TERM. The Base Rent during each Option Term (the "Option Term Base Rent") shall be an amount equal to the greater of (i) ninety-five percent (95%) of the then fair market rental value of the Demised Premises as then configured (the "Fair Market Rental Value"), as stated on a monthly basis and determined pursuant to subsection (i), below, or (ii) the Base Rent during the last year of the Initial Term (or the prior Option Term, if applicable), multiplied by 1.065. On the 31st month of each Option Term, the Option Term Base Rent shall be increased to an amount equal to the then applicable Option Term Base Rent, multiplied by 1.065.

(a) Upon receipt by Landlord of Tenant's Extension Notice under Section 1.2, above, Landlord and Tenant shall meet in an effort to negotiate, in good faith, the Option Term Base Rent which will become effective as of the first day of the ensuing Option Term (the "Option Term Commencement Date"). If Landlord and Tenant have not agreed upon the Option Term Base Rent within fifteen (15) days after the delivery of Tenant's Extension Notice, the Option Term Base Rent shall be determined as follows:

(1) Landlord and Tenant shall attempt to agree in good faith upon a single appraiser not later than one (1) month after delivery of Tenant's Extension Notice. If Landlord and Tenant are unable to agree upon a single appraiser within such time period, then Landlord and Tenant shall each appoint one appraiser not later than fifteen (15) days after the deadline for selecting a single appraiser. Landlord and Tenant shall each give written notice to the other as to the name of the appraiser it has selected, as soon as the selection is made. Within ten (10) days thereafter, the two appointed appraisers

shall appoint a third appraiser. All appraisers shall be independent from, and disinterested in, both Landlord and Tenant.

(2) The only task which the appraisers will perform will be forming and reporting to Landlord and Tenant an opinion of the Fair Market Rental Value of the Demised Premises for use in determining the Option Term Base Rent.

(3) If either Landlord or Tenant fails to appoint its appraiser within the prescribed time period, the single appraiser appointed shall determine the Fair Market Rental Value of the Demised Premises. If both parties fail to appoint appraisers within the prescribed time periods, then the first appraiser thereafter selected by a party shall determine the Fair Market Rental Value of the Demised Premises.

(4) Each party shall bear the cost of its own appraiser and the parties shall share equally the cost of any single or third appraiser, if applicable. All appraisers so designated herein shall have at least five (5) years' experience in the appraisal of commercial office properties in the San Diego County, California and shall be members of professional organizations such as MAI or its equivalent.

(5) For the purpose of such appraisal and this subsection (d), the term "Fair Market Rental Value" shall mean the price that a ready and willing single tenant would pay, as of the Option Term Commencement Date, as annual rent to a ready and willing landlord of a comparable property to the Demised Premises on the terms of this Lease, if such property were exposed for lease on the open market for a reasonable period of time, and taking into account all of the purposes for which such property may be legally used. A "comparable property" shall mean a first-

class corporate headquarters office building located in the northern half of San Diego County, California (collectively the Market Area"), with improvements similar in age and character to the Demised Premises, which has been improved with the tenant improvements comparable to those constructed in the Demised Premises; provided, however, that the appraisal shall disregard the value of the equipment which Tenant is entitled to remove at the expiration or termination of the Term of this Lease. The appraiser shall give appropriate consideration to all relevant factors, including, without limitation, (i) the fact that this Lease is a "triple net" lease, (ii) rental concessions and tenant improvement allowances generally being offered by landlords of comparable properties, (iii) the age of the Improvements, (iv) the condition of the Demised Premises on the assumption that Tenant has complied with its obligations to maintain and repair the Demised Premises, (v) current rental market conditions and the alternative uses and users for the Demised Premises, (vi) whether Landlord will or will not be required to pay a real estate brokerage commission in connection with

Tenant's exercise of the Extension Option, and (vii) the fact that the Tenant will be accepting the Demised Premises in an "As-Is" conditions.

(6) If a single appraiser is chosen, then such appraiser shall determine the Fair Market Rental Value of the Demised Premises. Otherwise, the Fair Market Rental Value of the Demised Premises shall be the arithmetic average of the two (2) appraisals which are closest in amount, and the third appraisal shall be disregarded.

(7) Landlord and Tenant shall instruct the appraiser(s), in writing, to complete their written determination of the Fair Market Rental Value not later than nine (9) months prior to the Option Term Commencement Date. If the Fair Market Rental Value is not determined prior to the Option Term Commencement Date, then Tenant shall continue to pay Landlord monthly installments of Annual Rent in the amount applicable to the Demised Premises immediately prior to the Option Term Commencement Date until the Fair Market Rental Value is determined. When the Fair Market Rental Value of the Demised Premises is determined, Landlord shall deliver notice thereof to Tenant, and Tenant shall pay to Landlord, within ten (10) days after receipt of such notice, the difference between the monthly installments of Base Rent actually paid by Tenant to Landlord subsequent to the Option Term Commencement Date and the new monthly installments of Base Rent which are determined to have been actually owing during such period in accordance with this Section 3.1.

SECTION 3.5. BASE RENT ADJUSTMENT. If the term of this Lease does not commence on the first day of a calendar month or end on the last day of a calendar month, the installment of Monthly Rent for the partial calendar month at the commencement or the termination of the term shall be prorated on the basis of the number of days of the term within such calendar month.

SECTION 3.6. ADDITIONAL RENT. Subject to the provisions of Section 2.7 of this Lease, the Base Rent shall be absolutely net to Landlord so that this Lease shall yield, net to Landlord, the Base Rent specified in Section 3.1 in each year of the term of this Lease and that all impositions, insurance premiums, utility charges, maintenance, repair and replacement expenses, all expenses relating to compliance with laws, and all other costs, fees, charges, expenses, reimbursements and obligations of every kind and nature whatsoever relating to the Demised Premises which may arise or become due during the term or by reason of events occurring during the term of this Lease shall be paid or discharged by Tenant. In the event Tenant fails to pay or discharge any imposition, insurance premium, utility charge, maintenance, repair or replacement expense which it is obligated to pay or discharge, Landlord may, but shall not be obligated to, pay the same, and in that event Tenant shall immediately reimburse Landlord therefor and pay the same as additional rent (all such items being sometimes hereinafter collectively referred to as "Additional Rent"), and Tenant hereby agrees to indemnify, defend and save Landlord harmless from and against such impositions, insurance premiums, utility charges, maintenance, repair and replacement expenses, all expenses relating to compliance with laws, and all other costs, fees, charges, expenses, reimbursements and obligations referred to above.

SECTION 3.7. DELINQUENT RENTAL PAYMENTS. All payments of Base Rent and Additional Rent shall be payable without previous demand therefor and without any right of setoff or deduction whatsoever, and in case of nonpayment of any item of Additional Rent by Tenant when the same is due, Landlord shall have, in addition to all its other rights and remedies, all of the rights and remedies available to Landlord under the provisions of this Lease or by law in the case of nonpayment of Base Rent. The performance and observance by Tenant of all the terms, covenants, conditions and agreements to be performed or observed by Tenant hereunder shall be performed and observed by Tenant at Tenant's sole cost and expense. Any installment of Base Rent or Additional Rent or any other charges payable by Tenant under the provisions hereof which shall not be paid when due or within ten (10) days thereafter shall bear interest at an annual rate of eighteen percent (18%) from the date when the same is due hereunder until the same

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shall be paid, but in no event in excess of the maximum lawful rate permitted to be charged by Landlord against Tenant. Said rate of interest is sometimes hereinafter referred to as the "Maximum Rate of Interest."

SECTION 3.8. SECURITY DEPOSIT. As security for Tenant's faithful performance of Tenant's obligations under this Lease, on the Commencement Date, Tenant shall deliver to Landlord (i) an irrevocable letter of credit drawn on a financial institution reasonably acceptable to Landlord and with an expiry date of no sooner than then end of the Initial Term, or (ii) a certificate of deposit, pledged to Landlord and endorsed in blank, with interest accruing and added to the balance of the certificate of deposit, with a maturity date no sooner than the end of the Initial Term, in the amount of Eighty Eight Thousand Two Hundred Twenty Eight Dollars and Thirty Three Cents (\$88,228.33). If Tenant fails to pay Base Rent or other rent or charges due hereunder, or an Event of Default (as defined in Section 12 of this Lease) occurs, Landlord may draw on such letter of credit or negotiate such certificate of deposit in full, or any portion thereof, for the payment of any amount due Landlord or to reimburse or compensate Landlord for any liability, cost, expense, loss or damage (including attorneys' fees) which Landlord may suffer or incur by reason thereof. If Landlord uses or applies all or any portion of said letter of credit or certificate of deposit, Tenant shall, within ten (10) days after written request therefor, restore such letter of credit or certificate of deposit to the full amount required by this Lease. Landlord shall, at the expiration or earlier termination of the term hereof and after Tenant has vacated the Demised Premises, return to Tenant (or, at Landlord's option, to the last assignee, if any, of Tenant's interest herein), that portion of the Security Deposit not used or applied by Landlord, or, as applicable, the letter of credit or the certificate of deposit.

ARTICLE IV
USE OF DEMISED PREMISES

SECTION 4.1. PERMITTED USE. Tenant primarily intends to use the Demised Premises for Tenant's corporate headquarters and related office uses; and shall be used for no other purpose without first securing the prior written consent of Landlord, which consent shall not be unreasonably withheld. Tenant shall not use or occupy the same, or knowingly permit them to be used or occupied, contrary to any statute, rule, order, ordinance, requirement or regulation applicable thereto, or in any manner which would violate any certificate of occupancy affecting the same, or which would make void or voidable any insurance then in force with respect thereto or which would make it impossible to obtain fire or other insurance thereon required to be furnished hereunder by Tenant, or which would cause structural injury to the improvements or cause the value or usefulness of the Demised Premises, or any portion thereof, substantially to diminish (reasonable wear and tear excepted), or which would constitute a public or private nuisance or waste, and Tenant agrees that it will promptly, upon discovery of any such use, take all necessary steps to compel the discontinuance of such use.

SECTION 4.2. PRESERVATION OF DEMISED PREMISES. Tenant shall not use, suffer or permit the Demised Premises, or any portion thereof, to be used by Tenant, any third party or the public in such manner as might reasonably tend to impair Landlord's title to the Demised Premises, or any portion thereof, or in such manner as might reasonably make possible a claim or claims of adverse usage or adverse possession by the public, as such, or third persons, or of implied dedication of the Demised Premises, or any portion thereof. Nothing in this Lease contained and no action or inaction by Landlord shall be deemed or construed to mean that Landlord has granted to Tenant any right, power or permission to do any act or make any agreement that may create, or give rise to or be the foundation for any such right, title, interest, lien, charge or other encumbrance upon the estate of Landlord in the Demised Premises.

SECTION 4.3. HAZARDOUS SUBSTANCES.

(a) Subject to Section 4.3(f), Tenant shall at all times and in all respects comply with all federal, state and local laws, ordinances and regulations ("Hazardous Materials Laws") relating to the industrial hygiene, environmental protection or the use, analysis, generation, manufacture, storage, presence, disposal or transportation of any oil, flammable explosives, asbestos, urea formaldehyde, polychlorinated biphenyls, radioactive materials or waste, or other hazardous, toxic, contaminated or polluting materials, substances or wastes, including without limitation any "hazardous substances," "hazardous wastes," "hazardous materials" or toxic substances" under any such laws, ordinances or regulations (collectively, "Hazardous Materials").

(b) Subject to Section 4.3(f), Tenant shall at its own expense procure, maintain in effect and comply with all conditions of any and all permits, licenses and other governmental and regulatory approvals required or Tenant's use of the Demised Premises, including, without limitation, discharge of (appropriately treated) materials or waste into or

through any sanitary sewer system serving the Demised Premises. Except as discharged into the sanitary sewer in strict accordance and conformity with all applicable Hazardous Materials Laws and subject to Section 4.3(f), if Tenant shall cause any and all Hazardous Materials to be removed from the Demised Premises. Tenant shall cause the same to be transported solely by duly licensed haulers to duly licensed facilities for final disposal of such Hazardous Materials and wastes. Tenant shall in all respects handle, treat, deal with and manage any and all Hazardous Materials in, on, under or about the Demised Premises in complete conformity with all applicable Hazardous Materials Laws and prudent industry practices regarding the management of such Hazardous Materials. Subject to Section 4.3(f), all reporting obligations imposed by Hazardous Materials Laws are solely the responsibility of Tenant. Upon expiration or earlier termination of this Lease and subject to Section 4.3(f), Tenant shall cause all Hazardous Materials to be removed from the Demised Premises and transported for use, storage or disposal in accordance with and in complete compliance with all applicable Hazardous Materials Laws. Tenant shall not take any remedial action in response to the presence of any Hazardous Materials in, on, about or under the Demised Premises or in any Improvements situated on the Land other than in the normal course of Tenant's business operations as now contemplated in accordance with all Hazardous Materials Laws or as necessitated by emergency considerations in accordance with all applicable Hazardous Materials Laws, nor enter into any settlement agreement, consent decree or other compromise in respect to any claims relating to any Hazardous Materials in any way connected with the Demised Premises or the Improvements on the Land without first notifying Landlord of Tenant's intention to do so and affording Landlord ample opportunity to appear, intervene or otherwise appropriately assert and protect Landlord's interest with respect thereto. In addition, at Landlord's request, at the expiration of the term of this Lease, Tenant shall remove all tanks or fixtures which were placed on the Demised Premises during the term of this Lease and which contain, have contained or are contaminated with Hazardous Materials.

(c) Tenant shall immediately notify Landlord in writing of (i) any enforcement, cleanup, removal or other governmental or regulatory action instituted, completed or threatened pursuant to any Hazardous Materials Laws; (ii) any claim made or threatened by any person against Landlord or the Demised Premises relating to damage, contribution, cost recovery, compensation, loss or injury resulting from or claimed to result from any Hazardous Materials; and (iii) any reports made to any environmental agency arising out of or in connection with any Hazardous Materials in, on or about the Demised Premises or with respect to any Hazardous Materials removed from the Demised Premises, including any complaints, notices, warnings, reports or asserted violations in connection therewith. Tenant shall also provide to Landlord, as promptly as possible, and in any event within five (5) business days after Tenant first receives or sends the same, copies of all claims, reports, complaints, notices, warnings or asserted violations of any Hazardous Materials Laws relating in any

way to the Demised Premises or Tenant's use thereof. Upon written request of Landlord (to enable Landlord to defend itself from any claim or charge related to any Hazardous Materials Laws), Tenant shall promptly deliver to Landlord notices of hazardous waste manifests reflecting the legal and proper disposal of all such Hazardous Materials removed from the Demised Premises. Subject to Section 4.3(f), all such manifests shall list the Tenant or its agent as a responsible party and in no way shall attribute responsibility for any such Hazardous Materials to Landlord.

(d) Subject to Section 4.3(f), Tenant shall indemnify, defend (with counsel reasonably acceptable to Landlord), protect and hold Landlord and each of Landlord's officers, directors, partners, employees, agents, attorneys, successors and assigns free and harmless from and against any and all claims, liabilities, damages, costs, penalties, forfeitures, losses or expenses (including attorneys' fees) for death or injury to any person or damage to any property whatsoever (including water tables and atmosphere) arising or resulting in whole or in part, directly or indirectly, from the presence or discharge of Hazardous Materials in, on, under, upon or from the Demised Premises or the Improvements located thereon or from the transportation or disposal of Hazardous Materials to or from the Demised Premises to the extent caused by Tenant whether knowingly or unknowingly. Subject to Section 4.3(f), Tenant's obligations hereunder shall include, without limitation, and whether foreseeable or unforeseeable, all costs of any required or necessary repairs, clean-up or detoxification or decontamination of the Demised Premises or the Improvements, and the presence and implementation of any closure, remedial action or other required plans in connection therewith, and shall survive the expiration of or early termination of the term of this Lease. For purposes of the indemnity provided herein, any acts or omissions of Tenant or its employees, agents, customers, sublessees, assignees, contractors or subcontractors (whether or not they are negligent, intentional, willful or unlawful) shall be strictly attributable to Tenant.

(e) Landlord may, at its expense, commission an environmental audit of the Demised Premises at any time after prior written notice thereof to Tenant; provided that such environmental audit does not unreasonably interfere with Tenant's use of the Demised Premises, or any portion thereof, and provided further that Landlord

indemnifies, defends and holds harmless Tenant and its officers, agents, employees and customers from and against any loss or damages to Tenant's machinery, equipment, fixtures and personal property, and all liability, loss or damage arising from an injury to the property of Tenant, or its officers, agents, employees or customers, and any death or personal injury to any person or persons to the extent arising out of such environmental audit except for liability, loss or damage caused by Tenant's gross negligence or willful misconduct. However, should Tenant breach any of its obligations set forth in

this Section 4.3, then Landlord shall have the right to require Tenant to undertake and submit to Landlord an environmental audit from an environmental company reasonably acceptable to Landlord, which audit shall evidence Tenant's compliance with this Section 4.3.

(f) The obligations of Tenant under this Section 4.3 shall survive the expiration or earlier termination of this Lease.

ARTICLE V
PAYMENT OF TAXES, ASSESSMENTS, ETC.

SECTION 5.1. PAYMENT OF IMPOSITIONS.

(a) Tenant covenants and agrees to pay during the term of this Lease, as Additional Rent, and before any fine, penalty, interest or cost may be added thereto for the nonpayment thereof, all real estate taxes, special assessments, water rates and charges, sewer rates and charges, including any sum or sums payable for present or future sewer or water capacity, charges for public utilities, street lighting, excise levies, licenses, permits, inspection fees, other governmental charges and all other charges or burdens of whatsoever kind and nature (including costs, fees and expenses of complying with any restrictive covenants listed on Exhibit "A" and amendments thereto recorded subsequent to the date of this Lease or similar agreements to which the Demised Premises are subject) incurred in the use, occupancy, ownership, operation, leasing or possession of the Demised Premises, without particularizing by any known name or by whatever name hereafter called, and whether any of the foregoing be general or special, ordinary or extraordinary, foreseen or unforeseen (all of which are sometimes herein referred to as "Impositions"), which at any time during the term may have been or may be assessed, levied, confirmed, imposed upon or become a lien on the Demised Premises or any portion thereof or any appurtenance thereto, rents or income therefrom, and such easements or rights as may now or hereafter be appurtenant or appertain to the use of the Demised Premises. Tenant shall pay the current portions of all special (or similar) assessments which during the term of this Lease shall be laid, assessed, levied or imposed upon or become payable or become a lien upon the Demised Premises or any portion thereof; provided, however, that if by law any special assessment is payable (without default) or, at the option of the owner, may be paid (without default) in installments (whether or not interest shall accrue on the unpaid balance of such special assessment), Tenant may pay the same, together with any interest accrued on the unpaid balance of such special assessment, in installments as the same respectively become payable and before any fine, penalty, interest or cost may be added thereto for the nonpayment of any such installment and the interest thereon.

(b) Landlord shall pay all installments of special assessments (including interest accrued on the unpaid balance) which are payable for periods prior to the Commencement Date and after the termination date of the term of this Lease. Tenant shall pay all real estate taxes, whether heretofore or hereafter levied or assessed upon the Demised Premises or any portion thereof, which are due and payable for periods during the term of this Lease. Landlord shall pay all real estate taxes which are payable for periods prior to the

Commencement Date and after the termination date of the term of this Lease. Provisions herein to the contrary notwithstanding, Landlord shall pay that portion of the real estate taxes and installments of special assessments due and payable in respect to the Demised Premises during the year in which the term commences and the year in which the term ends which the number of days in said year not within the term of this Lease bears to 365, and Tenant shall pay the balance of said current real estate taxes and current installments of special assessments during said years.

SECTION 5.2. TENANT'S RIGHT TO CONTEST IMPOSITIONS. Tenant shall have the right at its own expense to contest the amount or validity, in whole or in part, of any Imposition by appropriate proceedings diligently conducted in good faith; provided, however, if the payment of such Imposition is necessary to properly appeal such Imposition, Tenant shall pay such imposition before delinquency; and, provided further, if Tenant is then in default hereunder, Tenant shall have first deposited with Landlord cash or a certificate of deposit payable to Landlord issued by a national bank or federal savings and loan association in the amount of the Imposition so contested and unpaid, together with all interest and penalties which may accrue in Landlord's reasonable judgment in connection therewith,

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and all charges that may or might be assessed against or become a charge on the Demised Premises or any portion thereof during the pendency of such proceedings. If Tenant is then in default hereunder and if during the continuance of such proceedings, Landlord shall, from time to time, reasonably deem the amount deposited, as aforesaid, insufficient, Tenant shall, upon demand of Landlord, make additional deposits of such additional sums of money or such additional certificates of deposit as Landlord may reasonably request. If Tenant is required to make such additional deposits hereunder and Tenant fails to make same, the amount theretofore deposited may be applied by Landlord to the payment, removal and discharge of such imposition, and the interest, fines and penalties in connection therewith, and any costs, fees (including attorneys fees) and other liability (including costs incurred by Landlord) accruing in any such proceedings. Upon the termination of any such proceedings, Tenant shall pay the amount of such Imposition or part thereof, if any, as finally determined in such proceedings, the payment of which may have been deferred during the prosecution of such proceedings, together with any costs, fees, including attorneys' fees, interest, penalties, fines and other liability in connection therewith, and upon such payment, if Landlord had previously received any amounts or certificates as a deposit, Landlord shall return all amounts or certificates deposited with it with respect to the contest of such Imposition, as aforesaid, or, at the written direction of Tenant, Landlord shall make such payment out of the funds on deposit with Landlord and the balance, if any, shall be returned to Tenant. Tenant shall be entitled to the refund of any Imposition, penalty, fine and interest thereon received by Landlord which has been paid by Tenant or which has been paid by Landlord but for which Landlord has been

previously reimbursed in full by Tenant. Landlord shall not be required to join in any proceedings referred to in this Section 5.2 unless the provisions of any law, rule or regulation at the time in effect shall require that such proceedings be brought by or in the name of Landlord, in which event Landlord shall join in such proceedings or permit the same to be brought in Landlord's name upon compliance with such conditions as Landlord may reasonably require. Landlord shall not ultimately be subject to any liability for the payment of any fees, including attorneys' fees, costs and expenses in connection with such proceedings. Tenant agrees to pay all such fees (including reasonable attorneys' fees), costs and expenses or, on demand, to make reimbursement to Landlord for such payment. During the time when any such certificate of deposit is on deposit with Landlord, and prior to the time when the same is returned to Tenant or applied against the payment, removal or discharge of Impositions, as above provided, Tenant shall be entitled to receive all interest paid thereon. Cash deposits shall not bear interest.

SECTION 5.3. LEVIES AND OTHER TAXES. If, at any time during the term of this Lease, any method of taxation shall be such that there shall be levied, assessed or imposed on Landlord, or on the Base Rent or Additional Rent, or on the Demised Premises, or any portion thereof, a capital levy, gross receipts tax, transaction privilege tax or other tax on the rents received therefrom or a franchise tax, or an assessment, levy or charge measured by or based in whole or in part upon such rents. Tenant covenants to pay and discharge the same, it being the intention of the parties hereto that the rent to be paid hereunder, shall be paid to Landlord absolutely net, without deduction or charge of any nature whatsoever, foreseeable or unforeseeable, ordinary or extraordinary, or of any nature, kind or description, except as in this Lease otherwise expressly provided. Nothing in this Lease contained shall require Tenant to pay any municipal, state or federal net income or excess profits taxes assessed against Landlord, or any municipal, state or federal capital levy, estate, succession, inheritance or transfer taxes of Landlord, or corporation franchise taxes imposed upon any corporate owner of the fee of the Demised Premises nor shall anything in this Lease require Tenant to pay any income tax of Landlord or any tax in the nature of income tax or in lieu of income tax.

SECTION 5.4. EVIDENCE OF PAYMENT. Tenant covenants to furnish Landlord, within thirty (30) days after the date upon which any Imposition or other tax, assessment, levy or charge is payable by Tenant, official receipts of the appropriate taxing authority, or other appropriate proof satisfactory to Landlord, evidencing the payment of the same. The certificate, advice or bill of the appropriate official designated by law to make or issue the same or to receive payment of any Imposition or other tax, assessment, levy or charge may be relied upon by Landlord as sufficient evidence that such imposition or other tax, assessment, levy or charge is due and unpaid at the time of the making or issuance of such certificate, advice or bill.

SECTION 5.5. ESCROW FOR TAXES AND ASSESSMENTS. At Landlord's written demand after any Event of Default (as hereinafter defined) and for as long as such Event of Default is uncured, Tenant shall pay to Landlord the known or estimated yearly real estate taxes and assessments payable with respect to the Demised Premises in monthly payments equal to one-twelfth (1/12) of the

known or estimated yearly real estate taxes and assessments next payable with respect to the Demised Premises. From time to time, Landlord may reestimate the amount of real estate taxes and assessments, and in such event Landlord shall notify Tenant, in writing, of such reestimate and fix future monthly installments for the remaining period prior to the next tax and assessment due date in an amount sufficient to pay the reestimated amount over the balance of such period after giving credit for payments made by Tenant on the previous

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estimate. If the total monthly payments made by Tenant pursuant to this Section 5.5 shall exceed the amount of payments necessary for said taxes and assessments, such excess shall be credited on subsequent monthly payments of the same nature; but if the total of such monthly payments so made under this paragraph shall be insufficient to pay such taxes and assessments when due, then Tenant shall pay to Landlord such amount as may be necessary to make up the deficiency. Payment by Tenant of real estate taxes and assessments under this Section 5.5 shall be considered as performance of such obligation under the provisions of Section 5.1 hereof.

SECTION 5.6. LANDLORD'S RIGHT TO CONTEST IMPOSITIONS. In addition to the right of Tenant under Section 5.2 to contest the amount or validity of Impositions, Landlord shall also have the right, but not the obligation, to contest the amount or validity, in whole or in part, of any Impositions not contested by Tenant, by appropriate proceedings conducted in the name of Landlord or in the name of Landlord and Tenant. If Landlord elects to contest the amount or validity, in whole or in part, of any Impositions, such contests by Landlord shall be at Landlord's expense; provided, however, that if the amounts payable by Tenant for Impositions are reduced (or if a proposed increase in such amounts is avoided or reduced) by reason of Landlord's contest of Impositions, Tenant shall reimburse Landlord for costs reasonably incurred by Landlord in contesting Impositions, but such reimbursements shall not be in excess of the amount saved by Tenant by reason of Landlord's actions in contesting such Impositions.

ARTICLE VI INSURANCE

SECTION 6.1. TENANT'S INSURANCE OBLIGATIONS. Tenant, at its sole cost and expense, shall obtain and continuously maintain in full force and effect during the term of this Lease, commencing with the date that rental (full or partial) commences, policies of insurance covering the Improvements constructed, installed or located on the Demised Premises naming the Landlord, as an additional insured, against (a) loss or damage by fire; (b) loss or damage from such other risks or hazards now or hereafter embraced by an "Extended Coverage Endorsement," including, but not limited to, windstorm, hail, explosion, vandalism, riot and civil commotion, damage from vehicles, smoke damage, water damage and debris removal: (c) loss for flood if the Demised

Premises are in a designated flood or flood insurance area and required by Landlord's lender(s), (d) loss from so-called explosion, collapse and underground hazards; (e) loss or damage caused by earthquake if required by Landlord's lender(s) (provided, however, that Landlord shall reimburse Tenant for any earthquake-related premium which exceed \$20,000 per year, which amount shall be adjusted annually to reflect increases in the Consumer Price Index); and (f) loss or damage from such other risks or hazards of a similar or dissimilar nature which are now or may hereafter be customarily insured against with respect to improvements similar in construction, design, general location, use and occupancy to the Improvements as may be required by Landlord or Landlord's lender(s), subject to sixty (60) days prior written notice to Tenant. At all times, such insurance coverage shall be in an amount equal to one hundred percent (100%) of the then "Full Replacement Cost" of the Improvements. "Full Replacement Cost" shall be interpreted to mean the cost of replacing the Improvements, without deduction for depreciation or wear and tear, including costs attributable to improvements or upgrades in the Improvements required by changes in laws and regulations governing zoning, public access and accommodation, workplace conditions, public health or safety or similar matter, and it shall include to the extent reasonably obtainable a reasonable sum for architectural, engineering, legal, administrative and supervisory fees connected with the restoration or replacement of the Improvements in the event of damage thereto or destruction thereof. If Tenant desires to obtain such casualty insurance with a deductible or self-insured retention or similar limitation on coverage, such arrangement shall be submitted to Landlord for its approval, which may be granted or withheld in Landlord's complete discretion.

SECTION 6.2. INSURANCE COVERAGE

(a) From and after the Commencement Date, Tenant, at its sole cost and expense, shall obtain and continuously maintain in full force and effect comprehensive general liability insurance against any loss, liability or damage on, about or relating to the Demised Premises, or any portion thereof, with limits of not less than Five Million Dollars (\$5,000,000) combined single limit, per occurrence and aggregate, coverage on an occurrence basis. Any such insurance obtained and maintained by Tenant shall name Landlord as an additional insured therein and shall be obtained and maintained from and with a reputable and financially sound insurance company authorized to issue such insurance in the state in which the Demised Premises are located. Such insurance shall to the extent reasonably obtainable specifically insure (by contractual liability endorsement) Tenant's obligations under Section 20.3 of this Lease.

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(b) During the term of this Lease, commencing with the Commencement Date, Tenant, at its sole cost and expense, shall obtain and continuously maintain in full force and effect boiler and pressure vessel (including, but not limited to, pressure pipes, steam pipes and condensation

return pipes) insurance, provided the Building contains a boiler or other pressure vessel or pressure pipes. Landlord shall be named as an additional insured in such policy or policies of insurance.

(c) During the term of this Lease commencing with the Commencement Date, Tenant, at its sole cost and expense, shall obtain and continuously maintain in full force and effect such other insurance in such amounts against other insurable hazards which at the time are commonly insured against in the case of premises and/or buildings or improvements similar in construction, design, general location, use and occupancy to those on or appurtenant to the Demised Premises as may be reasonably required by Landlord or Landlord's lender(s), subject to sixty (60) days prior written notice to Tenant.

(d) The insurance set forth in this Section 6.2 shall be maintained by Tenant at not less than the limits set forth herein until reasonably required to be changed from time to time by Landlord, with written notice of not less than sixty (60) days, whereupon Tenant covenants to obtain and maintain thereafter such protection in the amount or amounts so reasonably required by Landlord.

SECTION 6.3. INSURANCE PROVISIONS. All policies of insurance required by Section 6.1 shall provide that the proceeds thereof shall be payable to Landlord or as otherwise may be required by Landlord's lender(s) and, if Landlord so requests, shall also be payable to any contract purchaser of the Demised Premises or the holder of any mortgage(s) now or hereafter becoming a lien on the fee of the Demised Premises, or any portion thereof, as the interest of such purchaser or holder appears pursuant to a standard named insured or mortgagee clause. Tenant shall not, on Tenant's own initiative or pursuant to request or requirement of any third parts, take out separate insurance concurrent in form or contributing in the event of loss with that required in this Article VI, unless Landlord is named therein as an additional insured with loss payable as provided in Section 6.1. Tenant shall immediately notify Landlord whenever any such separate insurance is taken out and shall deliver to Landlord original certificates evidencing the same. Any insurance proceeds to be paid to Landlord following a casualty event and which are to be used for the restoration of the Demised Premises pursuant to this Lease shall be deemed paid to Landlord to be held in trust for that purpose, subject to the requirements of Landlord's lender(s).

Each policy required under this Article VI shall have attached thereto (a) an endorsement that such policy shall not be cancelled or materially changed without at least thirty (30) days prior written notice to Landlord, and (b) to the extent reasonably obtainable an endorsement to the effect that the insurance as to the interest of Landlord shall not be invalidated by any act or neglect of Landlord or Tenant. All policies of insurance shall be written with companies reasonably satisfactory to Landlord and licensed in the state in which the Demised Premises are located. Such certificates of insurance shall be in a form reasonably acceptable to Landlord and shall be delivered to Landlord upon the Commencement Date and, prior to expiration of such policy, new certificates of insurance shall be delivered to Landlord not less than ten (10) days prior to the expiration of the then current policy term.

Insurance required hereunder shall be obtained from companies duly licensed to transact business in the state of California, and maintaining during the policy term a "General Policyholders Rating" of at least "A" and financial category rating of "Class VII" in "Best's Insurance Guide."

SECTION 6.4. WAIVER OF SUBROGATION. Tenant shall cause to be inserted in the policy or policies of insurance required by this Article VI hereof a complete so-called "Waiver of Subrogation Clause" as to Landlord. Tenant hereby waives, releases and discharges Landlord, its agents and employees from all claims whatsoever arising out of loss, claim, expense or damage to or destruction covered or coverable by insurance required under this Article VI, unless such loss, claim, expense or damage may have been caused by Landlord, its agents or employees, and Tenant agrees to look to the insurance coverage only in the event of such loss.

SECTION 6.5. TENANT'S INDEMNIFICATION OF LANDLORD. Tenant shall maintain insurance coverage upon Tenant's business and upon all personal property of Tenant or the personal property of others kept, stored or maintained on the Demised Premises against loss or damage by fire, windstorm or other casualties or causes for such amount as Tenant may desire, and Tenant agrees that such policies shall contain a waiver of subrogation clause as to

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Landlord. Such insurance shall include, without limitation, loss of use and business interruption coverage which will include coverage for the payment of the Basic and Additional Rent provided under this Lease.

SECTION 6.6. UNEARNED PREMIUMS. Upon expiration of the term of this Lease, the unearned premiums upon any insurance policies or certificates thereof lodged with Landlord by Tenant shall, subject to the provisions of Article XIII hereof, be payable to Tenant, provided that Tenant shall not then be in default in keeping, observing or performing the terms and conditions of this Lease.

SECTION 6.7. BLANKET INSURANCE COVERAGE. Nothing in this Article VI shall prevent Tenant from taking out insurance of the kind and in the amount provided for under the preceding paragraphs of this Article VI under a blanket insurance policy or policies (and certificates thereof reasonably satisfactory to Landlord shall be delivered to Landlord) which may cover other properties owned or operated by Tenant as well as the Demised Premises; provided, however, that any such policy of blanket insurance of the kind provided for shall (a) specify therein the amounts thereof exclusively allocated to the Demised Premises (or Tenant shall furnish Landlord and the holder of any fee mortgage with a written statement from the insurers under such policies specifying the amounts of the total insurance exclusively allocated to the Demised Premises), and (b) not contain any clause which would result in the

insured thereunder being required to carry any insurance with respect to the property covered thereby in an amount not less than any specific percentage of the Full Replacement Cost of such property in order to prevent the insured therein named from becoming a co-insurer of any loss with the insurer under such policy; and further provided, however, that such policies of blanket insurance shall, as respects the Demised Premises, contain the various provisions required of such an insurance policy by the foregoing provisions of this Article VI.

ARTICLE VII UTILITIES

SECTION 7.1. PAYMENT OF UTILITIES. During the term of this Lease, Tenant shall pay, when due, all charges of every nature, kind or description for utilities furnished to the Demised Premises or chargeable against the Demised Premises, including all charges for water, sewage, heat, gas, light, garbage, electricity, telephone, steam, power, or other public or private utility services. Prior to the Commencement Date, Tenant shall pay for all utilities or services at the Demised Premises used by it or its agents, employees or contractors (other than Landlord).

SECTION 7.2. ADDITIONAL CHARGES. In the event that any charge or fee is required after the Commencement Date by the state in which the Demised Premises are located, or by any agency, subdivision or instrumentality thereof, or by any utility company furnishing services or utilities to the Demised Premises, as a condition precedent to furnishing or continuing to furnish utilities or services to the Demised Premises, such charge or fee shall be deemed to be a utility charge payable by Tenant. The provisions of this Section 7.2 shall include, but not be limited to, any charges or fees for present or future water or sewer capacity to serve the Demised Premises, any charges for the underground installation of gas or other utilities or services, and other charges relating to the extension of or change in the facilities necessary to provide the Demised Premises with adequate utility services. In the event that Landlord has paid any such charge or fee after the Commencement Date, Tenant shall reimburse Landlord for such utility charge. Nothing contained in this Section 7.2 shall be construed to relieve Landlord of the obligation to furnish the Improvements described In Exhibit "B."

SECTION 7.3. LANDLORD'S RESPONSIBILITY FOR UTILITY HOOK-UP CHARGES AND FEES. Notwithstanding anything contained in this Article VII to the contrary, (a) as of the Commencement Date, all utilities contemplated by the Improvements shall be hooked-up and fully operational and functional to the Demised Premises at no charge to Tenant; and (b) if any utility or service charge or fee related to capital improvements made by Landlord whose tax depreciable life extends beyond the termination date of this Lease, Tenant shall only pay the pro rata portion of such charge or fee to the extent that such tax depreciable life is within the term of this Lease.

ARTICLE VIII REPAIRS

SECTION 8.1. TENANT'S REPAIRS. Tenant, at its sole cost and

expense, throughout the term of this Lease, shall take good care of the Demised Premises (including any improvements hereafter erected or installed on the Land), shall keep the same in good order and condition, commensurate with other first-class office or corporate

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headquarters buildings located in the northern portion of San Diego County of size and construction quality similar to the Demised Premises and, shall make and perform all maintenance thereof (including the roof) and all necessary repairs thereto, interior and exterior, ordinary and extraordinary, foreseen and unforeseen, of every nature, kind and description. When used in this Article VIII, "repairs" shall include all necessary replacements, renewals, alterations, additions and betterments. All repairs made by Tenant shall be at least equal in quality and cost to the original work and shall be made by Tenant in accordance with all laws, ordinances and regulations whether heretofore or hereafter enacted. The necessity for or adequacy of maintenance and repairs shall be measured by the standards which are appropriate for improvements of similar construction, class and age.

SECTION 8.2. MAINTENANCE. Tenant, at its sole cost and expense, shall take good care of, repair and maintain all driveways, pathways, roadways, sidewalks, curbs, spur tracks, parking areas, loading areas, landscaped areas, entrances and passageways in good order and repair and shall promptly remove all accumulated debris from any and all driveways, pathways, roadways, sidewalks, curbs, parking areas, loading areas, entrances and passageways and keep all portions of the Demised Premises, including areas appurtenant thereto, in a clean and orderly condition free of dirt, rubbish, debris and unlawful obstructions. Further, Tenant shall keep the Demised Premises safe for human occupancy and use.

SECTION 8.3. TENANT'S WAIVER OF CLAIMS AGAINST LANDLORD. Landlord shall not be required to furnish any services or facilities or to make any repairs or alterations in, about or to the Demised Premises or any improvements hereafter erected thereon. Tenant hereby assumes the full and sole responsibility for the condition, operation, repair, replacement, maintenance and management of the Demised Premises and all improvements hereafter erected thereon, and Tenant hereby waives any rights created by any law now or hereafter in force to make repairs to the Demised Premises or improvements hereafter erected thereon at Landlord's expense.

SECTION 8.4. PROHIBITION AGAINST WASTE. Tenant shall not do or suffer any waste, damage, disfigurement or injury to the Demised Premises, or any improvements hereafter erected thereon, or to the fixtures or equipment therein, or permit or suffer any overloading of the floors or other use of the Improvements that would place an undue stress on the same or any portion thereof beyond that for which the same was designed.

ARTICLE IX
COMPLIANCE WITH LAWS AND ORDINANCES

SECTION 9.1. COMPLIANCE WITH LAWS AND ORDINANCES. Tenant shall, throughout the term of this Lease, and at Tenant's sole cost and expense, promptly comply or cause compliance with or remove or cure any violation of any and all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state, municipal and other governmental bodies having jurisdiction over the Demised Premises and the appropriate departments, commissions, boards and officers thereof, and the orders, rules and regulations of the Board of Fire Underwriters where the Demised Premises are situated, or any other body now or hereafter constituted exercising lawful or valid authority over the Demised Premises, or any portion thereof, or the sidewalks, curbs, roadways, alleys, entrances or railroad track facilities (if any) adjacent or appurtenant thereto, or exercising authority with respect to the use or manner of use of the Demised Premises, or such adjacent or appurtenant facilities, whether or not the compliance, curing or removal of any such violation and the costs and expenses necessitated thereby shall have been foreseen or unforeseen, ordinary or extraordinary, and whether or not the same shall be presently within the contemplation of Landlord or Tenant or shall involve any change of governmental policy or require structural or extraordinary repairs, alterations or additions by Tenant and irrespective of the costs thereof.

SECTION 9.2. COMPLIANCE WITH TITLE RESTRICTIONS. Subject only to Landlord's obligations under Section 2.7(b) of this Lease, Tenant, at its sole cost and expense, shall comply with all agreements, contracts, easements, restrictions, reservations or covenants to which the Demised Premises are subject as of the Commencement Date, or hereafter created by Tenant or consented to, in writing, by Tenant or requested, in writing, by Tenant and which are related to the use or maintenance of the Demised Premises by Tenant or Landlord, including, without limitation, that certain non-exclusive easement over a portion of the Land for ingress and egress to Ramada Hotel Operating Company, a Delaware corporation, recorded January 6, 1988, and that certain non-exclusive easement over the same portion of the Land for ingress and egress to Rybar/Wadley Partnership, a California general partnership, recorded February 1, 1995, and those certain Maintenance Agreements by and between Lusk/Mira Mesa and Ramada Hotel Operating Company, a Delaware corporation, recorded May 2, 1988, and May 16, 1988, copies of which have

been previously provided to, and approved by, Tenant. Tenant shall also comply with, observe and perform all provisions and requirements of all policies of insurance at any time in force with respect to the Demised Premises and required to be obtained and maintained under the terms of Article VI hereof, and Tenant shall comply with all development permits issued by governmental authorities issued in connection with development Office Demised Premises, copies of which shall be supplied to Tenant by Landlord promptly after issuance.

SECTION 9.3. TENANT' S OBLIGATIONS. Notwithstanding that it may be usual and customary for Landlord to assume responsibility and performance of any or all of the obligations set forth in this Article IX, and notwithstanding any order, rule or regulation directed to Landlord to perform, Tenant hereby assumes such obligations because, by nature of this Lease, the rents and income derived from this Lease by Landlord are net rentals not to be diminished by any expense incident to the ownership, occupancy, use, leasing or possession of the Demised Premises or any portion thereof.

SECTION 9.4. TENANT'S RIGHT TO CONTEST LAWS AND ORDINANCES. After prior written notice to Landlord, Tenant, at its sole cost and expense and without cost or expense to Landlord, shall have the right to contest the validity or application of any law or ordinance referred to in this Article IX in the name of Tenant or Landlord, or both, by appropriate legal proceedings diligently conducted but only if compliance with the terms of any such law or ordinance pending the prosecution of any such proceeding, may legally be delayed without incurring of any lien, charge or liability of any kind against the Demised Premises, or any portion thereof, and without subjecting Landlord or Tenant to any liability, civil or criminal, for failure so to comply therewith until the final determination of such proceeding; provided, however, if any lien, charge or civil liability would be incurred by reason of any such delay, Tenant nevertheless, on the prior written consent of Landlord, which consent shall not be unreasonably withheld, may contest as aforesaid and delay as aforesaid, provided that such delay would not subject Tenant or Landlord to criminal liability and Tenant (a) furnishes Landlord security, reasonably satisfactory to Landlord, against any loss or injury by reason of any such contest or delay, (b) prosecutes the contest with due diligence and in good faith, and (c) agrees to indemnify, defend and hold harmless Landlord and the Demised Premises from any charge, liability or expense whatsoever. The security furnished to Landlord by Tenant shall be in the form of a cash deposit or a Certificate of Deposit issued by a national bank or federal savings and loan association payable to Landlord. Said deposit shall be held, administered and distributed in accordance with the provisions of Section 5.2 hereof relating to the contest of the amount or validity of any Imposition.

If necessary or proper to permit Tenant so to contest the validity or application of any such law or ordinance, Landlord shall, at Tenant's sole cost and expense, including reasonable attorneys' fees incurred by Landlord, execute and deliver any appropriate papers or other documents; provided, however, that Landlord shall not be required to execute any document or consent to any proceeding which would result in the imposition of any cost, charge, expense or penalty on Landlord or the Demised Premises.

ARTICLE X MECHANIC'S LIENS AND OTHER LIENS

SECTION 10.1. FREEDOM FROM LIENS. Tenant shall not suffer or permit any mechanic's lien or other lien to be filed against the Demised Premises, or any portion thereof, by reason of work, labor, skill, services, equipment or materials supplied or claimed to have been supplied to the Demised

Premises at the request of Tenant, or anyone holding the Demised Premises, or any portion thereof, through or under Tenant. If any such mechanic's lien or other lien shall at any time be filed against the Demised Premises, or any portion thereof, Tenant shall cause the same to be discharged of record within thirty (30) days after the date of filing the same. If Tenant shall fail to discharge such mechanic's lien or liens or owner lien within such period, then, in addition to any other right or remedy of Landlord, after five (5) days prior written notice to Tenant, Landlord may, but shall not be obligated to, discharge the same by paying to the claimant the amount claimed to be due or by procuring the discharge of such lien as to the Demised Premises by deposit in the court having jurisdiction of such lien, the foreclosure thereof or other proceedings with respect thereto, of a cash sum sufficient to secure the discharge of the same, or by the deposit of a bond or other security with such court sufficient in form, content and amount to procure the discharge of such lien, or in such other manner as is now or may in the future be provided by present or future law for the discharge of such lien as a lien against the Demised Premises. Any amount paid by Landlord, or the value of any deposit so made by Landlord, together with all costs, fees and expenses in connection therewith (including reasonable attorneys' fees of Landlord), together with interest thereon at the Maximum Rate of Interest set forth in Section 3.4 hereof, shall be repaid by Tenant to Landlord on demand by Landlord and if unpaid may be treated as Additional Rent. Tenant shall indemnify and defend Landlord against, and save

Landlord and the Demised Premises and any portion thereof harmless from, all losses, costs, damages, expenses, liabilities, suits, penalties, claims, demands and obligations, including, without limitation, reasonable attorneys fees resulting from the assertion, filing, foreclosure or other legal proceedings with respect to any such mechanic's lien or other lien.

All materialmen, contractors, artisans, mechanics, laborers and any other person now or hereafter furnishing any labor, services, materials, supplies or equipment to Tenant with respect to the Demised Premises or any portion thereof, are hereby charged with notice that they must look exclusively to Tenant to obtain payment for the same. Notice is hereby given that Landlord shall not be liable for any labor, services, materials, supplies, skill, machinery, fixtures or equipment furnished or to be furnished to Tenant upon credit, and that no mechanics lien or other lien for any such labor, services, materials, supplies, machinery, fixtures or equipment shall attach to or affect the estate or interest of Landlord in and to the Demised Premises or any portion thereof.

SECTION 10.2. LANDLORD'S INDEMNIFICATION. The provisions of Section 10.1 above shall not apply to any mechanic's lien or other lien for labor, services, materials, supplies, machinery, fixtures or equipment furnished to the Demised Premises in the performance of Landlord's obligations to construct the Improvements required by the provisions of Article 11 hereof or in

the performance of Landlord's other obligations under this Lease, and Landlord does hereby agree to indemnify and defend Tenant against and save Tenant and the Demised Premises and any portion thereof harmless from all losses, costs, damages, expenses, liabilities and obligations, including, without limitation, reasonable attorneys' fees resulting from the assertion, filing, foreclosure or other legal proceedings with respect to any such mechanic's lien or other lien.

SECTION 10.3. REMOVAL OF LIENS. Except as otherwise provided for in this Article X, Tenant shall not create, permit or suffer, and shall promptly discharge and satisfy of record, any other lien, encumbrance, charge, security interest or other right or interest which shall be or become a lien, encumbrance, charge or security interest upon the Demised Premises, or any portion thereof, or the income therefrom, or on the interest of Landlord or Tenant in the Demised Premises, or any portion thereof, if such lien, encumbrance, charge, security interest or other right or interest shall result from the actions of Tenant or others acting on the behalf of or for Tenant (other than Landlord).

ARTICLE XI INTENT OF PARTIES

SECTION 11.1. NET LEASE. Landlord and Tenant each state and represent that it is their respective intention that this Lease be interpreted and construed as an absolute net lease, and all Base Rent and Additional Rent shall be paid by Tenant to Landlord without abatement, deduction, diminution, deferment, suspension, reduction or setoff, and the obligations of Tenant shall not be affected by reason of damage to or destruction of the Demised Premises from whatever cause (except as provided for in Section 13.6 hereof); nor shall the obligations of Tenant be affected by reason of any condemnation, eminent domain or like proceedings (except as provided in Article XIV hereof), nor shall the obligations of Tenant be affected by reason of any other cause whether similar or dissimilar to the foregoing or by any laws or customs to the contrary. It is the further express intent of Landlord and Tenant that, (a) the obligations of Landlord and Tenant hereunder) shall be separate and independent covenants and agreements and that the Base Rent and Additional Rent and all other charges and sums payable by Tenant hereunder shall commence at the times provided herein and shall continue to be payable in all events unless the obligations to pay the same shall be terminated pursuant to an express provision in this Lease; (b) all costs or expenses of whatsoever character or kind, general or special, ordinary or extraordinary, foreseen or unforeseen, and of every kind and nature whatsoever that may be necessary or required in and about the Demised Premises or any portion thereof, and Tenant's possession or authorized use thereof during the term of this Lease, shall be paid by Tenant, and all provisions of this Lease are to be interpreted and construed in light of the intention expressed in this Section 11.1; (c) the Base Rent specified in Section 3.1 shall be absolutely net to Landlord so that this Lease shall yield net to Landlord the Base Rent specified in Section 3.1 in each year during the term of this Lease (unless extended or renewed at a different Base Rent); (d) all Impositions, insurance premiums, utility expense, repair and maintenance expense, and all other costs, fees, interest, charges, expenses, reimbursements and obligations of every kind and nature whatsoever relating to the Demised

Premises or any portion thereof which may arise or become due during the term of this Lease or any extension or renewal thereof shall be paid or discharged by Tenant as Additional Rent; and (e) Tenant hereby agrees to indemnify, defend and save Landlord harmless from and against any and all costs, fees, charges, expenses, reimbursements and obligations, and any interest thereon which are Tenant's responsibility or obligation hereunder.

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SECTION 11.2. ENTRY BY LANDLORD. If Tenant shall commit an Event of Default, then Landlord, after prior written notice to Tenant as provided in Section 12.1 (or without notice in case of emergency), and without waiving or releasing Tenant from any obligation of Tenant contained in this Lease, may, but shall be under no obligation to do so, (a) pay any Imposition payable by Tenant pursuant to the provisions of Article V; (b) take out for and maintain any of the insurance policies provided for in this Lease; or (c) make any other payment or perform any other act on Tenant's part to be paid or performed as in this Lease provided, and Landlord may enter upon the Demised Premises upon at least twenty-four (24) hours advance notice during regular business hours for any such purpose and take all such action therein or thereon as may be necessary therefor. Nothing herein contained shall be deemed as a waiver or release of Tenant from any obligation of Tenant contained in this Lease.

SECTION 11.3. INTEREST ON UNPAID AMOUNTS. If Tenant shall commit an Event of Default, Landlord may cure the same, but shall not be required to do so, in such manner and to such extent as Landlord may deem necessary or desirable, and in exercising any such right, may employ counsel and pay necessary and incidental costs and expenses, including reasonable attorneys' fees. All sums so paid by Landlord, and all necessary and incidental costs and expenses, including reasonable attorneys' fees, in connection with the performance of any such act by Landlord, together with interest hereon at the Maximum Rate of interest provided for in Section 3.4 hereof from the date of making such expenditure by Landlord, shall be deemed Additional Rent hereunder and, except as is otherwise expressly provided herein, shall be payable to Landlord on demand or, at the option of Landlord, may be added to any monthly rental then due or thereafter becoming due under this Lease, and Tenant covenants to pay any such sum or sums, with interest as aforesaid, and Landlord shall have, in addition to any other right or remedy of Landlord, the same rights and remedies in the event of nonpayment thereof by Tenant as in the case of default by Tenant in the payment of monthly Base Rent. Landlord shall not be limited in the proof of any damages which Landlord may claim against Tenant arising out of or by reason of Tenant's failure to provide and keep in force insurance as aforesaid, to the amount of the insurance premium or premiums not paid or not incurred by Tenant, and which would have been payable upon such insurance, but Landlord shall also be entitled to recover as damages for such breach the uninsured amount of any loss (to the extent of any deficiency between

the dollar limits of insurance required by the provisions of this Lease and the dollar limits of the insurance actually carried by Tenant) and reasonable costs and expenses, including reasonable attorneys' fees, suffered or incurred by reason thereof occurring during any period when Tenant shall have failed or neglected to provide insurance as aforesaid.

ARTICLE XII
DEFAULTS OF TENANT

SECTION 12.1. EVENTS OF DEFAULT. Any one or more of the following events shall be an event of default by Tenant ("Event of Default") under this Lease:

(a) Tenant fails to pay any Base Rent or Additional Rent or any other sum required by this Lease to be paid by Tenant within five (5) business days after the same becomes due and payable; provided, however, that Landlord shall be required to provide Tenant five (5) days' prior written notice of any such Event of Default up to one (1) time during each twelve (12) month period during the Term of this Lease; or

(b) Tenant fails to perform or comply with any other term hereof, and such failure shall continue for more than thirty (30) days after notice thereof from Landlord, and Tenant shall not within such period commence with due diligence and dispatch the curing of such default, or, having so commenced, shall thereafter fail or neglect to prosecute or complete with due diligence and dispatch the curing of such default; or

(c) Tenant fails to keep, observe or perform any of the terms contained in this Lease, other than those referred to in Subparagraphs (a) and (b) of this Section 12.1, which does not expose Landlord to criminal liability, and such failure continues for a period of thirty (30) days after written notice thereof given by Landlord to Tenant, or in the case of such a failure which cannot, with due diligence and in good faith be cured within thirty (30) days, and Tenant fails to proceed promptly and with due diligence and in good faith to cure the same and thereafter to prosecute the curing of such failure with due diligence and in good faith, it being intended that in connection with a failure which does not expose Landlord to criminal liability and which is not susceptible of being cured with due diligence and in good faith within thirty (30) days, that the time allowed Tenant within which to cure the same shall be extended for such period as may be necessary for the curing thereof promptly with due diligence and in good faith; or

(d) Tenant fails to keep, observe or perform any of the terms contained in this Lease, other than those referred to in Subparagraphs (a), (b) and (c) of this Section 12.1, and which exposes Landlord to criminal liability,

and such failure shall continue after written notice thereof given by Landlord to Tenant, and Tenant fails to proceed timely and promptly with all due diligence and in good faith to cure the same and thereafter to prosecute the curing of such failure with all due diligence, it being intended that in connection with a failure which exposes Landlord to criminal liability that Tenant shall proceed immediately to cure or correct such condition and continually and with all due diligence and in good faith; or

(e) Tenant makes a general assignment for the benefit of creditors or shall admit in writing its inability to pay its debts, as they become due or shall file a petition in bankruptcy, or shall be adjudicated a bankrupt or insolvent, or shall file a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law, or regulation, or shall file an answer admitting or shall fail reasonably to contest the material allegations of a petition filed against it in any such proceeding, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Tenant or any material part of its properties; or

(f) Within ninety (90) days after the commencement of any proceeding against Tenant seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed, or if, within ninety (90) days after the appointment without the consent or acquiescence of Tenant, of any trustee, receiver or liquidator of Tenant or of any material part of its properties, such appointment shall not have been vacated; or

(g) A final judgment for the payment of money shall be rendered against Tenant and, within sixty (60) days after the entry thereof, such judgment shall not have been discharged or execution thereof stayed pending appeal, or if, within sixty (60) days after the expiration of any such stay, such judgment shall not have been discharged; or

(h) Tenant shall permit the abandonment or non-occupancy of the Demised Premises except for temporary vacancies or portions thereof, or to the extent caused by damage, destruction or condemnation; or

(i) Tenant sublets, assigns, mortgages, pledges, transfers or otherwise encumbers or disposes of its interest in the Demised Premises or this Lease, in whole or in part, in violation of Section 15.1 hereof.

SECTION 12.2. LANDLORD'S REMEDIES. Upon the occurrence of an Event of Default, Landlord, at its option, without further notice or demand to Tenant, shall have, in addition to all other rights and remedies provided in this Lease, at law or in equity, the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever:

(a) Terminate this Lease, in which event Tenant shall immediately surrender the Demised Premises to Landlord, and if Tenant fails to

do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in Base Rent or Additional Rent, enter upon and take possession of the Demised Premises and expel or remove Tenant and any other person who may be occupying the Demised Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

i) The worth at the time of award of any unpaid Base Rent and Additional Rent which has been earned at the time of such termination; plus

ii) The worth at the time of award of the amount by which the unpaid Base Rent and Additional Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

iii) The worth at the time of award of the amount by which the unpaid Base Rent and Additional Rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

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iv) Any other amount reasonably necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

v) Such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term "Rent" as used in this Section 12.2 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in subsections (i) and (ii), above, the "worth at the time of award" shall be computed at the maximum amount of such interest permitted by law. As used in subsection (iii), above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%);

SECTION 12.3. RIGHT TO COLLECT RENT AS DUE. Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under

this Lease, including the right to recover all Base Rent and Additional Rent as they become due.

SECTION 12.4. NEW LEASE FOLLOWING TERMINATION. In the event Landlord elects to terminate this Lease and relet the Premises, it may execute any new lease in its own name. Tenant hereunder shall have no right or authority whatsoever to collect any Base Rent, Additional Rent or other sums from such tenant. The proceeds of any such reletting shall be applied as follows:

(a) First, to the payment of any indebtedness other than Base Rent or Additional Rent due hereunder from Tenant to Landlord, including but not limited to storage charges or brokerage commissions owing from Tenant to Landlord as the result of such reletting;

(b) Second, to the payment of the costs and expenses of reletting the Premises, including alterations and repairs which Landlord deems reasonably necessary and advisable, and reasonable attorneys' fees incurred by Landlord in connection with the retaking of the Demised Premises and such reletting;.

(c) Third, to the payment of Base Rent, Additional Rent and other charges due and unpaid hereunder; and

(d) Fourth, to the payment of future Base Rent, Additional Charges and other damages payable by Tenant under this Lease.

SECTION 12.5. CUMULATIVE RIGHTS; NO WAIVER. All rights, options and remedies of Landlord contained in this Lease shall be construed and held to be non-exclusive and cumulative. Landlord shall have the right to pursue any or all of such remedies or any other remedy or relief which may be provided by law, whether or not stated in this Lease. No waiver of any Event of Default of Tenant hereunder shall be implied from the acceptance by Landlord of any Rent or other payments due hereunder (except with respect to the amount so collected) or any omission by Landlord to take any action on account of such Event of Default if such Event of Default persists or is repeated, and no express waiver shall affect Defaults other than as specified in said waiver.

SECTION 12.6. TENANT NOT RELEASED FROM LIABILITY. No expiration or termination of the Initial Term pursuant to this Article XII or by operation of law, or otherwise (except as expressly provided herein), and no repossession of the Demised Premises or any part thereof pursuant to this Article XII, or otherwise, shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination or repossession.

SECTION 12.7. SURRENDER OF DEMISED PREMISES. Upon any expiration or termination of this Lease, Tenant shall quit and peaceably surrender the Demised Premises and all portions thereof to Landlord, and Landlord may, upon or at any time after any such expiration or termination and without further notice, enter upon and reenter the

Demised Premises and all portions thereof and possess and repossess itself thereof by force, summary proceeding, ejectment or otherwise, and may dispossess Tenant and remove Tenant and all other persons and property from the Demised Premises and all portions thereof and may have, hold and enjoy the Demised Premises and the right to receive all rental and other income of and from the same.

ARTICLE XIII
DESTRUCTION AND RESTORATION

SECTION 13.1. DESTRUCTION AND RESTORATION. Tenant covenants and agrees that in case of damage to or destruction of the Improvements after the Commencement Date of the term of this Lease, by fire or otherwise, Tenant, at its sole cost and expense, shall promptly restore, repair, replace and rebuild the same as nearly as possible to the condition that the same were in immediately prior to such damage or destruction with such changes or alterations (made in conformity with Article XIX hereof) as may be reasonably acceptable to Landlord or required by law. Tenant shall forthwith give Landlord written notice of such damage or destruction upon the occurrence thereof and specify in such notice, in reasonable detail, the extent thereof. Such restorations, repairs, replacements, rebuilding, changes and alterations, including the cost of temporary repairs for the protection of the Demised Premises, or any portion thereof, pending completion thereof are sometimes hereinafter referred to as the "Restoration." The Restoration shall be carried on and completed in accordance with the provisions and conditions of Section 13.2 and Article XIX hereof. Landlord and Tenant shall make appropriate, reasonable and customary arrangements at such time for Tenant's use of the insurance proceeds recovered by Landlord in connection with such Restoration. If the net amount of the insurance proceeds (after deduction of all costs, expenses and fees related to recovery of the insurance proceeds) recovered and held by Landlord, but made available to Tenant for the Restoration, is reasonably deemed insufficient by Landlord to complete the Restoration of such Improvements (exclusive of Tenant's personal property and trade fixtures which shall be restored, repaired or rebuilt out of Tenant's separate funds), Tenant shall, upon request to Landlord, deposit with Landlord a cash deposit equal to the reasonable estimate of the amount necessary to complete the Restoration of such Improvements less the amount of such insurance proceeds available.

SECTION 13.2. APPLICATION OF INSURANCE PROCEEDS. All Insurance moneys recovered by Landlord and held by Landlord on account of such damage or destruction, less the reasonable costs, if any, to Landlord of such recovery, shall be made available by Landlord for Tenant's use and shall be applied to the payment of the costs of the Restoration and shall be paid out from time to time as the Restoration progresses upon the written request of Tenant, accompanied by a certificate of the architect or a qualified professional engineer in charge of the Restoration stating that as of the date of such certificate (a) the sum

requested is justly due to the contractors, subcontractors, materialmen, laborers, engineers, architects, or persons, firms or corporations furnishing or supplying work, labor, services or materials for such Restoration, or is justly required to reimburse Tenant for any expenditures made by Tenant in connection with such Restoration, and when added to all sums previously paid out by Landlord does not exceed the value of the Restoration performed to the date of such certificate by all of said parties; (b) except for the amount, if any, stated in such certificates to be due for work, labor, services or materials, there is no outstanding indebtedness known to the person signing such certificate, after due inquiry, which is then due for work, labor, services or materials in connection with such Restoration, which, if unpaid, might become the basis of a mechanic's lien or similar lien with respect to the Restoration or a lien upon the Demised Premises, or any portion thereof; and (c) the costs, as estimated by the person signing such certificate, of the completion of the Restoration required to be done subsequent to the date of such certificate in order to complete the Restoration do not exceed the sum of the remaining insurance moneys, plus the amount deposited by Tenant, if any, remaining in the hands of Landlord after payment of the sum requested in such certificate.

Tenant shall furnish Landlord at the time or any such payment with evidence reasonably satisfactory to Landlord that there are no unpaid bills in respect to any work, labor, services or materials performed, furnished or supplied in connection with such Restoration. Landlord shall not be required to pay out any insurance moneys where Tenant fails to supply satisfactory evidence of the payment of work, labor, services or materials performed, furnished or supplied, as aforesaid. If the insurance moneys in the hands of Landlord, and such other sums, if any, deposited with Landlord pursuant to Section 13.1 hereof, shall be insufficient to pay the entire costs of the Restoration, Tenant agrees to pay any deficiency promptly upon demand. Upon completion of the Restoration and payment in full thereof by Tenant, Landlord shall, within a reasonable period of time thereafter, turn over to Tenant all insurance moneys or other moneys then remaining upon submission of proof reasonably satisfactory to Landlord that the Restoration has been paid for in full and the damaged or destroyed Building and other Improvements repaired, restored or rebuilt as nearly as possible to

the condition they were in immediately prior to such damage or destruction or with such changes or alterations as may be made in conformity with Section 13.1 and Article XIX hereof.

SECTION 13.3. CONTINUANCE OF TENANT'S OBLIGATIONS. Except as provided for in Section 13.6, no destruction of or damage to the Demised Premises, or any portion thereof, by fire, casualty or otherwise shall permit Tenant to surrender this Lease or shall relieve Tenant from its liability to pay to Landlord the Base Rent and Additional Rent payable under this Lease or from any of its other obligations under this Lease, and Tenant waives any rights now

or hereafter conferred upon Tenant by present or future law or otherwise to quit or surrender this Lease or the Demised Premises, or any portion thereof, to Landlord or to any suspension, diminution, abatement or reduction of rent on account of any such damage or destruction.

SECTION 13.4. AVAILABILITY OF INSURANCE PROCEEDS. To the extent that any insurance moneys which would otherwise be payable to Landlord and used in the Restoration of the damaged or destroyed improvements are paid to any mortgagee of Landlord and applied in payment of or reduction of the sum or sums secured by any such mortgage or mortgages made by Landlord on the Demised Premises, Landlord shall make available, for the purpose of Restoration of such Improvements, an amount equal to the amount payable to its mortgagee out of such proceeds, and such sum shall be applied in the manner provided in Section 13.2 hereof.

SECTION 13.5. COMPLETION OF RESTORATION. The foregoing provisions of this Article XIII apply only to damage or destruction of the Improvements by fire, casualty or other cause occurring after the Commencement Date. Any such damage or destruction occurring prior to such time shall be restored, repaired, replaced and rebuilt by Landlord.

SECTION 13.6. TERMINATION OF LEASE. If, within six (6) months prior to the expiration of the term of this Lease, the Improvements shall be destroyed or damaged to such an extent that the Restoration thereof will cost an amount in excess of Five Hundred Thousand Dollars (\$500,000), Tenant shall compute the amount of the net proceeds of the insurance resulting therefrom (to be collected and held by Landlord) and the amount, if any, over and above the net proceeds of such insurance necessary for such Restoration (which latter amount is hereinafter referred to as the "Excess Funds"), and if Tenant shall be unable or unwilling to restore such damage or destruction or occupancy by Tenant, Tenant shall, with reasonable promptness, notify Landlord, in writing, of such fact, which notice shall be accompanied by a detailed statement of the nature and extent of such damage or destruction, detailed estimates of the total cost of Restoration, and a statement of the net proceeds from insurance and the amount of any Excess Funds which may be required to restore the damage or destruction. Tenant shall have the option, within fifteen (15) days after Tenant's notice to Landlord, to terminate this Lease and surrender the Demised Premises to Landlord by a notice, in writing, addressed to Landlord, specifying such election accompanied by Tenant's payment of the balance of the Base Rent and Additional Rent due for the remainder of the term of this Lease and other charges hereafter specified in this Section 13.6. Upon the giving of such notice and the payment of such amounts, the term of this Lease shall cease and come to an end on a day to be specified in Tenant's notice, which date shall not be more than thirty (30) days after the date of delivery of such notice by Tenant to Landlord. Tenant shall accompany such notice with its payment of all Base Rent and Additional Rent due for the remainder of the term of this Lease and other charges payable by Tenant hereunder, together with the dollar amount of Landlord's reasonable estimate of the Excess Funds necessary, if any. In such event Landlord shall be entitled to the proceeds of all insurance required to be carried by Tenant hereunder and Tenant shall execute all documents reasonably requested by Landlord to allow such proceeds to be paid to Landlord.

SECTION 13.7. LIMITATION ON TENANT'S RESPONSIBILITY IN EVENT OF INSURER'S INABILITY TO FUND EARTHQUAKE-RELATED CLAIM. Notwithstanding the provisions of Section 8.1 and 13.1 of this Lease in the case of damage to or destruction of the Improvements caused by an earthquake, should the net amount of the insurance proceeds recovered by Landlord not be sufficient to complete the Restoration due to the financial incapacity of Tenant's insurer and its inability to honor its obligations under the insurance policy required to be maintained by Tenant hereunder, then Tenant's financial liability for Restoration of the Improvements shall be limited to the amount of the deductible, self-insured retention or similar arrangement for which Tenant would have otherwise been responsible under such policy and in such an event and Landlord shall thereafter, within thirty (30) days, determine whether to fund any balance needed to complete such Restoration, which if it elects not to do so, shall result in a termination of this Lease with neither party having any further rights or responsibilities thereunder, other than any accruing prior to such termination.

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ARTICLE XIV
CONDEMNATION

SECTION 14.1. CONDEMNATION OF ENTIRE DEMISED PREMISES. If, during the Initial Term of this Lease any extension or renewal thereof, the entire Demised Premises shall be taken as the result of the exercise of the power of eminent domain (hereinafter referred to as the "Proceedings"), this Lease and all right, title and interest of Tenant hereunder shall cease and come to an end on the date of vesting of title pursuant to such Proceedings, and Landlord shall be entitled to and shall receive the total award made in such Proceedings. Tenant hereby assigning any interest in such award, damages, consequential damages and compensation to Landlord and Tenant hereby waiving any right Tenant now has or may have under present or future law to receive any separate award of damages for its interest in the Demised Premises or any portion thereof or its interest in this Lease.

In any taking of the Demised Premises, or any portion thereof, whether or not this Lease is terminated as provided in this Article, Tenant shall not be entitled to any portion of the award for the taking of the Demised Premises or damage to the Improvements, except as otherwise provided in Section 14.3 with respect to the restoration of the Improvements, or for the estate or interest of Tenant therein, all such award, damages, consequential damages and compensation being hereby assigned by Tenant to Landlord, and Tenant hereby waives any right it now has or may have under present or future law to receive any separate award of damages for its interest in the Demised Premises or any portion thereof or its interest in this Lease, except that Tenant shall have, nevertheless, the limited right to prove in the Proceedings and to receive any

award which may be made for damages to or condemnation of Tenant's movable trade fixtures and equipment, and for Tenant's relocation costs in connection therewith.

SECTION 14.2. PARTIAL CONDEMNATION/TERMINATION OF LEASE. If, during the Initial Term of this Lease, or any extension or renewal thereof, less than the entire Demised Premises, but more than fifteen percent (15%) of the floor area of the Building, or more than twenty-five percent (25%) of the land area of the Demised Premises, shall be taken in any such Proceedings, this Lease shall, upon vesting of title in the Proceedings, terminate as to the portion of the Demised Premises so taken, and Tenant may, at its option, terminate this Lease as to the remainder of the Demised Premises. Tenant shall not have the right to terminate this Lease pursuant to the preceding sentence unless (a) the business of Tenant conducted in the portion of the Demised Premises taken cannot reasonably be carried on with substantially the same utility and efficiency in the remainder of the Demised Premises (or any substitute space securable by Tenant pursuant to clause [b] hereof), and (b) Tenant cannot construct or secure on the Demised Premises substantially similar space to the space so taken. Such termination as to the remainder of the Demised Premises shall be effected by notice in writing given not more than sixty (60) days after the date of vesting of title in such Proceedings, and shall specify a date no more than sixty (60) days after the giving of such notice as the date for such termination. Upon the date specified in such notice, the term of this Lease, and all right, title and interest of Tenant hereunder, shall cease and come to an end. If this Lease is terminated as provided in this Section 14.2, Landlord shall be entitled to and shall receive the total award made in such Proceedings, Tenant hereby assigning any interest in such award, damages, consequential damages and compensation to Landlord, and Tenant hereby waiving any right Tenant now has or may have under present or future law to receive any separate award of damages for its interest in the Demised Premises or any portion thereof or its interest in this Lease except as otherwise provided in Section 14.1. The right of Tenant to terminate this Lease as provided in this Section 14.2, shall be exercisable only upon the condition that Tenant is not then in default in the performance of any of the terms, covenants or conditions of this Lease on its part to be performed, and such termination upon Tenant's part shall become effective only upon compliance by Tenant with all such terms, covenants and conditions to the date of such termination. In the event that Tenant elects not to terminate this Lease as to the remainder of the Demised Premises, the rights and obligations of Landlord and Tenant shall be governed by the provisions of Section 14.3 hereof.

SECTION 14.3. PARTIAL CONDEMNATION/CONTINUATION OF LEASE. If fifteen percent (15%), or less, of the floor area of the Building, or twenty-five percent (25%), or less, of the land area of the Demised Premises, shall be taken in such Proceedings, or if more than fifteen percent (15%) of the floor area of the Building or more than twenty-five percent (25%) of the land area of the Demised Premises is taken (but less than the entire Demised Premises), and this Lease is not terminated as provided in Section 14.2 hereof, this Lease shall, upon vesting of title in the Proceedings, terminate as to the parts so taken, and Tenant shall have no claim or interest in the award, damages, consequential damages and compensation, or any part thereof except as otherwise provided in Section 14.1 and except that Tenant shall have the right

to apply to Landlord for reimbursement as hereinafter provided from such funds as specified in this Section 14.3 and such funds will be deemed to be held in trust by Landlord for such purpose. Landlord shall be entitled

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to and shall receive the total award made in such Proceedings, Tenant hereby assigning any interest in such award, damages, consequential damages and compensation to Landlord, and Tenant hereby waiving any right Tenant now has or may have under present or future law to receive any separate award of damages for its interest in the Demised Premises or any portion thereof or its interest in this Lease, except as otherwise provided in Section 14.1 and except that Tenant shall have the right to apply to Landlord for reimbursement as hereinafter provided from such funds as specified in this Section 14.3. The net amount of the award (after deduction of all costs and expenses, including attorneys' fees) shall be held by Landlord and applied as hereinafter provided. Tenant, in such case, covenants and agrees, at Tenant's sole cost and expense (subject to reimbursement to the extent hereinafter provided), promptly to restore that portion of the Improvements on the Demised Premises not so taken to a complete architectural and mechanical unit for the use and occupancy of Tenant as provided in this Lease. The provisions and conditions in Article XIX applicable to changes and alterations shall apply to Tenant's obligations to restore that portion of the Improvements to a complete architectural and mechanical unit. Landlord agrees in connection with such restoration work to apply so much of the net amount of any award (after deduction of all costs and expenses, including attorneys' fees) that may be received by Landlord and held by Landlord in any such Proceedings for physical damage to the Improvements as a result of such taking, to the costs of such restoration work thereof, and the said net award for physical damage to the Improvements as a result of such taking shall be paid out from time to time to Tenant, or on behalf of Tenant, as such restoration work progresses upon the written request of Tenant, which shall be accompanied by a certificate of the architect or the registered professional engineer in charge of the restoration work stating that (a) the sum requested is justly due to the contractors, subcontractors, materialmen, laborers, engineers, architects or other persons, firms or corporations furnishing or supplying work, labor, services or materials for such restoration work or as is justly required to reimburse Tenant for expenditures made by Tenant in connection with such restoration work, and when added to all sums previously paid out by Landlord does not exceed the value of the restoration work performed to the date of such certificate; and (b) the net amount of any such award for physical damage to the Improvements as a result of such taking remaining in the hands of Landlord, together with the sums, if any, deposited by Tenant with Landlord pursuant to the provisions hereof, will be sufficient upon the completion of such restoration work to pay for the same in full. Tenant shall also furnish Landlord with each certificate hereinabove referred to, together with evidence reasonably satisfactory to Landlord that there are no unpaid bills in respect to any work, labor, services or materials performed, furnished or supplied, or claimed to have been performed, furnished or supplied, in connection with such restoration

work, and that no liens have been filed against the Demised Premises or any portion thereof. Landlord shall not be required to pay out any funds when there are unpaid bills for work, labor, services or materials performed, furnished or supplied in connection with such restoration work, or where a lien for work, labor, services or materials performed, furnished or supplied has been placed against the Demised Premises or any portion thereof. Upon completion of the restoration work and payment in full therefor by Tenant, and upon submission of proof reasonably satisfactory to Landlord that the restoration work has been paid in full and that the Improvements have been restored or rebuilt to a complete architectural and mechanical unit for the use and occupancy of Tenant as provided in this Lease, Landlord shall pay over to Tenant any portion of the cash deposit furnished by Tenant then remaining. To the extent that any award, damages or compensation which would otherwise be payable to Landlord and applied to the payment of the cost of restoration of the Improvements is paid to any mortgagee of Landlord and applied in payment or reduction of the sum or sums secured by any such mortgage or mortgages made by Landlord on the Demised Premises, Landlord shall make available for the use of Tenant, in connection with the payment of the cost of restoring the Improvements, an amount equal to the amount of such net award payable to the mortgagee from and after the date of delivery of possession to the condemning authority pursuant to the Proceedings, a just and proportionate part of the Base Rent, according to the extent and nature of such taking, shall abate for the remainder of the term of this Lease.

SECTION 14.4. CONTINUANCE OF OBLIGATIONS. In the event of any termination of this Lease or any part thereof as a result of any such Proceedings, Tenant shall pay to Landlord all Base Rent, all Additional Rent and other charges payable hereunder with respect to that portion of the Demised Premises so taken in such Proceedings with respect to which this Lease shall have terminated justly apportioned to the date of such termination. From and after the date of vesting of title in such Proceedings, Tenant shall continue to pay the Base Rent, Additional Rent and other charges payable hereunder as in this Lease provided to be paid by Tenant, subject to an abatement of a just and proportionate part of the Base Rent according to the extent and nature of such taking as provided for in Sections 14.3 and 14.5 hereof in respect to the Demised Premises remaining after such taking.

SECTION 14.5. ADJUSTMENT OF RENT. In the event of a partial taking of the Demised Premises under Section 14.3 hereof, or a partial taking of the Demised Premises under Section 14.2 hereof, followed by Tenant's election not to terminate this Lease, the fixed Base Rent payable hereunder during the period from and after date of

vesting of title in such Proceedings to the termination of this Lease shall be reduced to a sum equal to the product of the Base Rent provided for herein multiplied by a fraction, the numerator of which is the value of the Demised Premises after such taking and after the same shall have been restored to a

complete architectural unit, and the denominator of which is the value of the Demised Premises prior to such taking.

ARTICLE XV
ASSIGNMENT, SUBLETTING, ETC.

SECTION 15.1. RESTRICTION ON TRANSFER. Subject to Section 15.2, below, Tenant shall not sublet the Demised Premises or any portion thereof, nor assign, mortgage, pledge, transfer or otherwise encumber or dispose of this Lease or any interest therein, or in any manner assign, mortgage, pledge, transfer or otherwise encumber or dispose of its interest or estate in the Demised Premises or any portion thereof without obtaining Landlord's prior written consent in each and every instance, which consent shall not be unreasonably withheld or delayed, provided the following conditions are complied with:

- (a) Any assignment of this Lease shall transfer to the assignee all of Tenant's right, title and interest in this Lease and all of Tenant's estate or interest in the Demised Premises.
- (b) At the time of any assignment or subletting and at the time Tenant requests Landlord's written consent thereto, this Lease must be in full force and effect without any breach or default thereunder on the part of Tenant.
- (c) Any such assignee shall assume, by written, recordable instrument, in form and content satisfactory to Landlord, the due performance of all of Tenant's obligations under this Lease, including any accrued obligations at the time of the effective date of the assignment, and such assumption agreement shall state that the same is made by the assignee for the express benefit of Landlord as a third party beneficiary thereof. A copy of the assignment and assumption agreement, both in form and content satisfactory to Landlord, fully executed and acknowledged by assignee, together with a certified copy of a properly executed corporate resolution (if the assignee be a corporation) authorizing the execution and delivery of such assumption agreement, shall be sent to Landlord ten (10) days prior to the effective date of such assignment.
- (d) In the case of a subletting, a copy of any

sublease fully executed and acknowledged by Tenant and the sublessee shall be mailed to Landlord ten (10) days prior to the effective date of such subletting, which sublease shall be in form and content acceptable to Landlord.

- (e) Such assignment or subletting shall be subject to all provisions, terms, covenants and conditions of this Lease, and Tenant-assignor (and the guarantor or guarantors of this Lease, if any) and the assignee or assignees shall continue to be and remain liable under the Lease.
- (f) Each sublease permitted under this Section 15.1 shall contain provisions to the effect that (i) such sublease is only for actual use and occupancy by the sublessee; (ii) such sublease is subject and subordinate to all of the terms, covenants and conditions of this Lease and to all of the rights of Landlord thereunder; and (iii) in the event this Lease shall terminate before the expiration of such sublease, the sublessee thereunder will, at Landlord's option, attorn to Landlord and waive any rights the sublessee may have to terminate the sublease or to surrender possession thereunder as a result of the termination of this Lease.

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- (g) Tenant agrees to pay on behalf of Landlord any and all reasonable costs of Landlord including reasonable attorneys fees paid or payable to outside counsel, occasioned by such assignment or subletting.

SECTION 15.2. TRANSFER TO AFFILIATE. Notwithstanding Section 15.1, above, Tenant shall be permitted to assign or sublet the Demised Premises or Tenant's rights under this Lease to (i) a corporation in which Tenant owns or beneficially controls more than fifty percent (50%) of the outstanding voting securities, (ii) a corporation, the Majority of the outstanding voting securities of which are owned by the same persons or entities which own or beneficially control the outstanding voting securities of Tenant (a "Sister Corporation"), or (iii) a corporation in which a Sister Corporation owns or

beneficially controls more than fifty percent (50%) of the outstanding voting securities, provided, however, that all other requirements and restrictions of Section 15.1, above, shall apply to such assignment or subletting and further provided that Tenant shall give Landlord no less than thirty (30) days prior written notice of such assignment or subletting, including written evidence of the identity of the assignee or sublessee and its affiliation with Tenant.

SECTION 15.3. RESTRICTION FROM FURTHER ASSIGNMENT.

Notwithstanding anything contained in this Lease to the contrary and notwithstanding any consent by Landlord to any sublease of the Demised Premises or any portion thereof or to any assignment of this Lease or of Tenant's interest or estate in the Demised Premises, no sublessee shall assign its sublease nor further sublease the Demised Premises or any portion thereof, and no assignee shall further assign its interest in this Lease or its interest or estate in the Demised Premises or any portion thereof, nor sublease the Demised Premises or any portion thereof, without Landlord's prior written consent in each and every instance, which consent shall not be unreasonably withheld or unduly delayed. No such assignment or subleasing shall relieve Tenant from any of Tenant's obligations contained in this Lease.

SECTION 15.4. TENANT'S FAILURE TO COMPLY. Tenant's failure to comply with all of the foregoing provisions and conditions of this Article XV shall (whether or not Landlord's consent is required under this Article), at Landlord's option, render any purported assignment or subletting null and void and of no force and effect.

ARTICLE XVI
SUBORDINATION, NONDISTURBANCE,
NOTICE TO MORTGAGEE AND ATTORMENT

SECTION 16.1. SUBORDINATION BY TENANT. This Lease and all rights of Tenant therein and all interest or estate of Tenant in the Demised Premises or any portion thereof shall be subject and subordinate to the lien of any mortgage, deed of trust, security instrument or other document of like nature (collectively, "Mortgage"), which at any time may be placed upon the Demised Premises or any portion thereof, and to each and every advance made under any Mortgage. Tenant agrees at any time hereafter, and from time to time on demand of Landlord, to execute and deliver to Landlord any instruments, releases or other documents that may be reasonably required for the purpose of subjecting and subordinating this Lease to the lien of any such Mortgage. It is agreed, nevertheless, that so long as Tenant be not in default in the payment of Base Rent and Additional Rent and the performance and observance of all covenants, conditions, provisions, terms and agreements to be performed and observed by Tenant under this Lease, that such subordination agreement or other instrument, release or document shall not interfere with, hinder or molest Tenant's right to quiet enjoyment under this Lease, nor the right of Tenant to continue to occupy the Demised Premises and all portions thereof, and to conduct its business thereon in accordance with the covenants, conditions, provisions, terms and agreements of this Lease. The lien of any such Mortgage shall not cover Tenant's trade fixtures or other personal property located in or on the Demised Premises.

SECTION 16.2. LANDLORD'S DEFAULT. In the event of any act or omission of Landlord constituting a default by Landlord, other than Landlord's failure to have the Improvements substantially completed as provided in Section 2.3 and to make the same fully available to Tenant as therein provided, Tenant shall not exercise any remedy until Tenant has given Landlord and its mortgagee prior written notice of such act or omission and until a 30-day period of time to allow Landlord or the mortgagee to remedy such act or omission shall have elapsed following the giving of such notice; provided, however, if such act or omission cannot with due diligence and in good faith be remedied within such 30-day period, Landlord and/or mortgagee shall be allowed such further period of time as may be reasonably necessary provided that it shall have commenced remedying the same with due diligence and in good faith within said 30-day period. In the event any act or omission of Landlord which constitutes a Landlord's default hereunder results in an immediate threat of bodily harm to Tenant's employees, agents or invitees or damage to Tenant's property, Tenant

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may proceed to cure the default without prior notice to Landlord or its mortgagee; provided, however, in that event Tenant shall give written notice to Landlord and its mortgagee as soon as possible after commencement of such cure. Nothing herein contained shall be construed or interpreted as requiring any mortgagee to remedy such act or omission. No Landlord Default shall entitle Tenant terminate this Lease or to deduct, offset or withhold Base Rent or Additional Rent.

SECTION 16.3. ATTORNMEN. If any mortgagee shall succeed to the rights of Landlord under this Lease or to ownership of the Demised Premises, whether through possession or foreclosure or the delivery of a deed to the Demised Premises, then, upon the written request of such mortgagee so succeeding to Landlord's rights hereunder, Tenant shall attorn to and recognize such mortgagee as Tenant's landlord under this Lease, and shall promptly execute and deliver any instrument that such mortgagee may reasonably request to evidence such attornment (whether before or after making of the mortgage). In the event of any other transfer of Landlord's interest hereunder, upon the written request of the transferee and Landlord, Tenant shall attorn to and recognize such transferee as Tenant's landlord under this Lease and shall promptly execute and deliver any instrument that such transferee and Landlord may reasonably request to evidence such attornment.

ARTICLE XVII SIGNS

Tenant may erect signs on the exterior or interior of the Building or on the landscaped area adjacent thereto, provided that such sign or signs (a) do not cause any structural damage or other material damage to the Building; (b) do not violate applicable governmental laws, ordinances, rules or

regulations; (c) do not violate any existing restrictions affecting the Demised Premises; and (d) are compatible with the architecture of the Building and the landscaped area adjacent thereto.

ARTICLE XVIII
FINANCIAL STATEMENTS OF TENANT AND GUARANTOR

Tenant, from time to time, at Landlord's request, shall provide Landlord with Tenant's most recent financial statements (a balance sheet, a statement of operations, and a statement of cash flows or, if Tenant is an entity which files periodic financial disclosures to securities regulatory authorities, those which are periodically filed with those authorities). Landlord shall hold such financial statements in confidence, provided that Landlord may, as reasonably necessary, provide copies of those financial statements to current and prospective lenders, investors and buyers, identified in writing to Tenant, for examination and review. Unless Tenant is in default under this Lease, Tenant shall not be obligated to provide such financial statements more frequently than one (1) time per year.

ARTICLE XIX
CHANGES AND ALTERATIONS

Tenant shall have the right at any time, and from time to time during the term of this Lease, to make such changes and alterations, structural or otherwise, to the Building, improvements and fixtures hereafter erected on the Demised Premises as Tenant shall deem necessary or desirable in connection with the requirements of its business, which such changes and alterations (other than changes or alterations of Tenant's movable trade fixtures and equipment) shall be made in all cases subject to the following conditions, which Tenant covenants to observe and perform:

- (a) PERMITS. No change or alteration shall be undertaken until Tenant shall have procured and paid for, so far as the same may be required from time to time, all municipal, state and federal permits and authorizations of the various governmental bodies and departments having jurisdiction thereof, and Landlord agrees to join in the application for such permits or authorizations whenever such action is necessary, all at Tenants sole cost and expense, provided such applications do not cause Landlord to become liable for any cost, fees or expenses.

(b) COMPLIANCE WITH PLANS AND SPECIFICATIONS. Before commencement of any change, alteration, restoration or construction (hereinafter sometimes referred to as "Work") involving in the aggregate an-estimated cost of more than Twenty-Five Thousand and No/100ths Dollars (\$25,000.00) or which in Landlord's reasonable judgment would materially alter the mechanical, structural or electrical systems of the Improvements, Tenant shall (i) furnish Landlord with detailed plans and specifications of the proposed change or alteration; (ii) obtain Landlord's prior written consent, which consent shall not be unreasonably withheld but such consent may be withheld if the change or alteration would, in the reasonable judgment of Landlord, impair the value or usefulness of the Land or Improvements or any substantial part thereof to Landlord); (iii) obtain Landlord's prior written approval of a licensed architect or licensed professional engineer selected and paid for by Tenant who shall supervise any such work (hereinafter referred to as "Alterations Architect or Engineer"); (iv) obtain Landlord's prior written approval of detailed plans and specifications prepared and approved in writing by said Alterations Architect or Engineer and of each amendment and change thereto; and (v) furnish to Landlord a surety company performance bond issued by a surety company licensed to do business in the state in which the Demised Premises are located and reasonably acceptable to Landlord in an amount equal to the estimated cost of such work guaranteeing the completion thereof within a reasonable time thereafter (1) free and clear of all mechanic's liens or other liens, encumbrances, security interests and charges, and (2) in accordance with the plans and specifications approved by Landlord.

(c) VALUE MAINTAINED. Any change or alteration shall, when completed, be of such character so as not to reduce the value of the Demised Premises or the Building to which such change or alteration is made below its value

or utility to Landlord immediately before such change or alteration, nor shall such change or alteration reduce the area or cubic content of the Building, nor change the character of the Demised Premises or the Building as to use without Landlord's express written consent.

- (d) COMPLIANCE WITH LAWS. All work done in connection with any change or alteration shall be done promptly and in a good and workmanlike manner and in compliance with all building and zoning laws of the place in which the Demised Premises are situated, and in compliance with all laws, ordinances, orders, rules, regulations and requirements of all federal, state and municipal governments and appropriate departments, commissions, boards and officers thereof, and in accordance with the orders, rules and regulations of the Board of Fire Underwriters where the Demised Premises are located or any other body exercising similar functions. The cost of any such change or alteration shall be paid in cash so that the Demised Premises and all portions thereof shall at all times be free of liens for labor and materials supplied to the Demised Premises or any portion thereof. The Work or any change or alteration shall be prosecuted with reasonable dispatch, delays due to strikes, lockouts, inability to obtain labor or materials, governmental restrictions or similar causes beyond the control of Tenant excepted. Tenant or Tenant's contractor or subcontractor shall obtain and maintain at its sole cost and expense during the performance of the Work workers' compensation insurance covering all persons employed in connection with the Work and with respect to which death or injury claims could be asserted against Landlord or Tenant or against the Demised Premises or any interest therein, together with comprehensive general liability insurance for the mutual benefit of Landlord and Tenant with limits of not less than One Million Dollars (\$1,000,000.00) in the event of injury to one person, Three Million Dollars (\$3,000,000.00) in respect to any one accident or occurrence, and Five Hundred

Thousand Dollars (\$500,000.00) for property damage, and the fire insurance with "extended coverage" endorsement required by Section 6.1 hereof shall be supplemented with "builder's risk" insurance on a completed value form or other comparable coverage on the Work. All such insurance shall be in a company or companies authorized to do business in the state in which the Demised Premises are

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located and reasonably satisfactory to Landlord, and all such policies of insurance or certificates of insurance shall be delivered to Landlord endorsed "Premium Paid" by the company or agency issuing the same, or with other evidence of payment of the premium satisfactory to Landlord.

- (e) Property of Landlord. All improvements and alterations (other than Tenant's movable trade fixtures and equipment) made or installed by Tenant shall immediately upon completion or installation thereof become the property of Landlord without payment therefor by Landlord and shall be surrendered by Landlord on the expiration of the term of this Lease.
- (f) Location of Improvements. No change, alteration, restoration or new construction shall be in, or connect the Improvements with, any property, building or other improvement located outside the boundaries of the parcel of land described in Exhibit "A" attached hereto, nor shall the same obstruct or interfere with any existing easement.
- (g) Removal of improvements. As a condition to granting approval for any changes or alterations, Landlord may require Tenant, by written notice to Tenant given at or prior to the time of granting such approval, to remove any improvements, additions or installations installed by Tenant in the

Demised Premises at Tenant's sole cost and expense at the end of the term of this Lease and repair and restore any damage caused by the installation and removal of such improvements, additions, or installations; provided, however, the only improvements, additions or installations which Tenant shall remove shall be those specified in such notice. All improvements, additions or installations installed by Tenant which did not require Landlord's prior approval shall be removed by Tenant as provided for in this Section 19.1(g), unless Tenant has obtained a written waiver of such condition from Landlord.

- (h) Reasonable Consent. All consents required of Landlord under this Article XIX shall not be unreasonably withheld by Landlord.

ARTICLE XX
MISCELLANEOUS PROVISIONS

SECTION 20.1. ENTRY BY LANDLORD. Tenant agrees to permit Landlord and authorized representatives of Landlord to enter upon the Demised Premises at all reasonable times during ordinary business hours upon at least twenty-four (24) hours advance notice to Tenant for the purpose of inspecting the same and making any repairs required to be made thereto by Landlord under the terms of this Lease, or as required to be made thereto by Tenant under the terms of this Lease provided that Landlord shall have first given written notice to Tenant to make such repairs and Tenant shall have failed to make such repairs within thirty (30) days after notice; provided, however, Tenant shall be allowed such further period of time as may be provided in Section 12.1 (c); and, provided further, that Landlord shall be allowed to enter upon the Demised Premises during an emergency. Nothing herein contained shall imply any duty upon the part of Landlord to do any such work which, under any provision of this Lease, Tenant may be required to perform, and the performance thereof by Landlord shall not constitute a waiver of Tenant's default in failing to perform the same. Landlord may, during the progress of any work, keep and store upon the Demised Premises all necessary materials, tools and equipment. Landlord shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business or other damage to Tenant by reason of making such repairs or the performance of any such work in or about the Demised Premises or on account of bringing material, supplies and equipment into, upon or through the Demised Premises during the course thereof, and the obligations of Tenant under this Lease shall not be thereby affected in any manner whatsoever; except that Landlord shall use reasonable efforts to not unreasonably interfere with Tenant's use of the Demised Premises, or any portion thereof, by reason of Landlord's making such repairs or the performance of any such work in or about the Demised Premises or on account of bringing materials, supplies and equipment into, upon or through the Demised Premises during the course thereof.

SECTION 20.2. EXHIBITION OF DEMISED PREMISES. Landlord is hereby given the right during usual business hours upon at least forty-eight (48) hours advance notice to Tenant at any time during the term of this Lease to

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enter upon the Demised Premises and to exhibit the same for the purpose of mortgaging or selling the same. During the final year of the term, Landlord shall be entitled to display on the Demised Premises, in such manner as to not unreasonably interfere with Tenant's business, signs indicating that the Demised Premises are for rent and/or sale and suitably identifying Landlord or its agent. Tenant agrees that such signs shall remain unmolested upon the Demised Premises and that Landlord during ordinary business hours upon at least forty-eight (48) hours advance notice to Tenant may exhibit the Demised Premises to prospective tenants or buyers during said period.

SECTION 20.3. INDEMNIFICATION BY TENANT. To the fullest extent allowed by law, Tenant shall at all times indemnify, defend and hold Landlord harmless against and from any and all claims by or on behalf of any person or persons, firm or firms, corporation or corporations, arising from the conduct or management, or from any work or things whatsoever done in or about the Demised Premises during the term of this Lease, other than as a result of the gross negligence or willful misconduct of Landlord or its officers, employees, contractors or subcontractors or as a result of Landlord's breach of its obligations under this Lease, and Tenant shall further indemnify, defend and hold Landlord harmless against and from any and all claims arising during the term of this Lease from any condition of the Improvements or any street, curb or sidewalk adjoining the Demised Premises, or of any passageways or space therein or appurtenant thereto, other than as a result of the gross negligence or willful misconduct of Landlord or its officers, employees, contractors or subcontractors or as a result of Landlord's breach of its obligations under this Lease, or arising from any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of Tenant to be performed pursuant to the terms of this Lease, or arising from any act or negligence of Tenant, its agents, servants, employees or licenses, or arising from any accident, injury or damage whatsoever caused to any person, firm or corporation occurring during the term of this Lease in or about the Demised Premises, or upon the sidewalk and the land adjacent thereto, other than as a result of the gross negligence or willful misconduct of Landlord or its officers, employees, contractors or subcontractors or as a result of Landlord's breach of its obligations under this Lease, and from and against all costs, attorneys' fees, expenses and liabilities incurred in or about any such claim or action or proceeding brought thereon; and in case any action or proceeding be brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, covenants to defend such action or proceeding by counsel reasonably satisfactory to Landlord. Tenant's obligations under this Section 20.3 shall be insured by contractual liability endorsement on Tenant's policies of insurance required

under the provisions of Section 6.2 hereof to the extent reasonably obtainable.

SECTION 20.4. NOTICES. All notices, demands and requests which may be or are required to be given, demanded or requested by either party to the other shall be in writing, and shall be sent by United States registered or certified mail, postage prepaid, by an independent overnight courier service, or by telephonic facsimile transmission with automatic written time and date confirmation of delivery transmitted between the hours of 9:00 a.m. and 5:00 p.m. (time zone of recipient), and addressed as follows:

To Landlord: The Allen Group
 4370 La Jolla Village Drive, Suite 220
 San Diego, California 92122-1252
 Attention: Mr. Steven L. Black
 Facsimile: 619-550-1935

To Tenant: Arrowhead General Insurance Agency, Inc.
 5375 Mira Sorrento Place, Suite 550
 San Diego, California 92121
 Attention: Mr. Patrick J. Kilkenny
 Facsimile: 619-677-5222

or at such other place as a party hereto may from time to time designate by written notice thereof to the other. Notices, demands and requests which shall be served upon Landlord by Tenant, or upon Tenant by Landlord, in the manner aforesaid, shall be deemed to be sufficiently served or given for all purposes hereunder at the time such notice, demand or request shall be mailed or delivered to a courier.

SECTION 20.5. QUIET ENJOYMENT. Landlord covenants and agrees that Tenant, upon paying the Base Rent and Additional Rent and upon observing and keeping the covenants, agreements and conditions of this Lease on its part to be kept, observed and performed, shall lawfully and quietly hold, occupy and enjoy the Demised Premises

(subject to the provisions of this Lease) during the term of this Lease without hindrance or molestation by Landlord or by any Person or Persons claiming under Landlord.

SECTION 20.6. LANDLORD'S CONTINUING OBLIGATIONS. The term "Landlord," as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners at the time in question of the fee of the Demised Premises, and in the event of any transfer or transfers or conveyance, the then grantor shall be automatically freed and relieved from and after the date of such transfer or conveyance of all liability as respects the performance of any covenants or

obligations on the part of Landlord contained in this Lease thereafter to be performed, provided that any funds in the hands of such landlord or the then grantor at the time of such transfer, in which Tenant has an interest, shall be turned over to the Guarantee, and any amount then due and payable to Tenant by Landlord or the then grantor under any provision of this Lease, shall be paid to Tenant. The covenants and obligations contained in this Lease on the part of Landlord shall, subject to the aforesaid, be binding on Landlord's successors and assigns during and in respect of their respective successive periods of ownership. Nothing herein contained shall be construed as relieving Landlord of its obligations under Article 11 of this Lease or releasing Landlord from any obligation to complete the cure of any breach by Landlord during the period of its ownership of the Demised Premises. However, Tenant agrees to look solely to Landlord's interest in the Land, the Building and the Improvements for the recovery of any judgment from Landlord, it being agreed that Landlord, or if Landlord is a partnership, its partners whether general or limited, or if Landlord is a corporation, its directors, officers and shareholders, shall never be Personally liable for any such judgment.

SECTION 20.7. ESTOPPEL. Tenant shall, without charge at any time and from time to time, within ten (10) days after written request by Landlord, certify by written instrument, duly executed, acknowledged and delivered to any mortgagee, assignee of a mortgagee, proposed mortgagee, purchaser or proposed purchaser, or any other person dealing with Landlord or the Demised Premises.

- (a) That this Lease (and all guaranties, if any) is unmodified and in full force and effect (or, if there have been modifications, that the same is in full force and effect, as modified and stating the modifications);
- (b) The dates to which the Base Rent or Additional Rent have been paid in advance.
- (c) Whether or not there are then existing any breaches or defaults by such party or the other party known by such party under any of the covenants, conditions, provisions, terms or agreements of this Lease, and specifying such breach or default, if any, or any setoffs or defenses against the enforcement of any covenant, condition, provision, term or agreement of this Lease (or of any guaranties) upon the part of Landlord or Tenant (or any guarantor), as the case may be, to be performed or complied with (and, if so, specifying the same and the steps being taken to remedy the same); and
- (d) Such other statements or certificates as Landlord or any mortgagee may reasonably

request.

It is the intention of the parties hereto that any statement delivered pursuant to this Section 20.7 may be relied upon by any of such parties dealing with Landlord or the Demised Premises.

SECTION 20.8. DELIVERY OF CORPORATE DOCUMENTS. In the event that Tenant is a corporation, Tenant shall, without charge to Landlord, at any time and from time to time within ten (10) days after written request by Landlord, deliver to Landlord, in connection with any proposed sale or mortgage of the Demised Premises, the following instruments and documents:

- (a) Certificate of Good Standing in the state of incorporation of Tenant and in the state in which the Demised Premises are located issued by the appropriate state authority and bearing a current date;

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- (b) A copy of Tenant's articles of incorporation and by-laws and any amendments or modifications thereof certified by the secretary or assistant secretary of Tenant;
- (c) An opinion of Tenant's counsel that (i) this Lease has been duly authorized by all necessary corporate action; and (ii) Tenant is a duly organized and validly existing corporation under the laws of its state of incorporation, is duly authorized to carry on its business, and is in good standing under the laws of the state in which the Demised Premises are located, if different from the state of incorporation.

SECTION 20.9. MEMORANDUM OF LEASE. Within three (3) days following a request from either party to this Lease, both parties shall execute, deliver and Landlord shall record in San Diego County a Memorandum of Lease, setting forth the following:

- (a) The date of this Lease;
- (b) The parties to this Lease;
- (c) The term of this Lease;

- (d) The legal description of the Demised Premises; and
- (e) Such other matters reasonably requested by Landlord or Tenant to be stated therein.

SECTION 20.10. SEVERABILITY. If any covenant, condition, provision, term or agreement of this Lease shall, to any extent, be held invalid or unenforceable, the remaining covenants, conditions, provisions, terms and agreements of this Lease shall not be affected thereby, but each covenant, condition, provisions, term or agreement of this Lease shall be valid and in force to the fullest extent permitted by law. This Lease shall be construed and be enforceable in accordance with the laws of the state in which the Demised Premises are located.

SECTION 20.11. SUCCESSORS AND ASSIGNS. The covenants and agreements herein contained shall bind and inure to the benefit of Landlord, its successors and assigns, and Tenant and its permitted successors and assigns.

SECTION 20.12. CAPTIONS. The caption of each article of this Lease is for convenience and reference only, and in no way defines, limits or describes the scope or intent of such article or of this Lease.

SECTION 20.13. RELATIONSHIP OF PARTIES. This Lease does not create the relationship of principal and agent, partnership, joint venture, or any association or relationship between Landlord and Tenant, the sole relationship between Landlord and Tenant being that of landlord and tenant.

SECTION 20.14. ENTIRE AGREEMENT. All preliminary and contemporaneous negotiations are merged into and incorporated in this Lease. This Lease, together with the exhibits attached hereto, contains the entire agreement between the parties and shall not be modified or amended in any manner except by any instrument in writing executed by the parties hereto.

SECTION 20.15. NO MERGER. There shall no merger of this Lease or of the leasehold estate created by this Lease with any other estate or interest in the Demised Premises by reason of the fact that the same person, firm, corporation or other entity may acquire, hold or own, directly or indirectly, (a) this Lease or the leasehold interest created by this Lease or any interest therein, and (b) any such other estate or interest in the Demised Premises, or any portion thereof. No such merger shall occur unless and until all persons, firms, corporations or other entities having an interest (including a security interest) in (a) this Lease or the leasehold estate created thereby, and (2) any such other estate or interest in the Demised Premises, or any portion thereof, shall join in a written instrument expressly affecting such merger and shall duly record the same.

SECTION 20.16. POSSESSION AND USE. Tenant acknowledges that the Demised Premises are the property of Landlord and that Tenant has only the right to possession and use thereof upon the covenants, conditions, provisions, terms and agreements set forth in this Lease.

SECTION 20.17. SURRENDER OF DEMISED PREMISES. At the expiration of the term of this Lease, Tenant shall surrender the Demised Premises in the same condition as they were in upon delivery of possession thereto at the Commencement Date, reasonable wear and tear excepted, and shall surrender all keys to the Demised Premises to Landlord at the place then fixed for the payment of Base Rent, and shall inform Landlord of all combinations on locks, safes and vaults, if any. Tenant shall at such time remove all of its property therefrom and all alterations and improvements placed thereon by Tenant if so requested by Landlord, subject to Section 19.1(g). Tenant shall repair any damage to the Demised Premises caused by such removal, and any and all such property not so removed within ten (10) days after the end of the term of this Lease shall, at Landlord's option, become the exclusive property of Landlord or be disposed of by Landlord, at Tenant's cost and expense, without further notice to or demand upon Tenant, subject to Section 19.1(g). If the Demised Premises be not surrendered as above set forth, Tenant shall indemnify, defend and hold Landlord harmless against loss or liability resulting from the delay by Tenant in so surrendering the Demised Premises, including without limitation any claim made by any succeeding occupant founded on such delay. Tenant's obligation to observe or perform this covenant shall survive the expiration or other termination of this Lease.

All property of Tenant not removed on or before the last day of the term of this Lease shall be deemed abandoned. Tenant hereby appoints Landlord its agent to remove all property of Tenant from the Demised Premises upon termination of this Lease and to cause its transportation and storage for Tenant's benefit, all at the sole cost and risk of Tenant, and Landlord shall not be liable in any manner in respect thereto. Tenant shall pay all costs and expenses of such removal, transportation and storage Tenant shall reimburse Landlord upon demand for any expenses reasonably incurred by Landlord with respect to removal or storage of abandoned property and with respect to restoring said Demised Premises to good order, condition and repair.

SECTION 20.18. HOLDING OVER. In the event Tenant remains in possession of the Demised Premises after expiration of this Lease and without the execution of a new lease, it shall be deemed to be occupying the Demised Premises as a tenant from month-to-month, subject to all the provisions, conditions and obligations of this Lease insofar as the same can be applicable to a month-to-month tenancy, except that the Base Rent shall be escalated to one hundred twenty-five percent (125%) of the then current Base Rent for the Demised Premises for a period of up to three (3) months, and to one hundred fifty percent (150%) of then current Base Rent for the Demised Premises thereafter.

SECTION 20.19. SURVIVAL. All obligations of Tenant (together with interest or money obligations at the Maximum Rate of Interest) accruing

prior to expiration of the term of this Lease shall survive the expiration or other termination of this Lease.

SECTION 20.20. BROKER'S COMMISSION. Tenant represents that Tenant has dealt directly with and only with John Burnham Real Estate Services, Inc., as broker, and its agent, Mr. Barry Mahlberg, in connection with this Lease and that insofar as Tenant knows, no other broker negotiated or participated in negotiations of this Lease has submitted or showed the Demised Premises or is entitled to any commission in connection therewith. Tenant shall indemnify, defend and hold Landlord harmless from and against any loss, cost or expense, including, but not limited to, reasonable attorneys' fees and court costs, resulting from any claim for a fee or commission by any broker or finder (other than John Burnham Real Estate Services, Inc.) in connection with the Lease resulting from Tenant's actions.

SECTION 20.21. APPLICABLE LAW. This Lease shall be governed and interpreted in accordance with the laws of the State of California.

SECTION 20.22. COUNTERPARTS. This Lease may be executed in one or more counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute buy a single instrument.

SECTION 20.23. ATTORNEYS' FEES. In the event of any litigation involving the parties to this Agreement to enforce any provision of this Lease, to enforce any remedy available upon default under this Agreement, or seeking a declaration of the rights of a party under this Agreement, the prevailing party shall be entitled to recover in such litigation such attorneys' fees and costs as may be reasonably incurred, including the costs of reasonable investigation,

preparation and professional or expert consultation incurred by reason of such litigation. All other attorneys' fees and cost relating to this Agreement and the transactions described herein shall be borne by the party incurring the same.

IN WITNESS WHEREOF, each of the parties hereto have caused this Lease to be duly executed as of the day and year first above written.

LANDLORD:

ADI ARROW PARTNERS, L.P., A CALIFORNIA LIMITED PARTNERSHIP

By: Allen Development, Inc.,
a California corporation

By:

Its:

TENANT:

ARROWHEAD GENERAL INSURANCE AGENCY, INC.,
A MINNESOTA CORPORATION

By: -----

Its:

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EXHIBIT A

LEGAL DESCRIPTION OF PROPERTY

Parcel 4 of Parcel Map No. 15064, in the City of San Diego, County of San Diego, State of California, filed in the Office of the County Recorder of San Diego County, December 17, 1987, as File No. 87-694386 of Official Records.

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EXHIBIT B

[FLOOR PLANS]

OFFICE LEASE

THIS LEASE made and entered into this ____ day of October, 1996, by and between Dr. Peter Schmalisch hereinafter called "Landlord", and Strategic Data Systems, Inc., a Wisconsin corporation hereinafter called "Tenant".

WITNESSETH:

In consideration of the covenants and agreements of the respective parties herein contained, the parties hereto, for themselves, their heirs, distributees, executors, administrators, legal representatives and permitted assigns, do hereby agree as follows:

A. DEMISED PREMISES AND COMMON FACILITIES:

Landlord by these presents does hereby demise and let unto Tenant, and Tenant leases and hires from Landlord for the term and upon the rental, covenants and agreements herein set forth those certain premises ("Premises") in the City of Columbia, being Suite 410 on the fourth (4th) floor of a commercial office building known as The Dutch Center, located at 810 Dutch Square Blvd., Columbia, South Carolina (the "Building"), said Premises containing approximately 17,770 square feet of net rentable space and being more specifically shown on Exhibit "A" attached hereto and a part and parcel hereto.

The Landlord further grants to the Tenant, its customers, visitors, agents and employees a nonexclusive right throughout the term hereof to use, in common with others entitled to a similar use, the parking areas, entrances, exits, walkways, driveways and other common facilities.

B. TERM AND DELIVERY OF PREMISES:

1. TERM:

This Lease shall run for an Original Term of sixty-eight (68) months, commencing on the 1st day of January, 1997 and ending on the 31st day of August, 2002 said dates being subject to adjustment as provided below.

2. DELIVERY OF PREMISES:

The Premises shall be delivered complete to the degree of finish described as "Landlord's Work" in Exhibit "B" hereto. Tenant shall be given possession of the Premises by Landlord upon completion of said additional improvements. The commencement and ending dates of the Term shall be adjusted as necessary depending on the date possession of the Premises is delivered. When the commencement and ending dates are established after such adjustment, Landlord shall prepare and forward to Tenant a memorandum confirming same, so long as the Tenant receives the fully discounted rental period of the first two (2) months of the lease term. If Landlord has not delivered possession of the Premises to Tenant by January 20, 1997, Tenant shall have the option to cancel this Lease. If the Landlord delivers possession between the period from January 21, 1997 and January 31, 1997, then the Landlord shall pay the Tenant an amount of \$15,474.71 in liquidated damages. Furthermore, if the Landlord delivers

possession between the period from February 1, 1997 through February 28, 1997, then the Landlord shall pay the Tenant an amount of \$46,424.13 in liquidated damages. In addition to the above, for each respective following calendar month beyond February 1997 that the Landlord fails to deliver possession, the Landlord shall pay the Tenant an additional amount of \$30,949.42 per calendar month in liquidated damages. In no case shall Landlord be liable to Tenant for any additional damages other than those listed above which result from delay in

delivering the Premises.

C. RENT, OTHER COSTS AND TAXES:

Tenant covenants and agrees to pay to Landlord during the Term, rental for the Premises as follows:

1. MINIMUM RENT:

Tenant agrees to pay during the Term of this Lease the fixed minimum annual rent ("Minimum Rent") shown on the Rent Schedule stipulated in Paragraph 25-A to be payable in equal monthly installments as shown on said Rent Schedule in advance on the first day of each month. If the Term commences on a date other than the first day of the month, the first installment shall be prorated appropriately. Such payments shall be made to such place as may be directed in writing by Landlord from time to time. Minimum Rent for the first full month of the Term shall be paid at the execution hereto.

In the event Tenant shall fail to pay any rental on the due date or within ten (10) days thereafter and upon five (5) days following the written notification by the Landlord of such failure, a late charge of five percent (5%) of the monthly rental shall be added to the rental for each such late payment, and the same shall be treated as additional rent.

The Tenant also agrees to pay the Landlord, as further additional rent hereunder, upon notice and demand, Tenant's Prorata Share of the annual cost ("Operating Cost") of operating and maintaining the Building in excess of four and thirty hundredths (\$4.30) dollars times the net rentable area in the Building.

For the purpose of this and other covenants requiring similar proration, it is agreed the Premises contain 17,770 square feet of net rentable area and the total net rentable area of the Building is 100,171 square feet. Tenant's Prorata Share is 17.74%.

Within ninety (90) days after the last day of each calendar year during the term hereof, Operating Cost Statements for the previous calendar year will be prepared and furnished by Landlord to Tenant, showing the Operating Costs for the said previous calendar year, the total amount in excess of \$4.30 per square foot of net rentable area in the Building, and Tenant's Prorata Share thereof. Tenant shall pay its Prorata Share of such excess by lump sum payment within thirty (30) days after receipt of the statement.

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In addition, the monthly rent for the next subsequent calendar year will be increased by one twelfth (1/12) of the amount of Tenant's Prorata Share of such excess (retroactive to the first day of the then current calendar year where necessary).

2. OPERATING COSTS:

"Operating Costs" shall include water and sewer rents, the cost of heating, lighting, power, fuel, labor, supplies, building management fees, janitor service, real estate taxes, hazard and liability insurance, pest control, landscape maintenance, and all other items properly constituting operating costs according to standard practices for office buildings. Tenant, or its representative, shall have the right to examine Landlord's books and records with respect to items in the foregoing statement during normal business hours at any time within sixty (60) days following delivery by Landlord to Tenant of each such Operating Statement. Unless Tenant shall take written exception to any items of such expenses within sixty (60) days after delivery of each such Operating Cost Statement, such statement shall be considered as final and accepted by Tenant. If Tenant objects as aforesaid, it shall nonetheless pay the amount shown on the statement but shall thereafter be entitled to an adjustment in such amount as may be determined by mutual agreement or otherwise. If this Lease terminates other than at the end of a calendar year, additional rent, if any, under this provision for the partial year of occupancy shall be due and payable by Tenant for the period of its occupancy even though it has vacated. Landlord shall pay annually all real

estate taxes and assessments on the Premises, which shall be part of "Operating Costs" as provided above.

In the event that any documentary stamp tax, or tax levied on the rental, leasing or letting of the Premises whether local, state, or federal, is required to be paid due to the execution hereof, the cost thereof shall be borne by the Tenant.

Should any government taxing authority acting under any present or future law, ordinance, or regulation, levy, assess, or impose a tax, excise and/or assessment (other than an income or franchise tax) upon or against the rentals payable by Tenant to Landlord, either by way of substitution or in addition to any existing tax on land or buildings or otherwise, the Landlord shall be responsible for and shall pay such tax, excise and/or assessment and the cost shall become a building operating cost.

Tenant at all times shall be responsible for and shall pay, before delinquency all municipal, county, state or federal taxes assessed against any leasehold interest or any fixtures, equipment, furnishings, or other personal property of any kind, installed or used by Tenant in or on the Premises.

D. ADDITIONAL COVENANTS AND CONDITIONS OF LEASE:

1. AUTHORIZED USE

Tenant agrees to occupy and use and not to abandon or vacate the leased Premises during the term and each renewal, if any, to use them only for normal commercial offices and not to use or permit the Premises to be used for any offensive, noisy or dangerous trade or business, or any use in violation of laws, ordinances, and regulations of any governmental body or authority applicable to the Premises. Tenant will not do or permit any act

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or omission which will increase the rate of insurance on the Premises, and if such rate be increased by Tenant's act or omission, Tenant agrees to pay Landlord such increased cost of insurance. Tenant will not obstruct entries, stairways and passageways so as to interfere with use thereof by other tenants. The Premises shall not be used to conduct a commercial banking business.

2. TENANT ALTERATIONS

Tenant shall not make, or suffer to be made, any alterations of the Premises, or any part thereof, without the written consent of the Landlord. Any such improvements made with permission or without permission, including but not limited to permanent partitions, wall to wall carpet, lighting, attached shelving, etc., shall at the option of Landlord become the property of Landlord without its obligation to pay for same and such property may not be removed unless requested by Landlord, unless Landlord and Tenant otherwise state in writing as to a specific item. Tenant may install at its expense and without Landlord's consent trade fixtures within the Premises, movable office partitions, furniture and equipment and other personal property, and the same shall remain personal property, and Tenant may remove same at any time regardless of whether or not the same are affixed to the Premises, provided any damage to the Premises caused by such trade fixtures or their removal shall be repaired by Tenant. Tenant shall not install or maintain any equipment, partitions, furniture, or apparatus, the weight or operation of which would tend to injure or be detrimental to the Building or unreasonably annoy or disturb other Tenants. Tenant shall at all times keep the Premises free and clear of any lien or encumbrance of any kind created by Tenant's act under this paragraph or otherwise or by its omission.

3. TENANT'S MAINTENANCE AND REPAIR OF PREMISES:

Tenant shall, throughout the initial term of this Lease and any renewals thereof, at its expense, maintain the Premises in good order and repair, except those repairs and services expressly agreed or required herein to be made or furnished by Landlord. Tenant agrees to return the Premises to Landlord in as good condition and repair as when first received by Tenants ordinary wear and tear, damage by storm, fire, lightning, earthquake or other

casualties excepted. Tenant shall replace all broken glass in the Premises except when such may be covered by Landlord's normal fire and extended coverage insurance policy, and shall repair any damage, willful or otherwise, to the Premises, caused by it, its agents, invitees or clients.

4. LANDLORD'S MAINTENANCE AND REPAIR OF PREMISES:

Landlord shall at its own expense keep and maintain in good repair and working order the Building's heating and air conditioning equipment, plumbing, roof, foundation and exterior walls, electricity systems, and parking lot. Landlord agrees to make all repairs that may become necessary by reason of fire, acts of war, insurrection or riot, earthquake, other elements including damage by termites, fungus growth or dry rot. Landlord shall be under no obligation to inspect the Premises, and Tenant shall be responsible for notifying Landlord in writing of any needed repairs for which Landlord is responsible hereunder after which Landlord shall have a reasonable time and access to the Premises in order to make such repairs. Landlord

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shall not be held liable for any damage to Tenant for failure to make any such repair unless due to Landlord's gross negligence.

5. SERVICES AND UTILITIES FURNISHED BY LANDLORD

Landlord shall supply and pay for (as an Operating Cost) in or upon the Premises and all common facilities during the term and any renewal of this Lease the following services and utilities only as specifically indicated:

- (a) heating and air conditioning during the hours of 7:00 a.m. to 6:00 p.m., Monday through Friday, and 7:00 a.m. to 2:00 p.m. on Saturdays and legal holidays. Electricity shall be furnished only for lighting and ordinary business equipment. If any increase in electrical capacity beyond Building Standard is required to meet Tenant's needs within the Premises beyond the Tenant's original requirements at lease commencement, Landlord shall provide same and Tenant shall pay all of Landlord's costs therein. In such case, Landlord shall have the right to have Tenant's electricity consumption separately metered in an account in Tenant's name, which Tenant shall pay when due. In addition to the above service, the Tenant may from time to time request upon reasonable notice, H.V.A.C. service on Sunday at a rate of \$200.00 per day;
- (b) hot and cold running water in restrooms;
- (c) chilled drinking water within reasonable distance of Tenant's Premises;
- (d) elevator service either attended or non-attended at Landlord's option;
- (e) janitorial service nightly Monday-Friday except holidays;
- (f) replacement light bulbs (fluorescent or building standard only);
- (g) adequate parking lot lighting; and
- (h) adequate touch pad code access security systems to control after hours access to the building.

Landlord shall not be liable for failure to furnish any of the foregoing when such failure is caused by accidents or conditions beyond the control of Landlord, or by repairs, labor disturbances or disputes of any character whether resulting from or caused by Landlord or otherwise; nor shall Landlord be liable under any circumstances for loss of or injury to property, however, occurring through or in connection with or incidental to the furnishing of any of the foregoing, unless due to the gross negligence of

Landlord or Landlord's failure to perform its obligations under this Lease, nor shall any such failure relieve Tenant from duty to pay the full amount of rent herein reserved, or constitute or be construed as a constructive or other eviction of Tenant.

6. SUBORDINATION OF LEASE:

It is agreed that the rights of Tenant hereunder shall be and remain subordinate to the right and lien of any bonafide mortgage placed upon the Building by Landlord

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during or before the Term or any Renewal Term of this Lease, and if requested by mortgagee Tenant will execute a subordination agreement as long as the mortgagee executes a non-disturbance agreement recognizing Tenant's rights under this Lease.

7. PARKING:

Tenant and its customers, visitors, agents and employees are hereby granted the right to use spaces in the Building parking area in common with other tenants.

8. ENTRY BY LANDLORD:

Landlord shall have the right to enter the Premises at reasonable times during the Tenant's business hours for the purpose of inspection, posting notices or supervising any necessary repairs and maintenance required herein to be performed by Landlord. Ninety (90) days prior to expiration of the term of this Lease Landlord may post reasonable notice on the Premises that same are for rent and may show same to prospective tenants at reasonable times.

9. ASSIGNMENT AND SUBLETTING:

Neither this Lease nor any interest herein may be assigned by Tenant voluntarily or involuntarily or by operation of law, and neither all nor any part of the leased Premises shall be sublet by Tenant without the written consent of Landlord first had and obtained such consent not to be withheld unreasonably. No consent to assignment or subletting shall constitute consent to any further assignment or subletting, nor will any such assignment or sublease release Tenant from its obligations hereunder. Should the Tenant be sold, merged, or consolidated with another business entity, this lease may be assigned without the consent of the Landlord.

10. WAIVER OF COVENANTS:

It is agreed that the waiving of any of the covenants of this Lease agreement by either party shall be limited to the particular instance and shall not be deemed to waive any other breaches of such covenant or any provision herein contained. No forbearance by either party to seek a remedy for any breach of this lease Agreement shall be deemed a waiver by such party of its rights or remedies with respect to such breach.

11. DEFAULT BY TENANT:

This Lease is made upon the condition that the Tenant shall punctually and faithfully perform all of the covenants and agreements by it to be performed as herein set forth, and if any of the following events of default shall occur, to-wit: (a) any installment of rent, additional rent, taxes, or any other sums required to be paid by Tenant hereunder, or any part thereof, shall at any time be in arrears and unpaid for fifteen (15) days after written notice thereof, or (b) there be any default on the part of Tenant in the observance or performance of any of the other covenants, agreements, or conditions of this Lease on the part of Tenant to be kept and performed, and said default shall continue for a period of fifteen (15) days after written notice thereof from Landlord to Tenant (unless such default cannot reasonably be cured within

fifteen (15) days and Tenant shall have commenced to cure said default within said fifteen (15) days and continue diligently to pursue the curing of the same), or (c) Tenant shall file a petition in bankruptcy or be adjudicated a bankrupt, or file any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under any present or future federal, state or other statute, law or regulation, or make an assignment for the benefit of creditors, or (d) any trustee, receiver or liquidator of Tenant or of all or any substantial part of its properties or of the Premises shall be appointed in any action, suit or proceeding by or against Tenant and such proceeding or action shall not have been dismissed within thirty (30) days after such appointment, or (e) the leasehold estate hereby created shall be taken on execution or by other process of law, or (f) Tenant shall vacate or abandon the Premises before the end of the Term, then and in any of said cases, Landlord at its option may terminate this Lease and re-enter upon the Premises and take possession thereof with full right to sue for and collect all sums or amounts with respect to which Tenant may then be in default and accrued up to the time of such entry, including damages to Landlord by reason of any breach or default on the part of Tenant, or Landlord may, if it elects to do so, bring suit for the collection of such rents and damages without entering into possession of the Premises or voiding this Lease.

In addition to, but not in limitation of, any of the remedies set forth in this Lease or given to Landlord by law or in equity, Landlord shall also have the right and option, in the event of any default by Tenant under this Lease and the continuance of such default after the period of notice above provided, to discontinue services to Tenant and/or to retake possession of the Premises from Tenant without process of law, by summary proceedings or otherwise, and it is agreed that the commencement and prosecution of any action by Landlord in forcible entry and detainer, ejection or otherwise, or any execution of any judgment or decree obtained in any action to recover possession of the Premises, shall not be construed as an election to terminate this Lease unless Landlord expressly exercises its option hereinabove provided to declare the term hereof ended, whether or not such entry or re-entry be had to taken under summary proceedings or otherwise, and shall not be deemed to have absolved or discharged Tenant from any of its obligations and liabilities for the remainder of the term of this Lease, and Tenant shall notwithstanding such entry or re-entry, continue to be liable for the payment of the rents and the performance of the other covenants and conditions hereof and shall pay to Landlord all monthly deficits after any such re-entry in monthly installments as the amounts of such deficits from time to time are ascertained, and if in the event of any such ouster Landlord rents or leases the Premises to some other person, firm or corporation (whether for a term greater, less than or equal to the unexpired portion of the term created hereunder) for an aggregate rent during the portion of such new lease co-extensive with the term created hereunder which is less than the rent and other charges which Tenant would pay hereunder for such period, Landlord may immediately upon the making of such new lease or the creation of such new tenancy sue for and recover the differences between the aggregate rental provided for in said new lease for the portion of the term co-extensive with the term created hereunder and the rent which Tenant would pay hereunder for such period, together with any expense to which Landlord may be put for brokerage commission, placing the Premises in tenantable condition, reasonable attorneys fees, or otherwise. If such new lease or tenancy is made for a shorter term than the balance of the term of this Lease, any such action brought by Landlord to collect the deficit for that period shall not bar Landlord from thereafter suing for any loss accruing during the balance of the unexpired term of this Lease.

If Tenant at any time shall fail to pay any taxes, assessments, or liens, or to make any payment or perform any act required by this Lease to be made or performed by it, Landlord without waiving or releasing Tenant from any obligation or default under this Lease, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of Tenant. All sums so paid by Landlord and all costs and expenses so incurred shall accrue interest at the annual rate of six (6%) percent from the date of payment or incurring thereof by Landlord and, together with such interest, shall constitute additional rent payable by Tenant

under this Lease and shall be paid by Tenant to Landlord upon demand. All other sums payable by Tenant to Landlord under this Lease, including rent and late charges thereon, if not paid within any applicable grace period when due, shall accrue interest at the rate of six (6%) percent per annum from their due date until paid, said interest to be additional rent under this Lease and paid to Landlord by Tenant upon demand.

All rights and remedies of Landlord herein enumerated shall be cumulative, and none shall exclude any other remedies allowed at law or in equity.

If Tenant defaults in the performance of any of the covenants of this Lease and by reason thereof Landlord employs the services of any attorney to enforce performance by Tenant, to evict Tenant, to collect moneys due by Tenant, or to perform any service based upon said default, then the Tenant shall pay a reasonable attorney's fee and all reasonable expenses and costs incurred by Landlord pertaining thereto.

12. INJURIES AND PROPERTY DAMAGE:

Tenant agrees to indemnify and hold harmless Landlord of and from any and all claims of any kind or nature arising from Tenant's use and/or occupancy of the Premises during the term hereof, and Tenant hereby waives all claims against Landlord for damage to goods, wares or merchandise or for injury to persons in and upon the Premises from any cause whatsoever, except such as results from the sole negligence of Landlord or Landlord's representatives. Tenant shall at all times during the term hereof keep in effect with responsible insurance companies liability insurance in the names of and for the benefit of Tenant and Landlord with minimum limits as follows:

Bodily Injury & \$1,000,000.00 Combined Single Limit
Property Damage

Such insurance may, at Tenant's election, be carried under any general blanket coverage of Tenant. A renewal policy shall be procured not less than ten (10) days prior to the expiration of any policy. Each original policy or a certified copy thereof, or a satisfactory certificate of the insurer evidencing insurance carried with proof of payment of the premium shall be deposited with Landlord. Tenant shall have the right to settle and adjust all liability claims and all claims against the insuring companies, but without subjecting Landlord to any liability or obligation.

13. DEFAULT OF LANDLORD:

If at any time during the term hereof Landlord shall default in any of its material obligations under this Lease, Tenant may give the written notice to Landlord of its

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intention to terminate the Lease, together with a statement of the nature of such default, and such termination shall become effective on the thirtieth (30th) day after the date of such notice unless (a) such default shall be cured within thirty (30) days after such notice or (b) if the default is of such a nature that it cannot be cured within such period, the necessary steps to commence to cure such default are fully taken within such period and are thereafter diligently pursued, utilizing reputable area contractors, vendors, utility companies, municipalities, and other industry standard professionals.

14. DAMAGE OR DESTRUCTION BY FIRE OR OTHER CASUALTY:

If the Premises or any part thereof shall be substantially damaged or destroyed by fire or other casualty, Landlord shall promptly repair all such damage and restore the Premises without expense to Tenant, subject to delays due to adjustment of insurance claims, strikes and other causes beyond Landlord's control. If such damage or destruction shall render the Premises untenable in whole or in part, the rent shall be abated wholly or proportionately as the case may be until the damage shall be repaired and Premises restored. If the damage or destruction shall be so extensive as to require the substantial rebuilding (i.e., expenditure of fifty (50%) percent or more of total Building replacement cost) of the Building, either Landlord or

Tenant may elect to terminate this Lease by written notice to the other given within thirty (30) days after the occurrence of such damage or destruction. With reference to any damage or destruction, if it is anticipated that said rebuilding will take in excess of one hundred twenty (120) days, Landlord shall notify Tenant and Tenant shall be given the option of canceling this Lease within ten (10) working days of said notification and if this Lease is not so canceled, Landlord shall rebuild or contract for said rebuilding.

Landlord and Tenant hereby release each other from liability for loss or damage occurring on or to the Premises or the Building of which they are a part or to the content of either thereof, caused by fire or other hazards ordinarily covered by fire and extended coverage insurance policies and each waives all rights of recovery against the other for such loss or damage. Willful misconduct lawfully attributable to either party, whether in whole or in part a contributing cause of the casualty giving rise to the loss or damage, shall not be excused under the foregoing release and waiver. Landlord hereby agrees to keep the building insured against fire and other perils normally covered by fire and extended coverage.

15. HOLDING OVER:

In case of Tenant holdover after the end of the term herein provided, such tenancy shall be from month to month only, and not a renewal hereof; subject, however, to every other term, covenant and condition of this Lease, and the rent during each month of such holding over shall be an amount which is 1.33 times the monthly rate in effect at the last full month of the last year of the lease term or renewal last in effect.

16. CONDEMNATION:

Tenant hereby waives any injury, loss or damage, or claim therefor against Landlord resulting from any exercise of a power of eminent domain affecting all or any part of the demised Premises or common facilities except that Tenant reserves against the condemning

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authority Tenant's right to, and claim for, any damages for the interruption of Tenant's business, Tenant's moving expenses and for the taking of Tenant's personal property and/or fixtures and the loss of the remainder of the term of this Lease. All awards by the condemning authority for the taking of land, building or common areas, shall belong exclusively to the Landlord.

In the event substantially all of the demised Premises shall be taken as a result of the exercise of a power of eminent domain, this Lease shall terminate as of the date the right to possession vests in the condemning authority and rent shall be apportioned as of that date. If only a part of the demised Premises shall be so taken, and this lease is not terminated as hereinafter provided, the rent shall be abated in proportion to the area so taken, as of the date the right to possession vests in the condemning authority. In such case the Landlord, at its expense shall restore the Premises as far as possible to its prior condition.

In the event any part of the demised Premises shall be taken as a result of the exercise of a power of eminent domain and the remainder of the demised Premises are not suitable for Tenant's use, Tenant may by written notice to Landlord given within thirty (30) days after date of taking, terminate this lease as of a date (to be set forth in said notice) not earlier than thirty (30) days after the date of notice; rent shall be apportioned as of the termination date.

In the event any part of the Building shall be taken as a result of the exercise of a power of eminent domain (whether or not the demised Premises shall be affected) and the remainder of said Building shall not, in the reasonable opinion of Landlord, constitute an economically feasible operating unit, Landlord may, by written notice to Tenant given within thirty (30) days after the date of taking, terminate this lease as of a date (to be set forth in said notice) not earlier than thirty (30) days after the date of the notice; rent shall be apportioned as of the termination date.

17. ENFORCEMENT:

If any action at law or in equity shall be brought to recover any rent or other sum due under this Lease, or for or on account of any breach of or to enforce or interpret any of the covenants, terms or conditions of this Lease, or for the recovery of the possession of the Premises, the prevailing party shall be entitled to recover from the other party as part of the prevailing party's cost a reasonable attorney's fee, the amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

18. QUIET ENJOYMENT:

Landlord agrees that Tenant, keeping and performing the covenants herein contained on the part of Tenant to be kept and performed, shall at all times during the term of this Lease peaceably and quietly have, hold and enjoy the Premises.

19. SIGNS:

No signs of any type shall be installed any place on the Building inside of windows or on the exterior of the Premises without prior written approval and consent of Landlord. Landlord shall install and maintain a building directory in the first floor lobby area and reserves the right to limit the number of listings other than Tenant's trade name of reasonable

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length. Notwithstanding the above the tenant may install its own signage to be affixed to the fourth floor common area elevator lobby area to such type and dimensions to be approved by the Landlord such approval not to be withheld unreasonably. Additionally, the Tenant shall be permitted to install at its own expense an exterior building mounted sign to be located upon the top glass paneled parapet of one side of the front of the building. The sign shall be labeled "SDS" with individually lit channeled letters. All electrical wiring and associated costs and expense shall be at the sole cost to the Tenant.

20. RULES AND REGULATIONS:

Landlord may from time to time publish such reasonable rules and regulations in writing which it may consider necessary and in the best interest of the Building. Tenant agrees to abide by and require its employees to abide by such rules and regulations so long as they do not unreasonably interfere with Tenant's permitted use and occupancy of the Premises.

21. SURRENDER OF PREMISES:

Tenant agrees to turn over all keys and to surrender the Premises at the expiration or sooner termination of this Lease or any extensions thereof, broom-dean and in the same condition as when delivered to Tenant or as altered, pursuant to the provisions of this Lease, ordinary wear and tear and damage by the elements, fire or other casualty or acts of God excepted, and Tenant shall remove all of its property. Tenant agrees to pay a reasonable cleaning and repair charge should it be necessary for Landlord to restore the Premises to the aforesaid condition.

22. RIGHTS OF SUCCESSORS AND ASSIGNS:

The covenants and agreements contained in the within Lease shall apply to, inure to the benefit of, and be binding upon the parties hereto, their heirs, distributees, executors, administrators, legal representatives, assigns and upon their respective successors in interest, except as expressly otherwise hereinabove provided.

23. NOTICES:

Any notice, demand or other instrument or written communication required or permitted to be given, served, made or delivered hereunder may be given, served, made or delivered by mailing the same by certified mail, return receipt requested, postage prepaid, and if to Tenant, addressed to Tenant as follows:

615 Pennsylvania Avenue
P.O. Box 819
Sheboygan, Wisconsin 53082-0819
PH (414) 459-7999

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and if to Landlord, addressed to Landlord as follows:

c/o Tenhover One, Inc.
810 Dutch Square Blvd.
Columbus, S.C 29210
PH (803) 561-0070
FAX (803) 561-0080

Any such notice, demand or other instrument or written communication mailed as above provided shall be deemed to have been given, served, made or delivered at the time that it was received as shown on the return receipt, unless refused and then on the date of first notice of attempted delivery by the Postal Service.

24. PREPAID RENTAL/CONSIDERATION:

Upon the approval by the Landlord of the Tenant's financial standing at the execution of this Lease by both parties, the Landlord shall receive a payment from the Tenant for the rental period from January 1, 1997 through April 30, 1997 in the amount of \$38,191.72 as prepaid rental.

25. ADDITIONAL PROVISIONS/MINIMUM RENTALS:

Insofar as the following provisions conflict with any other provisions contained in this lease, the following shall control:

A. MINIMUM BASE RENTALS:

The Tenant shall pay the following minimum base rentals which do not include the Tenant's pro rata share of the increases in taxes and operating expenses as stipulated in Paragraphs C-1 and C-2:

<TABLE>
<CAPTION>

Effective Date	Rate	Annual/Period Rental	Monthly Rental
<S>	<C>	<C>	<C>
01/01/97-02/28/97	\$ 1.65	\$ 7,242.30	\$ 3,621.15
03/01/97-02/28/98	\$ 10.45	\$ 185,696.50	\$ 15,474.71
03/01/98-02/28/99	\$ 10.75	\$ 191,027.50	\$ 15,918.96
03/01/99-02/28/00	\$ 11.55	\$ 205,243.50	\$ 17,103.63
03/01/00-08/31/02	\$ 11.85	\$ 526,436.25	\$ 17,547.88

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B. EARLY TERMINATION:

The Tenant may cancel this Lease upon one hundred twenty days (120) prior written notice to be given on or before October 31, 1999 such cancellation effective for the remaining thirty (30) lease months or the period from March 1, 2000 through August 31, 2002. Upon such notice, the Tenant shall pay to the Landlord an amount of the unamortized improvements costs and leasing fees calculated at an eight percent (8%) interest plus an amount of \$35,095.75 for vacancy loss and liquidated damages.

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C. RIGHT OF RELOCATION/RIGHT OF FIRST REFUSAL:

Should the Tenant provide the Landlord with a minimum of one hundred twenty (120) days prior written notice of the requirement for an additional 4955 rentable square feet of the adjacent area now

occupied by Time Warner Cable Corporation, then the Landlord shall arrange for the relocation of Time Warner Cable Corporation at its own expense, so long as there is comparable space available within the Building to accommodate such relocation. In addition to the above the Tenant shall have the right of first refusal upon the same 4,955 rentable square foot area. Such right of first refusal must be exercised within five (5) business days after the notification by the Landlord to the Tenant of another bonafide third party's interest in leasing such area. Terms and conditions for the space shall be agreed upon by both parties.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed the day and year first above written. SIGNED, SEALED AND DELIVERED IN THE PRESENCE OF:

WITNESSETH

LANDLORD: DR.PETER SCHMALISCH

/s/ REINHARD E. KIESLER

BY: MR. REINHARD E. KIESLER
KIESLER INVESTMENT CONSULTING, INC.

ITS: ATTORNEY IN FACT

TENANT: STRATEGIC DATA SYSTEMS, INC.
A WISCONSIN CORPORATION

/s/ DAVID E. KRUEGER

BY: DAVID E. KRUEGER

ITS: SR. VICE PRESIDENT

EXHIBIT "B"
WORK LETTER

The Landlord shall install improvements to the leased premises at the Landlord's expense unless otherwise indicated in accordance with the following:

<TABLE>

<S>

CEILING/LIGHTING:

<C>

Modify the existing building standard ceiling and lighting systems to accommodate the floor plan designated in Exhibit "A". The ceiling system is 2' x 4' acoustical tile suspended into a 2' x 4' steel grid at a height of 9' 0". Light fixtures shall be building standard 2' x 4'-4-lamp fluorescent unit with prismatic lens. The Landlord's contractor shall furnish or relocate existing lighting fixtures as required to conform to the plan in Exhibit "A". All 2' x 4' acoustical tile will be replaced.

H.V.A.C. SYSTEM:

Modify the existing building standard H.V.A.C. system to accommodate the floorplan designated in Exhibit "A". Install or adapt one 2' x 2' lay in air supply diffuser for every partitioned office area and arrange for adequate supply runs to service all open areas. One thermostat shall be provided for each building, one to be positioned by the Landlord's H.V.A.C. mechanical contractor.

PARTITIONING/DOORS/
FRAMES:

Install partitioning and building standard doors with building standard passage hardware as indicated in Exhibit "A". Typical interior partitions will be ceiling high with 1/2" gypsum wallboard on both sides of 3 5/8" metal studs 24" on center. Fire rated partitions separating the premises from common corridors and other tenants shall be fire rated 5/8" gypsum wallboard on 3 5/8" metal studs of 25 gauge thickness and will be insulated and extend to the underside of the structure. Interior doors shall be solid core 3'0" x 6'8" x 1 3/4" birch or better grade. Entrance and exit doors shall be fire rated solid core of same height and thickness. Door frames shall be knock down metal type painted in an accent color be provided by Landlord at all entrance doors and exit doors. Keyed locksets for interior selected by the tenant or building standard doors and frames. Keyed locksets with two (2) keys shall doors at Tenant's expense and may be installed and repaired by building management only.

FLOOR/CARPETING:

Install twenty-eight (28) ounce dense level loop 1/8-1/10" gauge continuous filament nylon carpeting throughout by J & J Industries, Lotus Mills, Aladdin Mills or others as approved by the Landlord. Install thirty (30) ounce dense

</TABLE>

15

<TABLE>

<S>

<C>

cut 1/8" gauge continuous filament nylon carpeting in the reception area and the conference areas contained within the floor plan. Cove base shall be Roppe vinyl or equivalent. Tenant may substitute 3/16" vinyl composition tile flooring in building standard colors for carpet in any area. Tenant shall choose one (1) color carpet for each carpet type and cove base from building standard samples provided by Landlord. Additional colors, floor treatments or carpet borders shall be at the sole cost to the Tenant.

PAINTING:

Paint all applicable dry wall partitioning, and other areas with one coat of primer and two coats of flat latex base paint. Tenant shall choose one (1) color paint for the partitions and one (1) color paint for the door frames from building standard samples provided by Landlord. Paint door frames and trim with two (2) coats of oil base semi-gloss enamel. Doors to be stained with one coat of stain and two coats of semi-gloss polyurethane.

WALLCOVERING:

All areas as designated in Exhibit "A" shall receive building standard vinyl wallcovering. The tenant may wallcover other designated areas at its own cost and expense with the Landlord providing the building standard painting allowance to the Tenant for the wallcovered areas.

ELECTRICAL/TELEPHONE:

Install new wall mounted grounded 110V, 20 amp circuit duplex electrical outlets where necessary to provide two (2) duplex outlets for each partitioned area. All existing duplex outlets to remain as indicated. The Landlord shall pull power to all the Tenant's modular furniture work station groups. The Landlord shall provide two isolated ground outlets in the locations to be determined by the Tenant. Any additional outlets or electrical work above building standard which is

not specified in Exhibits "A" and "B" shall be at the sole cost and expense to the Tenant. Any additional isolated ground outlets or special voltage, dedicated circuits or special electrical applications at Tenant's sole cost. If the Tenant's voice/data wiring contractor is unable to install area to be cut through the sheetrock partitioning, then the Landlord's contractor shall provide such opening at the Landlord's expense.

SIGNAGE: Install building standard lobby area identification and suite enhance signage.

BLINDS: Thin horizontal louvered blinds of building standard shall be supplied for each window.

</TABLE>

16

<TABLE>

<S>

EARLY TERMINATION:

<C>

The cancellation provision shall be amended as follows:

The Tenant may cancel this Lease upon one hundred twenty (120) days prior written notice to be given on or before April 30, 2000 such cancellation effective for the remaining thirty (30) lease months or the period from September 1, 2000 through February 28, 2003. Upon such notice, the Tenant shall pay to the Landlord an amount of the unamortized improvements and leasing fees calculated at an eight percent (8%) interest rate plus an amount of \$70,665.50 (Two (2) months) for vacancy loss and liquidated damages.

IMPROVEMENTS: The Landlord shall install improvements to the leased premises in an amount not to exceed \$19,341.00.

CONSIDERATION FOR
MUTUAL RELEASE:

In order to obtain the above Suites for immediate construction of the necessary improvements, Inspire Insurance shall pay the Landlord an amount of \$15,787 to cover the expenses associated with relocating the existing tenant's equipment, contents, and employees, buyout costs, and new improvements for those relocated tenants.

The following is a breakdown of those costs:
(Refer to Exhibit "B")

</TABLE>

<TABLE>

<CAPTION>

St	Tenant	Item	Cost
<S>	<C>	<C>	<C>
315	GRS/Mid At.	Buyout/Reloc.	\$5,000
315	GRS	Improvements	\$4,736
317	CNA Ins.	Improvements	\$2,303
317	CNA Ins.	Relocation	\$ 700
318	TenhoverOne	Improvements	\$2,598
318	TenhoverOne	Relocation	\$ 450
	Total Costs:		\$15,787

</TABLE>

17

<TABLE>

<S>

<C>

SPACE PLANNING:

Professional space planning services are available at no additional charge through Tenhover One, Inc. and Architectural Design Associates.

TELEPHONE

COMMUNICATIONS:

All telephone/communications work and related expenses shall be at the sole cost and expense to the Tenant.

COMPUTER/DATA

WIRING/SET-UP:

Any work or related expenses for computer/data network wiring shall be at the sob cost and expense to the Tenant.

Any additional improvements which are not specified or designated in Exhibits "A" and "B" shall be at the sole cost and expense to the Tenant.

ACCEPTED:

/s/ DAVID E. KRUEGER

/s/ REINHARD E. KIESLER

TENANT

LANDLORD

</TABLE>

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TENHOVER ONE, INC
810 DUTCH SQUARE BLVD.
COLUMBIA, S.C. 29210

SECOND LEASE AMENDMENT

THIS AGREEMENT, made this 25 day of February, 1997, by and between Dr. Peter Schmalisch, (hereinafter referred to as "Landlord"), and Strategic Data Systems, Inc. (hereinafter referred as "Tenant"):

WITNESSETH

WHEREAS, Landlord and Tenant did enter into a Lease Agreement dated the 18th day of October, 1996 for premises known as The Dutch Center, Columbia, S.C., Suite 410 and Whereas, both parties amended the Lease by Lease Amendment dated the 19th day of December, 1996, and Whereas, the parties hereto desire to make certain amendment(s) to their said Lease Agreement; NOW THEREFORE the parties for consideration hereinafter mentioned covenant and agree that the said Lease Agreement is extended and amended as follows:

1. DEMISED PREMISES-PARAGRAPH A: The Demised Premises shall be enlarged by 100 such additional rentable square footage attributable to relocating the demising wall as calculated and shown in Exhibit "A-2". The total leased area effective March 1, 1997 shall be 22,944 rentable square feet.
2. RENT, COSTS, AND TAXES-PARAGRAPH C-1: The minimum base rentals shall be amended and paid by the Tenant as follows:

Effective Date	Rate	Annual Rent	Monthly Rental
03/01/97-02/28/98	\$10.45	\$239,764.80	\$19,980.40
03/01/98-02/28/99	\$10.75	\$246,648.00	\$20,554.00
03/01/99-02/28/00	\$11.55	\$265,003.20	\$22,083.60
03/01/00-08/31/02	\$11.85	\$271,886.40	\$22,657.20

The Tenant's pro rata share shall be increased from 22.81% to 22.90% or 22,944/100,171.

THIS AGREEMENT, by reference to the above stated Lease Agreement, shall, when fully executed, form a part thereof; and

ALL OTHER TERMS AND CONDITIONS of the Lease Agreement shall remain in full force and effect. IN WITNESS WHEREOF, the parties hereto subscribed their names as of the date first above written.

WITNESS: LANDLORD: DR. PETER SCHMALISCH

/s/ REINHARD E. KIESLER

BY: MR. REINHARD E. KIESLER
KIESLER INVESTMENT CONSULTING, INC.
Its: ATTORNEY IN FACT
TENANT: STRATEGIC DATA SYSTEMS

/s/ DAVID E. KRUEGER

BY: DAVID E. KRUEGER
ITS: SENIOR VICE PRESIDENT

TENHOVER ONE, INC
810 DUTCH SQUARE BLVD.
COLUMBIA, S.C. 29210

FOURTH LEASE AMENDMENT

THIS AGREEMENT, made this 7th day of November, 1997, by and between Dr. Peter Schmalisch, (hereinafter referred to as "Landlord"), and Inspire Insurance Solutions, Inc., formerly Strategic Data Systems, Inc. (hereinafter referred as "Tenant"):

WITNESSETH

WHEREAS, Landlord and Tenant did enter into a Lease Agreement dated the 18th day of October, 1996 for premises known as The Dutch Center, Columbia, S.C, Suite 410 and Whereas, both parties amended the Lease by Lease Amendment dated the 19th day of December, 1996, and Whereas both parties further amended the Lease by Second Lease Amendment dated February 1997, and Whereas both parties further amended the Lease by Third Lease Amendment dated March 13, 1997, and Whereas the parties hereto desire to make certain amendment(s) to their said Lease Agreement; NOW THEREFORE the parties for consideration hereinafter mentioned covenant and agree that the said Lease Agreement is extended and amended as follows:

- 1. DEMISED PREMISES-PARAGRAPH A: The Demised Premises shall be enlarged by 3,280 rentable square feet and shown in Exhibit "A4. The total leased area effective February 1, 1998 shall be 29,425 rentable square feet.
2. TERM AND DELIVERY OF PREMISES-PARAGRAPH B-1-2: The Landlord shall deliver the

additional 3,280 rentable square feet complete with the necessary improvements on or before February 1, 1998.

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3. RENT, COSTS, AND TAXES-PARAGRAPH C-1: The minimum base rentals shall be amended and paid by the Tenant as follows:

Effective Date	Rate	Annual Rent	Monthly Rental
02/01/98-02/28/98	\$10.45	\$307,491.28	\$25,624.27
03/01/98-02/28/99	\$10.75	\$316,318.75	\$26,359.89
03/01/99-02/28/00	\$11.55	\$339,858.75	\$28,321.56
03/01/00-08/31/02	\$11.85	\$348,686.25	\$29,057.19

The Tenant's pro rata share shall be increased from 26.10% to 29.37% or 29,425/100,171.

4. EARLY TERMINATION-PARAGRAPH 25-B: The Tenant shall be granted the same Early Termination provision a contained in the original Lease to cover the total leased area of 29,425 square feet with exception to the Tenant's payment to the Landlord shall be increased to the unamortized leasehold improvements and leasing fees plus an amount of \$58,114.38 for vacancy loss attributable to the total leased area.

5. IMPROVEMENTS: The Landlord shall install improvements to the additionally leased 3,280 rentable square feet as agreed upon by both parties at the Landlord's expense not to exceed \$14,760.00. Any additional cost above the \$14,760.00 improvements allowance shall be the sole cost and expense to the Tenant to be paid upon completion. In order to obtain the above mentioned leased area, the Landlord must relocate the existing tenant, Chase Mortgage Brokers to another space to be located on the second floor of the building. The cost to construct the improvements necessary to accommodate Chase Mortgage Brokers is \$18,791.00 as contained in Exhibit "B". Additionally, the Landlord will be responsible for all the necessary relocation costs incurred by Chase Mortgage Brokers which includes but is not limited to telephone/computer

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wiring relocation, moving of physical contents, signage, and stationary costs. The Landlord has assigned a cost estimate of an amount not to exceed \$1,800.00 for those costs to be reimbursed by the Tenant. Therefore, in lieu of the above necessary expenditures to be made by the Landlord, the following payments are to be made by the Tenant as the construction work progresses and is completed:

Date	Amount	Description of Work Completed
12/01/97	\$ 9,511.00	Demolition, partitioning, doors, and electrical work.
12/15/97	\$ 9,280.00	Ceiling, painting, and flooring work.
01/01/98	\$ 1,800.00	Relocation expenses.

Total:	\$ 20,591.00	

THIS AGREEMENT, by reference to the above stated Lease Agreement, shall, when fully executed, form a part thereof; and

ALL OTHER TERMS AND CONDITIONS of the Lease Agreement shall remain in full force and effect. IN WITNESS WHEREOF, the parties hereto subscribed their names as of the date first above written.

WITNESS: LANDLORD: DR. PETER SCHMALISCH

/s/

/s/ REINHARD E. KIESLER

BY: MR. REINHARD E. KIESLER

KIESLER INVESTMENT CONSULTING, INC.

Its: ATTORNEY IN FACT

TENANT: INSPIRE INSURANCE SOLUTIONS, INC.

/s/ DAVID E. KRUEGER

BY: DAVID E. KRUEGER

ITS: VICE PRESIDENT

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TENHOVER ONE, INC
810 DUTCH SQUARE BLVD.
COLUMBIA, S.C. 29210

FIFTH LEASE AMENDMENT

THIS AGREEMENT, made this 29th day of January, 1998, by and between Dr. Peter Schmalisch, (hereinafter referred to as "Landlord"), and Inspire Insurance Solutions, Inc., formerly Strategic Data Systems, Inc. (hereinafter referred as "Tenant"):

WITNESSETH

WHEREAS, Landlord and Tenant did enter into a Lease Agreement dated the 18th day of October, 1996 for premises known as The Dutch Center, Columbia, S.C., Suite 410 and Whereas, both parties amended the Lease by Lease Amendment dated the 19th day of December, 1996, and Whereas both parties further amended the Lease by Second Lease Amendment dated February 1997, and Whereas both parties further amended the Lease by Third Lease Amendment dated March 13, 1997, and Whereas both parties further amended by Fourth Lease Amendment dated the 7th day of November, 1997, and WHEREAS the parties hereto desire to make certain amendment(s) to their said Lease Agreement; NOW THEREFORE the parties for consideration hereinafter mentioned covenant and agree that the said Lease Agreement is extended and amended as follows:

1. DEMISED PREMISES-PARAGRAPH A: The Demised Premises shall be enlarged by 2,057 rentable square feet and shown in Exhibit "A-4". The total leased area effective April 1, 1998 shall be 31,482 rentable square feet.
2. TERM AND DELIVERY OF PREMISES-PARAGRAPH B-1-2: The Landlord shall deliver the additional 2,057 rentable square feet complete with the necessary improvements

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approximately on April 1, 1998 subject to delays in the vacancy by the Tenant or construction delays.

3. RENT, COSTS, AND TAXES-PARAGRAPH C-1: The minimum base rentals shall be amended and paid by the Tenant as follows:

<TABLE>
<CAPTION>

Effective Date	Rate	Annual Rent	Monthly Rental
<S> 04/01/98-02/28/99	<C> \$10.75	<C> \$338,431.50	<C> \$28,202.63
03/01/99-02/28/00	\$11.55	\$363,617.00	\$30,301.43
03/01/00-08/31/02	\$11.85	\$373,061.76	\$31,088.48

</TABLE>

The Tenant's pro rata share shall be increased from 29.37% to 31.43% or 31,482/100,171.

4. EARLY TERMINATION-PARAGRAPH 25-B: The Tenant shall be granted the same Early Termination provision a contained in the original Lease to cover the total leased area of 31,482 square feet with exception to the Tenant's payment to the Landlord shall be increased to the unamortized leasehold improvements and leasing fees plus an amount of \$62,176.95 for vacancy loss attributable to the total leased area.

5. IMPROVEMENTS/CONSIDERATION: The Landlord shall install improvements to the additionally leased 2,057 rentable square feet as agreed upon by both parties at the Landlord's expense not to exceed \$ 9,256.50. Any additional cost above the \$9,256.50 improvements allowance shall be the sole cost and expense to the Tenant to be paid upon completion. In order to obtain Suite 314 for immediate construction of the necessary improvements, the Tenant shall pay the Landlord an amount of \$ 5,000.00 to cover the expenses associated with relocating the existing tenant's equipment, contents, and employees.

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THIS AGREEMENT, by reference to the above stated Lease Agreement, shall, when fully executed, form a part thereof; and

ALL OTHER TERMS AND CONDITIONS of the Lease Agreement shall remain in full force and effect. IN WITNESS WHEREOF, the parties hereto subscribed their names as of the date first above written.

WITNESS: LANDLORD: DR. PETER SCHMALISCH

/s/

/s/ REINHARD E. KIESLER

BY: MR. REINHARD E. KIESLER

KIESLER INVESTMENT CONSULTING, INC.

Its: ATTORNEY IN FACT

TENANT: INSPIRE INSURANCE SOLUTIONS, INC.

/s/

/s/ DAVID E. KRUEGER

BY: DAVID E. KRUEGER

ITS: VICE PRESIDENT

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TENHOVER ONE, INC
810 DUTCH SQUARE BLVD.
COLUMBIA, S.C. 29210

SIXTH LEASE AMENDMENT

THIS AGREEMENT, made this 20th day of February, 1998, by and between Dr. Peter Schmalisch, (hereinafter referred to as "Landlord"), and Inspire Insurance Solutions, Inc., formerly Strategic Data Systems, Inc. (hereinafter referred as "Tenant"):

WITNESSETH

WHEREAS, Landlord and Tenant did enter into a Lease Agreement dated the 18th day of October, 1996 for premises known as The Dutch Center, Columbia,

S.C., Suite 410 and Whereas, both parties amended the Lease by Lease Amendment dated the 19th day of December, 1996, and Whereas both parties further amended the Lease by Second Lease Amendment dated February 1997, and Whereas both parties further amended the Lease by Third Lease Amendment dated March 13, 1997, and Whereas both parties further amended the Lease by Fourth Lease Amendment dated the 7th day of November, 1997, and WHEREAS both parties further amended the Lease by Fifth Lease Amendment dated the 29th day of January, 1998 the parties hereto desire to make certain amendment(s) to their said Lease Agreement; NOW THEREFORE the parties for consideration hereinafter mentioned covenant and agree that the said Lease Agreement is extended and amended as follows:

1. DEMISED PREMISES-PARAGRAPH A: The Demised Premises shall be enlarged by 4,298 rentable square feet and shown in Exhibit "A-5". The total leased area effective May 1, 1998 shall be 35,780 rentable square feet.

2. TERM AND DELIVERY OF PREMISES-PARAGRAPH B-1-2: The Landlord shall deliver the additional 4,298 rentable square feet complete with the necessary improvements

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approximately on May 1, 1998 subject to delays in the vacancy by the Tenant or construction delays. The lease expiration of the entire 35,780 rentable square feet shall be extended to expire sixty (60) months from the delivery of the additional 4,298 square feet or upon April 30, 2003.

3. RENT, COSTS, AND TAXES-PARAGRAPH C-1: The minimum base rentals shall be amended and paid by the Tenant as follows:

<TABLE>

<CAPTION>

Effective Date	Rate	Annual Rent	Monthly Rental
<S>	<C>	<C>	<C>
05/01/98-02/28/99	\$10.75	\$384,635.04	\$32,052.92
03/01/99-02/28/00	\$11.55	\$413,259.00	\$34,438.25
03/01/00-04/30/03	\$11.85	\$423,993.00	\$35,332.75

</TABLE>

The Tenant's pro rata share shall be increased from 31.43% to 35.72 % or 35,780/100,171.

4. EARLY TERMINATION-PARAGRAPH 25-B: The Early Termination Provision shall be amended as follows:

The Tenant may cancel this Lease upon one hundred twenty (120) days prior written notice to be given on or before April 30, 2000 such cancellation effective for the period from November 1, 2000 through April 30, 2003. Upon such notice, the Tenant shall pay the Landlord an amount of the unamortized improvements, and leasing fees calculated at an eight percent (8%) interest rate plus an amount of \$ 70,665.50 (Two (2) months) for vacancy loss and liquidated damages.

5. IMPROVEMENTS/CONSIDERATION: The Landlord shall install improvements to the additionally leased 4,298 rentable square feet as agreed upon by both parties at the Landlord's expense not to exceed \$ 19,341.00. Any additional cost above the \$19,341.00 improvements allowance shall be the sole cost and expense to the Tenant to be paid upon completion. In order to obtain Suites 315-318 for immediate construction of the necessary improvements, the Tenant

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shall pay the Landlord an amount of \$15,787.00 to cover the expenses associated with relocating the existing tenant's equipment, contents, and employees, buyout costs, and new improvements for relocated tenants.

THIS AGREEMENT, by reference to the above stated Lease Agreement, shall, when fully executed, form a part thereof; and

ALL OTHER TERMS AND CONDITIONS of the Lease Agreement shall remain in

full force and effect. IN WITNESS WHEREOF, the parties hereto subscribed their names as of the date first above written.

WITNESS:

LANDLORD: DR. PETER SCHMALISCH

/s/

/s/ REINHARD E. KIESLER

BY: MR. REINHARD E. KIESLER

KIESLER INVESTMENT CONSULTING, INC.

Its: ATTORNEY IN FACT

TENANT: INSPIRE INSURANCE SOLUTIONS, INC.

/s/ DAVID E. KRUEGER

BY: DAVID E. KRUEGER

ITS: VICE PRESIDENT

EXHIBIT 11

COMPUTATION OF PER SHARE EARNINGS

<TABLE>
<CAPTION>

	Three months ended December 31,		Year ended December 31,	
	1998	1997	1998 (1)	1997
<S>	<C>	<C>	<C>	<C>
Average shares outstanding	18,532	15,287	17,854	12,206
Net income (loss)	\$ 4,941	\$ 2,116	\$ 11,570	\$ 1,716
Per share amount	\$.27	\$.14	\$.65	\$.14
Diluted				
Average shares outstanding	18,532	15,287	17,854	12,206
Net effect of dilutive stock options based on the treasury stock method using the average market price	2,042	1,786	1,985	968
Total	20,574	17,073	19,839	13,174
Net income (loss)	\$ 4,941	\$ 2,116	\$ 11,570	\$ 1,716
Per share amount	\$.24	\$.12	\$.58	\$.13

</TABLE>

(1) As restated: See Note 5 in the Notes to Condensed Financial Statements

SUBSIDIARIES OF REGISTRANT

INSpire Claims Management, Inc., a Delaware corporation

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-36271 of INSpire Insurance Solutions, Inc. on Form S-8 of our report dated February 25, 1999, appearing in the Annual Report on Form 10-K of INSpire Insurance Solutions, Inc. for the year ended December 31, 1998.

DELOITTE & TOUCHE LLP

Fort Worth, Texas
March 26, 1999

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENT OF OPERATIONS AND BALANCE SHEET OF INSPIRE INSURANCE SOLUTIONS, INC. AS OF AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<F1>ON AUGUST 17, 1998, INSPIRE INSURANCE SOLUTIONS, INC. EFFECTED A THREE-FOR-TWO STOCK SPLIT. PRIOR FINANCIAL DATA SCHEDULES HAVE NOT BEEN RESTATED FOR

THE STOCK SPLIT.

</FN>

</TABLE>