

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

JAYHAWK ACCEPTANCE CORP

CIK: **919988** | IRS No.: **752486444** | State of Incorpor.: **TX** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-26410** | Film No.: **96662911**
SIC: **6141** Personal credit institutions

Business Address
*TWO GALLERIA TOWER STE
1800
13455 NOEL RD
DALLAS TX 75240
2146631000*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

Commission File Number 0-26410

JAYHAWK ACCEPTANCE CORPORATION
(Exact name of registrant as specified in its charter)

<TABLE>
<CAPTION>

<S>

<C>

TEXAS

75-2486444

(State or other jurisdiction of
incorporation or organization)

(I.R.S. employer
identification no.)

TWO GALLERIA TOWER
13455 NOEL ROAD, SUITE 1800, DALLAS, TX

75240

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(972) 663-1000

</TABLE>

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

Yes

X

No

At November 12, 1996, the latest practicable date, there were 23,912,528 shares of Common Stock, \$.01 par value, outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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JAYHAWK ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	-----	-----
	(UNAUDITED)	
<S>	<C>	<C>
Cash and cash equivalents	\$ 431	\$ 120
Restricted cash	19,665	-

Installment contracts receivable	331,765	167,491
Allowance for credit losses	(6,290)	(2,308)
	-----	-----
Installment contracts receivable, net	325,475	165,183
Furniture, fixtures and equipment, net	8,646	5,004
Deferred income taxes	-	2,088
Income taxes receivable	3,145	-
Other assets	2,952	978
	-----	-----
Total assets	\$ 360,314	\$ 173,373
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Accounts payable and accrued liabilities	\$ 12,343	\$ 7,982
Deferred dealer fees, net	2,852	2,052
Deferred income taxes	4,167	-
Dealer holdbacks, net	148,469	82,373
Revolving credit facility	39,330	32,386
Secured notes payable	55,422	-
	-----	-----
Total liabilities	262,583	124,793

Shareholders' Equity:

Common stock, \$.01 par value; 40,000,000 shares authorized; 23,892,028 and 20,486,046 shares issued and outstanding at September 30, 1996 and December 31, 1995, respectively	239	205
Additional paid-in capital	88,547	47,461
Retained earnings	8,945	914
Total shareholders' equity	97,731	48,580
	-----	-----
Total liabilities and shareholders' equity	\$ 360,314	\$ 173,373
	=====	=====

<FN>

See notes to consolidated financial statements.

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JAYHAWK ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

THREE MONTHS ENDED		NINE MONTHS ENDED	
SEPTEMBER 30,		SEPTEMBER 30,	
-----	-----	-----	-----
1996	1995	1996	1995
-----	-----	-----	-----
<C>	<C>	<C>	<C>

<S>

Revenues:				
Finance charges	\$11,586	\$ 4,967	\$29,824	\$11,547
Dealer fees	2,227	1,117	5,764	2,696
Service contracts	935	-	1,804	-
	-----	-----	-----	-----
	14,748	6,084	37,392	14,243
Costs and expenses:				
Sales and marketing	2,402	1,328	6,126	3,107
Operating	4,304	1,870	11,108	4,895
Provision for credit losses	1,363	769	3,175	1,452
Provision for service contract claims	373	-	805	-
Interest	1,598	318	4,015	783
	-----	-----	-----	-----
	10,040	4,285	25,229	10,237
Income before income taxes	4,708	1,799	12,163	4,006
Income taxes	1,583	364	4,132	900
	-----	-----	-----	-----
Net income	\$ 3,125	\$ 1,435	\$ 8,031	\$ 3,106
	=====	=====	=====	=====
Net income per share	\$.13	\$.07	\$.35	\$.17
	=====	=====	=====	=====
Weighted average number of shares outstanding	24,191	19,531	22,939	18,031
	=====	=====	=====	=====

<FN>

See notes to consolidated financial statements.

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JAYHAWK ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	\$ 205	\$ 47,461	\$ 914	\$48,580
Issuance of 3,350,000 shares of common stock, net of costs	34	40,757	-	40,791
Issuance of 55,982 shares of common stock upon exercise of stock options and employee stock plan purchases	-	329	-	329
Net income	-	-	8,031	8,031
	-----	-----	-----	-----
Balance at September 30, 1996	\$ 239	\$ 88,547	\$ 8,945	\$97,731
	=====	=====	=====	=====

<FN>

See notes to consolidated financial statements.

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JAYHAWK ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

NINE MONTHS ENDED
SEPTEMBER 30,

1996 1995

<u><S></u>	<u><C></u>	<u><C></u>
Cash flows from operating activities:		
Net income	\$ 8,031	\$ 3,106
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,626	617
Provision for credit losses	3,175	1,452
Provision for service contract claims	805	-
Deferred income taxes	6,255	(823)
Changes in operating assets and liabilities:		
Other assets	(1,470)	(268)
Accounts payable and accrued liabilities	(581)	4,000
Income taxes receivable	(4,073)	-
Deferred dealer fees, net	800	859
	-----	-----
Net cash provided by operating activities	14,568	8,943
Cash flows from investing activities:		
Payments to dealers	(144,945)	(64,785)
Collections of principal on installment contracts receivable	52,152	21,373
Capital expenditures	(5,285)	(3,166)
	-----	-----
Net cash used in investing activities	(98,078)	(46,578)
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit facility	6,944	(12)
Net proceeds from the issuance of secured notes payable	35,757	-
Proceeds from sales of common stock, net	41,120	31,619
Net cash provided by financing activities	83,821	31,607
	-----	-----
Net increase (decrease) in cash and cash equivalents	311	(6,028)
Cash and cash equivalents at the beginning of the period	120	6,124
	-----	-----
Cash and cash equivalents at the end of period	\$ 431	\$ 96
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,408	\$ 866
	=====	=====
Cash paid for income taxes	\$ 1,950	\$ 1,746
	=====	=====

<FN>

See notes to consolidated financial statements.

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JAYHAWK ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Jayhawk Acceptance Corporation and subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial

information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. All significant intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements as of and for the three and nine month periods ended September 30, 1996. There were no intercompany transactions or balances requiring elimination as of December 31, 1995 and for the three and nine month periods ended September 30, 1995. Operating results for the three and nine month periods ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995, filed with the Securities and Exchange Commission ("SEC") on March 27, 1996.

NOTE 2 - NET INCOME PER SHARE

The weighted average number of common and common equivalent shares outstanding for the purposes of computing net income per share were 24,190,946 and 19,531,191 for the three months ended September 30, 1996 and 1995, and 22,938,956 and 18,030,761 for the nine months ended September 30, 1996 and 1995, respectively. Incremental shares resulting from the issuance of convertible preferred stock and stock options issued prior to the Company's initial public offering have been included in the weighted average shares outstanding for 1995.

NOTE 3 - SUBSIDIARY OPERATIONS

On October 1, 1996, the Company announced the expansion of an elective health care financing program offered by its wholly-owned subsidiary, Jayhawk Medical Acceptance Corporation ("Jayhawk Medical"). The program, which on November 8, 1996 was being marketed in sixteen markets under the tradename "Truecare", provides financing for cosmetic surgery, ophthalmology, orthodontic and other procedures not covered by health insurance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1995

TOTAL REVENUE. Total revenue increased from \$6,084,000 for the three months ended September 30, 1995 to \$14,748,000 for the same period in 1996, an increase of \$8,664,000 or 142%. The increase was primarily due to increased finance charges resulting from the increased number of installment sales contracts ("Contracts" or "Installment Contracts") held in the Company's portfolio. Finance charges increased from \$4,967,000 for the three months ended September 30, 1995 to \$11,586,000 for the same period in 1996, an increase of \$6,619,000 or 133%. The Company purchased 19,426 Installment Contracts during the three months ended September 30, 1996, an increase of 50% over the same period in 1995, and the Company's installment contracts receivable balance increased from \$121,167,000 as of September 30, 1995 to \$331,765,000 as of September 30, 1996, an increase of \$210,598,000 or 174%. Dealer fees also contributed to the increase in total revenue. Dealer fees increased by \$1,110,000 for the three months ended September 30, 1996 over the same period in 1995 or 99%. The number of dealers enrolled in the Company's program increased from 1,577 as of September 30, 1995 to 2,945 as of September

30, 1996, an increase of 1,368 dealers or 87%. The average annualized yield on the Company's portfolio decreased from 20% to 15% for the three months ended September 30, 1995 and September 30, 1996, respectively. The decrease in the average annualized yield is primarily attributable to the longer average original term of Contracts included in the Company's portfolio in the third quarter of 1996, when compared with the third quarter of 1995, and to a lesser extent, the higher percentage of Contracts in non-accrual status included within the Company's portfolio as of the third quarter of 1996 when compared with the third quarter of 1995. The percentage of Contracts in non-accrual status in the Company's portfolio increased from 19% at September 30, 1995 to 29% at September 30, 1996. This increase was due in part to an increase in the average age of the Contracts included within the portfolio between the respective periods. See "-Credit Loss Policy." Service contract revenue was \$935,000 for the three months ended September 30, 1996. The Company recognized no service contract revenue during the three months ended September 30, 1995, as the Company did not offer the service contract program to its dealers at that time. Jayhawk Medical revenue for the three months ended September 30, 1996 was not significant.

SALES AND MARKETING. Sales and marketing expenses increased from \$1,328,000 for the three months ended September 30, 1995 to \$2,402,000 for the same period in 1996, but decreased as a percentage of total revenue from 22% for the third quarter of 1995 to 16% for the third quarter of 1996. The dollar increase in sales and marketing expenses is primarily a result of the continued effort by the Company to expand the number of dealers participating in the Company's program and due to \$130,000 of expenses related to the launch of Jayhawk Medical. The decrease in sales and marketing expenses as a percentage of total revenue was primarily the result of economies of scale associated with increased total revenue. The Company anticipates that Jayhawk Medical will have significantly increased sales and marketing expenses in the fourth quarter of 1996.

OPERATING EXPENSES. Operating expenses increased from \$1,870,000 for the three months ended September 30, 1995 to \$4,304,000 for the same period in 1996, an increase of \$2,434,000 or 130%, but decreased as a percentage of total revenue from 31% for the third quarter of 1995 to 29% for the third quarter of 1996. The dollar increase in operating expenses is primarily a result of the overall expansion in the Company's operations, including \$333,000 of expenses related to the launch of Jayhawk Medical. The decrease in operating expenses as a percentage of total revenue was primarily the result of economies of scale associated with increased total revenue. The Company anticipates that Jayhawk Medical will have significantly increased operating expenses in the fourth quarter of 1996.

PROVISION FOR CREDIT LOSSES. The amount provided for credit losses increased from \$769,000 for the three months ended September 30, 1995 to \$1,363,000 for the same period in 1996, but decreased from 13% to 9% as a percentage of total revenue. See "-Credit Loss Policy."

PROVISION FOR SERVICE CONTRACT CLAIMS. The Company provided \$373,000 for service contract claims for the three months ended September 30, 1996. No amount was provided for the three months ended September 30, 1995, as the Company did not offer the service contract program at that time.

INTEREST EXPENSE. Interest expense increased from \$318,000 during the third quarter of 1995 to \$1,598,000 during the same period in 1996. The increase was due to higher average borrowings used to fund operations and the purchase of Contracts. The Company anticipates that interest expense will increase to the extent borrowings are used to fund growth of the Company.

INCOME TAXES. The Company's effective income tax rate was 34% for the three-month period ended September 30, 1996, as compared with an effective income tax rate of 20% for the same period in 1995. The lower rate in 1995 relates to a reduction in the Company's deferred tax asset valuation allowance

in 1995 to reflect the estimated realizability of the Company's deferred tax assets.

NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1995

TOTAL REVENUE. Total revenue increased from \$14,243,000 for the nine months ended September 30, 1995 to \$37,392,000 for the same period in 1996, an increase of \$23,149,000 or 163%. The increase was primarily due to increased finance charges resulting from the increased number of Installment Contracts held in the Company's portfolio. Finance charges increased from \$11,547,000 for the nine months ended September 30, 1995 to \$29,824,000 for the same period in 1996, an increase of \$18,277,000 or 158%. The Company purchased 57,623 Installment Contracts during the nine months ended September 30, 1996, an increase of 100% over the same period in 1995. The Company's installment contracts receivable increased from \$121,167,000 as of September 30, 1995, to \$331,765,000, as of September 30, 1996, an increase of \$210,598,000 or 174%. Dealer fees also contributed to the increase in total revenue. Dealer fees increased by \$3,068,000 for the nine months ended September 30, 1996 over the same period in 1995 or 114%. Service contract revenue was \$1,804,000 for the nine months ended September 30, 1996. The Company recognized no service contract revenue during the nine months ended September 30, 1995, as the Company did not offer the service contract program to its dealers at that time. Jayhawk Medical revenue for the nine months ended September 30, 1996 was not significant.

SALES AND MARKETING. Sales and marketing expenses increased from \$3,107,000 for the nine months ended September 30, 1995 to \$6,126,000 for the same period in 1996, but decreased as a percentage of total revenue from 22% for the first nine months of 1995 to 16% for the first nine months of 1996. The dollar increase in sales and marketing expenses is primarily a result of the continued effort by the Company to expand the number of dealers participating in the Company's program, and due to \$130,000 of expenses related to the launch of Jayhawk Medical. The decrease in sales and marketing expenses as a percentage of total revenue was primarily the result of economies of scale associated with increased total revenue. The Company anticipates that Jayhawk Medical will have significantly increased sales and marketing expenses in the fourth quarter of 1996.

OPERATING EXPENSES. Operating expenses increased from \$4,895,000 for the nine months ended September 30, 1995 to \$11,108,000 for the same period in 1996, an increase of \$6,213,000 or 127%, but decreased as a percentage of total revenue from 34% for the first nine months of 1995 to 30% for the first nine months of 1996. The dollar increase in operating expenses is primarily a result of the overall expansion in the Company's operations, including \$388,000 of expenses related to the launch of Jayhawk Medical. The decrease in operating expenses as a percentage of total revenue was primarily the result of economies of scale associated with increased total revenue. The Company anticipates that Jayhawk Medical will have significantly increased operating expenses in the fourth quarter of 1996.

PROVISION FOR CREDIT LOSSES. The amount provided for credit losses increased from \$1,452,000 for the nine months ended September 30, 1995 to \$3,175,000 for the same period in 1996, but decreased as a percentage of total revenue from 10% for the first nine months of 1995 to 8% for the first nine months of 1996. See "Credit Loss Policy."

PROVISION FOR SERVICE CONTRACT CLAIMS. The Company provided \$805,000 for service contract claims for the nine months ended September 30, 1996. No amount was provided for the nine months ended September 30, 1995, as the Company did not offer the service contract program at that time.

INTEREST EXPENSE. Interest expense increased from \$783,000 during the first nine months of 1995 to \$4,015,000 during the same period in 1996. The

increase was due to higher average borrowings used to fund operations and the purchase of Contracts.

INCOME TAXES. The Company's effective income tax rate was 34% for the nine month period ended September 30, 1996, as compared with an effective income tax rate of 22% for the same period in 1995. The lower rate in 1995 relates to a reduction in the Company's deferred tax asset valuation allowance in 1995 to reflect the estimated realizability of the Company's deferred tax assets.

INSTALLMENT CONTRACTS RECEIVABLE

Installment contracts receivable consist of the following (in thousands):

<TABLE>
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	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	-----	-----
<S>	<C>	<C>
Gross installment contracts receivable	\$ 390,316	\$ 198,397
Unearned finance charges	(58,551)	(30,906)
	-----	-----
Installment contracts receivable	\$ 331,765	\$ 167,491
	=====	=====

</TABLE>

Changes in gross installment contracts receivable are as follows (in thousands):

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	-----	-----	-----	-----
	1996	1995	1996	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Balance, beginning of period	\$335,877	\$ 92,135	\$198,397	\$ 41,106
Gross amount of installment contracts accepted	109,158	66,939	323,163	136,927
Cash collections on installment contracts receivable	(32,214)	(14,048)	(88,218)	(32,740)
Charge offs	(22,505)	(2,049)	(43,026)	(2,316)
Balance, end of period	\$390,316	\$142,977	\$390,316	\$142,977
	=====	=====	=====	=====

</TABLE>

The increase in charge-offs between the three and nine months ended September 30, 1996 and the three and nine months ended September 30, 1995, respectively, is primarily attributable to the increase in the average age of such Contracts and the growth in gross installment contracts receivable. See "Credit Loss Policy."

DEALER HOLDBACKS

<TABLE>

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Dealer holdbacks, net, consist of the following (in thousands):

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	-----	-----
<S>	<C>	<C>
Dealer holdbacks	\$ 312,205	\$ 158,746
Less: Acquisition payments	(163,736)	(76,373)
	-----	-----
Dealer holdbacks, net	\$ 148,469	\$ 82,373
	=====	=====

</TABLE>

CREDIT LOSS POLICY

The Company regularly reviews its installment contracts receivable portfolio to determine the adequacy of its allowance for credit losses. Amounts provided for credit losses include the provision for credit losses, as well as an amount recorded upon the purchase of Installment Contracts.

The level of related dealer holdbacks and the possible impact of economic conditions on the creditworthiness of obligors are given major consideration in determining the adequacy of the allowance. Credit loss experience, changes in the character, size and age of the installment contracts receivable portfolio and management's judgment are other factors used in assessing the overall adequacy of the allowance and the resulting provision for credit losses. Ultimate losses may vary from current estimates and the amount of the provision, which is a current expense, may be either greater or less than actual charge-offs.

The percentage of Contracts in non-accrual status included within the Company's portfolio were 29% and 19% as of September 30, 1996 and September 30, 1995, respectively. The Company believes that this increase in non-accrual contracts as a percentage of the total number of Contracts included within the Company's portfolio was due primarily to an increase in the average age of the Contracts included within its portfolio. Because the Company specifically targets used vehicle buyers who do not qualify for traditional financing, these non-accrual percentages are considered by the Company to be reasonable. The Company anticipates that as the average age of the Contracts included within its portfolio increases, the Company's non-accrual contracts as a percentage of the total number of Contracts included within the Company's portfolio will increase.

The following table sets forth certain information regarding charge-offs and the provision for credit losses (in thousands):

<TABLE>
<CAPTION>

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	-----	-----	-----	-----
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Gross installment contracts receivable charged off	\$22,505	\$2,049	\$43,026	\$2,316
Charged against dealer holdbacks	18,004	1,639	34,421	1,853

Charged against unearned finance charges	3,771	329	6,864	350
Charged against allowance for credit losses	730	81	1,741	113
Provision for credit losses	1,363	769	3,175	1,452

</TABLE>

Revenue on installment contracts receivable is recognized under the interest method of accounting until the underlying obligation is 120 days contractually past due or the collateral securing the Contract is repossessed, whichever occurs first. At such time, the Company suspends the accrual of revenue.

Contract balances on which no material payment has been received for a significant period of time (in no event greater than one year) are charged-off against the related dealer holdback and, if insufficient, the allowance for credit losses. Because any remaining outstanding Installment Contracts in the applicable dealer pool are available to recover acquisition payments paid upon the Company's purchase of Contracts included within such pool and as the acquisition payment generally approximates 50% to 55% of the principal amount of the Contract, the risk of loss to the Company is mitigated.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal need for capital is to fund acquisition payments to dealers upon its purchase of Installment Contracts. The Company's cash needs resulting from acquisition payments and the payment of dealer holdbacks to dealers increased from approximately \$64.8 million for the nine months ended September 30, 1995 to approximately \$144.9 million for the nine months ended September 30, 1996.

The Company maintains two revolving credit facilities. Under the first, it may borrow up to \$65 million, based on defined levels of qualified installment contracts receivable. Borrowings under this facility were approximately \$32.4 million as of December 31, 1995 and approximately \$39.3 million as of September 30, 1996. As of November 11, 1996, and after applying approximately \$11.8 million of the funds released to the Company from the Pre-Funding Account (as defined below) established in connection with the securitization transaction completed on August 7, 1996, to repay borrowings under the Company's revolving credit facility, borrowings under the facility were approximately \$43.0 million, and the Company had approximately \$4.5 million of availability under the facility.

Under the second facility, which was obtained in October 1996, the Company may borrow up to \$15.0 million from a commercial bank. The credit line, which is unsecured, but guaranteed by the Company's principal shareholder, bears interest at the bank's LIBOR rate plus 1.5% per annum (6.88% at November 11, 1996) and expires in October 1997. As of November 11, 1996, \$1.9 million had been borrowed under the facility.

To the extent the Company's acquisition payment to a dealer or a physician upon purchase of a Contract continues to exceed the incremental amount of borrowings available under the Company's revolving credit facilities with respect to such Contract, additional capital will be required to fund the Company's rapid growth. Such additional capital may be generated by either additional debt or equity financing. The Company believes that cash flow from operations and borrowings under the Company's revolving credit facilities will be adequate to fund the Company's operations through the end of the Company's current fiscal year at its current rate of growth. Additionally, the Company is currently negotiating with its existing and other lenders regarding a credit facility which would provide the Company with significantly increased borrowing capacity. However, there can be no assurance as to if or when the Company will enter into a new credit facility, nor can there be any assurance

as to the terms of any such facility or when the Company will be required to seek additional capital to fund its operations.

The lease for the Corporate headquarters in Dallas, Texas expires in November 1996. The Company has renewed the lease through June 1997 for a portion of the space, and relocated part of its corporate offices to a separate location. The Company is exploring the construction of a building in Plano, Texas, which would serve as its corporate office and house all Dallas operations. Management believes that the relocation of its corporate offices will not have a material effect on the Company's operations.

STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Except for the historical information contained herein, the matters discussed in Management's Discussion and Analysis, including the matters relating to the anticipated need for and availability of financing, are forward looking statements that are dependent upon a number of risks and uncertainties that could cause actual results to differ materially from those in the forward looking statements. These risks and uncertainties include the Company's actual rate of growth, delinquency and default rates with respect to the Contracts included in the Company's portfolio, the impact of competitive services and products, changes in market conditions, the impact of changes in regulation or litigation, the management of growth and the other risk factors identified in the Company's SEC filings, including under the caption "Risk Factors" in its most recent registration statement on Form S-1. The Company does not intend to provide updated information about the matters referred to in these forward looking statements, other than in the context of management's discussion and analysis in the Company's quarterly and annual reports on Form 10-Q and 10-K.

SEASONALITY

The Company's operations are affected by higher delinquency rates during certain holiday periods, as well as higher sales of used vehicles during the annual period at the beginning of the calendar year when many persons are receiving state and federal tax refunds.

SECURITIZATION

On August 7, 1996, the Company completed its second securitization transaction. Pursuant to this transaction, the Company contributed Contracts having an aggregate principal balance of approximately \$72.7 million and approximately \$4.4 million in cash (which generally represents the amount of principal and interest collected on such Contracts between June 23, 1996 and the closing of the securitization transaction) to a business trust wholly-owned by the Company (the "Trust"), and the Trust sold approximately \$47.9 million principal amount of notes (the "Notes") to an institutional investor. The Notes, which are comprised of approximately \$42.9 million of Class A Notes which bear interest at a fixed rate of 6.64% and \$5.0 million of Class B Notes which bear interest at a fixed rate of 11.57%, have a stated maturity of March 15, 2000, and are secured by the installment sale contracts contributed to the Trust, all amounts in the Pre-Funding Account (as defined below) and approximately \$1.6 million of additional cash deposits. The Class A Notes were rated "Aaa" by Moody's Investors Service, Inc., "AAA" by Standard & Poor's Ratings Group and "AAA" by Fitch Investors Service, L.P. ("Fitch"), and the Class B Notes were rated "BB" by Fitch. MBIA Insurance Corporation (the "Note Insurer") issued a note insurance policy for the benefit of the Class A Noteholders. As a result of the structure of the transaction, the Company did not recognize any gain upon contributing the Contracts to the Trust and the Contracts are reflected in the Company's consolidated balance sheet. The net proceeds from the sale of the Notes were used to repay indebtedness under the Company's revolving credit facility.

Approximately \$12.0 million of the proceeds from the sale of the Notes

were deposited in an account (the "Pre-Funding Account") securing the Notes, \$11.8 million of which was released to the Company effective October 1, 1996 as approximately \$24.2 million principal amount of additional Contracts meeting specified eligibility requirements were contributed to the Trust and pledged to secure the Notes.

The Company acts as servicer of the Contracts contributed to the Trust (the "Contributed Contracts") and is responsible for servicing, managing and making collections on the Contributed Contracts. As long as the Company acts as servicer, the Company is entitled to a monthly servicing fee generally equal to one-twelfth of the product of 3% times the aggregate principal amount of the Contributed Contracts (other than certain non-performing Contracts) outstanding from time to time. Subject to certain limitations, including certain limitations on the modification or amendment of Contributed Contracts, the Company, in its capacity as servicer, is generally required to service and administer the Contributed Contracts in the manner customarily employed by it in servicing and administering its own Contracts. In the event the Company fails to comply with certain covenants, it can be terminated as servicer.

Generally, all amounts collected by the Company on the Contributed Contracts will be deposited into an account securing the Notes. Substantially all of these collections will be applied to the payment of certain fees and expenses, such as fees and expenses of the Note trustee, the servicer and the Note Insurer, and to pay principal and interest on the Notes. Consequently, the Company believes that it is likely that the Notes will be repaid in full prior to their stated maturity, although no assurances can be given to such effect.

The Company made certain representations and warranties in connection with its contribution of Contracts to the Trust. If the interest of the holders of the Notes or the Note Insurer is materially adversely affected by a breach of any such representation or warranty with respect to a Contract, then the Company will be obligated to purchase such Contract from the Trust. Similarly, upon the breach by the Company, in its capacity as servicer, of certain covenants regarding the maintenance of liens on the vehicles securing the Contracts or the protection of the Noteholder's and Note Insurer's interests in the Contracts, then the Company will be obligated to purchase the Contracts affected by such breach from the Trust. Additionally, in the event of the breach of certain representations, warranties and covenants, the Note Insurer, and in certain cases, the Trustee or the holders of the Notes, can declare an event of default and accelerate the Notes.

<TABLE>
<CAPTION>

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit Number	Description
-----	-----

<C> <S>

10.1 Letter Agreement, dated August 15, 1996, between the Company and C. Fred Jackson.

- 10.2 Lease Agreement, dated October 29, 1996, between the Company, as Tenant, and Two Galleria Tower Limited, as Landlord.
- 10.3 Lease Agreement, dated September 17, 1996, between the Company, as Tenant, and Equitable-Crow Tower 2001, Ltd., as Landlord.
- 10.4 Promissory Note, dated October 1, 1996, between Jayhawk Medical, as borrower, and Nations Bank of Texas, N. A., as lender.
- 10.5 Guaranty, dated October 1, 1996, between Jayhawk Medical, as borrower, Nations Bank of Texas, N. A., as lender, and Carl H. Westcott, as guarantor.
- 10.6 Negative Pledge, dated October 1, 1996, between Jayhawk Medical, as borrower, and Nations Bank of Texas, N. A., as lender.
- 11 Statement re Computation of Per Share Earnings
- 27 Financial Data Schedule

</TABLE>

(b) Reports on Form 8-K; No reports on Form 8-K were filed during the quarter ended September 30, 1996.

SIGNATURES

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

JAYHAWK ACCEPTANCE CORPORATION

<TABLE>
<CAPTION>

<S> <C> <C>

Date: November 13, 1996 By: /s/ C. Fred Jackson

C. Fred Jackson
Senior Vice President, Chief Financial Officer
and Treasurer (Principal Financial and Accounting Officer)

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT INDEX

Exhibit Number Description

<C>

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- 11 Statement re Computation of Per Share Earnings
- 27 Financial Data Schedule

</TABLE>

August 15, 1996

Mr. C. Fred Jackson
93 Alexandria Way
Basking Ridge, NJ 07920

Dear Fred:

It is with pleasure that we provide you this offer of employment with Jayhawk Acceptance Corporation to be our new Chief Financial Officer. I feel that your acceptance today launches a new era for Jayhawk. The synergy resulting from your participation on the senior management team suggest dynamic results -- mutually rewarding for each of us, individually, and for the business.

Your starting 12-month base salary will be \$180,000, and is payable on the 15th and the last working day of each month. In addition to your base salary, you will be provided a bonus plan based on Company and individual performance. Awards are made annually, shortly after the completion of the calendar year, ending December 31. For our calendar year ending December 31, 1996, you will be guaranteed a bonus award of \$50,000.

On the date your employment commences, Jayhawk will grant you options to purchase 20,000 shares of Jayhawk Acceptance Corporation stock under the Company's Stock Option Plan. These options, granted to you on your first day of employment with Jayhawk, will be granted at the strike price of the fair market value of Jayhawk Acceptance Corporation stock on the date on which you execute this letter, and will vest immediately. Additionally, you will be granted options to buy 30,000 shares of stock, granted at the strike price of the fair market value of Jayhawk stock on the date on which you execute this letter -- vesting at a rate of 20% per year. You will be granted options to buy 20,000 shares of Jayhawk stock, at minimum, for 1997 -- vesting at 20% per year from your date of employment.

Jayhawk will also provide a relocation package for your move to the Dallas area. This package consists of house hunting trips, temporary housing through December, 1996, if necessary, and movement of household goods. All moving expenses will be grossed up, in order to avoid the payment of taxes on your part.

Mr. C. Fred Jackson
August 15, 1996

For two years from the date of your employment, should your employment be terminated by Jayhawk for any reason other than Cause*, or if you are asked to take a reduction in wages, or your position is eliminated or significantly downgraded, you will receive 12 months base salary. Furthermore, in the event that Jayhawk experiences a "change in control," resulting in a material change to your job function, you will receive 12 months total compensation. In any of the circumstances described above, the Company would maintain your health and welfare benefits for the same period. Should your employment be terminated as a result of certain "changes in control" of the Company, all unvested stock options will vest immediately, in accordance with the terms of the Plans. In the event you are terminated for any reason other than Cause* or a "change in control**," all options would be treated in accordance with the terms of the Stock Plans.

Kindly return a signed copy of this letter, using the enclosed Federal Express package.

I am excited and happy about the successful future that your appointment suggest for all of us. Mike Smartt and Carl Westcott join me and the entire management team of Jayhawk in welcoming you.

Sincerely,

/s/ Richard B. Hoffman
Richard B. Hoffmann
President

/lb

Enclosures

Accepted By: /s/ C. Fred Jackson
Date: 8/16/96

Mr. C. Fred Jackson
August 15, 1996
Page 3

Offer Letter Footnotes

* Termination for "Cause" shall mean Jayhawk Acceptance Corporation's ("Company") termination of your employment due to: a) consistent and material violation of Company's policies or procedures; b) material violation of any material law, rule or regulation; c) conduct involving moral turpitude or adverse to the public image of the Company; d) action in the aid of a competitor, vendor or supplier of the Company to the disadvantage of the Company; e) material misrepresentation or false statements on any document to Company in connection with your hiring or the commencement of your employment with the Company; f) misappropriation of funds or assets of the Company; g) willful refusal to perform your duties or to comply with Company's direction or instructions.

** A "change of control" will be deemed to occur if (i) the "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act), of securities representing more than 25% of the combined voting power of the Company is acquired by an "person" as defined in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, any corporation owned, directly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company or any person who is the beneficial owner of 25% of the combined voting power of the Company as of the effective date of the Stock Option Plan), (ii) the stockholders of the Company approve a definitive agreement to merge or consolidate the company with or into another corporation or to sell or otherwise dispose of all or substantially all of its assets, or adopt a plan of liquidation, or (iii) during any period of two consecutive years, individuals who at the beginning of such period were members of the Board of Directors of the Company cease for any reason to constitute at least a majority thereof (unless the election, or the nomination for election by the company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period).

October 29, 1996

Mr. Paul Whitman
The Staubach Company
6750 LBJ Freeway, Suite 1100
Dallas, Texas 75240

Dear Paul:

As a follow up to our letter of July 22, 1996, please let this letter serve as confirmation that Two Galleria Tower Limited is willing to extend Jayhawk Acceptance Corporation's lease (on the eighteenth (18th) floor ONLY) in Two Galleria Tower until JUNE 6, 1997 (the "Extension Termination Date") at the following terms and conditions:

SQUARE FEET: 22,537

COMMENCEMENT: November 4, 1996

RENTAL RATE: \$18.00 per square foot of Net Rentable Area per year.

EXPENSE STOP: \$7.34

PARKING: Tenant shall be granted a total of eighty six (86) regular, ten (10) executive and four (4) VIP parking spaces at no charge for the term of the lease extension in the Two Galleria Tower parking garage. All other parking spaces required by Tenant shall be designated by Landlord in other parking garages within the Galleria complex at a charge of \$45.00 per space per month (plus applicable sales tax).

Please be advised that Landlord has received a letter of intent that it intends to accept for the eighteenth (18th) floor that Jayhawk currently occupies. In the event that Jayhawk does not vacate the eighteenth (18th) floor on or before the Extension Termination Date, Jayhawk shall be subject to all holdover penalties (including but not limited to all costs that Landlord may incur due to such holding over) as provided for in Section 6.4 of the lease by and between Jayhawk Acceptance Corporation and Two Galleria Tower Limited. As we currently are aware, the tenant we are pursuing the lease with will incur holdover penalties at

-2-

their existing location (if in fact we do not provide the eighteenth (18th)

floor space to them on or before June 7, 1997) in an amount of approximately \$37,000.00 per month. However, such amount shall not limit or be binding on Landlord if in fact Landlord pursues damages from Jayhawk as provided for in Section 6.4 of the lease.

Please call with any questions or comments.

Sincerely,

HINES

/s/ Walter J. Zartman
Walter J. Zartman
Director of Leasing

cc: Cameron Chandler

BASIC LEASE INFORMATION

Lease Date: September 17, 1996

Tenant: Jayhawk Acceptance Corporation
Tenant's Address: Two Galleria Tower
13455 Noel Road, Suite 1800
Dallas, TX 75240

Contact: C. F. Chandler Telephone: 214-663-1000

Landlord: Equitable-Crow Tower 2001, Ltd.,
a Texas limited partnership

Landlord's Address: 2200 Ross Avenue, Suite 3700
Dallas, Texas 75201
Contact: Jeff Carter
Telephone: 214-740-2323

Premises: Suite No. 600 in the office building (the
"Building") located on the land described on
Exhibit D (the "Land"). The Premises are outlined on the
plan attached to the Lease as Exhibit A.

Term: Nine months, commencing October 1, 1996 (the
"Commencement Date") and ending at 5:00 p.m.
June 30, 1997, subject to adjustment and earlier
termination as provided in the Lease.

Basic
Rental: \$25,420.75 per month, which is based on an annual
Basic Rental of \$11.50 per rentable square foot.

Security Deposit: \$25,420.75.

Rent: Basic Rental, Tenant's Proportionate Share of
Electrical Costs, Tenant's share of Excess, and
all other sums that Tenant may owe to Landlord
under the Lease.

Permitted Use: General office purposes consistent with
comparable first class office buildings in the
central business district of Dallas, Texas.

Tenant's
Proportionate
Share: 2.4926%, which is the percentage obtained by
dividing (i) the 26,526 rentable square feet in the
Premises by (ii) the 1,064,210 rentable square feet in
the Building.

Expense Stop: 1996 base year.

Initial Liability

Insurance Amount: \$5,000,000.

The foregoing Basic Lease Information is incorporated into and made a part of the Lease identified above. If any conflict exists between any Basic Lease Information and the Lease, then the Lease shall control.

LANDLORD:
BQUITABLE-CROW TOWER 2001, LTD.,
a Texas limited partnership

TENANT:
JAYHAWK ACCEPTANCE CORPORATION
a Texas corporation

By: EQ/GP Southwest, Ltd.,
a Texas limited partnership

By: /s/ Cameron F. Chandler
Name: Cameron F. Chandler
Title: Director of Human Resources

By: GP/EQ Southwest, Inc.,
a Texas corporation
its sole general partner

By: /s/Jon L. Dooley
Name: Jon L. Dooley
Title: Investment Officer

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LEASE

THIS LEASE AGREEMENT (this "Lease") is entered into as of _____, 1996, between EQUITABLE-CROW TOWER 2001,LTD., a Texas limited partnership ("Landlord"), and JAYHAWK ACCEPTANCE CORPORATION ("Tenant").

DEFINITIONS AND BASIC PROVISIONS

1. The definitions and basic provisions set forth in the Basic Lease Information (the "Basic Lease Information") executed by Landlord and Tenant contemporaneously herewith are incorporated herein by reference for purposes.

LEASE GRANT

2. Subject to the terms of this Lease, Landlord leases to Tenant, and Tenant leases from Landlord, the Premises.

TERM

3. If the Commencement Date is not the first day of a calendar month, then the Term shall be extended by the time between the Commencement Date and the first day of the next month. If this Lease is executed before the Premises become vacant or otherwise available and ready for occupancy by Tenant, or if any present occupant of the Premises holds over and Landlord cannot acquire possession of the Premises before the Commencement Date, then (a) Tenant's obligation to pay Rent hereunder shall be waived until Landlord tenders possession of the Premises to Tenant, (b) the Term shall be extended by the time between the scheduled Commencement Date and the date on which Landlord tenders possession of the Premises to Tenant (which date will then be defined as the Commencement Date), (c) Landlord shall not be in default hereunder or be liable for damages therefor, and (d) Tenant shall accept possession of the Premises when Landlord tenders

possession thereof to Tenant. By occupying the Premises, Tenant shall be deemed to have accepted the Premises in their condition as of the date of such occupancy, subject to the performance of punch-list items that remain to be performed by Landlord, if any. Tenant shall execute and deliver to Landlord, within ten days after Landlord has requested same, a letter confirming (i) the Commencement Date, (ii) that Tenant has accepted the Premises, and (iii) that Landlord has performed all of its obligations with respect to the premises (except for punch-list items specified in such letter).

RENT

4. a. Payment. Tenant shall timely pay to Landlord the Basic Rental and all additional sums to be paid by Tenant to Landlord under this Lease, including the amounts set forth in Exhibit C, without deduction or set off, at Landlord's Address (or such other address as Landlord may from time to time designate in writing to Tenant). Basic Rental, adjusted as herein provided, shall be payable monthly in advance. The first monthly installment of Basic Rental shall be payable contemporaneously with the execution of this Lease; thereafter, monthly installments of Basic Rental shall be due on the first day of the second full calendar month of the Term and continuing on the first day of each succeeding calendar month during the Term. Basic Rental for any fractional month at the beginning of Term shall be prorated based on 1/365 of the current annual Basic Rental for each day of the partial month this Lease is in effect, and shall be due on the Commencement Date.

b. [Intentionally Deleted.]

c. Electrical Costs. Tenant shall pay to Landlord an amount equal to the product of (i) the cost of all electricity used by the Building ("Electrical Costs"), multiplied by (ii) Tenant's Proportionate Share. Such amount shall be payable monthly based on The Landlord's estimate of the amount due for each month, and shall be due on the Commencement Date and on the first day of each calendar month thereafter unless Landlord has theretofore furnished Tenant with information indicating the amount due, in which event such amount shall be due within ten days after Landlord has delivered to Tenant an invoice therefor.

d. Annual Cost Statement. By April 1 of each calendar year, or as soon thereafter as practicable, Landlord shall furnish to Tenant a statement of Landlord's actual Electrical Costs (the "Annual Cost Statement") for the previous year adjusted as provided in Section 4.e. If the Annual Cost Statement reveals that Tenant paid more for Electrical Costs than Tenant's Proportionate Share of Electrical Costs in the year for which such statement was prepared, then Landlord shall promptly reimburse or credit Tenant such excess; likewise, if Tenant paid less than Tenant's Proportionate Share of Electrical Costs, then Tenant shall promptly pay Landlord such deficiency.

e. Adjustments to Electrical Costs. With respect to any calendar year or partial calendar year in which the Building is not occupied to the extent of 95% of the rentable area thereof, the Electrical Costs for such period shall, for the purposes hereof, be increased to the amount which would have been

incurred had the Building been occupied to the extent of 95% of the rentable area thereof.

DELINQUENT PAYMENT; HANDLING CHARGES

5. All payments required of Tenant hereunder shall bear interest from the date due until paid at the maximum lawful rate. Alternatively, Landlord may charge Tenant a fee equal to 10% of the delinquent payment to reimburse Landlord for its cost and inconvenience incurred as a consequence of Tenant's delinquency. In no event, however, shall the charges permitted under this Section 5 or elsewhere in this Lease, to the extent the same are considered to be interest under applicable law, exceed the maximum lawful rate of interest.

SECURITY DEPOSIT

6. Contemporaneously with the execution of this Lease, Tenant shall pay to Landlord, in immediately available funds, the Security Deposit, which shall be held by Landlord without liability for interest and as security for the performance by Tenant of its obligations under this Lease. The Security Deposit is not an advance payment of Rent or a measure or limit of Landlord's damages upon an Event of Default (defined below). Landlord may, from time to time and without prejudice to any other remedy, use all or a part of the Security Deposit to perform any obligation which Tenant was obligated, but failed, to perform hereunder. Following any such application of the Security Deposit, Tenant shall pay to the Landlord on demand the amount so applied in order to restore the Security Deposit to its original amount. Within a reasonable time after the Term ends, provided Tenant has performed all of its obligations hereunder, Landlord shall return to Tenant the balance of the Security Deposit not applied to satisfy Tenant's obligations. If Landlord transfers its interest in the Premises, then Landlord may assign the Security Deposit to the transferee and Landlord thereafter shall have no further liability for the return of the Security Deposit.

LANDLORD'S OBLIGATIONS

7. a. Services. Provided no Event of Default exists, Landlord shall use all reasonable efforts to furnish to Tenant (i) water (hot and cold) at those points of supply provided for general use of tenants of the Building; (ii) heated and refrigerated air conditioning as appropriate, at such times as Landlord normally furnishes these services to all tenants of the Building, and at such temperatures and in such amounts as are reasonably considered by Landlord to be standard; (iii) janitorial service to the Premises on weekdays other than holidays for Building-standard installations (Landlord reserves the right to bill Tenant separately for extra janitorial service required for non-standard installations) and such window washing as may from time to time in Landlord's judgment be reasonably required; (iv) elevators for ingress and egress to the floor on which the Premises are located, in common with other tenants, provided that Landlord may reasonably limit the number of elevators to be in operation at times other than during customary business hours and on holidays; (v) replacement of Building-standard light bulbs and fluorescent tubes, provided that Landlord's standard charge for such bulbs and tubes shall be paid by Tenant; and (vi) electrical current during normal business hours other than for special lighting, equipment that requires more than 110 volts, or other equipment whose electrical energy consumption exceeds

normal office usage. Landlord shall maintain the common areas of the Building in reasonably good order and condition, except for damage occasioned by Tenant, or its employees, agents or invitees. If Tenant desires any of the services specified in this Section 7.a at any time other than times herein designated, such services shall be supplied to Tenant upon the written request of Tenant delivered to Landlord before 3:00 p.m. on the business day preceding such extra usage, and Tenant shall pay to Landlord the cost of such services within ten days after Landlord has delivered to Tenant an invoice therefor.

b. Excess Utility Use. Landlord shall use reasonable efforts to furnish electrical current for computers, electronic data processing equipment, special lighting, equipment that requires more than 110 volts, or other equipment whose electrical energy consumption exceeds normal office usage through the then-existing feeders and risers serving the Building and the Premises, and Tenant shall pay to Landlord the cost of such service within ten days after Landlord has delivered to Tenant an invoice therefor. Landlord may determine the amount of such additional consumption and potential consumption by either or both: (i) a survey of standard or average tenant usage of electricity in the Building performed by a reputable consultant selected by Landlord and paid for by Tenant; or (ii) a separate meter in the Premises installed, maintained, and read by Landlord, at Tenant's expense. Tenant shall not install any electrical equipment requiring special wiring or requiring voltage in excess of 110 volts or otherwise exceeding Building capacity unless approved in advance by Landlord. The use of electricity in the Premises shall not exceed the capacity of existing feeders and risers to or wiring in the Premises. Any risers or wiring required to meet Tenant's excess electrical requirements shall, upon Tenant's written request, be installed by Landlord, at Tenant's cost, if, in Landlord's sole and absolute judgment, the same are necessary and shall not cause permanent damage or injury to the Building or the Premises, cause or create a dangerous or hazardous condition, entail excessive or unreasonable alterations, repairs, or expenses, or interfere with or disturb other tenants of the Building. If Tenant uses machines or equipment (other than general office machines, excluding computers and electronic data processing equipment) in the Premises which affect the temperature otherwise maintained by the air conditioning system or otherwise overload any utility, Landlord may install supplemental air conditioning units or other supplemental equipment in the Premises, and the cost thereof, including the cost of installation, operation, use, and maintenance, shall be paid by Tenant to Landlord within ten days after Landlord has delivered to Tenant an invoice therefor.

c. Discontinuance. Landlord's obligation to furnish services under Section 7.a shall be subject to the rules and regulations of the supplier of such services and governmental rules and regulations. Landlord may, upon not less than 30-days prior written notice to Tenant, discontinue any such service to the Premises, provided Landlord first arranges for a direct connection thereof through the supplier of such service. Tenant shall, however, be responsible for contracting with the supplier of such service and for paying all deposits for, and costs relating to, such service.

d. Restoration of Services: Abatement. Landlord shall use reasonable efforts to restore any service that becomes unavailable; however, such unavailability shall not render Landlord liable for any damages caused thereby, be a constructive eviction of Tenant, constitute a breach of any implied warranty, or, except as provided in the next sentence, entitle Tenant to any abatement of Tenant's obligations hereunder. However, if Tenant is prevented from making reasonable use of the Premises for more than 45 consecutive days because of the unavailability of any such service, Tenant shall, as its exclusive remedy therefor, be entitled to a reasonable abatement of Rent for each consecutive day (after such 45-day period) that Tenant is so prevented from making reasonable use of the Premises.

IMPROVEMENTS; ALTERATIONS; REPAIRS; MAINTENANCE

8. a. Improvements: Alterations. Improvements to the Premises shall be installed at the expense of Tenant only in accordance with plans and specifications which have been previously submitted to and approved in writing by Landlord. After the initial Tenant improvements are made, no alterations or physical additions in or to the Premises may be made without Landlord's prior written consent. Tenant shall not paint or install lighting or decorations, signs, window or door lettering, or advertising media of any type on or about the Premises without the prior written consent of Landlord. All alterations, additions, or improvements (whether temporary or permanent in character, and including without limitation all air-conditioning equipment and all other equipment that is in any manner Connected to the Buildings plumbing system) made in or upon the Premises, either by Landlord or Tenant, shall be Landlord's property at the end of the Term and shall remain on the Premises without compensation to Tenant. Approval by Landlord of any of Tenant's drawings and plans and specifications prepared in connection with any improvements in the Premises shall not constitute a representation or warranty of Landlord as to the adequacy or sufficiency of such drawings, plans and specifications, or the improvements to which they relate, for any use, purpose, or condition, but such approval shall merely be the consent of Landlord as required hereunder. Notwithstanding anything in this Lease to the contrary, Tenant shall be responsible for the cost of all work required to comply with the retrofit requirements of the Americans with Disabilities Act of 1990, and all rules, regulations, and guidelines promulgated thereunder, as the same may be amended from time to time, necessitated by any installations, additions, or alterations made in or to the Premises at the request of or by Tenant or by Tenant's use of th Premises (other than retrofit work whose cost has been particularly identified as being payable by Landlord in an instrument signed by Landlord and Tenant), regardless of whether such cost is incurred in connection with retrofit work required in the

Premises (including the Work described in Exhibit D) or in other areas of the Building.

b. Repairs Maintenance. Tenant shall maintain the Premises in a clean, safe, operable, attractive condition, and shall not permit or allow to remain any waste or damage to any portion of the Premises. Tenant shall repair or replace, subject to Landlords direction and supervision, any damage to the Building caused by Tenant or Tenant's agents, contractors, or invitees. If Tenant fails to make such repairs or replacements within 15 days after the occurrence of such damage, then Landlord may make the same at Tenant's cost. In lieu of having Tenant repair any such damage outside of the Premises, landlord may repair such damage at Tenant's cost. The cost of any repair or replacement work performed by Landlord under this Section 8 Shall be paid by Tenant to Landlord within ten days after landlord has delivered to Tenant an invoice therefor.

c. Performance of Work. All work described in this Section 8 shall be performed only by Landlord or by contractors and subcontractors approved in writing by Landlord. Tenant shall cause all contractors and subcontractors to procure and maintain insurance coverage against such risks, in such amounts, and with such companies as Landlord may reasonably require, and to procure payment and performance bonds reasonably satisfactory to Landlord covering the cost of the work. All such work shall be performed in accordance with all legal requirements and in a good and workmanlike manner so as not to damage the Premises, the primary structure or structural qualities of the Building, or plumbing, electrical lines, or other utility transmission facility. All such work which may affect the HVAC, electrical system, or plumbing must be approved by the Building's engineer of record.

d. Mechanic's Liens. Tenant shall not permit any mechanic's liens to be filed against the Premises or the Building for any work performed, materials furnished, or obligation incurred by or at the request of Tenant. If such a lien is filed, then Tenant Shall, within ten days after Landlord has delivered notice of the filing to Tenant, either pay the amount of the lien or diligently contest such lien and deliver to Landlord a bond or other security reasonably satisfactory to Landlord. If Tenant fails to timely take either such action, then Landlord may pay the lien claim without inquiry as to the validity thereof, and any amounts so paid, including expenses and interest, shall be paid by Tenant to Landlord within ten

days after Landlord has delivered to Tenant an invoice therefor.

USE

9. Tenant shall continuously occupy and use the Premises only for the Permitted Use and shall comply with all laws, orders, rules, and regulations relating to the use, condition, and occupancy of the Premises. The Premises shall not be used for any use which is disreputable or creates extraordinary fire hazards or results in an increased rate of insurance on the Building or its contents or the storage of any hazardous materials or substances. If, because of Tenant's acts, the rate of insurance on the Building or its contents increases, then such acts shall be an Event of Default, Tenant shall pay to Landlord the amount of such increase on demand, and acceptance of such payment shall not constitute a waiver of any of Landlord's other rights. Tenant shall conduct its business and control its agents, employees, and invitees in such a manner as not to create any nuisance or interfere with other tenants or Landlord in its management of the Building.

ASSIGNMENT AND SUBLETTING

10. a. Transfers: Consent. Tenant shall not, without the prior written consent of Landlord (which Landlord may grant or deny in its sole discretion), (i) advertise that any portion of the Premises is available for lease, (ii) assign, transfer, or encumber this Lease or any estate or interest herein, whether directly or by operation of law, (iii) permit any other entity to become Tenant hereunder by merger, consolidation, or other reorganization, (iv) if Tenant is an entity other than a corporation whose stock is publicly traded, permit the transfer of an ownership interest in Tenant so as to result in a change in the current control of Tenant, (v) sublet any portion of the Premises, (vi) grant any license, concession, or other right of occupancy of any portion of the Premises, or (vii) permit the use of the Premises by any parties other than Tenant (any of the events listed in clauses (ii) through (vii) being a "Transfer"). If Tenant requests Landlord's consent to a Transfer, then Tenant shall provide Landlord with a written description of all terms and conditions of the proposed Transfer, copies of the proposed documentation, and the following information about the proposed transferee: name and address; reasonably satisfactory information about its business and business history; its proposed use of the Premises; banking, financial, and other credit information; and general references sufficient to enable Landlord to determine the proposed transferee's creditworthiness and character. Tenant shall reimburse Landlord for its attorneys' fees and

other expenses incurred in connection with considering any request for its consent to a Transfer. If Landlord consents to a proposed Transfer, then the proposed transferee shall deliver to Landlord a written agreement whereby it expressly assumes the Tenant's obligations hereunder; however, any transferee of less than all of the space in the Premises shall be liable only for obligations under this Lease that are properly allocable to the space subject to the Transfer, and only to the extent of the rent it has agreed to pay Tenant therefor. Landlord's consent to a Transfer shall not release Tenant from performing its obligations under this Lease, but rather Tenant and its transferee shall be jointly and severally liable therefor. Landlord's consent to any Transfer shall not waive Landlord's rights as to any subsequent Transfers. If an Event of Default occurs while that Premises or any part thereof are subject to a Transfer, then Landlord, in addition to its other remedies, may collect directly from such transferee all rents becoming due to Tenant and apply such rents against Rent. Tenant authorizes its transferees to make payments of rent directly to Landlord upon receipt of notice from Landlord to do so.

b. Cancellation. Landlord may, within 30 days after submission of Tenant's written request for Landlord's consent to a Transfer, cancel this Lease (or, as to a subletting or assignment, cancel as to the portion of the Premises proposed to be sublet or assigned) as of the date the proposed Transfer was to be effective. If Landlord cancels this Lease as to any portion of the Premises, then this Lease shall cease for such portion of the Premises and Tenant shall pay to Landlord all Rent accrued through the cancellation date relating to the portion of the Premises covered by the proposed Transfer and all brokerage commissions paid or payable by Landlord in connection with this Lease that are allocable to such portion of the Premises. Thereafter, Landlord may lease such portion of the Premises to the prospective transferee (or to any other person) without liability to Tenant.

c. Additional Compensation. Tenant shall pay to Landlord, immediately upon receipt thereof, all compensation received by Tenant for a Transfer that exceeds the Basic Rental and Tenant's share of Electrical Costs and Excess allocable to the portion of the Premises covered thereby.

INSURANCE; WAIVERS; SUBROGATION; IDEMNITY

11. a. Insurance. Tenant shall at its expense procure and maintain throughout the Term the following insurance policies: (i) comprehensive general liability insurance in amounts of not less than a combined single limit of \$5,000,000 (the "Initial Liability Insurance Amount") or such other amounts as Landlord may from time to time reasonably require, insuring Tenant, Landlord, and Landlord's agent against all liability for injury to or death of a person of persons or damage to property arising from the use and occupancy of the Premises, (ii) contractual liability insurance coverage sufficient to cover Tenant's indemnity obligations

hereunder, (iii) insurance covering the full value of Tenant's property and improvements, and other property (including property of others), in the Premises, (iv) workman's compensation insurance, containing a waiver of subrogation endorsement reasonably acceptable to Landlord, and (v) business interruption insurance. Tenant's insurance shall provide primary coverage to Landlord when any policy issued to Landlord provides duplicate or similar coverage, and in such circumstance Landlord's policy will be excess over Tenant's policy. Tenant shall furnish certificates of such insurance and such other evidence satisfactory to Landlord of the maintenance of all insurance coverages required hereunder, and Tenant shall obtain a written obligation on the part of each insurance company to notify Landlord at least 30 days before cancellation or a material change of any such insurance. All such insurance policies shall be in form, and issued by companies, reasonably satisfactory to Landlord.

b. Waiver of Negligence Claims: No Subrogation. Landlord shall not be liable to Tenant or those claiming by, through, or under Tenant for any injury to or death of any person or persons or the damage to or theft, destruction, loss, or loss of use of any property or inconvenience (a "loss") caused by casualty, theft, fire, third parties, or any other matter (including Losses arising through repair or alteration of any part of the Building, or failure to make repairs, or from any other cause), regardless of whether the negligence of any party caused such Loss in whole or in part. Landlord and Tenant each waives any claim it might have against the other for any damage to or theft, destruction, loss, or loss of use of any property, to the extent the same is insured against under any insurance policy that covers the Building, the Premises, Landlord's or Tenant's fixtures, personal property, leasehold improvements, or business, or, in the case of Tenant's waiver, is required to be insured against under the terms hereof, regardless of whether the negligence or fault of the other party caused such loss; however, Landlord's waiver shall not include any deductible amounts on insurance policies carried by Landlord or apply to any coinsurance penalty which Landlord might sustain. Each party shall cause its insurance carrier to endorse all applicable policies waiving the carrier's rights of recovery under subrogation or otherwise against the other party.

c. Indemnity. Subject to Section 11.b, Tenant shall defend, indemnify, and hold harmless Landlord and its agents from and against all claims, demands, liabilities, causes of action, suits, judgments, and expenses (including attorneys' fees) for any Loss arising from any occurrence on the premises or from Tenant's failure to perform its obligations under this Lease (other than a Loss arising from the sole or gross negligence of Landlord or its agents), even though caused or alleged to be caused by the joint, comparative, or concurrent negligence or fault of Landlord or its agents, and even though any such claim, cause of action, or suit is based upon or alleged to be based upon the strict liability of Landlord or its agents. This indemnity provision is intended to indemnify Landlord and its agents against the consequences of their own negligence or fault as provided above when Landlord or its agents are jointly, comparatively, or concurrently negligent with Tenant. This indemnity provision shall

survive termination or expiration of this Lease.

SUBORDINATION ATTORNMENT; NOTICE TO LANDLORD'S MORTGAGEE

12. a. Subordination. This Lease shall be subordinate to any deed of trust, mortgage, or other security instrument (a "Mortgage"), or any ground lease, master lease, or primary lease (a "Primary Lease"), that now or hereafter covers all or any part of the Premises (the mortgagee under any Mortgage or the lessor under any Primary Lease is referred to herein as Landlord's Mortgagee").

b. Attornment. Tenant shall attorn to any party succeeding to Landlord's interest in the Premises, whether by purchase, foreclosure, deed in lieu of foreclosure, power of sale, termination of lease, or otherwise, upon such party's request, and shall execute such agreements confirming such attornment as such party may reasonably request.

c. Notice to Landlord's Mortgagee. Tenant shall not seek to enforce any remedy it may have for any default on the part of the Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any Landlord's Mortgagee whose address has been given to Tenant, and affording such Landlord's Mortgagee a reasonable opportunity to perform Landlord's obligations hereunder.

RULES AND REGULATIONS

13. Tenant shall comply with the rules and regulations of the Building which are attached hereto as Exhibit B. Landlord may, from time to time, change such rules and regulations for the safety, care, or cleanliness of the Building and related facilities, provided that such changes are applicable to all tenants of the Building and will not unreasonably interfere with Tenant's use of the Premises. Tenant shall be responsible for the compliance with such rules and regulations by its employees, agents, and invitees.

CONDEMNATION

14. a. Taking - Landlord's and Tenant's Rights. If any part of the Building is taken by right of eminent domain or conveyed in lieu thereof (a "Taking"), and such Taking prevents Tenant from conducting its business in the Premises in a manner reasonably comparable to that conducted immediately before such Taking, then Landlord may, at its expense, relocate Tenant to office space reasonably comparable to the Premises, provided that Landlord notifies Tenant of its intention to do so within 30 days after the Taking. Such relocation may be for a portion of the remaining Term or the entire Term. Landlord shall complete any such relocation within 180 days after Landlord has notified Tenant of its intention to relocate

Tenant. If Landlord does not elect to relocate Tenant following such Taking, then Tenant may terminate this Lease as of the date of such Taking by giving written notice to Landlord within 60 days after the Taking, and Rent shall be apportioned as of the date of such Taking. If Landlord does not relocate Tenant and Tenant does not terminate this Lease, then Rent shall be abated on a reasonable basis as to that portion of the premises rendered untenable by the Taking.

b. Taking - Landlord's Rights. If any material portion, but less than all, of the Building becomes subject to a Taking, or if Landlord is required to pay any of the proceeds received for a Taking to Landlord's Mortgagee, then this Lease, at the option of Landlord, exercised by written notice to Tenant within 30 days after such Taking, shall terminate and Rent shall be apportioned as of the date of such Taking. If Landlord does not so terminate this Lease and does not elect to relocate Tenant, then this Lease will continue, but if any portion of the Premises has been taken, Basic Rental shall abate as provided in the last sentence of Section 14.a.

c. Award. If any Taking occurs, then Landlord shall receive the entire award or other compensation for the Land, the Building, and other improvements taken, and Tenant may separately pursue a claim against the condemnor for the value of Tenant's personal property which Tenant is entitled to remove under this Lease, moving costs, loss of business, and other claims it may have.

FIRE OR OTHER CASUALTY

15. a. Repair Estimate. If the Premises or the Building are damaged by fire or other casualty (a "Casualty"), Landlord shall, within 60 days after such Casualty, deliver to Tenant a good faith estimate (the "Damage Notice") of the time needed to repair the damage caused by such Casualty.

b. Landlord's and Tenants Rights. If a material portion of the Premises or the Building is damaged by Casualty such that Tenant is prevented from conducting its business in the Premises in a manner reasonably comparable to that conducted immediately before such Casualty and Landlord estimates that the damage caused thereby cannot be repaired within 180 days after the commencement of repair, then Landlord may, at its expense, relocate Tenant to office space reasonably comparable to the Premises, provided that Landlord notifies Tenant of its intention to do so in the Damage Notice. Such relocation may be for a portion of the remaining Term or the entire

Term. Landlord shall complete any such relocation within 180 days after Landlord has delivered the Damage Notice to Tenant. If Landlord does not elect to relocate Tenant following such Casualty, then Tenant may terminate this Lease by delivering written notice to Landlord of its election to terminate within 30 days after the Damage Notice has been delivered to Tenant. If Landlord does not relocate Tenant and Tenant does not terminate this Lease, then (subject to Landlord's rights under Section 15.c) Landlord shall repair the Building or the Premiere, as the case may be, as provided below, and Rent for the portion of the Premises rendered untenable by the damage shall be abated on a reasonable basis from the date of damage until the completion of the repair, unless Tenant caused such damage, in which case, Tenant shall continue to pay Rent without abatement.

c. Landlord's Rights. If a Casualty damages a material portion of the Building, and Landlord makes a good faith determination that restoring the Premises would be uneconomical, or if Landlord is required to pay any insurance proceeds arising out of the Casualty to Landlord's Mortgagee, then Landlord may terminate this Lease by giving written notice of its election to terminate within 30 days after the Damage Notice has been delivered to Tenant, and Basic Rental hereunder shall be abated as of the date of the Casualty.

d. Repair Obligation. If neither party elects to terminate this Lease following a Casualty, then Landlord shall, within a reasonable time after such Casualty, commence to repair the Building and the Premises and shall proceed with reasonable diligence to restore the Building and Premises to substantially the same condition as they existed immediately before such Casualty; however, Landlord shall not be required to repair or replace any part of the furniture, equipment, fixtures, and other improvements which may have been placed by, or at the request of, Tenant - or other occupants in the Building or the Premises, and Landlord's obligation to repair or restore the Building or Premises shall be limited to the extent of the insurance proceeds actually received by Landlord for the Casualty in question.

TAXES

16. Tenant shall be liable for all taxes levied or assessed against personal property, furniture, or fixtures placed by Tenant in the Premises. If any taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and Landlord elects to pay the same, or if the assessed value of the Landlord's property is increased

by inclusion of such personal property, furniture or fixtures and Landlord elects to pay the taxes based on such Increase, then Tenant shall pay to Landlord, upon demand, that part of such taxes for which Tenant is primarily liable hereunder.

EVENTS OF DEFAULT

17. Such of the following occurrences shall constitute an "Event of Default":

- a. Tenant's failure to pay Rent, or any other sums due from Tenant to Landlord under the Lease (or any other lease executed by Tenant for space in the Building), when due;
- b. Tenant's failure to perform, comply with, or observe any other agreement or obligation of Tenant under this Lease (or any other lease executed by Tenant for space in the Building);
- c. The filing of a petition by or against Tenant (the term "Tenant" shall include, for the purpose of this Section 17.c, any guarantor of the Tenant's obligations hereunder) (i) in any bankruptcy or other insolvency proceeding; (ii) seeking any relief under any state or federal debtor relief law; (iii) for the appointment of a liquidator or receiver for all or substantially all of Tenant's property or for Tenant's interest in this Lease; or (iv) for the reorganization or modification of Tenant's capital structure;
- d. Tenant shall desert or vacate any portion of the Premises; and
- e. The admission by Tenant that it cannot meet its obligations as they become due or the making by Tenant of an assignment for the benefit of its creditors.

REMEDIES

18. Upon any Event of Default, Landlord may, in addition to all other rights and remedies afforded Landlord hereunder or by law or equity, take any of the following actions:

- a. Terminate this Lease by giving Tenant written notice thereof, in which event, Tenant shall pay to Landlord the sum of (i) all Rent accrued hereunder through the date of termination, (ii) all amounts due under Section 19.a., and (iii) an amount equal to (A) the total Rent that Tenant would have been required to pay for the remainder of the Term discounted to present value at a per annum rate equal to the "Prime Rate" as published on the date this Lease is terminated by the Wall Street Journal, Southwest Edition, in its listing of "Money Rates", minus (B) the then present fair rental value of the Premises for such period, similarly discounted; or

b. Terminate Tenant's right to possession of the premises without terminating this Lease by giving written notice thereof to Tenant, in which event Tenant shall pay to Landlord (i) all Rent and other amounts accrued hereunder to the date of termination of possession, (ii) all amounts due from time to time under Section 19.a., and (iii) all Rent and other sums required hereunder to be paid by Tenant during the remainder of the Term, diminished by any net sums thereafter received by Landlord through reletting the Premises during such period. Landlord shall use reasonable efforts to relet the Premises on such terms and conditions as Landlord in its sole discretion may determine (including a term different from the Term, rental concessions, and alterations to, and improvement of, the Premises); however, Landlord shall not be obligated to relet the Premises before leasing other portions of the Building. Landlord Shall not be liable for, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or to collect rent due for such reletting. Tenant shall not be entitled to the excess of any consideration obtained by reletting over the Rent due hereunder. Reentry by Landlord in the Premises shall not affect Tenant's obligations hereunder for the unexpired Term; rather, Landlord may, from time to time, bring action against Tenant to collect amounts due by Tenant, without the necessity of Landlords waiting until the expiration of the Term. Unless Landlord delivers written notice to Tenant expressly Stating that it has elected to terminate this Lease, all actions taken by Landlord to exclude or dispossess Tenant of the Premises shall be deemed to be taken under this Section 18.b. If Landlord elects to proceed under this Section 18.b., it may at any time elect to terminate this Lease under Section 18.a.

Additionally, without notice, Landlord may alter locks or other security devices at the Premises to deprive Tenant of access thereto, and Landlord shall not be required to provide a new key or right of access to Tenant.

PAYMENT BY TENANT;NON-WAIVER

19. a. Payment by Tenant. Upon any Event of Default, Tenant shall pay to Landlord all costs incurred by Landlord (including court costs and reasonable attorneys' fees and expenses) in (i) obtaining possession of the Premises, (ii) removing and storing Tenant's or any other occupant's property, (iii) repairing, restoring, altering, remodeling, or otherwise putting the Premises into condition acceptable to a new tenant, (iv) if Tenant is dispossessed of the Premises and this Lease is not

terminated, reletting all or any part of the Premises (including brokerage commissions, cost of tenant finish work, and other costs incidental to such reletting), (v) performing Tenant's obligations which Tenant failed to perform, and (vi) enforcing, or advising Landlord of, its rights, remedies, and recourses arising out of the Event of Default.

b. No Waiver. Landlord's acceptance of Rent following an Event of Default shall not waive The Landlord's rights regarding such Event of Default. No waiver by Landlord of any violation or breach of any of the terms contained herein shall waive Landlord's rights regarding any future violation of such term or violation of any other term.

LANDLORD'S LIEN

20. In addition to the statutory landlord's lien, Tenant grants to Landlord, to secure performance of Tenant's obligations hereunder, a security interest in all equipment, fixtures, furniture, improvements, and other personal property of Tenant now or hereafter situated on the Premises, and all proceeds therefrom (the "Collateral"), and the Collateral shall not be removed from the Premises without the consent of Landlord until all obligations of Tenant have been fully performed. Upon the occurrence of an Event of Default, Landlord may, in addition to all other remedies, without notice or demand except as provided below, exercise the rights afforded a secured party under the Uniform Commercial Code of the State in which the Building is located (the "UCC"). In connection with any public or private sale under the UCC, Landlord shall give Tenant five-days' prior written notice of the time and place of any public sale of the Collateral or of the time after which any private sale or other intended disposition thereof is to be made, which is agreed to be a reasonable notice of such sale or other disposition. Tenant grants to Landlord a power of attorney to execute and file any financing statement or other instrument necessary to perfect Landlord's security interest under this Section 20, which power is coupled with an interest and shall be irrevocable during the Term. Landlord may also file a copy of this Lease as a financing statement to perfect its security interest in the Collateral.

SURRENDER OF PREMISES

21. No act by Landlord shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless the same is made in writing and signed by Landlord. At the expiration or termination of this Lease, Tenant shall

deliver to Landlord the Premises with all improvements located thereon in good repair and condition, reasonable wear and tear (and condemnation and fire or other casualty damage not caused by Tenant, as to which Sections 14 and 15 shall control) excepted, and shall deliver to Landlord all keys to the Premises. Provided that Tenant has performed all of its obligations hereunder, Tenant may remove all unattached trade fixtures, furniture, and personal property placed in the Premises by Tenant (but Tenant shall not remove any such item which was paid for, in whole or in part, by Landlord). Additionally, Tenant shall remove such alterations, additions, improvements, trade fixtures, equipment, wiring and furniture as Landlord may request. Tenant shall repair all damage caused by such removal. All items not so removed shall be deemed to have been abandoned by Tenant and may be appropriated, sold, stored, destroyed, or otherwise disposed of by Landlord without notice to Tenant and without any obligation to account for such items. The provisions of this Section 21 shall survive the end of the Term.

HOLDING OVER

22. If Tenant fails to vacate the Premises at the end of the Term, then Tenant shall be a tenant at will and, in addition to all other damages and remedies to which Landlord may be entitled for such holding over, Tenant shall pay, in addition to the other Rent, a daily Basic Rental equal to the greater of (a) 150% of the daily Basic Rental payable during the last month of the Term, or (b) the prevailing rental rate in the Building for similar space.

CERTAIN RIGHTS RESERVED BY LANDLORD

23. Provided that the exercise of such rights does not unreasonably interfere with Tenant's occupancy of the Premises, Landlord shall have the following rights:

- a. To decorate and to make inspections, repairs, alterations, additions, changes, or improvements, whether structural or otherwise, in and about the Building, or any part thereof; for such purposes, to enter upon the Premises and, during the continuance of any such work, to temporarily close doors, entryways, public space, and corridors in the Building; to interrupt or temporarily suspend Building services and facilities; and to change the arrangement and location of entrances or passageways, doors, and doorways, corridors, elevators, stairs, restrooms, or other public parts of the Building;
- b. To take such reasonable measures as landlord deems advisable for the security of the Building and its occupants, including without limitation searching all persons entering or leaving the Building; evacuating the

Building for cause, suspected cause, or for drill purposes; temporarily denying access to the Building; and closing the Building after normal business hours and on Saturdays,

Sundays, and holidays, subject, however, to Tenant's right to enter when the Building is closed after normal business hours under such reasonable regulations as Landlord may prescribe from time to time which may include by way of example, but not of limitation, that persons entering or leaving the Building, whether or not during normal business hours, identify themselves to a security officer by registration or otherwise and that such persons establish their right to enter or leave the Building;

c. To change the name by which the Building is designated; and

d. To enter the Premises at all reasonable hours to show the Premises to prospective purchasers, lenders, or tenants.

SUBSTITUTION SPACE

24. a. From time to time during the Term, Landlord may substitute for the Premises other space that has an area at least equal to that of the Premises and is located in the Building or in any other comparable building managed by Landlord or an affiliate of landlord (the "Substitution Space").

b. If Landlord exercises such right by giving Tenant notice thereof ("Substitution Notice") at least 60 days before the effective date of such substitution, then (i) the description of the Premises shall be replaced by the description of the Substitution Space; and (ii) all of the terms and conditions of this Lease shall apply to the Substitution Space except that (A) if the then unexpired balance of the Term shall be less than one year, then the Term shall be extended so that the Term shall be one year from the Substitution affective Date (defined below), and

(B) if the Substitution Space contains more square footage than the Premises, then the Basic Rental then in effect shall be increased proportionately (provided that such increase shall not exceed 105% of the Basic Rental due for the Premises) and shall be subject to adjustment as herein provided. The effective date of such substitution (the "Substitution Effective Date") shall be the date specified in the Substitution Notice or, if Landlord is required to perform tenant finish work to the Substitution Space under Section 24.c, then the date on which Landlord substantially completes such tenant finish work. If Landlord is delayed in performing the tenant finish work by Tenant's actions (either by Tenant's change in the plans and specifications for such work or otherwise), then the Substitution Affective Date shall not be extended and Tenant shall pay Rent for the Substitution Space beginning on the date

specified in the Substitution Notice.

c. Tenant may either accept possession of the Substitution Space in its "as is" condition as of the Substitution Effective Date or require Landlord to alter the Substitution Space in the same manner as the Premises were altered or were to be altered. Tenant shall deliver to Landlord written notice of its election within ten days after the Substitution Notice has been delivered to Tenant. If Tenant fails to timely deliver notice of its election or if an Event of Default then exists, then Tenant shall be deemed to have elected to accept possession of the Substitution space in its "as is" condition. If Tenant timely elects to require Landlord to alter the Substitution Space, then (i) notwithstanding Section 24.b, if the then unexpired balance of the Term is less than three years, then the Term shall be extended so that it continues for three years from the Substitution Effective Date, and (ii) Tenant shall continue to occupy the Premises (upon all of the terms of this Lease) until the Substitution Effective Date.

d. Tenant shall move from the Premises into the Substitution Space and shall surrender possession of the Premises as provided in Section 21 by the Substitution Effective Date. If Tenant occupies the Premises after the Substitution Effective Date, then Tenant's occupancy of the Premises shall be a tenancy at will (and, without limiting all other rights and remedies available to Landlord, including instituting a forcible detainer suit), Tenant shall pay Basic Rental for the Premises as provided in Section 22 and all other Rent due therefor until such occupancy ends; such amounts shall be in addition to the Rent due for the Substitution Space.

e. If Landlord exercises its substitution right, then Landlord shall reimburse Tenant for Tenant's reasonable out-of-pocket expenses for moving Tenant's furniture, equipment, supplies and telephone equipment from the Premises to the Substitution Space and for reprinting Tenants stationery of the same quality and quantity of Tenant's stationery supply on hand immediately prior to Landlord's notice to Tenant of the exercise of this relocation right. If the Substitution Space contains more square footage than the Premises, and if the Premises were carpeted, Landlord shall supply and install an equal amount of carpeting of the same or equivalent quality and color.

MISCELLANEOUS

25. a. Landlord Transfer. Landlord may transfer, in whole or in part, the Building and any of its rights under this Lease. If Landlord assigns its rights under this Lease, then Landlord shall thereby be released from any

further obligations hereunder.

b. Landlord's Liability. The liability of Landlord to Tenant for any default by landlord under the terms of this Lease shall be limited to Tenant's actual direct, but not consequential, damages therefor and shall be recoverable from the interest of Landlord in the Building and the Land, and Landlord shall not be personally liable for any deficiency. This section shall not be deemed to limit or deny any remedies which Tenant may have in the event of default by Landlord hereunder which do not involve the personal liability of Landlord.

c. Force Majeure. Other than for Tenant's monetary obligations under this Lease and obligations which can be cured by the payment of money (e.g., maintaining insurance), whenever a period of time is herein prescribed for action to be taken by either party hereto, such party shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations, or restrictions, or any other causes of any kind whatsoever which are beyond the control of such party.

d. Brokerage. Landlord and Tenant each warrant to the other that it has not dealt with any broker or agent, other than Trammell Crow Dallas/Fort Worth, Inc., in connection with the negotiation or execution of this Lease. Tenant and Landlord shall each indemnify the other against all costs, expenses, attorneys' fees, and other liability for commissions or other compensation claimed by any broker or agent claiming the same by, through, or under the indemnifying party.

e. Estoppel Certificates. From time to time, Tenant shall furnish to any party designated by Landlord, within ten days after Landlord has made a request therefor, a certificate signed by Tenant confirming and containing such factual certifications and representations as to this Lease as Landlord may reasonably request.

f Notices All notices and other communications given pursuant to this Lease shall be in writing and shall be (i) mailed by first class, United States Mail, postage prepaid, certified, with return receipt requested, and addressed to the parties hereto at the address specified in the Basic Lease Information, (ii) hand delivered to the intended address, or (iii) sent by prepaid telegram, cable, facsimile transmission, or telex followed by a confirmatory letter. Notice sent by certified mail, postage prepaid, shall be effective three business days after being deposited in the United States

Mail; all other notices shall be effective upon delivery to the address of the addressee. The parties hereto may change their addresses by giving notice thereof to the other in conformity with this provision.

g Separability. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws, then the remainder of this Lease shall not be affected thereby and in lieu of such clause or provision, there shall be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid, or unenforceable clause or provision as may be possible and be legal, valid, and enforceable.

h Amendments; and Binding Effect. This Lease may not be amended except by instrument in writing signed by Landlord and Tenant. No provision of this Lease shall be deemed to have been waived by Landlord unless such waiver is in writing signed by Landlord, and no custom or practice which may evolve between the parties in the administration of the terms hereof shall waive or diminish the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms hereof. The terms and conditions contained in this Lease shall inure to the benefit of and be binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided. This Lease is for the sole benefit of Landlord and Tenant, and, other than Landlord's Mortgagee, no third party shall be deemed a third party beneficiary hereof.

i Quiet Enjoyment. Provided Tenant has performed all of the terms and conditions of this Lease to be performed by Tenant, Tenant shall peaceably and quietly hold and enjoy the Premises for the Term, without hindrance from Landlord or any party claiming by, through, or under Landlord, subject to the terms and conditions of this Lease.

j Joint and Several Liability. If there is more than one Tenant, then the obligations hereunder imposed upon Tenant shall be joint and several. If there is a guarantor of Tenant's obligations hereunder, then the obligations hereunder imposed upon Tenant shall be the joint and several obligations of Tenant and such guarantor, and Landlord need not first proceed against Tenant before proceeding against such guarantor nor shall any such guarantor be released from its guaranty for any reason whatsoever.

k Captions. The captions contained in this Lease are for convenience of reference only, and do

not limit or enlarge the terms and conditions of this Lease.

l No Merger. There shall be no merger of the leasehold estate hereby created with the fee estate in the Premises or any part thereof if the same person acquires or holds, directly or indirectly, this Lease or any interest in this Lease and the fee estate in the leasehold Premises or any interest in such fee estate.

m No Offer. The submission of this Lease to Tenant shall not be construed as an offer, nor shall Tenant have any rights under this Lease unless Landlord executes a copy of this Lease and delivers it to Tenant.

n Tax Protest. Tenant has no right to protest the real estate tax rate assessed against the Project and/or the appraised value of the Project determined by any appraisal review board or other taxing entity with authority to determine tax rates and/or appraised values (each a "Taxing Authority"). Tenant hereby knowingly, voluntarily and intentionally waives and releases any right, whether created by law or otherwise, to (a) file or otherwise protest before any Taxing Authority any such rate or value determination even though Landlord may elect not to file any such protest; (b) receive , or otherwise require Landlord to deliver, a copy of any reappraisal notice received by Landlord from any Taxing Authority; and (c) appeal any order of a Taxing Authority which determines any such protest. The foregoing waiver and release covers and includes any and all rights, remedies and recourse of Tenant, now or at any time hereafter, under Section 41.413 and Section 42.015 of the Texas Tax Code (as currently enacted or hereafter modified) together with any other or [further laws, rules or regulations covering the subject matter thereof. Tenant acknowledges and agrees that the foregoing waiver and release was bargained for by Landlord and Landlord would not have agreed to enter into this Lease in the absence of this waiver and release. If, notwithstanding any such waiver and release, Tenant files or otherwise appeals any such protest, then Tenant will be in default under this Lease and, in addition to Landlord's other rights and remedies, Tenant must pay or otherwise reimburse Landlord for all costs, charges and expenses incurred by, or otherwise asserted against, Landlord as a result of any tax protest or appeal by Tenant, including, appraisal costs, tax consultant charges and attorneys' fees (collectively, the "Tax Protest Costs"). If, as a result of Tenant's tax protest or appeal, the appraised value for the Project is increased above that previously determined by the Taxing Authority (such increase, the

"Value Increase") for the year covered by such tax protest or appeal (such year, the "Protest Year"), then Tenant must pay Landlord, in addition to all Tax Protest Costs, an amount (the "Additional Taxes") equal to the sum of the following (i) the product of the Value Increase multiplied by the tax rate in effect for the Protest Year; plus (ii) the amount of additional taxes payable during the five (5) year period following the Protest Year, such amount to be calculated based upon the Value Increase multiplied by the tax rate estimated to be in effect for each year during such five (5) year period. Tenant must pay all Additional Taxes - even those in excess of Tenant's proportionate share and which may relate to years beyond the term of this Lease. The Additional Taxes will be conclusively determined by a tax consultant selected by Landlord, without regard to whether and to what extent Landlord may be able in years following the Protest Year to reduce or otherwise eliminate any Value Increase. All Tax Protest Costs and Additional Taxes must be paid by Tenant within five (5) days following written demand by Landlord.

o Exhibits. All exhibits and attachments attached hereto are incorporated herein by this reference

- Exhibit A - Outline of Premises
- Exhibit B - Building Rules and Regulations
- Exhibit C - Operating Expense Escalator
- Exhibit D - Legal Description
- Exhibit E - Tenant Finish-Work: As - Is
- Exhibit F - Parking

p. Entire Agreement. This Lease constitutes the entire agreement between Landlord and Tenant regarding the subject matter hereof and supersedes all oral statements and prior writings relating thereto. Except for those set forth in this Lease, no representations, warranties, or agreements have been made by Landlord or Tenant to the other with respect to this Lease or the obligations of Landlord or Tenant in connection therewith.

LANDLORD AND TENANT EXPRESSLY DISCLAIM ANY IMPLIED WARRANTY THAT THE PREMISES ARE SUITABLE FOR TBNANT'S INTENDED COMMERCIAL PURPOSE, AND TENANT'S OBLIGATION TO PAY RENT HEREUNDER IS NOT DEPENDENT UPON THE CONDITION OF THE PREMISES OR THE PERFORMANCE BY LANDLORD OF ITS OBLIGATIONS HEREUNDER, AND, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, TENANT SHALL CONTINUE TO PAY THE RENT, WITHOUT ABATEMENT, SETOFF, DEDUCTION, NOTWITHSTANDING ANY BREACH BY LANDLORD OF ITS DUTIBS OR OBLIGATIONS HEREUNDER, WHETHER EXPRESS OR IMPLIED.

DATED as of the date first above written.

LANDLORD:	TENANT:
EQUITABLE-CROW TOWER 2001, LTD.,	JAYHAWK ACCEPTANCE CORPORATION,
a Texas limited partnership	a Texas corporation

By: EQ/GP Southwest, Ltd.,
a Texas limited partnership

By: /s/ Cameron F. Chandler
Name: Cameron F. Chandler
Title: Director HR & Admin

By: GP/EQ Southwest, Inc.,
a Texas corporation
its sole general partner

By: /s/ Jon L. Dooley
Name: Jon L. Dooley
Title: Investment Officer

PROMISSORY NOTE

Customer Number: 4556882 Note Number: New
[X] New [] Renewal [] Increase [] Decrease
Date:October 1, 1996 Amount:\$15,000,000.00 Maturity Date:October 1, 1997

<TABLE>
<CAPTION>

<S> <C>

Bank: NationsBank of Texas, N.A.
Banking Center: Private Client Group
901 Main Street
Dallas, Texas 75202-3714
Dallas County
Borrower: Jayhawk Medical Acceptance Corporation
Two Galleria Tower, Suite 1800
Dallas, Texas 75240
Dallas County

A\
(Street address including county) (Name and street address, including county)
=====
</TABLE>

FOR VALUE RECEIVED, the undersigned Borrower unconditionally (and jointly and severally, if more than one) promises to pay to the order of Bank, its successors and assigns, without setoff, at its offices indicated at the beginning of this Note, or at such other place as may be designated by Bank, the principal amount of Fifteen Million and No/100-----Dollars (\$15,000,000.00), or so much thereof as may be advanced from time to time in immediately available funds, together with interest computed daily on the outstanding principal balance hereunder, at an annual interest rate, and in accordance with the payment schedule, indicated below.

[THIS NOTE CONTAINS SOME PROVISIONS PRECEDED BY BOXES. IF A BOX IS MARKED, THE PROVISION APPLIES TO THIS TRANSACTION; IF IT IS NOT MARKED, THE PROVISION DOES NOT APPLY TO THIS TRANSACTION.]

- 1. RATE.
[] PRIME RATE. The Rate shall be the Prime Rate, plus _____ percent, per annum. The "Prime Rate" is the fluctuating rate of interest established by Bank from time to time, at its discretion, whether or not such rate shall be otherwise published. The Prime Rate is established by Bank as an index and may or may not at any time be the best or lowest rate charged by Bank on any loan.
[] FIXED RATE. The Rate shall be fixed at _____ percent per annum.
[X] LIBOR RATE. The Rate shall be the LIBOR Rate, plus 1.50 percent, per annum. The LIBOR Rate shall mean the fluctuating rate of interest applied by Bank from time to time, based on the average of interbank offered rates for dollar deposits (one month term) on the London market based on quotations at five major banks, as published in the Wall Street Journal, rounded upwards to the nearest 1/100th of one percentage point. (.01%).

2. ACCRUAL METHOD. Unless otherwise indicated, interest at the Rate set forth above will be calculated by the 365/360 day method (a daily amount of interest is computed for a hypothetical year of 360 days; that amount is multiplied by the actual number of days for which any principal is outstanding hereunder). If interest is not to be computed using this method, the method shall be: N/A .

3. RATE CHANGE DATE. Any Rate based on a fluctuating index or base rate will change, unless otherwise provided, each time and as of the date that the index or base rate changes. If the Rate is to change on any other date or at any other interval, the change shall be: N/A .

In the event any index is discontinued, Bank shall substitute an index determined by Bank to be comparable, in its sole discretion.

4. PAYMENT SCHEDULE. All payments received hereunder shall be applied first to the payment of any expense or charges payable hereunder or under any other loan documents executed in connection with this Note, then to interest due and payable, with the balance applied to principal, or in such other order as Bank shall determine at its option.

PRINCIPAL PLUS ACCRUED INTEREST. Principal shall be paid in consecutive equal installments of \$ _____, plus accrued interest, payable monthly, quarterly or _____, commencing on _____, 19_____, and continuing on the same day, last day of each successive month, quarter or other period (as applicable) thereafter, with a final payment of all unpaid principal and accrued interest due on _____, 19_____.

FIXED PRINCIPAL AND INTEREST. Principal and interest shall be paid in consecutive equal installments of \$ _____, payable monthly, quarterly or _____, commencing on _____, 19_____, and continuing on the same day, last day of each successive month, quarter or other period (as applicable) thereafter, with a final payment of all unpaid principal and interest due thereon on _____, 19_____. If, on any payment date, accrued interest exceeds the installment amount set forth above, Borrower will also pay such excess as and when billed.

SINGLE PRINCIPAL PAYMENT. Principal shall be paid in full in a single payment on October 1, 1997. Interest thereon shall be paid at maturity, or else monthly, quarterly or _____, commencing on November 1, 1996, and continuing on the same day, last day of each successive month, quarter or other period (as applicable) thereafter, with a final payment of all unpaid interest at the stated maturity of this Note.

OTHER.

5. REVOLVING FEATURE.

Borrower may borrow, repay and reborrow hereunder at any time, up to a maximum aggregate amount outstanding at any one time equal to the principal amount of this Note, provided, that Borrower is not in default under any provision of this Note, any other documents executed in connection with this Note, or any other note or other loan documents now or hereafter executed in connection with any other obligation of Borrower to Bank, and provided that the borrowings hereunder do not exceed any borrowing base or other limitation on borrowings by Borrower. Bank shall incur no liability for its refusal to advance funds based upon its determination that any conditions of such further advances have not been met. Bank records of the amounts borrowed from time to time shall be conclusive proof thereof.

UNCOMMITTED FACILITY. Borrower acknowledges and agrees that, notwithstanding any provisions of this Note or any other documents executed in connection with this Note, Bank has no obligation to make any advance, and that all advances are at the sole discretion of Bank.

OUT-OF-DEBT PERIOD. For a period of at least _____ consecutive days during each fiscal year, any consecutive 12-month period, Borrower shall fully pay down the balance of this Note, so that no amount of principal or interest and no other obligation under this Note remains outstanding.

6. AUTOMATIC PAYMENT.

Borrower has elected to authorize Bank to effect payment of sums due under this Note by means of debiting Borrower's account number _____ . This authorization shall not affect the obligation of Borrower to pay such sums when due, without notice, if there are insufficient funds in such account to make such payment in full on the due

date thereof, or if Bank fails to debit the account.

7. WAIVERS, CONSENTS AND COVENANTS. Borrower, any indorser, or guarantor hereof or any other party hereto (individually an "Obligor" and collectively "Obligors") and each of them jointly and severally: (a) waive presentment, demand, protest, notice of demand, notice of intent to accelerate, notice of acceleration of maturity, notice of protest, notice of nonpayment, notice of dishonor, and any other notice required to be given under the law to any Obligor in connection with the delivery, acceptance, performance, default or enforcement of this Note, any indorsement or guaranty of this Note, or any other documents executed in connection with this Note or any other note or other loan documents now or hereafter executed in connection with any obligation of Borrower to Bank (the "Loan Documents"); (b) consent to all delays, extensions, renewals or other modifications of this Note or the Loan Documents, or waivers of any term hereof or of the Loan Documents, or release or discharge by Bank of any of Obligors, or release, substitution or exchange of any security for the payment hereof, or the failure to act on the part of Bank, or any indulgence shown by Bank (without notice to or further assent from any of Obligors), and agree that no such action, failure to act or failure to exercise any right or remedy by Bank shall in any way affect or impair the obligations of any Obligors or be construed as a waiver by Bank of, or otherwise affect, any of Bank's rights under this Note, under any indorsement or guaranty of this Note or under any of the Loan Documents; and (c) agree to pay, on demand, all costs and expenses of collection or defense of this Note or of any indorsement or guaranty hereof and/or the enforcement or defense of Bank's rights with respect to, or the administration, supervision, preservation, protection of, or realization upon, any property securing payment hereof, including, without limitation, reasonable attorney's fees, including fees related to any suit, mediation or arbitration proceeding, out of court payment agreement, trial, appeal, bankruptcy proceedings or other proceeding, in such amount as may be determined reasonable by any arbitrator or court, whichever is applicable.

8. PREPAYMENTS. Prepayments may be made in whole or in part at any time on any loan without premium or penalty. All prepayments of principal shall be applied in the inverse order of maturity, or in such other order as Bank shall determine in its sole discretion.

9. EVENTS OF DEFAULT. The following are events of default hereunder: (a) the failure to pay any obligation or indebtedness of Borrower to Bank as and when due (whether upon demand, at maturity or by acceleration); (b) the failure by Guarantor to pay any obligation or indebtedness of Guarantor to Bank as and when due and such failure shall continue for five (5) days after the sooner to occur of Guarantor's receipt of notice of such failure from Bank or the date on which such failure first became known to Guarantor; (c) the failure to perform any other obligation or covenant by any Obligor under this Note or any Loan Document as and when due, and such failure shall continue for ten (10) days after the sooner to occur of Borrower's receipt of notice of such failure from Bank or the date on which such failure first becomes known to any officer of Borrower; (d) the failure to pay or perform any other material obligation, liability or indebtedness of any obligor to any other party if the payment or maturity of such indebtedness is accelerated in consequence of such failure or demand for payment of such indebtedness is made; (e) the commencement of a proceeding against any Obligor for dissolution or liquidation, the voluntary or involuntary termination or dissolution of any Obligor or the merger or consolidation of any Obligor with or into another entity; (f) the insolvency of, the business failure of, the appointment of a custodian, trustee, liquidator or receiver for or for any of the property of, the assignment for the benefit of creditors by, or the filing of a petition under bankruptcy, insolvency or debtor's relief law or the filing of a petition for any adjustment of indebtedness, composition or extension by or against any Obligor, and if against any Obligor, the continuation of such proceeding for more than thirty (30) days; (g) the determination by Bank that any representation or warranty made to Bank by any Obligor in any Loan Documents or otherwise is or was, when it was made, untrue or materially misleading; (h) the failure of any Obligor to timely deliver such financial statements, including tax returns, other statements of condition or other information, as Bank shall reasonably request from time to time and such failure shall continue for ten (10) days (i) the entry of a judgment against any Guarantor which Bank deems to be of a material nature, in Bank's sole discretion; (j) the seizure or forfeiture of, or the issuance of any writ of possession, garnishment or attachment, or any turnover order for any material property of any Obligor not suspended within 30 days of such event; (k) the determination by Bank that a material adverse change has occurred in the financial condition of any Obligor; or (l) the failure of Borrower's business to comply with any law or regulation controlling its operation, if such failure can reasonably be expected to have a material adverse effect on

Borrower's financial condition.

10. REMEDIES UPON DEFAULT. Whenever there is an event of default under this Note (a) the entire balance outstanding hereunder and all other obligations to Bank (however acquired or evidenced) shall, at the option of Bank, become immediately due and payable and any obligation of Bank to permit further borrowing under this Note shall immediately cease and terminate, and/or (b) to the extent permitted by law, the Rate of interest on the unpaid principal shall be increased at Bank's discretion up to the maximum rate allowed by law, or if none, 15% per annum (the "Default Rate"). The provisions herein for a Default Rate shall not be deemed to extend the time for any payment hereunder or to constitute a "grace period" giving Obligors a right to cure any default. At Bank's option, any accrued and unpaid interest, fees or charges may, for purposes of computing and accruing interest on a daily basis after the due date of the Note or any installment thereof, be deemed to be a part of the principal balance, and interest shall accrue on a daily compounded basis after such date at the Default Rate provided in this Note until the entire outstanding balance of principal and interest is paid in full. Bank is hereby authorized at any time to set off and charge against any deposit accounts, as well as any money, instruments, securities, documents, chattel paper, credits, claims, demands, income and any other property, rights and interests which at any time shall come into the possession or custody or under the control of Bank or any of its agents, affiliates or correspondents, without notice or demand, any and all obligations due hereunder. Additionally, Bank shall have all rights and remedies available under each of the Loan Documents, as well as all rights and remedies available at law or in equity.

11. NON-WAIVER. The failure at any time of Bank to exercise any of its options or any other rights hereunder shall not constitute a waiver thereof, nor shall it be a bar to the exercise of any of its options or rights at a later date. All rights and remedies of Bank shall be cumulative and may be pursued singly, successively or together, at the option of Bank. The acceptance by Bank of any partial payment shall not constitute a waiver of any default or of any of Bank's rights under this Note. No waiver of any of its rights hereunder, and no modification or amendment of this Note, shall be deemed to be made by Bank unless the same shall be in writing, duly signed on behalf of Bank; each such waiver shall apply only with respect to the specific instance involved, and shall in no way impair the rights of Bank or the obligations of Obligor to Bank in any other respect at any other time.

12. APPLICABLE LAW, VENUE AND JURISDICTION. Borrower agrees that this Note shall be deemed to have been made in the State of Texas at Bank's address indicated at the beginning of this Note and shall be governed by, and construed in accordance with, the laws of the State of Texas, and is performable in the City and County of Texas indicated at the beginning of this Note. In any litigation in connection with or to enforce this Note or any indorsement or guaranty of this Note or any Loan Documents, Obligors, and each of them, irrevocably consent to and confer personal jurisdiction on the courts of the State of Texas or the United States courts located within the State of Texas. Nothing contained herein shall, however, prevent Bank from bringing any action or exercising any rights within any other state or jurisdiction or from obtaining personal jurisdiction by any other means available under applicable law.

13. PARTIAL INVALIDITY. The unenforceability or invalidity of any provision of this Note shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of this Note or of the Loan Documents to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

14. BINDING EFFECT. This Note shall be binding upon and inure to the benefit of Borrower, Obligors and Bank and their respective successors, assigns, heirs and personal representatives, provided, however, that no obligations of Borrower or Obligors hereunder can be assigned without prior written consent of Bank.

15. CONTROLLING DOCUMENT. To the extent that this Note conflicts with or is in any way incompatible with any other Loan Document concerning this obligation, the Note shall control over any other document, and if the Note does not address an issue, then each other document shall control to the extent that it deals most specifically with an issue.

16. ARBITRATION. ANY CONTROVERSY OR CLAIM BETWEEN OR AMONG THE PARTIES HERETO INCLUDING BUT NOT LIMITED TO THOSE ARISING OUT OF OR RELATING TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT OR ANY RELATED INSTRUMENTS, AGREEMENTS OR

DOCUMENTS, INCLUDING ANY CLAIM BASED ON OR ARISING FROM AN ALLEGED TORT, SHALL BE DETERMINED BY BINDING ARBITRATION IN ACCORDANCE WITH THE FEDERAL ARBITRATION ACT (OR IF NOT APPLICABLE, THE APPLICABLE STATE LAW), THE RULES OF PRACTICE AND PROCEDURE FOR THE ARBITRATION OF COMMERCIAL DISPUTES OF J.A.M.S./ENDISPUTE OR ANY SUCCESSOR THEREOF ("J.A.M.S."), AND THE "SPECIAL RULES" SET FORTH BELOW. IN THE EVENT OF ANY INCONSISTENCY, THE SPECIAL RULES SHALL CONTROL. JUDGMENT UPON ANY ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION. ANY PARTY TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT MAY BRING AN ACTION, INCLUDING A SUMMARY OR EXPEDITED PROCEEDING, TO COMPEL ARBITRATION OF ANY CONTROVERSY OR CLAIM TO WHICH THIS AGREEMENT APPLIES IN ANY COURT HAVING JURISDICTION OVER SUCH ACTION.

A. SPECIAL RULES. THE ARBITRATION SHALL BE CONDUCTED IN THE COUNTY OF ANY BORROWER'S DOMICILE AT THE TIME OF THE EXECUTION OF THIS INSTRUMENT, AGREEMENT OR DOCUMENT AND ADMINISTERED BY J.A.M.S. WHO WILL APPOINT AN ARBITRATOR; IF J.A.M.S. IS UNABLE OR LEGALLY PRECLUDED FROM ADMINISTERING THE ARBITRATION, THEN THE AMERICAN ARBITRATION ASSOCIATION WILL SERVE. ALL ARBITRATION HEARINGS WILL BE COMMENCED WITHIN 90 DAYS OF THE DEMAND FOR ARBITRATION; FURTHER, THE ARBITRATOR SHALL ONLY, UPON A SHOWING OF CAUSE, BE PERMITTED TO EXTEND THE COMMENCEMENT OF SUCH HEARING FOR UP TO AN ADDITIONAL 60 DAYS.

B. RESERVATION OF RIGHTS. NOTHING IN THIS ARBITRATION PROVISION SHALL BE DEEMED TO (I) LIMIT THE APPLICABILITY OF ANY OTHERWISE APPLICABLE STATUTES OF LIMITATION OR REPOSE AND ANY WAIVERS CONTAINED IN THIS INSTRUMENT, AGREEMENT OR DOCUMENT; OR (II) BE A WAIVER BY BANK OF THE PROTECTION AFFORDED TO IT BY 12 U.S.C. SEC. 91 OR ANY SUBSTANTIALLY EQUIVALENT STATE LAW; OR (III) LIMIT THE RIGHT OF BANK HERETO (A) TO EXERCISE SELF HELP REMEDIES SUCH AS (BUT NOT LIMITED TO) SETOFF, OR (B) TO FORECLOSE AGAINST ANY REAL OR PERSONAL PROPERTY COLLATERAL, OR (C) TO OBTAIN FROM A COURT PROVISIONAL OR ANCILLARY REMEDIES SUCH AS (BUT NOT LIMITED TO) INJUNCTIVE RELIEF, WRIT OF POSSESSION OR THE APPOINTMENT OF A RECEIVER. BANK MAY EXERCISE SUCH SELF HELP RIGHTS, FORECLOSE UPON SUCH PROPERTY, OR OBTAIN SUCH PROVISIONAL OR ANCILLARY REMEDIES BEFORE, DURING OR AFTER THE PENDENCY OF ANY ARBITRATION PROCEEDING BROUGHT PURSUANT TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT. NEITHER THIS EXERCISE OF SELF HELP REMEDIES NOR THE INSTITUTION OR MAINTENANCE OF AN ACTION FOR FORECLOSURE OR PROVISIONAL OR ANCILLARY REMEDIES SHALL CONSTITUTE A WAIVER OF THE RIGHT OF ANY PARTY, INCLUDING THE CLAIMANT IN ANY SUCH ACTION, TO ARBITRATE THE MERITS OF THE CONTROVERSY OR CLAIM OCCASIONING RESORT TO SUCH REMEDIES.

BORROWER REPRESENTS TO BANK THAT THE PROCEEDS OF THIS LOAN ARE TO BE USED PRIMARILY FOR BUSINESS, COMMERCIAL OR AGRICULTURAL PURPOSES. BORROWER ACKNOWLEDGES HAVING READ AND UNDERSTOOD, AND AGREES TO BE BOUND BY, ALL TERMS AND CONDITIONS OF THIS NOTE.

NOTICE OF FINAL AGREEMENT:

THIS WRITTEN PROMISSORY NOTE REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

BANK: NATIONSBANK OF TEXAS, N.A. BORROWER

By: _____
Print Individual's Name:

Name:

Title: _____
Print Individual's Name:

CORPORATE OR PARTNERSHIP BORROWER

Jayhawk Medical Acceptance Corporation
Corporate or Partnership Name

By: /s/Michael I. Smartt

Name: Michael I. Smartt

Title:Chairman, CEO

/s/Linda Berneburg
Attest (If Applicable)

[Corporate Seal]

NationsBank of Texas, N.A.

Customer# 4556900

Date: October 1, 1996

CONTINUING AND UNCONDITIONAL GUARANTY

<TABLE>

<CAPTION>

<S>

<C>

BANK:

GUARANTOR:

NationsBank of Texas, N.A.
Banking Center: PRIVATE CLIENT GROUP

901 MAIN STREET
DALLAS, TEXAS 75202-3714

CARL H. WESTCOTT
100 CRESCENT COURT, SUITE 1620
DALLAS, TEXAS 75201

County: DALLAS

County: Dallas

</TABLE>

"BORROWER": JAYHAWK MEDICAL ACCEPTANCE CORPORATION

1. GUARANTY. FOR VALUE RECEIVED, and to induce NationsBank of Texas, N.A. (Attn: Private Client Group) ("Bank") to make loans or advances or to extend credit or other financial accommodations or benefits, with or without security, to or for the account of Borrower, the undersigned "Guarantor", if more than one, then each of them jointly and severally, hereby irrevocably and unconditionally guarantees to Bank the full and prompt payment when due, whether by acceleration or otherwise, of any and all Liabilities (as hereinafter defined) of Borrower to Bank. This Guaranty is continuing and unlimited as to the amount, and is cumulative to and does not supersede any other guaranties.

The undertakings of Guarantor hereunder are independent of the Liabilities of Borrower and a separate action or actions for payment, damages or performance may be brought or prosecuted against Guarantor, whether or not an action is brought against Borrower or to realize upon the security for the Liabilities, whether or not Borrower is joined in any such action or actions, and whether or not notice is given or demand is made upon Borrower.

Bank shall not be required to proceed first against Borrower, or any other person, or entity, whether primarily or secondarily liable, or against any

collateral held by it, before resorting to Guarantor for payment, and Guarantor shall not be entitled to assert as a defense to the enforceability of the Guaranty any defense of Borrower with respect to any Liabilities.

2. PARAGRAPH HEADINGS, GOVERNING LAW AND BINDING EFFECT. Guarantor agrees that the paragraph headings in this Guaranty are for convenience only and that they will not limit any of the provisions of this Guaranty. Guarantor further agrees that this Guaranty shall be deemed to have been made in the State of Texas at Bank's address indicated at the beginning of this Guaranty and shall be governed by, and construed in accordance with, the laws of the State of Texas, and is performable in the City and County of Texas at Bank's address indicated at the beginning of this Guaranty. In any litigation in connection with or to enforce this Guaranty or any other Loan Documents, Guarantor, and each of them, irrevocably consent to and confer personal jurisdiction on the courts of the State of Texas or the United States courts located within the State of Texas. Nothing contained herein shall, however, prevent Bank from bringing any action or exercising any rights within any other state or jurisdiction or from obtaining personal jurisdiction by any other means available by applicable law. This Guaranty is binding upon Guarantor, his, their or its executors, administrators, successors or assigns, and shall inure to the benefit of Bank, its successors, indorsees or assigns. Anyone executing this Guaranty shall be bound by the terms hereof without regard to execution by anyone else.

3. DEFINITIONS.

A. "Guarantor" shall mean Guarantor or any one or more of them.

B. "Liability" or "Liabilities" shall mean without limitation, all liabilities, indebtedness, and obligations of Borrower under that certain Promissory Note of even date herewith to Bank, whether direct or indirect, absolute or contingent, joint or several, secured or unsecured, due or not due, contractual or tortious, liquidated or unliquidated, arising by operation of law or otherwise, now or hereafter existing, or held or to be held by Bank for its own account or as agent for another or others, including but not limited to all extensions or renewals thereof, and all sums payable under or by virtue thereof, including without limitation, all amounts of principal and interest, all expenses (including reasonable attorney's fees and cost of collection) incurred in the collection thereof or the enforcement of rights thereunder (including without limitation, any liability arising from failure to comply with state or federal laws, rules and regulations concerning the control of hazardous waste or substances at or with respect to any real estate securing any loan guaranteed hereby), whether arising in the ordinary course of business or otherwise. If Borrower is a partnership, corporation or other entity the term "Liability" or "Liabilities" as used herein shall include all Liabilities to Bank of any successor entity or entities.

C. "Loan Documents" shall mean all deeds to secure debt, deeds of trust, mortgages, security agreements and other documents securing payment of the Liabilities and all notes and other agreements, documents, and instruments evidencing or relating to the Liabilities.

4. WAIVERS BY GUARANTOR. Guarantor waives notice of acceptance of this Guaranty, notice of any Liabilities or Obligations to which it may apply, presentment, demand for payment, protest, notice of dishonor or nonpayment of any Liabilities, notice of intent to accelerate, notice of acceleration, and notice of any suit or the taking of other action by Bank against Borrower, Guarantor or any other person, any applicable statute of limitations and any other notice to any party liable on any Loan Document (including Guarantor).

Each Guarantor also hereby subordinates to the claims, rights and remedies of Bank any claim, right or remedy which such Guarantor may now have or hereafter acquire against Borrower that arises hereunder and/or from the performance by any other Guarantor hereunder including, without limitation, any claim, remedy or right of subrogation, reimbursement, exoneration, contribution, indemnification, or participation in any claim, right or remedy of Bank against Borrower or against any security which Bank now has or hereafter acquires, whether or not such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise. Each Guarantor agrees that such Guarantor will not exercise any claim, right or remedy against Borrower unless and until all Liabilities have been paid in full.

Guarantor also waives the benefits of any provision of law requiring that Bank exhaust any right or remedy, or take any action, against Borrower, any Guarantor, any other person and/or property including but not limited to the provisions of the Texas Civil Practice and Remedies Code 17.001, Texas Rules of Civil Procedure Rule 31 and the Texas Business and Commerce Code Chapter 34, as amended, or otherwise.

Bank may at any time and from time to time (whether before or after revocation or termination of this Guaranty) without notice to Guarantor (except as required by law), without incurring responsibility to Guarantor, without impairing, releasing or otherwise affecting the obligations of Guarantor, in whole or in part, and without the indorsement or execution by Guarantor of any additional consent, waiver or guaranty: (a) change the manner, place or terms of payment, or change or extend the time of or renew, or change any interest rate or alter any Liability or installment thereof, or any security therefor; (b) loan additional monies or extend additional credit to Borrower, with or without security, thereby creating new Liabilities the payment of which shall be guaranteed hereunder, and the Guaranty herein made shall apply to the Liabilities as so changed, extended, surrendered, realized upon or otherwise altered; (c) sell, exchange, release, surrender, realize upon or otherwise deal with in any manner and in any order any property at any time pledged or mortgaged to secure the Liabilities and any offset there against; (d) exercise or refrain from exercising any rights against Borrower or others (including Guarantor) or act or refrain from acting in any other manner; (e) settle or compromise any Liability or any security therefor and subordinate the payment of all or any part thereof to the payment of any Liability of any other parties primarily or secondarily liable on any of the Liabilities; (f) release or compromise any Liability of Guarantor hereunder or any Liability of any other parties primarily or secondarily liable on any of the Liabilities; or (g) apply any sums from any sources to any Liability without regard to any

Liabilities remaining unpaid.

5. SUBORDINATION. Upon demand of Bank, Guarantor agrees that it will not demand, take or receive from Borrower, by set-off or in any other manner, payment of any debt now and at any time or times hereafter owing by Borrower to Guarantor unless and until all the Liabilities shall have been fully paid and performed, and any security interest, liens or encumbrances which Guarantor now has and from time to time hereafter may have upon any of the assets of Borrower shall be made subordinate, junior and inferior and postponed in priority, operation and effect to any security interest of Bank in such assets.

6. WAIVERS BY BANK. No delay on the part of Bank in exercising any of its options, powers or rights, and no partial or single exercise thereof, shall constitute a waiver thereof. No waiver of any of its rights hereunder, and no modification or amendment of this Guaranty, shall be deemed to be made by Bank unless the same shall be in writing, duly signed on behalf of Bank; and each such waiver, if any, shall apply only with respect to the specific instance involved, and shall in no way impair the rights of Bank or the obligations of Guarantor to Bank in any other respect at any other time.

7. TERMINATION. This Guaranty shall be binding on each Guarantor until written notice of revocation signed by such Guarantor or written notice of the death of such Guarantor shall have been received by Bank, notwithstanding change in name, location, composition or structure of, or the dissolution, termination or increase, decrease or change in personnel, owners or partners of Borrower, or any one or more of Guarantors. No notice of revocation or termination hereof shall affect in any manner rights arising under this Guaranty with respect to Liabilities that shall have been committed, created, contracted, assumed or incurred prior to receipt of such written notice pursuant to any agreement entered into by Bank prior to receipt of such notice. The sole effect of such notice of revocation or termination hereof shall be to exclude from this Guaranty, Liabilities thereafter arising that are unconnected with Liabilities theretofore arising or transactions entered into theretofore.

In the event of the death of a Guarantor, the liability of the estate of the deceased Guarantor shall continue in full force and effect as to (i) the Liabilities existing at the date of death, and any renewals or extensions thereof, and (ii) loans or advances made to or for the account of Borrower after the date of death of the deceased Guarantor pursuant to a commitment made by Bank to Borrower prior to the date of such death. As to all surviving Guarantors, this Guaranty shall continue in full force and effect after the death of a Guarantor, not only as to the Liabilities existing at that time, but also as to Liabilities thereafter incurred by Borrower to Bank.

8. PARTIAL INVALIDITY AND/OR ENFORCEABILITY OF GUARANTY. The unenforceability or invalidity of any provision of this Guaranty shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document as it may apply to any person or circumstance shall not affect the enforceability or

validity of such provision as it may apply to other persons or circumstances.

In the event Bank is required to relinquish or return the payments, the collateral or the proceeds thereof, in whole or in part, which had been previously applied to or retained for application against any Liability, by reason of a proceeding arising under the Bankruptcy Code, or for any other reason, this Guaranty shall automatically continue to be effective notwithstanding any previous cancellation or release effected by Bank.

9. CHANGE OF STATUS. Guarantor will not become a party to a merger or consolidation with any other company, except where Guarantor is the surviving corporation or entity, and all covenants under this Guaranty are assumed by the surviving entity. Further, Guarantor may not change its legal structure, without the written consent of Bank and all covenants under this Guaranty are assumed by the new or surviving entity. Guarantor further agrees that this Guaranty shall be binding, legal and enforceable against Guarantor in the event Borrower changes its name, status or type of entity.

10. FINANCIAL AND OTHER INFORMATION. Guarantor has made an independent investigation of the financial condition and affairs of Borrower prior to entering into this Guaranty, and Guarantor will continue to make such investigation; and in entering into this Guaranty Guarantor has not relied upon any representation of Bank as to the financial condition, operation or creditworthiness of Borrower. Guarantor further agrees that Bank shall have no duty or responsibility now or hereafter to make any investigation or appraisal of Borrower on behalf of Guarantor or to provide Guarantor with any credit or other information which may come to its attention now or hereafter.

11. NOTICES. Notice shall be deemed reasonable if mailed postage prepaid at least five (5) days before the related action to the address of Guarantor or Bank, at their respective addresses indicated at the beginning of this Guaranty, or to such other address as any party may designate by written notice to the other party. Each notice, request and demand shall be deemed given or made, if sent by mail, upon the earlier of the date of receipt or five (5) days after deposit in the U.S. Mail, first class postage prepaid, or if sent by any other means, upon delivery.

12. GUARANTOR DUTIES. Guarantor shall upon notice or demand by Bank promptly and with due diligence pay all Liabilities for the benefit of Bank in the event of (a) the occurrence of any monetary default under any Loan Documents; (b) the failure of any Borrower or Guarantor to pay any material liability or indebtedness of any Borrower or Guarantor to Bank, or to any affiliate of Bank and the continuation of such failure for five (5) days after Bank provides Guarantor with notice thereof

13. REMEDIES. Upon the failure of Guarantor to fulfill its duty to pay all Liabilities as required hereunder, Bank shall have all of the remedies of a creditor and, to the extent applicable, of a secured party, under all applicable law, and without limiting the generality of the foregoing, Bank may, at its option and without notice or demand: (a) declare any Liability

due and payable at once; and (b) take possession of any collateral pledged by Borrower or Guarantor wherever located, and sell, resell, assign, transfer and deliver all or any part of said collateral of Borrower or Guarantor at any public or private sale or otherwise dispose of any or all of the collateral in its then condition, for cash or on credit or for future delivery, and in connection therewith Bank may impose reasonable conditions upon any such sale, and Bank, unless prohibited by law the provisions of which cannot be waived, may purchase all or any part of said collateral to be sold, free from and discharged of all trusts, claims, rights or redemption and equities of Borrower or Guarantor whatsoever; Guarantor acknowledges and agrees that the sale of any collateral through any nationally recognized broker-dealer, investment banker or any other method common in the securities industry shall be deemed a commercially reasonable sale under the Uniform Commercial Code or any other equivalent statute or federal law, and expressly waives notice thereof except as provided herein; and (c) set-off against any or all liabilities of Guarantor all money owed by Bank or any of its agents or affiliates in any capacity to Guarantor whether or not due, and also set-off against all other Liabilities of Guarantor to Bank all money owed by Bank in any capacity to Guarantor, and if exercised by Bank, Bank shall be deemed to have exercised such right of set-off and to have made a charge against any such money immediately upon the occurrence of such default although made or entered on the books subsequent thereto.

Bank shall have a properly perfected security interest in all of Guarantor's funds on deposit with Bank to secure the balance of any Liabilities and/or Obligations that Guarantor may now or in the future owe Bank. Bank is granted a contractual right of set-off and will not be liable for dishonoring checks or withdrawals where the exercise of Bank's contractual right of set-off or security interest results in insufficient funds in Guarantor's account. As authorized by law, Guarantor grants to Bank this contractual right of set-off and security interest in all property of Guarantor now or at anytime hereafter in the possession of Bank, including but not limited to any joint account, special account, account by the entirety, tenancy in common, and all dividends and distributions now or hereafter in the possession or control of Bank.

14. ATTORNEY FEES, COST AND EXPENSES. Guarantor shall pay all costs of collection and reasonable attorney's fees, including reasonable attorney's fees in connection with any suit, mediation or arbitration proceeding, out of Court payment agreement, trial, appeal, bankruptcy proceedings or otherwise, incurred or paid by Bank in enforcing the payment of any Liability or defending this agreement.

15. PRESERVATION OF PROPERTY. Bank shall not be bound to take any steps necessary to preserve any rights in any property pledged as collateral to Bank to secure Borrower and/or Guarantor's Liabilities and Obligations as against prior parties who may be liable in connection therewith, and Borrower and Guarantor hereby agree to take any such steps. Bank, nevertheless, at any time, may (a) take any action it deems appropriate for the care or preservation of such property or of any rights of Borrower and/or Guarantor or Bank therein; (b) demand, sue for, collect or receive any money or property at

any time due, payable or receivable on account of or in exchange for any property pledged as collateral, to Bank to secure Borrower and/or Guarantor's Liabilities to Bank; (c) compromise and settle with any person liable on such property; or (d) extend the time of payment or otherwise change the terms of the Loan Documents as to any party liable on the Loan Documents, all without notice to, without incurring responsibility to, and without affecting any of the Obligations or Liabilities of Guarantor.

16. ARBITRATION. ANY CONTROVERSY OR CLAIM BETWEEN OR AMONG THE PARTIES HERETO INCLUDING BUT NOT LIMITED TO THOSE ARISING OUT OF OR RELATING TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT OR ANY RELATED INSTRUMENTS, AGREEMENTS OR DOCUMENTS, INCLUDING ANY CLAIM BASED ON OR ARISING FROM AN ALLEGED TORT, SHALL BE DETERMINED BY BINDING ARBITRATION IN ACCORDANCE WITH THE FEDERAL ARBITRATION ACT (OR IF NOT APPLICABLE, THE APPLICABLE STATE LAW), THE RULES OF PRACTICE AND PROCEDURE FOR THE ARBITRATION OF COMMERCIAL DISPUTES OF J.A.M.S./ENDISPUTE OR ANY SUCCESSOR THEREOF ("J.A.M.S."), AND THE "SPECIAL RULES" SET FORTH BELOW. IN THE EVENT OF ANY INCONSISTENCY, THE SPECIAL RULES SHALL CONTROL. JUDGMENT UPON ANY ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION. ANY PARTY TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT MAY BRING AN ACTION, INCLUDING A SUMMARY OR EXPEDITED PROCEEDING, TO COMPEL ARBITRATION OF ANY CONTROVERSY OR CLAIM TO WHICH THIS AGREEMENT APPLIES IN ANY COURT HAVING JURISDICTION OVER SUCH ACTION.

A. SPECIAL RULES. THE ARBITRATION SHALL BE CONDUCTED IN THE COUNTY OF ANY BORROWER'S DOMICILE AT THE TIME OF THE EXECUTION OF THIS INSTRUMENT, AGREEMENT OR DOCUMENT AND ADMINISTERED BY J.A.M.S. WHO WILL APPOINT AN ARBITRATOR; IF J.A.M.S. IS UNABLE OR LEGALLY PRECLUDED FROM ADMINISTERING THE ARBITRATION, THEN THE AMERICAN ARBITRATION ASSOCIATION WILL SERVE. ALL ARBITRATION HEARINGS WILL BE COMMENCED WITHIN 90 DAYS OF THE DEMAND FOR ARBITRATION; FURTHER, THE ARBITRATOR SHALL ONLY, UPON A SHOWING OF CAUSE, BE PERMITTED TO EXTEND THE COMMENCEMENT OF SUCH HEARING FOR UP TO AN ADDITIONAL 60 DAYS.

B. RESERVATION OF RIGHTS. NOTHING IN THIS ARBITRATION PROVISION SHALL BE DEEMED TO (I) LIMIT THE APPLICABILITY OF ANY OTHERWISE APPLICABLE STATUTES OF LIMITATION OR REPOSE AND ANY WAIVERS CONTAINED IN THIS INSTRUMENT, AGREEMENT OR DOCUMENT; OR (II) BE A WAIVER BY BANK OF THE PROTECTION AFFORDED TO IT BY 12 U.S.C. SEC. 91 OR ANY SUBSTANTIALLY EQUIVALENT STATE LAW; OR (III) LIMIT THE RIGHT OF BANK HERETO (A) TO EXERCISE SELF HELP REMEDIES SUCH AS (BUT NOT LIMITED TO) SETOFF, OR (B) TO FORECLOSE AGAINST ANY REAL OR PERSONAL PROPERTY COLLATERAL, OR (C) TO OBTAIN FROM A COURT PROVISIONAL OR ANCILLARY REMEDIES SUCH AS (BUT NOT LIMITED TO) INJUNCTIVE RELIEF, WRIT OF POSSESSION OR THE APPOINTMENT OF A RECEIVER. BANK MAY EXERCISE SUCH SELF HELP RIGHTS, FORECLOSE UPON SUCH PROPERTY, OR OBTAIN SUCH PROVISIONAL OR ANCILLARY REMEDIES BEFORE, DURING OR AFTER THE PENDENCY OF ANY ARBITRATION PROCEEDING BROUGHT PURSUANT TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT. NEITHER THIS EXERCISE OF SELF HELP REMEDIES NOR THE INSTITUTION OR MAINTENANCE OF AN ACTION FOR FORECLOSURE OR PROVISIONAL OR ANCILLARY REMEDIES SHALL CONSTITUTE A WAIVER OF THE RIGHT OF ANY PARTY, INCLUDING THE CLAIMANT IN ANY SUCH ACTION, TO ARBITRATE THE MERITS OF THE CONTROVERSY OR CLAIM OCCASIONING RESORT TO SUCH REMEDIES.

18. CONTROLLING DOCUMENT. To the extent that this Continuing and Unconditional Guaranty conflicts with or is in any way incompatible with any other Loan Document concerning this Obligation, any promissory note shall control over any other document, and if such promissory note does not address an issue, then each other document shall control to the extent that it deals most specifically with an issue.

19. NOTICE OF FINAL AGREEMENT.

THIS WRITTEN CONTINUING AND UNCONDITIONAL GUARANTY REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the undersigned has caused this guaranty to be executed on this 1st day of October, 1996.

NATIONSBANK OF TEXAS, N.A.

GUARANTOR:

By:/s/ Thomas C. Goyne

/s/ Carl H. Westcott
Carl H. Westcott

Thomas C. Goyne, Vice President

INDIVIDUAL ACKNOWLEDGMENT

State of Texas _____)
County of Dallas _____)

This instrument was acknowledged before me on Oct. 1 _____, 1996____, by _____
/s/ Carl H. Westcott
(Guarantor)

(Seal)

/s/ Judith Pearce LeDoux
Notary Public
in and for the State of
Texas

12/12/96
My Commission Expires

Judith Pearce LeDoux
Print Name of Notary

AGREEMENT

This Agreement dated October 1, 1996, by and between NationsBank of Texas, N.A. (the "Bank") and Jayhawk Medical Acceptance Corporation (the "Borrower");

Whereas, Borrower desires to obtain a loan (together with all extensions and renewals thereof hereafter referred to as the "Loan") in the amount of \$15,000,000.00 from Bank in order to provide funds for start-up of consumer finance company specializing in loans to individuals for elective surgery; and

Whereas, Bank is willing to grant the Loan provided Borrower agrees not to encumber certain real or personal property;

Now, therefore, for and in consideration of the Loan made or to be made by Bank to Borrower, and for other good and valuable considerations, the receipt and sufficiency of which is hereby acknowledged by both Borrower and Bank, the parties hereto do agree as follows:

1. Property. Borrower hereby agrees that, for so long as any part of the Loan remains outstanding, that it will not, without first obtaining the prior written consent of Bank, create or permit any lien, encumbrance, charge, or security interest of any kind to exist on:

Accounts: Any and all accounts and other rights of Debtor to the payment for goods sold or leased or for services rendered whether or not earned by performance, contract rights, book debts, checks, notes, drafts, instruments, chattel paper, acceptances, and any and all amounts due to Debtor from a factor or other forms of obligations and receivables, now existing or hereafter arising out of the business of Debtor.

2. Recording. Bank is hereby authorized and permitted to cause this instrument to be recorded at such time and at such place as Bank, at its option, may elect.

3. Representations and Warranties of Borrower. Borrower represents and warrants to Bank as follows:

(i) That Borrower owns the real or personal property referenced above and there are no existing liens or encumbrances upon or affecting such property.

(ii) Borrower is a (corporation) duly organized and validly existing and in good standing under the laws of the State of Texas and has all requisite power and authority to enter into this Agreement.

(iii) The execution and delivery by Borrower of this agreement and

the note (the "Note") evidencing the Loan and the performance of the respective obligations hereunder and thereunder have been duly authorized. This Agreement and the Note constitute the legal, valid and binding obligation of Borrower enforceable in accordance with their terms. The execution and delivery of this Agreement and the compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any of the provisions of any other agreement to which the Borrower is a party.

(iv) The continued validity in all respects of the aforesaid representations and warranties shall be a condition precedent to Bank's obligation to fund the Loan. If any of the representations and warranties shall not be correct at the time the same is made or at the time a request for an advance under the Loan is made, Bank will be under no obligation to make any such advance under the Loan.

4. Reporting. Borrower hereby agrees to furnish to Bank quarterly accounts receivable agings summaries to Bank within 30 days after the close of each quarter of each fiscal year.

5. Default. Any failure of the Borrower to comply with the terms of this Agreement shall constitute an event of default under the documents evidencing the Loan and the Borrower agrees that in such event the Bank shall have the right in addition to such other remedies as may be available to it, to injunctive relief enjoining such breach of the Agreement and neither the Borrower, its officers, directors, employees, agents or representatives shall urge that such remedy is not appropriate under the circumstances, it being expressly acknowledged by the Borrower that such action shall cause the Bank irreparable damage for which legal remedies are inadequate to protect the Bank.

6. Termination. This Agreement shall remain in full force and effect until the Loan described above shall have been paid in full.

In witness whereof, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

Jayhawk Medical Acceptance Corporation

By: /s/ Michael I. Smartt

Name: Michael I. Smartt

Title: Chairman, CEO

NationsBank of Texas, N.A.

By: /s/ Thomas C. Goyne

Name: Thomas C. Goyne

Title: Vice President

State of Texas
County of Dallas _____

Personally appeared before me, the undersigned, Notary Public, Michael I. Smartt _____, with whom I am personally acquainted, and who acknowledged that he/she executed the within instrument for the purposes therein contained.

Witness my hand, at office, this 11 day of October _____, 1996 ____.

/s/ Linda Berneburg _____
Notary Public

Commission expires: 12-15-99 _____

<TABLE>
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COMPUTATION OF EARNINGS PER SHARE

Exhibit 11

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
PRIMARY:				
Net income	\$ 3,125,000	\$ 1,435,000	\$ 8,031,000	\$ 3,106,000
Shares as adjusted:				
Weighted average common shares outstanding	23,871,409	18,114,728	22,577,376	15,572,997
Assumed conversion of Series A convertible preferred stock	-	1,039,748	-	2,153,793
Incremental shares from outstanding stock options as determined under the treasury stock method	319,537	376,715	361,580	303,971
Shares as adjusted	24,190,946	19,531,191	22,938,956	18,030,761
Net income per share	\$.13	\$.07	\$.35	\$.17
FULLY DILUTED:				
Net income	\$ 3,125,000	\$ 1,435,000	\$ 8,031,000	\$ 3,106,000
Shares as adjusted:				
Weighted average common shares outstanding	23,871,409	18,114,728	22,577,376	15,572,997
Assumed conversion of Series A convertible preferred stock	-	1,039,748	-	2,153,793
Incremental shares from outstanding stock options as determined under the treasury stock method	393,088	418,871	420,860	418,871
Shares as adjusted	24,264,497	19,573,347	22,998,236	18,145,661
Net income per share	\$.13	\$.07	\$.35	\$.17

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<FN>

<F1>INCLUDES RESTRICTED CASH OF \$19,665.

<F2>INCLUDES SECURITIZED NOTES OF \$55,422.

<F3>TWO-YEAR REVOLVING CREDIT FACILITY WHICH PERMITS BORROWINGS OF UP TO \$65

MILLION AT A VARIABLE RATE ON INTEREST (8.25% AT SEPTEMBER 30, 1996).
<F4>INCLUDES DEALER HOLDBACKS OF \$148,469.

</TABLE>