FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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HORIZON HEALTH CORP /DE/

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UNITED STATES
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 May 31, 2005

or

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

For the transition period from _____ to _____

Commission file number 1-13626

HORIZON HEALTH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**75-2293354**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1500 Waters Ridge Drive
Lewisville, Texas 75057-6011
(Address of principal executive offices, including zip code)

(972) 420-8200
(Registrant' s telephone number, including area code)

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

The number of shares outstanding of the registrant' s Common Stock, $0.01 par value, as of June 23, 2005, was 14,788,198.

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PART I - FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements

HORIZON HEALTH CORPORATION

CONSOLIDATED BALANCE SHEETS (Unaudited)

	May 31, 2005	August 31, 2004
CURRENT ASSETS:		
Cash and cash equivalents	$30,801,476	$1,907,708
Accounts receivable less allowance for doubtful accounts of $4,494,568 at May 31, 2005 and $2,412,152 at August 31, 2004	26,631,293	22,058,989
Prepaid expenses and supplies	1,277,180	573,230
Other receivables	1,806,875	964,969
Other assets	1,085,311	806,019
Income taxes receivable	64,117	51,886
Deferred taxes	2,767,937	2,426,199
TOTAL CURRENT ASSETS	64,434,189	28,789,000
Property and equipment, net	29,214,572	28,801,497
Goodwill	83,817,902	83,723,888
Other indefinite life intangibles	1,124,988	795,988

Contracts, net of accumulated amortization of $6,796,107 at May 31, 2005, and $6,184,217 at August 31, 2004	1,793,637	2,405,526
Other intangibles, net of accumulated amortization of $653,824 at May 31, 2005, and $458,460 at August 31, 2004	123,190	318,554
Other non-current assets	64,843	430,434
TOTAL ASSETS	$180,573,321	$145,264,887

See accompanying notes to consolidated financial statements.

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HORIZON HEALTH CORPORATION

CONSOLIDATED BALANCE SHEETS (Unaudited)

	May 31, 2005	August 31, 2004
CURRENT LIABILITIES:		
Accounts payable	$3,458,789	$2,772,608
Employee compensation and benefits	8,871,867	9,244,235
Medical claims payable	2,761,648	2,461,535
Accrued expenses and unearned revenue	10,982,276	8,750,459
TOTAL CURRENT LIABILITIES	26,074,580	23,228,837
Other noncurrent liabilities	2,229,721	1,570,386
Long-term debt	–	40,000,000
Deferred income taxes	5,756,161	4,641,257
TOTAL LIABILITIES	34,060,462	69,440,480
Commitments and contingencies		
STOCKHOLDERS' EQUITY: (1)		
Preferred stock, $.10 par value, 500,000 shares authorized; none issued or outstanding	–	–

Common stock, $.01 par value, 40,000,000 shares authorized; 17,985,500 shares issued and 14,776,198 shares outstanding at May 31, 2005 and 14,535,500 shares issued and 10,943,478 shares outstanding at August 31, 2004	147,762	130,512
Additional paid-in capital	82,812,399	23,083,887
Retained earnings	63,552,698	44,148,512
Treasury stock, at cost, -0- shares at May 31, 2005 and 382,720 shares at August 31, 2004	–	(1,538,504)
	146,512,859	75,824,407
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$180,573,321	$145,264,887

(1) The number of shares and per share amounts have been restated to reflect the impact of the upcoming June 15, 2005 two-for-one stock split.

See accompanying notes to consolidated financial statements.

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HORIZON HEALTH CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended May 31,	
	2005	2004
Revenue	$57,905,798	$44,756,062
Cost of services (exclusive of depreciation shown separately below)	44,520,333	34,476,937
Selling, general and administrative	6,001,905	5,032,112
Provision for (recovery of) doubtful accounts	723,824	(134,465)
Depreciation and amortization	793,776	679,886
Operating income	5,865,960	4,701,592
Other income (expense):		
Interest expense	(293,366)	(282,657)
Interest income and other	152,935	12,716
Income before income taxes	5,725,529	4,431,651
Income tax provision	2,232,959	1,701,751
Net income	$3,492,570	$2,729,900

Earnings per common share: [1]		
Basic	$.25	$.25
Diluted	$.24	$.24
Weighted average shares outstanding: [1]		
Basic	14,194,776	10,923,978
Diluted	14,744,198	11,366,050

(1) The number of shares and per share amounts have been restated to reflect the impact of the upcoming June 15, 2005 two-for one stock split.

See accompanying notes to consolidated financial statements.

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HORIZON HEALTH CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Nine Months Ended May 31,	
	2005	2004
Revenue	$164,416,303	$128,941,504
Cost of services (exclusive of depreciation shown separately below)	125,736,176	99,416,827
Selling, general and administrative	17,091,441	14,110,949
Provision for (recovery of) doubtful accounts	2,140,878	(249,668)
Depreciation and amortization	2,478,585	1,987,675
Operating income	16,969,223	13,675,721
Other income (expense):		
Interest expense	(1,461,590)	(775,463)
Interest income and other	153,114	40,855
Income before income taxes	15,660,747	12,941,113
Income tax provision	6,107,690	4,960,876
Net income	$9,553,057	$7,980,237

Earnings per common share: [1]		
Basic	$.79	$.74
Diluted	$.76	$.70
Weighted average shares outstanding: [1]		
Basic	12,157,840	10,819,564
Diluted	12,600,744	11,337,824

(1) The number of shares and per share amounts have been restated to reflect the impact of the upcoming June 15, 2005 two-for-one stock split.

See accompanying notes to consolidated financial statements.

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HORIZON HEALTH CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended May 31,	
	2005	2004
Operating Activities:		
Net income	$9,553,057	$7,980,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) doubtful accounts	2,140,878	(249,668)
Depreciation and amortization	2,478,585	1,987,675
Deferred income taxes	773,166	827,092
Net loss on disposal of property and equipment	10,262	–
Tax benefit associated with stock options exercised	1,326,482	1,548,175
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(6,713,182)	(2,367,351)
(Increase) decrease in income taxes receivable	(12,231)	568,856
(Increase) decrease in other receivables	(841,906)	260,708
(Increase) in prepaid expenses and supplies	(703,950)	(279,935)
Decrease (increase) in other assets	86,299	(433,634)

Increase (decrease) in accounts payable, employee compensation and benefits, medical claims payable, and accrued expenses	2,777,233	(352,662)
Increase (decrease) in income taxes payable	68,506	(50,979)
Increase in other non-current liabilities	659,335	139,718
Net cash provided by operating activities	11,602,534	9,578,232
Investing activities:		
Purchase of property and equipment	(2,091,128)	(1,234,859)
Proceeds from sale of fixed assets	7,675	–
Additional payments associated with the acquisition of Michiana Behavioral Health Center	(11,216)	–
Additional payments associated with the acquisition of Poplar Springs Hospital	(423,012)	–
Payment for purchase of Michiana Behavioral Health Center	–	(6,156,772)
Purchase price adjustment for Integrated Insights	–	(27,290)
Net cash used in investing activities	(2,517,681)	(7,418,921)
Financing Activities:		
Payments on long term debt	(91,600,000)	(63,900,000)
Proceeds from long term borrowings	51,600,000	62,600,000
Net proceeds from follow-on public offering of common stock	58,419,281	–

Purchase of treasury stock	(454,872)	(1,177,276)
Cash provided from issuance of treasury stock	1,844,506	1,027,387
Surrenders of treasury stock	–	(866,547)
Net cash provided by (used in) financing activities	19,808,915	(2,316,436)
Net increase (decrease) in cash and cash equivalents	28,893,768	(157,125)
Cash and cash equivalents at beginning of period	1,907,708	1,972,646
Cash and cash equivalents at end of period	$30,801,476	$1,815,521

See accompanying notes to consolidated financial statements.

HORIZON HEALTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. ORGANIZATION

Horizon Health Corporation ("the Company"), d/b/a Horizon Health, is a diversified health care services provider. It is a leading contract manager of clinical and related services, primarily of behavioral health and physical rehabilitation programs, offered by acute care hospitals in the United States. The management contracts are generally for initial terms ranging from three to five years, the majority of which have automatic renewal provisions. The Company owns/leases and operates three behavioral health care hospitals and related facilities, which provide behavioral health care programs for children, adolescents, and adults. The Company also offers employee assistance programs ("EAP") and managed behavioral health services under contracts to employers and managed care organizations. In addition, the Company provides specialized temporary nurse staffing services to acute care hospitals. The Company currently has offices in the Orlando, Florida; Denver, Colorado; Philadelphia, Pennsylvania; Nashville, Tennessee; San Diego, California; Los Angeles, California; and Detroit, Michigan metropolitan areas, and behavioral health care facilities in Plymouth, Indiana; Petersburg, Virginia; and Willoughby, Ohio. The Company' s National Support Center is in the Dallas suburb of Lewisville, Texas.

Basis of Presentation and New Accounting Standards:

The accompanying consolidated balance sheets at May 31, 2005 and August 31, 2004, the consolidated statements of operations for the three and nine months ended May 31, 2005 and 2004, and the consolidated statements of cash flows for the nine months ended May 31, 2005 and 2004 are unaudited. These financial statements should be read in conjunction with the Company' s audited financial statements for the year ended August 31, 2004. In the opinion of Company management, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair statement of the financial position of the Company as of May 31, 2005, and the results of operations for the three and nine months ended May 31, 2005 and 2004.

Operating results for the three and nine month periods are not necessarily indicative of the results that may be expected for a full year or portions thereof.

In December 2004, FASB issued revised Financial Accounting Standards No. ("SFAS") 123R, *Share-Based Payment.* This statement amends SFAS 123, *Accounting for Stock-Based Compensation.* The statement eliminates the alternative to use APB Opinion No. 25, *Accounting for Stock Issued to Employees,* that was provided in SFAS 123 as previously issued. SFAS 123R requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. The statement is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. This statement will be effective for the Company for its fiscal year ending August 31, 2006.

2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The preparation of these financial statements requires the use of estimates, judgements and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The actual results experienced by the Company may differ materially from management' s estimates.

The Company continually evaluates its accounting policies and the estimates it uses to prepare the consolidated financial statements. In general, the estimates are based on historical experience, on information from third party professionals and on various other assumptions that are believed to be reasonable under the facts and circumstances. There have been no significant changes in assumptions, estimates

and judgements in the preparation of these quarterly financial statements from the assumptions, estimates and judgements used in the preparation of the Company' s latest audited financial statements presented in the Company' s August 31,

HORIZON HEALTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

2004 Annual Report on Form 10-K. See the captioned "Significant Accounting Policies and Estimates" described in Note 2 to the consolidated financial statements presented in the Company' s August 31, 2004 Annual Report on Form 10-K incorporated herein by reference, for information concerning those accounting policies and estimates considered significant by the Company.

Use of Estimates: The Company has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recorded for the reporting period in order to prepare the financial statements in conformity with generally accepted accounting principles. Future actual results could differ from those estimates.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current year presentation. For all periods presented, "Stockholders' Equity" reflects a retroactive reclassification between common stock, retained earnings and treasury stock that occurred as a result of the June 15, 2005 two-for-one stock split.

In accordance with FASB Statement No.5, *Accounting for Contingencies* and further, pursuant to FASB Interpretation 39, *Offsetting of Amounts Related to Certain Contracts*, the Company records liabilities for estimated losses at the gross amount of expected claims and records corresponding receivables related to amounts expected to be received for claims exceeding applicable deductible or stop-loss limits. The Company has reclassified the balance sheet at August 31, 2004 related to these expected claims and receivables, which has resulted in an increase in "Other Receivables" and "Accrued Expenses and Unearned Revenue" of approximately $810,000.

Additionally, in February 2005, a reclass was made from "selling, general and administrative expense" to "interest expense" for costs related to the Company' s existing credit facility. The costs included the amortization of capitalized costs, unused commitment fees, and the annual administrative fee. For comparative purposes, prior year balances were also reclassed.

3. STOCK OPTIONS AND OTHER STOCK AWARDS

On January 21, 2005, the stockholders of the Company approved the Horizon Health Corporation 2005 Omnibus Incentive Plan (the "Plan"), as detailed in the current report on Form 8-K filed January 21, 2005 and incorporated by reference herein. Under the plan, performance based awards, including stock options, may be granted from time to time as approved by the Compensation Committee of the Board of Directors. The maximum number of new shares of Common Stock that can be issued under the Plan is 600,000.

As of May 31, 2005, 15,000 shares have been reserved for stock options awarded under the Plan. In addition, the CEO and other executives were awarded deferred incentive bonuses for fiscal year 2005. These bonuses are based on the attainment of the corporate performance target for fiscal year 2005 and vest ratably over four years. If attained, these bonuses will be paid 50% in restricted common stock and 50% in cash in four equal installments over fiscal year 2005 through fiscal year 2008. The payment of each installment is subject to continued employment with the Company. The number of shares related to these awards cannot be determined until the conclusion of fiscal year 2005.

The 1989, 1995 and 1998 Stock Option Plans for employees and the 1995 Stock Option Plan for Eligible Outside Directors are collectively referred to as the "Prior Plans". The 1989 Plan has terminated in accordance with its terms and no further stock options may be granted under this plan. Upon approval of the 2005 Omnibus Incentive Plan, the remaining "Prior Plans" were terminated except with respect to stock options previously granted and outstanding under the "Prior Plans" and no further stock options may be granted under those plans. As of May 31, 2005, there were outstanding stock options for 1,435,632 shares that had been granted under the prior plans. Future grants of stock options may be made only under the 2005 Omnibus Incentive Plan.

HORIZON HEALTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The exercise prices of the options granted equaled or exceeded the market value of the common stock at the date of the grant. The options generally vest ratably over five years from the date of grant and terminate ten years from the date of grant.

The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

FASB Statement No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 123R, requires the expensing of Employee Stock Options (ESO' s) for annual reporting periods beginning after June 15, 2005. Accordingly, the Company will adopt this standard effective with its fiscal year beginning September 1, 2005.

The following table illustrates the effect on net income and earnings per share of the Company had the Company applied the fair value recognition provisions of FASB Statement No. 123, as amended by SFAS 123R, relating to stock-based employee compensation.

In applying FASB Statement 123, as amended by SFAS 123R, the Company has reviewed various assumptions made within the Black-Scholes options pricing model, which was designed to value short-term traded options, and determined that the model be adjusted to allow for differences applicable to employee stock options from the attributes of the short-term traded options. The adjustments, reflect a change to the expected life of the employee stock options as opposed to the historical option term of previously issued options, which was utilized in prior period calculations. In addition, the Company is now incorporating estimated forfeitures in its calculations. The prior year amounts have not been restated for the change in assumptions, however, all number of shares and per share amounts have been changed to reflect the impact of the June 15, 2005 two-for-one stock split.

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2005	2004	2005	2004
Net Income, as reported	$3,492,570	$2,729,900	$9,553,057	$7,980,237
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	173,719	219,954	602,357	595,365
Pro forma net income	$3,318,851	$2,509,946	$8,950,700	$7,384,872
Earnings per share: [1]				
Basic-as reported	$.25	$.25	$.79	$.74

Basic-pro forma	$.23	$.23	$.74	$.68
Diluted-as reported	$.24	$.24	$.76	$.70
Diluted-pro forma	$.23	$.22	$.71	$.65

(1) The per share amounts have been restated to reflect the impact of the upcoming June 15, 2005 two-for-one stock split.

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HORIZON HEALTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

4. EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per share computations for net income:

	2005			2004		
	Net Income Numerator	Shares Denominator[1]	Per Share Amount[1]	Net Income Numerator	Shares Denominator[1]	Per Share Amount[1]
For the three months ended May 31,						
Basic EPS	$3,492,570	14,194,776	$ .25	$2,729,900	10,923,978	$ .25
Effect of Dilutive Securities Options		549,422			442,072	
Diluted EPS	$3,492,570	14,744,198	$ .24	$2,729,900	11,366,050	$ .24

	2005			2004		
	Net Income Numerator	Shares Denominator	Per Share Amount	Net Income Numerator	Shares Denominator	Per Share Amount
For the nine months ended May 31,						
Basic EPS	$9,553,057	12,157,840	$ .79	$7,980,237	10,819,564	$ .74
Effect of Dilutive Securities						
Options		442,904			518,260	
Diluted EPS	$9,553,057	12,600,744	$ .76	$7,980,237	11,337,824	$ .70

(1) The number of shares and per share amounts have been restated to reflect the impact of the upcoming June 15, 2005 two-for-one stock split.

For the three and nine months ended May 31, 2005, there were no options to acquire common stock which had an exercise price that was less than the average market price of the common shares, and accordingly, all options were included in the computation of diluted earnings per share. The computation for the quarter ended May 31, 2004 excluded 8,000 shares subject to options, with an exercise price of $11.88. The computation for the nine months ended May 31, 2004 excluded an average of 13,154 shares subject to options, with exercise prices ranging from $10.50 to $11.88.

5. ACQUISITIONS AND ENTRY INTO A LONG TERM OPERATING LEASE AGREEMENT

Friends Hospital

On April 22, 2005, the Company announced that it had entered into a definitive agreement to form a joint venture with Friends Hospital, a 501 (c)(3) charitable organization. Horizon will be an 80% member and Friends will be a 20% member of the joint venture. The agreements provide for the new joint venture to acquire and own the Friends Hospital facility located in Philadelphia, Pennsylvania. The transaction closed on July 1, 2005 with a purchase price of approximately $15.5 million. Friends Hospital consists of a 192-bed behavioral health hospital and a 26-bed adult residential treatment center.

Laurelwood Hospital

On December 30, 2004, the Company entered into a long-term operating lease agreement of Laurelwood Hospital, a 160-bed psychiatric hospital located in Willoughby, Ohio, a suburb of Cleveland. The hospital was leased from Lake Hospital System, Inc. Lake Hospital System, Inc. is a non-profit health care provider operating two hospitals and other health care facilities in Lake County, Ohio. The lease term commenced on January 1, 2005 and has an initial fifteen (15) year term that expires on December 31, 2019. The Company also has an option to extend the lease for an additional fifteen-year term. Rent under the lease during the initial lease term consists of quarterly rental payments of $200,433 payable in advance on the first day of

HORIZON HEALTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

January, April, July and October. In addition, the Company agreed to make a contribution to the Lake Hospital Foundation in the amount of $41,666 on December 31, 2007 and each December 31st thereafter to and including December 31, 2012.

PSH Acquisition Corporation

Effective June 1, 2004, the Company acquired the assets of PSH Acquisition Corporation ("PSH"), which operated five behavioral facilities with a total licensed capacity of 187 beds, in the central Virginia region, for approximately $30.1 million. The agreement also provides for additional variable payments in future years based on the future performance of the facilities. The Company accounted for the acquisition by the purchase method as required by generally accepted accounting principles. As of May 31, 2005, tangible assets acquired and liabilities assumed totaled $16,507,815 and $626,776, respectively. The purchase price of approximately $30.1 million exceeded the fair value of PSH' s net tangible assets by $14,192,964 of which $13,863,964 is recorded as goodwill, and $329,000 is recorded as the value of certain indefinite life assets. The net increase in goodwill of $94,014 during the nine months ended May 31, 2005, includes an additional variable payment of $380,841 as required by the purchase agreement, a $329,000 reclassification from goodwill to indefinite life assets and additional acquisition costs of $42,174 that were capitalized. The cash purchase price was funded under the Company' s revolving credit facility. The three owned and two leased facilities include:

Poplar Springs Hospital - a 132 bed acute adult and adolescent facility that also offers residential treatment services;

Poplar West – a 36-bed Youth Development Center that offers residential treatment care and a 60-student special educational program;

Poplar Place of Sutherland – an 8-bed adolescent boys group home;

Poplar Transitions of Shenandoah Valley – a 11-bed female adolescent residential care facility (leased); and

Recovery Center of Richmond – an intensive adolescent and adult outpatient service center (leased).

Unaudited pro-forma information is presented for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have actually been reported had the acquisition occurred at the beginning of the periods presented, nor is it necessarily indicative of future financial position or results of operations. The unaudited pro-forma financial information with respect to the PSH Acquisition Corporation acquisition was based upon the respective historical consolidated financial statements of Horizon Health Corporation and PSH Acquisition Corporation. This unaudited pro forma information does not include nor does it assume any benefits from cost savings or synergies of operations of the combined companies.

HORIZON HEALTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following unaudited pro forma financial information gives effect to the acquisition of PSH Acquisition Corporation by the Company as if the acquisition occurred on September 1, 2003.

	Three Months Ended May 31, 2004	Nine Months Ended May 31, 2004
Revenue	$ 50,555,063	$ 144,195,349
Net Income	$ 3,128,717	$ 8,547,787
Net Income per common share: [1]		
Basic	$ .29	$ .76
Diluted	$ .28	$ .72

(1) The per share amounts have been restated to reflect the impact of the upcoming June 15, 2005 two-for-one stock split.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

At May 31, 2005, the Company had indefinite life intangible assets, which are not subject to amortization, of $1,124,988. The costs of certain management contracts and other intangible assets acquired by the Company remain subject to amortization. Amortization of recorded values for contracts, non-compete agreements, and trade names for the quarter ended May 31, 2005 was $171,948, $56,751 and $8,370, respectively.

The following table sets forth the estimated amortization expense for intangibles subject to amortization for the remaining three months in the 2005 fiscal year and for each of the four succeeding fiscal years.

Three months ending August 31, 2005	$141,270
For the year ending August 31, 2006	492,909
For the year ending August 31, 2007	443,937

For the year ending August 31, 2008	409,429
For the years ending August 31, 2009 and thereafter	429,282
	$1,916,827

The following table sets forth by business service group of the Company, as described in Note 10 elsewhere herein, the amount of goodwill and certain indefinite life intangible assets as of August 31, 2004 that are subject to impairment tests rather than amortization and the adjustments, if any, to the amount of such goodwill and certain indefinite life intangible assets during the nine months ended May 31, 2005.

HORIZON HEALTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company conducts annual impairment testing during its fiscal year third quarter. As a result of the May 31, 2005 impairment testing, no impairment adjustments were deemed necessary.

	Behavioral Health Services	Physical Rehabilitation Services	EAP Services	ProCare One Nurses	Consolidated
Goodwill & certain indefinite life intangible asset as of August 31, 2004	$30,611,122	$1,703,665	$42,216,494	$9,988,595	$84,519,876
Goodwill adjusted during the period	94,014	–	–	–	94,014
Certain indefinite life intangible assets adjusted during the period	329,000	–	–	–	329,000
Goodwill and certain indefinite life intangible asset as of May 31, 2005	$31,034,136	$1,703,665	$42,216,494	$9,988,595	$84,942,890

Goodwill adjustments during the nine-month period include: an “additional variable payment” of $380,841, a reclassification of $329,000 from goodwill to other indefinite life intangibles and purchase price adjustments of $42,173. The purchase agreement associated with the acquisition of Poplar Springs Hospital provides for additional variable payments in future years based on the future performance of the facilities. The first payment, which was recorded as additional goodwill, was made during the third quarter ended May 31, 2005 in the amount of $380,841. The goodwill adjustments reflected above were all associated with the acquisition of Poplar Springs Hospital.

See Note 10, elsewhere herein, for a description of the Company’ s business service groups.

7. LONG-TERM DEBT

At May 31, 2005, the Company had no long-term debt outstanding related to its revolving credit facility. At August 31, 2004, the Company had long-term debt under its then $90 million revolving credit facility with an outstanding balance of $40.0 million. At May 31, 2005, $79.7 million of the $90.0 million credit facility was available to the Company after letter of credit obligations. The bank participants under the credit facility at May 31, 2005 were JPMorgan Chase Bank, (which also acts as the Agent), Bank of America, NA, Wells Fargo Bank Texas, and KeyBank National Association.

The revolving credit facility bears interest at (1) the Base Rate plus the Base Rate Margin, as defined or (2) the Adjusted Eurodollar Rate, plus the Eurodollar Margin, as defined. The Eurodollar Margin varies depending on the debt coverage ratio of the Company.

As of October 4, 2002, April 4, 2003, and August 29, 2003, the Credit Agreement was amended to allow the Company to finance the redemption or repurchase of its capital stock, subject to certain conditions. The amendments in place at May 31, 2005 allowed the Company to expend, from August 29, 2003 through May 31, 2006, up to $7.5 million for the repurchase of shares, of which $1.5 million has been expended.

On June 10, 2005, the Company entered into a Third Amended and Restated Credit Agreement to extend the term by four years and to increase the amount of the revolving credit facility to $125.0 million (with an expansion feature under which the amount of the credit facility can be increased to $175.0 million, subject to the satisfaction of certain conditions) and to add Wachovia Bank, National Association and Amegy Bank, National Association as participants in the facility.

The Third Amended and Restated Credit Agreement, as amended, matures on May 31, 2010.

HORIZON HEALTH CORPORATION
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8. COMMITMENTS AND CONTINGENCIES

Property Leases

The Company leases various office facilities and equipment under operating leases. The following is a schedule of minimum rental payments under these leases, which expire at various dates:

Three months ending August 31, 2005	$891,327
For the year ending August 31, 2006	2,991,301
For the year ending August 31, 2007	2,175,227
For the year ending August 31, 2008	1,927,949
For the years ending August 31, 2009 and thereafter	10,503,485
	$18,489,289

Rent expense for the nine months ended May 31, 2005 and 2004 totaled $2,508,392 and $1,988,515, respectively.

The long-term operating lease associated with Laurelwood Hospital, effective January 1, 2005, increased the total minimum rental payments by $11.6 million.

The above minimum rental payments do not take into account $325,209 of expected receipts for four sublet clinic locations in Florida resulting from the reorganization and centralization of the Company' s EAP Services group nor does it take into account the rental payments for the new national support center, as referenced below.

Construction of a building to serve as the new national support center ("NSC"), which is in close proximity to the current NSC facility in Lewisville, Texas, began during June 2005. The Company will lease the 80,000 square foot facility and anticipates completion and occupancy beginning in April 2006. The term of the office lease agreement is ten (10) years with renewal options of two periods of five-years each.

Insurance Risk Retention

The Company' s liability and property risk management program involves a balance of insured risks and self-insured retentions. The Company carries general, professional, and malpractice liability, comprehensive property damage, workers' compensation, directors and officers and other insurance coverages that management considers cost-effective and reasonable and adequate for the protection of the Company' s assets, operations and employees. There can be no assurance, however, that the coverage limits of such policies will be

adequate. A successful claim against the Company in excess of its insurance coverage or several claims for which the Company' s self-insurance components are significant in the aggregate could have a material adverse effect on the Company.

Estimates of the aggregate or portions of claims pursuant to the Company' s self-insurance retentions, and liability for uninsured claims incurred are determined and accrual reserves and associated expenses recorded, by using actuarial assumptions followed in the insurance industry and historical experience. In estimating the liability for claims, the Company obtains estimates from third party actuarial firms.

Legal Proceedings

During the quarter, there were no significant developments in connection with the civil qui tam lawsuit styled United States ex rel. Debra Hockett, M.D., Linda Thompson, M.D., and Chyrissa Staley, R.N., Plaintiffs v. Columbia/HCA Healthcare Corp., Indian Path Hospital, Inc., Horizon Mental Health Management, Inc. and Superior Home Health of East Tennessee, Inc., Defendants, 01-MS-50 (RCL) (part of Civil Action No. 99-3311 (RCL) pending in the United States District Court for the District of Columbia described in Item 3 of Part I of the Company' s Annual Report on Form 10-K for the year ended August 31, 2004.

During the quarter, the court dismissed the civil qui tam lawsuit styled United States of America, ex rel. Michael M. Meyer, Patricia J. Szerlip and Vicki Weatherford, Plaintiffs, v. Horizon Health Corporation,

HORIZON HEALTH CORPORATION
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Summit Medical Center and Sukhdeep Grewal, M.D., Defendants, Civil Action No. 00-01-1303 MEJ, pending in the United States District court for the Northern District of California described in Item 3 of Part I of the Company' s Annual Report on Form 10-K for the year ended August 31, 2004 for failure to state a claim. The Plaintiffs have amended the pleadings and the Defendants have filed motions to dismiss in response to the amended complaint. The court has not ruled on the motions.

The Company is a party to a lawsuit styled Jeanine Phillips, on behalf of herself and all others simultaneously situated v. ProCare One Nurses, LLC, Obstetrical Nurses, Inc. and Horizon Health Corporation, Case Number 030000425, pending in the Superior Court of the State of California for the County of Orange. The complaint alleges various violations of California wage and hour laws and seeks the recovery of substantial amounts for wages, fines, penalties and attorneys fees. The case is filed as a private attorney general action under Section 17200 of the California Business and Profession Code. The Company considers that it is entitled to indemnity from Obstetrical Nurses, Inc., a predecessor to ProCare One Nurses, LLC for liability relating to a portion of the claims and has asserted a claim for Indemnity in a separate lawsuit. The parties are engaged in discovery proceedings. The case is filed as a class action, but the court has not yet ruled on a motion for class certification.

Various legal actions, governmental proceedings and other claims are pending or may be instituted or asserted in the future against the Company with respect to matters arising in the ordinary course of business. Certain of these actions are seeking sizeable damages. While the Company has no reason to believe that any such pending claims are material, there can be no assurance that the Company' s insurance coverage will be adequate to substantially cover liabilities arising out of such claims or that any such claims will be covered by the Company' s insurance. Any material claim that is not covered by insurance may have an adverse effect on the Company' s business. Claims against the Company, regardless of their merit or outcome, may also have an adverse effect on the Company' s reputation and business.

Management and internal and external counsel perform periodic reviews of pending claims and actions to determine the probability of adverse verdicts and resulting amounts of liability. The Company establishes reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims and associated costs of defense may be substantially higher or lower than the amounts reserved for these claims.

9. SHAREHOLDER' S EQUITY

Common Stock

Effective March 16, 2005, the Company sold in a follow-on public offering 3,450,000 shares of its common stock at a price of $18.13 per share (shares and share price restated to reflect the impact of the June 15, 2005 two-for-one stock split). The aggregate net proceeds to the Company (after deducting underwriters discounts and estimated expenses) were $58.4 million. The Company utilized approximately $34.5 million of the proceeds to repay all outstanding debt under its revolving credit facility. The balance of the net proceeds will be used for general corporate purposes including acquisitions.

On May 10, 2005, the Company announced that the Board of Directors had approved a two-for-one stock split to be effected in the form of a 100% stock dividend (the "Stock Split"), pursuant to which, on June 15, 2005, the Company would distribute to each holder of record of Common Stock, par value $0.01 per share, of the Company at the close of business on May 31, 2005 (the "Record Date"), one additional share of Common Stock for each outstanding share of Common Stock held of record by such holder at the Record Date. All references in the financial statements and related notes related to the number of shares and per share amounts of the common stock have been retroactively restated to reflect the impact of the Company' s June 15, 2005 two-for-one stock split.

HORIZON HEALTH CORPORATION
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The Board of Directors adopted in October 1999 the Horizon Health Corporation Employee Stock Purchase Plan ("the Plan"). The Plan offers eligible employees the ability to purchase Company stock at a 15% discount to the current market price at designated periods. Eligible employees are able to contribute up to 10% of their base salary pursuant to two, six-month offering periods, which are defined as January 1 – June 30 and July 1 – December 31. Pursuant to the Plan the Company issued 18,704 and 27,774 shares of Common Stock from treasury for the nine months ended May 31, 2005 and for the fiscal year ended August 31, 2004, respectively. On April 21, 2005, the Board of Directors approved the termination of the Company' s Stock Purchase Plan at the end of the current offering period. The current offering period ends on June 30, 2005. Subsequent to this date, shares will no longer be offered under the Company' s Employee Stock Purchase Plan.

Treasury Stock

During the time period of September 1998 through February 2001 the Board of Directors of the Company authorized the repurchase of up to 5,050,000 shares of its common stock. As of August 31, 2002 the Company had repurchased 4,585,726 shares of its common stock pursuant to such authorizations, which had previously expired.

On October 7, 2002 the Board of Directors authorized the repurchase of up to 1,600,000 shares of its common stock. As of May 31, 2005, the company had repurchased 1,429,182 shares in total of the 1,600,000-share authorization, which remains in effect. A total of 3,010,392 and 2,597,558 treasury shares had been reissued pursuant to the exercise of certain stock options and in connection with the Employee Stock Purchase Plan as of May 31, 2005 and August 31, 2004, respectively.

For the nine months ended May 31, 2005 the net difference between the cost price and the option price on the issuance of treasury stock was a loss of $148,871 that has been charged to retained earnings.

All of the above share amounts have been adjusted related to the 100% share dividend on June 15, 2005 discussed above. In addition, the Company utilized all its treasury stock for the payment of the share dividend. As a result, as of June 15, 2005, the Company had no treasury stock.

HORIZON HEALTH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

10. SEGMENT (SERVICE GROUP) INFORMATION

The Company has determined that its reportable segments, or service groups, are appropriately based on its method of internal reporting which disaggregates its business by service categories in a manner consistent with the Company' s consolidated statements of operations format. The Company' s reportable service groups are Behavioral Health Services, Physical Rehabilitation Services, EAP Services, and ProCare One Nurses. See notes (A) through (D) below for a description of the services provided by each of the identified service groups. The Company' s business is conducted solely in the United States.

The following schedule represents revenues and operating results for the periods indicated by service groups:

	(A) Behavioral Health Services	(B) Physical Rehabilitation Services	(C) EAP Services	(D) ProCare One Nurses	(E) Other	Eliminations	Consolidated
Three months ended May 31, 2005							
Revenues	$37,672,376	$3,992,096	$12,106,044	$4,100,801	$34,481	$–	$57,905,798
Intercompany revenues	10,280	–	77,410	945	–	(88,635)	–
Cost of services	26,164,094	3,098,645	11,608,440	3,737,789	–	(88,635)	44,520,333
EBITDA (F)	10,378,052	557,189	21,753	300,623	(4,597,881)	–	6,659,736
Total assets	$121,800,533	$16,989,149	$47,496,881	$16,411,244	$37,269,181	$(59,393,667)	$180,573,321
May 31, 2004							
Revenues	$22,325,349	$4,760,047	$13,126,903	$4,522,917	$20,846	$–	$44,756,062
Intercompany revenues	–	–	38,651	39,983	–	(78,634)	–
Cost of services	14,701,605	3,641,547	12,052,514	4,159,715	190	(78,634)	34,476,937
EBITDA (F)	7,176,246	900,063	671,033	363,870	(3,729,734)	–	5,381,478

Total assets	$113,597,687	$14,551,898	$48,565,797	$15,485,394	$33,111,769	$(114,766,109)	$110,546,436
	(A) Behavioral Health Services	(B) Physical Rehabilitation Services	(C) EAP Services	(D) ProCare One Nurses	(E) Other	Eliminations	Consolidated
Nine months ended May 31, 2005							
Revenues	$99,709,218	$13,304,650	$37,663,828	$13,613,192	$125,415	$–	$164,416,303
Intercompany revenues	21,783	–	252,062	13,964	–	(287,809)	–
Cost of services	70,055,705	9,669,861	34,033,714	12,364,705	(100,000)	(287,809)	125,736,176
EBITDA (F)	26,330,580	2,413,850	2,190,371	1,061,490	(12,548,379)	(104)	19,447,808
Total assets	$121,800,533	$16,989,149	$47,496,881	$16,411,244	$37,269,181	$(59,393,667)	$180,573,321
May 31, 2004							
Revenues	$61,303,750	$14,545,374	$39,110,705	$13,645,337	$336,338	$–	$128,941,504
Intercompany revenues	–	–	139,017	160,992	–	(300,009)	–
Cost of services	40,545,740	11,021,027	35,186,906	12,701,750	261,413	(300,009)	99,416,827
EBITDA (F)	19,245,672	2,844,305	2,817,080	1,035,295	(10,278,956)	–	15,663,396
Total assets	$113,597,687	$14,551,898	$48,565,797	$15,485,394	$33,111,769	$(114,766,109)	$110,546,436

(A) Behavioral Health Services provides behavioral health contract management services to acute care hospitals, and effective with the April 1, 2004 and June 1, 2004 acquisitions of the behavioral healthcare facilities and the January 1, 2005 lease of Laurelwood Hospital, operates owned/leased behavioral health facilities that also provide programs for children, adolescents, and adults.

HORIZON HEALTH CORPORATION
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(B) Physical Rehabilitation Services provides physical rehabilitation contract management services to acute care hospitals.

(C) EAP Services provides employee assistance programs and managed behavioral health care. EAP Services has terminated all its managed behavioral health care contracts effective no later than August 31, 2005.

(D) ProCare One Nurses provides specialized temporary nurse staffing services to acute care hospitals primarily in California and Michigan.

(E) "Other" represents revenue and expenses associated with residual Phase IV PsychScope agreements and the Company' s primary general and administrative costs, i.e., expenses associated with the corporate offices and National Support Center located in the Dallas suburb of Lewisville, Texas which provides management, financial, human resources, and information system support for the Company and its subsidiaries.

(F) EBITDA is a presentation of "earnings before interest, taxes, depreciation, and amortization." EBITDA is the unit of measure reviewed by the chief operating decision makers in determining segment operating performance. EBITDA may not be comparable to similarly titled measures reported by other companies. In addition, EBITDA is a non-GAAP measure and should not be considered an alternative to operating or net income in measuring company results. For the three months ended May 31, 2005 and 2004, consolidated EBITDA is derived by adding depreciation and amortization of $793,776 and $679,886 respectively, to the Company' s operating income for the same periods of $5,865,960 and $4,701,592, respectively. For the nine months ended May 31, 2005 and 2004, consolidated EBITDA is derived by adding depreciation and amortization of and $2,478,585 and $1,987,675, respectively, to the Company' s operating income for the same periods of $16,969,223 and $13,675,721 respectively. Consolidated cash flows (uses) from operating, investing, and financing activities for the period ended May 31, 2005 were $11,602,534, ($2,517,681), and $19,808,915, respectively and for the period ended May 31, 2004 were $9,578,232, ($7,418,921), and ($2,316,436), respectively and are represented on the Statements of Cash Flows elsewhere herein.

11. EAP SERVICES REORGANIZATION

In the second quarter of 2005, the Company announced that it was commencing a reorganization of its EAP Services Group. The reorganization will involve the centralization of most of the business functions of the service group in Lewisville, Texas, where the national support center of the Company is located. The reorganization will also involve focusing on employee assistance programs and terminating the managed behavioral health care at-risk contracts of the services group. The Company expects the reorganization to be completed by August 31, 2005. The reorganization will involve personnel changes as well as office location changes.

The Company anticipates incurring some one-time expenses associated with certain real estate lease obligations at some affected locations, relocation expenses for certain employees, employee training and redundant staffing costs and miscellaneous costs. The costs expected to be incurred in connection with the reorganization as of May 31, 2005 are as follows (amounts in thousands):

	EAP Services
Total amounts expected to be incurred:	
Real estate lease expense and termination costs	$ 1,738
Employee relocation costs	231

Employee training and redundant staffing costs	173
Miscellaneous other costs	245
Total	$ 2,387

Cumulative amount incurred as of May 31, 2005:

Real estate lease expense and termination costs	$ 8
Employee relocation costs	156
Employee training and redundant staffing costs	173
Miscellaneous other costs	185
Total	$ 522

HORIZON HEALTH CORPORATION
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A reconciliation of the Company' s liability balances for real estate and employee relocation expenses in connection with the reorganization is as follows (amounts in thousands):

	EAP Services
Balance as of February 28, 2005	$ 45
Third quarter 2005 charges:	
Real estate lease expense and termination costs	8
Employee relocation costs	156
Employee training and redundant staffing costs	173
Miscellaneous other costs	140
Total	$ 477
Third quarter 2005 payments:	
Real estate lease expense and termination costs	$ 8
Employee relocation costs	7
Employee training and redundant staffing costs	173
Miscellaneous other costs	127
Total	$ 315

Balance as of May 31, 2005	$ 207

12. SUBSEQUENT EVENTS

On June 9, 2005, the Company announced that it had entered into definitive agreements to acquire substantially all the assets of River Park Hospital from Mountain State Behavioral Health Services, LLC and the stock of an affiliated management company located in Huntington, West Virginia from the stockholders of such company for approximately $11.0 million. The consummation of the transaction is subject to a number of contingencies including receipt of governmental approvals, including certificate of need approval. The hospital is a 165-bed behavioral health facility offering programs for adults, adolescents, children and families.

On June 10, 2005, the Company entered into a Third Amended and Restated Credit Agreement ("the Third Amended Credit Agreement") to extend the term of its existing credit agreement by four years and to increase the amount of the revolving credit facility to $125.0 million (with an expansion feature under which the amount of the credit facility can be increased to $175.0 million, subject to the satisfaction of certain conditions). The bank participants in the facility are JP Morgan Chase (which also acts as the Agent), Bank of America, NA, Wells Fargo Bank Texas, KeyBank National Association, Wachovia Bank, National Association and Amegy Bank, National Association. The Third Amended Credit Agreement, as amended, matures on May 31, 2010.

On July 1, 2005, the Company announced that it consummated its previously announced transaction involving the formation of a joint venture with Friends Hospital, a 501(c)(3) charitable organization and the acquisition by that joint venture of Friends Hospital located in Philadelphia, Pennsylvania. The Company is an 80% member of the joint venture and Friends, which has changed its name to the Thomas Scattergood Behavioral Health Foundation, is a 20% member of the joint venture. The Company contributed approximately $15.5 million to the joint venture, which funds were used for the acquisition of the hospital by the joint venture. Friends Hospital, founded in 1813, consists of a 192-bed behavioral health hospital and a 26-bed adult residential treatment center. The hospital provides inpatient and outpatient behavioral health services primarily for residents of Philadelphia, Southeastern Pennsylvania and New Jersey.

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

Risk Factors and Disclosure Regarding Forward-Looking Statements

Certain statements made or incorporated by reference from time to time in this report, or made by us or our representatives in other reports, filings with the Securities and Exchange Commission, press releases, conferences or otherwise, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "project," "will be," "will continue," "will likely result," or words or phrases of similar meaning.

Forward-looking statements involve risks, uncertainties or other factors which may cause actual results to differ materially from the future results, performance or achievements expressed or implied by the forward-looking statements. Certain risks, uncertainties and other important factors may be detailed from time to time in reports filed by us with the Securities and Exchange Commission, including on Forms 8-K, 10-Q and 10-K, and include, among others, the following:

general economic and business conditions which are less favorable than expected;

unanticipated changes in industry trends;

decreased demand by acute care hospitals for our services;

our inability to retain existing management contracts or to obtain additional contracts or maintain customer relationships;

adverse changes in reimbursement by Medicare or other third-party payors for costs of providing behavioral health, physical rehabilitation or nursing services;

adverse changes to other regulatory requirements relating to the provision of behavioral health, physical rehabilitation or nursing services;

adverse consequences of investigations by governmental regulatory agencies;

adverse judgments rendered in lawsuits pending or later claims asserted against us;

our ability to sustain, manage or forecast our growth;

our ability to successfully integrate acquired businesses on a cost effective basis;

if competition decreases our ability to acquire additional inpatient behavioral health facilities on favorable terms, we may be unable to execute our acquisition strategy;

regulatory requirements regarding the inpatient behavioral health facilities could delay or prevent the acquisition of additional facilities;

additional financing may be necessary to fund our acquisition program and capital expenditure, and the financing may not be available when needed or may subject us to risks

heightened competition, including specifically the intensification of price competition;

we operate in a highly competitive environment, if we do not compete effectively in our markets, then we could lose market share;

changes in business strategy or development plans;

adverse consequences as a result of terminating our at-risk managed care behavioral health contracts as a part of the EAP Services group reorganization;

while we believe that we currently have adequate internal controls in place, we are exposed to potential risks from recent legislation requiring companies to evaluate controls under Section 404 of The Sarbanes-Oxley Act of 2002;

inability to carry out marketing and sales plans;

business disruptions;

loss of key executives;

the ability to attract and retain qualified personnel;

the ability to attract and retain qualified nurses;

adverse publicity;

demographic changes; and

other factors referenced or incorporated by reference in reports or filings with the Securities and Exchange Commission.

We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all of those risks, nor can we assess the impact of all of those risks on our business or the extent to which any factor may cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements represent the estimates and assumptions of our management only as of the date of the document in which they are stated. Unless required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which any statement is based. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of future actual results.

Overview

Horizon Health Corporation is a diversified health care services provider. The Company is (i) a contract manager of behavioral health and physical rehabilitation clinical programs offered by acute care hospitals in the United States, (ii) an owner/operator of freestanding behavioral health hospitals providing behavioral health care for children, adolescents, and adults, (iii) a provider of employee assistance programs and behavioral services to employers and managed care organizations, and (iv) a provider of specialized temporary nurse staffing services for acute care hospitals.

At May 31, 2005, Horizon had 108 behavioral health program management contracts and 31 physical rehabilitation program management contracts relating to acute care hospitals located in 36 states and the District of Columbia; 117 CQI+ mental health outcomes measurement contracts; and 1,119 contracts to provide employee assistance programs and managed behavioral health services covering approximately 4.0 million lives. The Company also operates and (i) owns a behavioral health hospital with 80-licensed beds known as Michiana Behavioral Health Center located in Plymouth, Indiana which it acquired on April 1, 2004; (ii) owns/leases Poplar Springs Hospital, that consists of five behavioral health care facilities with a combined total of 187 beds located generally in North Central Virginia, which it acquired on June 1, 2004; and (iii) has a long-term operating lease agreement that commenced on January 1, 2005 associated with Laurelwood Hospital, a 160 bed behavioral health hospital located in Willoughby, Ohio. During the quarter ended May 31, 2005, Horizon' s specialized temporary nurse staffing

service group provided nurses to over 90 different acute care hospitals primarily located in California and Michigan, placing an average of 300 nurses a month.

The Company has indicated that it will focus future growth, both internally and through acquisitions, in the area of its two core clinical competencies, behavioral health services, which includes acquiring freestanding behavioral health hospitals, and physical rehabilitation services. The Company is evaluating various alternatives as to its specialty nurse staffing business.

The Company plans to enhance its position as the leader (based on market share) in the contract management of behavioral health programs and its position in the contract management of physical rehabilitation programs by further expanding the range of services that it offers to its client acute care hospitals and the continuum of care it provides. A significant challenge in marketing behavioral health and physical rehabilitation clinical management contracts is overcoming the initial reservations that many hospital administrators have with outsourcing key clinical services. The Company believes its expertise in working with hospital administrators, its reputation in the industry and its existing hospital contractual relationships provide it with a significant advantage in marketing new contracts. The Company also believes it has opportunities to cross-sell management services of behavioral health and physical rehabilitation programs to client acute care hospitals.

See Note 10 to the Consolidated Financial Statements included elsewhere herein, for additional information concerning the business segments (service groups) of the Company.

Recent Developments

On June 10, 2005, the Company announced that it had entered into a Third Amended and Restated Credit Agreement to extend the term of its existing credit agreement by four years and to increase the amount of the revolving credit facility to $125.0 million (with an expansion feature under which the amount of the credit facility can be increased to $175.0 million, subject to the satisfaction of certain conditions). The Third Amended and Restated Credit Agreement, as amended, matures on May 31, 2010.

On June 9, 2005, the Company announced that it had entered into definitive agreements to acquire substantially all the assets of River Park Hospital from Mountain State Behavioral Health Services, LLC and the stock of an affiliated management company located in Huntington, West Virginia from the stockholders of such company for approximately $11.0 million. The consummation of the transaction is subject to a number of contingencies including receipt of governmental approvals, including certificate of need approval. The hospital is a 165-bed behavioral health facility offering programs for adults, adolescents, children and families.

Construction of a building to serve as the new national support center ("NSC"), which is in close proximity to the current NSC facility in Lewisville, Texas, began during June 2005. The Company will lease the 80,000 square foot facility and anticipates completion and occupancy beginning in April 2006. The term of the office lease agreement is ten (10) years with renewal options of two periods of five-years each.

On May 10, 2005, the Company announced that the Board of Directors had approved a two-for-one stock split to be effected in the form of a 100% stock dividend (the "Stock Split"), pursuant to which, on June 15, 2005, the Company will distribute to each holder of record of Common Stock, par value $0.01 per share, of the Company at the close of business on May 31, 2005 (the "Record Date"), one additional share of Common Stock for each outstanding share of Common Stock held of record by such holder at the Record Date.

On May 2, 2005, the Company opened a new EAP Services call center in Lewisville, Texas. As a result, the call center operations in Philadelphia, Orlando, Nashville and Denver are being consolidated with the new call center which consolidation is expected to be complete no later than August 31, 2005.

On April 22, 2005, the Company announced that it had entered into a definitive agreement to form a joint venture with Friends Hospital, a 501 (c)(3) charitable organization. Horizon will be an 80% member and Friends will be a 20% member of the joint venture. The agreements provide for the new joint venture to acquire and own the Friends Hospital facility located in Philadelphia, Pennsylvania. The transaction closed on July 1, 2005 with a purchase price of approximately $15.5 million. Friends Hospital consists of a 192-bed behavioral health hospital and a 26-bed adult residential treatment center.

Effective April 21, 2005, David K. White, Ph.D., was appointed as President and Chief Operating Officer of the Company. Ken Newman will remain and continue to serve as Chairman and Chief Executive Officer of the Company.

Effective March 16, 2005, the Company sold in a follow-on public offering 3,450,000 shares of its common stock at a price of $18.13 per share (shares and share price restated to reflect the impact of the June 15, 2005 two-for-one stock split. The aggregate net proceeds to the Company (after deducting underwriters discounts and estimated expenses) were $58.4 million. The Company used approximately $34.5 million of the proceeds to repay all outstanding debt under its revolving credit facility. The balance of the net proceeds will be used for general corporate purposes including acquisitions.

On February 23, 2005, the Company announced that it was commencing a reorganization of its EAP Services group. The EAP Services Group provides employee assistance programs to employers, behavioral health administrative services for employer benefit plans and third party payor plans, and managed behavioral health care at-risk services to managed care companies and employer plans. The reorganization will involve the centralization of most of the business functions of the service group in Lewisville, Texas, where the National Support Center of the Company is located. The reorganization will also involve focusing on employee assistance programs and terminating the managed behavioral health care at-risk contracts of the service group. These at-risk contracts had annual revenue of approximately $23.0 million with little or no margin associated with them. The Company has previously disclosed that it does not consider the managed behavioral health care business as part of its core competency. The termination of the managed care contracts is consistent with the Company' s renewed focus on its core competencies. The Company expects the reorganization to be completed by August 31, 2005. The reorganization will involve personnel changes as well as office location changes. It will also involve a reduction in the total number of employees in the service group.

On January 21, 2005, the stockholders of the Company approved the Horizon Health Corporation 2005 Omnibus Incentive Plan pursuant to a proposal that was submitted to the stockholders for approval at the Company' s 2005 Annual Meeting of Stockholders.

On December 30, 2004, the Company entered into a long-term operating lease agreement of Laurelwood Hospital, a 160-bed psychiatric hospital located in Willoughby, Ohio, a suburb of Cleveland. The hospital was leased from Lake Hospital System, Inc. The lease term commenced on January 1, 2005 and has an initial fifteen (15) year term that expires on December 31, 2019. The Company also has an option to extend the lease for an additional fifteen-year term. Rent under the lease during the initial lease term consists of quarterly rental payments of $200,433 payable in advance on the first day of January, April, July and October. In addition, the Company agreed to make a contribution to the Lake Hospital Foundation in the amount of $41,666 on December 31, 2007 and each December 31st thereafter to and including December 31, 2012.

Revenues

Contract Management Services (Behavioral Health Services and Physical Rehabilitation Services)

The fees received by the Company for its services under management contracts are paid directly by its client acute care hospitals. Generally, contract fees are paid on a monthly basis. The client acute care hospitals receive reimbursement under the Medicare or Medicaid programs or payments from insurers, self-funded benefit plans or other third-party payors for the behavioral health and physical rehabilitation services provided to patients of the programs managed by the Company. As a result, the availability and amount of such reimbursement, which are subject to change, impacts the decisions of acute care hospitals regarding whether to offer behavioral health and

physical rehabilitation services pursuant to management contracts with the Company, as well as whether to continue such contracts (subject to contract termination provisions) and the amount of fees to be paid thereunder.

The primary factors affecting revenues in a period are the number of management contracts with treatment programs in operation in the period and the scope of services covered by each such management contract. The Company provides its management services under contracts with terms generally ranging from three to five years. Each contract is tailored to address the differing needs of each client acute care hospital and its community. The Company and the client hospital determine the programs and services to be offered by the acute care hospital and managed by the Company, which may consist of one or more behavioral health or physical rehabilitation treatment programs offering inpatient, partial hospitalization, and/or outpatient services. Under the contracts, the acute care hospital is the actual provider of the behavioral health or physical rehabilitation services and utilizes its own facilities (including beds for inpatient programs), nursing staff and support services (such as medical ancillaries, billing, dietary and housekeeping) in connection with the operation of its programs with the Company providing clinical, operating and compliance management staff and expertise. As the Company expanded the breadth of treatment programs it offers to acute care hospitals, it increased the number of contracts that included management of multiple treatment programs.

The Company has increased revenues through internal growth, as well as price escalators and higher census levels at existing contract locations. An additional factor favorably affecting revenues has been the Company' s pricing policy of establishing a minimum direct margin threshold for its management contracts.

The Company, through its contract management behavioral health services group, also provides behavioral health outcomes measurement services primarily to acute care hospital-based programs and freestanding behavioral health hospitals. The contracts for outcomes measurement services are generally for one to two years with an automatic renewal provision. The rates for the outcomes measurement services are negotiated based on the range of services provided and the number of patients and are generally paid on a monthly basis.

The Company' s business is affected by federal, state and local laws and regulations concerning, among other matters, behavioral health and physical rehabilitation facilities and reimbursement for the services offered by such facilities. These regulations impact the development and operation of behavioral health and physical rehabilitation programs managed by the Company for its client acute care hospitals as well as the Company' s owned/operated behavioral health care facilities. Licensing, certification, reimbursement and other applicable state and local government regulations vary by jurisdiction and are subject to periodic revision. The Company is not able to predict the content or impact of future changes in laws or regulations affecting the behavioral health or physical rehabilitation sectors.

The Balanced Budget Act of 1997 mandated the elimination of cost-based reimbursement of mental health partial hospitalization services (except as stated below). As a result, the Prospective Payment System ("PPS") for Partial Hospitalization Programs ("PHP") was implemented generally effective August 1, 2000. The resulting reimbursement for partial hospitalization services based on the Medicare outpatient PPS utilizes a fixed reimbursement amount per patient day. These rates lowered Medicare reimbursement levels to many hospitals for partial hospitalization services. This change, in general, adversely affected the ability of the Company to maintain and/or obtain management contracts for partial hospitalization services and the amount of fees paid to the Company under such contracts. The base reimbursement rate, for partial hospitalization programs operating under PPS, decreased from $287 per patient day for 2004 to $281 per patient day effective January 1, 2005. Hospitals that are in a designated rural area and have less than 100 acute care beds were able to continue cost based reimbursement for PHP services initially until December 31, 2003. However, on December 8, 2003, this was extended to December 31, 2005 with the passage of the Medicare Prescription Drug Improvement and Modernization Act of 2003. Effective January 1, 2006, they are scheduled to operate under PPS unless the law is again amended. This change in reimbursement methodology, if made, may lower Medicare reimbursement levels to this type hospital.

The Balanced Budget Refinement Act of 1999 mandated that a PPS for inpatient psychiatric services be developed. On November 15, 2004 CMS published final rules in the Federal Register for the psychiatric inpatient PPS. The PPS rule is effective for Medicare cost reporting years that commence on or after January 1, 2005. The final PPS rules provide for a per diem PPS system phased in over a four-year period.

The per diem rate has patient specific adjustments based on age, diagnosis, comorbidities and electro convulsive therapy treatments. The per diem

rate has facility adjustments based on wage index, rural designation, teaching designation, cost of living adjustments and an adjustment for psychiatric facilities with full-service Emergency Departments ("ED' s"). In addition the per diem rate is increased in days 1 through 8 of the patient' s stay, and decreases from day 11 until the conclusion of the patient' s stay. The Company believes that the new PPS rules will affect the hospitals with which it has management contracts both positively and negatively on a case-by-case basis. The new PPS rules have stop loss protection against significant decreases in reimbursement for cost reporting years beginning in calendar year 2005. The Company believes that the new PPS rules will not have a material adverse effect on its contract management business overall or on its owned free standing behavioral health hospitals in fiscal 2005. However, the Company is still reviewing the effect of the new PPS rules in future years and at this time has not ascertained specifically what the effect will be on a facility-by-facility basis. The Company cannot be definitive about the overall future effect of the new PPS rules, which could have an adverse effect on the contract management business for behavioral health units in the 2006 cost reporting year or thereafter.

Acute rehabilitation units within acute-care hospitals were previously eligible as exempt Distinct Part Units ("DPU' s") under a cost-based reimbursement system prior to January 1, 2002. Beginning January 1, 2002, acute rehabilitation units began transitioning to the PPS. As of September 1, 2003 all physical rehabilitation services have been transitioned to the PPS.

On May 25, 2005, CMS published a proposed rule to change the inpatient rehabilitation facility PPS. The rule proposes a market basket increase of 3.1% and an increase in the payment rate adjustment for inpatient rehabilitation facilities in rural areas from 19.1% to 24.1%. CMS is also proposing a 1.9% across-the-board reduction in the standard payment amount based on recent evidence indicating that coding increases, rather than actual changes in patient acuity, have caused increases in payments to inpatient rehabilitation facilities. The proposed rule will also refine the inpatient rehabilitation facility classification system to reflect recent data on case mix groups, relative weights and the impact of illnesses or conditions other than the admitting diagnosis on the costs of treating a beneficiary. In addition, the proposed rule would adopt the revised Core Based Statistical Area (CBSA) market area definitions as announced by the Office of Management and Budget for inpatient rehabilitation facilities. Under this proposal, about 4.4% of all facilities would change geographic designations. In addition, approximately 66% of inpatient rehabilitations facilities would either experience no change or an increase in their wage index. The proposed changes in the labor market definitions would be achieved in a budget neutral manner. If finalized, the rule will be effective October 1, 2005. The Company does not believe this rule change will have a significant impact on its revenues from rehabilitation services.

CMS published final rules in the May 7, 2004 Federal Register to modify the criteria for classification as an inpatient rehabilitation facility. The final rule, known as the "75% Rule", generally requires that in order to meet the qualification requirement, 75% of the patients of a physical rehabilitation services unit must have certain qualifying medical conditions. The final rule has a 4-year phase-in period to allow inpatient rehabilitation facilities time to adjust to the new rule. The first year compliance percentage is 50%; the second year percentage is 60%; the third year percentage is 65% and in the fourth year and thereafter, the compliance percentage is 75%. The final rule also eliminates polyarthritis as a qualifying medical condition and adds three other arthritis diagnoses that are more restrictive. As a result, patients that previously met the polyarthritis conditions may no longer meet the specific qualifying medical condition required under the new rule. The final rule also added a new restrictive category for certain knee or hip joint replacements. The effective date for these final rules was for cost reporting periods beginning on or after July 1, 2004. The final rules as adopted, unless suspended or modified as proposed, could have an adverse effect on the rehabilitation programs managed by the Company.

While the Company is generally not experiencing material adverse consequences as a result of recent changes in reimbursement under federal health care programs, at this time, the Company cannot meaningfully predict the ultimate impact that reimbursement changes may have on the programs it currently manages or the facilities it owns or on its ability to obtain new management contracts.

Patient Services (Behavioral Health Services)

With the April 1, 2004 acquisition of Michiana Behavioral Health Center; the June 1, 2004 acquisition of Poplar Springs Hospital; and the commencement of the long-term operating lease associated with Laurelwood Hospital effective January 1, 2005, the Company now owns and operates multiple behavioral health facilities with 80 licensed beds in Plymouth, Indiana; 187 licensed beds in the central Virginia region; and 160 beds in Willoughby, Ohio. Patient service revenue is reported on the accrual basis in the period in which services are provided at established rates. Amounts received are generally less than the established billing rates of the facility and the differences (contractual allowances) are reported as deductions from patient service revenue at the time the service is rendered. Net patient services revenue includes amounts the Company estimates to be reimbursable by Medicare and Medicaid under provisions of cost or prospective reimbursement formulas in effect.

Federal, state and local laws and regulations affect the Company' s owned/operated behavioral health care facilities. The Company is not able to predict the content or impact of future changes in laws or regulations affecting these facilities.

At this time, the final psychiatric inpatient PPS rules' impact on the Company' s owned/operated behavioral health care facilities has been favorable; however, the Company cannot meaningfully predict the ultimate impact of the final rule on its operating hospitals.

The behavioral health facilities provide care without charge to patients who are financially unable to pay for the behavioral services they receive. As a result, the facilities do not pursue collection of amounts determined to qualify as charity care and they are not reported in revenues. Settlements under cost reimbursement agreements with third party payors are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occur in subsequent years because of audits by the programs, rights of appeal and the application of numerous technical provisions.

Employee Assistance Programs and Managed Behavioral Health Care Services (EAP Services)

Through its EAP Services group, the Company offers an array of behavioral health care products to corporate clients, self-funded employer groups, government agencies, and third-party administrators. Revenues are derived from employee assistance program services ("EAP"), administrative services only services, and managed behavioral health services. Generally fees are paid on a monthly basis pursuant to contracts that typically are renewable annually, although contracts vary as to term and provisions with some being multi-year, some containing automatic renewal provisions, and some containing termination provisions under specified conditions.

Revenues from EAP contracts are typically based on a specified fee per month per employee based on the range and breadth of services provided to the employer, which may include work life services (including child and elder care consultation), referral resource and critical incident debriefings and intervention, and the method(s) in which those services are provided. Each plan is specifically designed to fulfill the clients' needs.

Revenues for administrative services only contracts relate to the administration of behavioral health benefits and are dependent upon the number of contracts and the services provided. Fees are usually a case rate or a per member per month fee applied to the number of eligible members. The client remains financially liable for direct costs associated with providing the medical services. The client is able to benefit from the Company' s expertise in clinical case management, the behavioral health professionals employed by the Company, the independent health care providers contracted by the Company at favorably discounted rates and the administrative efficiencies provided by the Company.

Revenues derived from at risk managed behavioral health care services are primarily affected by the scope of behavioral health benefits provided and the number and type of members covered. Fees are based on a per-member per-month fee applied to the number of eligible members. The rate is dependent upon the benefit designs and actuarially determined anticipated utilization of the customer' s covered members. The Company is responsible for the cost of the medical services provided to the members under these contracts.

A significant client of EAP Services did not renew its contract that expired on December 31, 2004. The contract had revenues of $4.4 million during fiscal year 2004. Due to cost saving initiatives enacted that have been affected, the Company does not believe the loss of this contract will have a material unfavorable impact on income from continuing operations. In addition, the Company sublet the four clinic locations to a third party.

As previously stated in Note 10 to the consolidated financial statements included herein, the Company will be terminating all the at risk managed behavioral health care contracts of the service group by August 31, 2005.

Specialized Temporary Nurse Staffing Services (ProCare One Nurses)

The Company' s acquisition of ProCare, in June 2002, expanded the Company' s operations in healthcare services by entering into the specialized temporary nurse staffing industry. The Company provides an on-call, twenty-four hour per day, seven days a week, specialized temporary nurse staffing service to acute care hospitals with a focus on the labor & delivery, neonatal, ICU, and emergency room areas. The fees received by the Company for its services related to specialized temporary nurse staffing services are paid directly by its client acute care hospitals. Generally, temporary nurse-staffing fees are determined by the number of hours worked and are billed and paid on a weekly basis. Hourly rates vary based on the specialty of nurse required, day of the week, and time of shift to be filled. Fees are generally billed based on predetermined rates as specified in a fee schedule with the client acute care hospital. Revenues are recognized in the month in which services are rendered, at the estimated net realizable amounts.

The Company does not intend to pursue acquisitions or other investments related to its specialty nurse staffing business, which it deems not to be in its core competencies. The Company will continue its efforts to improve ProCare' s operations and profitability. However, the Company will continue to explore strategic alternatives for its specialty nurse staffing business, which could include a sale of the business at a loss.

Operating Expenses

In addition to the respective primary expense factors described below, other operating expenses generally incurred by each of the Company' s service groups include items such as training, continuing professional education and credentialing services, marketing costs and expenses, consulting, accounting and legal fees and expenses, employee recruitment and relocation expenses, rent, utilities, telecommunications costs, and property taxes, as well as bad debt expense.

Contract Management Services (Behavioral Health Services and Physical Rehabilitation Services)

The primary factors affecting operating expenses for the Company' s contract management business in any period are the number of programs in operation in the period and the volume of patients at those locations. Operating expenses consist primarily of salaries and benefits paid to program management, clinicians, therapists and supporting personnel. Behavioral health programs managed by the Company generally have a program director that is usually a psychologist or a social worker, a community education manager and additional social workers or therapists as needed. Physical rehabilitation programs managed by the Company generally have a program director and additional clinical staff tailored to meet the needs of the program and the client hospital, which may include physical and occupational therapists, a speech pathologist, a social worker and other appropriate supporting personnel. In addition, for both types of programs the Company contracts with a medical director on an independent contractor basis under which on-site administrative and clinical oversight services needed to administer the program are provided. The nursing staff is typically provided and employed by the hospital.

Patient Services (Behavioral Health Services)

Operating expenses for the Company' s behavioral health facilities are primarily comprised of the volume and mix of wage rates, including overtime, for clinical staff and nurses, as well as pharmacy and dietary supplies which are affected by the levels of patient census and acuity.

Employee Assistance Programs and Managed Behavioral Health Care (EAP Services)

Operating expenses for the Company' s employee assistance programs and managed behavioral health care services are primarily comprised of medical claims from clinical providers and salaries and benefits for its clinical, operations and supporting personnel. Medical claims include payments to independent health care professionals providing services to the covered enrollees under the employee assistance programs and the managed behavioral healthcare contracts offered by the Company.

Specialized Temporary Nurse Staffing Services (ProCare)

The primary factor affecting operating expenses for the Company' s specialized temporary nurse staffing business in any period is the number of shifts filled in the period and the mix of wage rates, including overtime, for the placed nurses. Operating expenses consist primarily of salaries and benefits paid to the Company' s nursing pool.

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SUMMARY STATISTICAL DATA

	May 31, 2005	February 28, 2005	November 30, 2004	August 31, 2004	August 31, 2003	August 31, 2002
Number of Contract Locations [1]:						
Contract locations in operation	126	127	128	132	127	131
Contract locations signed and unopened	13	14	11	8	15	11
Total contract locations	139	141	139	140	142	142
Services Covered by Contracts in Operation [1]:						
Inpatient	124	125	126	129	126	127
Partial hospitalization	10	11	15	17	25	31
Outpatient	21	23	23	24	21	21
Home health	2	2	2	2	3	3
CQI+	111	109	109	105	109	144
Types of Treatment Programs in Operation [1]:						
Geropsychiatric	80	80	85	85	87	106
Adult psychiatric	45	45	44	49	48	44
Substance abuse	2	3	4	4	4	2

Physical rehabilitation	29	32	32	33	32	28
Other mental health	4	4	4	4	8	2
EAP and Managed Behavioral Heath Care Services:						
Covered Lives (000’ s)	4,000	3,816	3,707	3,565	3,217	2,349
Owned/Leased Freestanding Behavioral Health Hospitals:						
Total net revenues (000’ s)	$16,110	$ 12,175	$ 9,114	$10,069	–	–
Number of facilities at period end	3	3	2	2	–	–
Licensed Beds	427	427	267	267	–	–
Weighted average available beds	357	316	241	177	–	–
Patient days	25,026	21,196	17,756	19,639	–	–
Admissions	1,777	1,314	847	1,041	–	–
Average length of stay	14.1	16.1	21.0	18.9	–	–
Revenue per patient day	$644	$ 574	$ 513	$513	–	–
Occupancy based on weighted average available beds	76.2 %	74.5 %	81.0 %	72.5 %	–	–

As of May 31, 2005 the licensed bed mix consisted of 271 Acute and 156 Residential Treatment Center (“RTC”) beds.

Nursing Services

For the quarter ended May 31, 2005, the Company’ s temporary nurse staffing group placed, on average, 300 nurses per month in temporary and travel nurse staffing positions to over 90 different general acute care hospitals.

(1) Includes only the Company’ s behavioral health and physical rehabilitation management contracts.

RESULTS OF OPERATIONS

The following table sets forth for the three and nine months ended May 31, 2005 and May 31, 2004, the percentage relationship to total revenues of certain costs, expenses and income.

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2005	2004	2005	2004
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Services	76.9	77.0	76.5	77.1
Selling, general and administrative	10.4	11.3	10.4	10.9
Provision for (recovery of) doubtful accounts	1.2	(0.3)	1.3	(0.2)
Depreciation and amortization	1.4	1.5	1.5	1.6
Income from operations	10.1	10.5	10.3	10.6
Interest and other income (expense), net	(0.2)	(0.6)	(0.8)	(0.6)
Income before income taxes	9.9	9.9	9.5	10.0
Income tax provision	3.9	3.8	3.7	3.8
Net income	6.0%	6.1%	5.8%	6.2%

Three Months Ended May 31, 2005 Compared to the Three Months Ended May 31, 2004

Revenue. Total revenue between the quarters increased $13.1 million or 29.4%. Revenue for Behavioral Health Services increased primarily as a result of the acquisition of three freestanding behavioral health hospitals and their related facilities, and an increase in same store sales for the Company' s contract management of behavioral health programs. Physical Rehabilitation Services revenue decreased primarily due to a decrease in the average number of physical rehabilitation locations in operation. Revenue for EAP Services decreased and is primarily attributable to the termination of two significant managed care contracts and the discontinuance of the Florida clinic operations, which was partially offset by the commencement of a significant EAP contract. Revenue for ProCare One Nurses decreased primarily as a result of a decrease in the number of shifts worked, which was partially offset by an increase in the average revenue per shift.

Behavioral Health Services

Revenue associated with behavioral health services, consisting of contract management of behavioral health programs and the Company' s freestanding behavioral health care facilities, increased $15.4 million, or 68.8%, between the quarters. $14.3 million of this increase is attributable to the operation of Michiana Behavioral Health Center and Poplar Springs Hospital, acquired on April 1, 2004 and June 1, 2004, respectively, and the long-term operating lease agreement associated with Laurelwood Hospital effective January 1, 2005. Additionally, same store sales related to behavioral health contract management increased 7.0% resulting in a $1.3 million increase in revenue between the quarters.

Physical Rehabilitation Services

Revenue associated with the contract management of physical rehabilitation services decreased $768,000 or 16.1% between the quarters. This decrease was primarily attributable to a decrease in the average number of physical rehabilitation locations in operation from 27.1 for the three months ended May 31, 2004 to the 23.1 for the three months ended May 31, 2005.

EAP Services

Revenue associated with employee assistance programs and managed behavioral services decreased by $982,000, or 7.5% between the quarters. A decrease of $1.3 million is primarily attributable to the termination of two significant managed care contracts on December 31, 2004 and April 30, 2005. An additional decrease of $136,000 is due to the discontinuance of the Florida clinic operations on December 31, 2004. These decreases are partially offset by an increase of $485,000 that is related to the commencement of a significant EAP contract on June 1, 2004.

ProCare One Nurses

Revenue associated with nurse staffing services decreased $461,000, or 10.1%, between the quarters. This decrease is primarily attributable to a reduction in the number of shifts worked between the periods. This decrease is partially offset by an increase in the average revenue per shift, as a result of an increase in the number of long-term assignments, which generally command higher fees.

Other Services

Revenue associated with other services decreased $14,000 between the quarters.

Cost of Services. Total cost of services provided between the quarters increased $10.0 million, or 29.1%. This increase is primarily the result of the cost of services associated with the acquisition of three freestanding behavioral health hospitals and their related facilities. This increase is also attributable to an increase in medical claims expense, as well as an increase in travel and relocation expenses in the EAP Services group associated with the opening of the call center in Lewisville, Texas. These increases were partially offset by decreases in the EAP Services group as a result of the discontinuance of the Florida clinic operations and cost savings as a result of the elimination of expenses associated with the termination of a significant managed care contract. In addition, the Company' s Physical Rehabilitation Services group had

a decrease in costs as a result of a decrease in the average number physical rehabilitation locations in operation, and ProCare One Nurses experienced a decrease due to a correlating decrease in the number of shifts worked.

Behavioral Health Services

Cost of services provided associated with behavioral health services consisting of the contract management of behavioral health programs and the Company' s freestanding behavioral health care facilities, increased $11.5 million, or 78.0%, between the quarters. This increase is primarily attributable to the cost of operations of Michiana Behavioral Health Center and Poplar Springs Hospital, acquired on April 1, 2004 and June 1, 2004, respectively, and the long-term operating lease agreement associated with Laurelwood Hospital effective January 1, 2005, which were $11.8 million for the three months ended May 31, 2005.

Physical Rehabilitation Services

Cost of services provided associated with the contract management of physical rehabilitation services decreased by $543,000, or 14.9% between the quarters. This decrease is primarily a result of the decrease in the average number of physical rehabilitation locations in operation, from 27.1 for the three months ended May 31, 2004 to 23.1 for the three months ended May 31, 2005.

EAP Services

Cost of services provided associated with employee assistance programs and managed behavioral services decreased by $444,000 or 3.7% between the quarters. A decrease of approximately $627,000 in salaries and benefits is due to a 21.1% decrease in full-time equivalents as a result of the cost saving initiatives related to the termination of a significant contract as previously mentioned. An additional decrease of $859,000 is related to the discontinuance of the Florida clinic operations on December 31, 2004. These decreases are partially offset by an increase of $722,000 in medical claims expense due to an increase in existing client utilization and costs per unit of service for the at risk managed care contracts which will terminate by August 31, 2005. An additional increase of $156,000 is related to relocation expenses associated with the opening of the new call center in Lewisville, Texas on May 2, 2005. In addition, travel expenses increased $44,000 between the quarters.

ProCare One Nurses

Cost of services provided associated with specialized temporary nurse staffing services decreased by $422,000, or 10.1%, between the quarters. This decrease is primarily a result of a reduction in salaries and benefits costs due to the decline in the number of nursing shifts worked between the periods. This decrease is offset by an increase in per diem expenses resulting from the rise in the number of long-term assignments.

Selling, General, and Administrative. Total selling, general, and administrative expenses, on a net basis, increased $970,000, or 19.3%, between the quarters. Salaries & benefits increased $369,000 primarily due to the expansion of several support center departments including the addition of in-house legal counsel. Consulting Fees increased $243,000 primarily due to Sarbanes-Oxley compliance efforts. Auditing & Accounting Fees increased $163,000 due to increased fees related to the Company' s annual audit as well as to Sarbanes-Oxley compliance testing. Legal Settlements increased $209,000 due to the accrual for an insurance deductible associated with a pending lawsuit. As a percent of revenues, selling, general and administrative expenses decreased to 10.4% as compared to 11.3% for the same period in the previous year, a decrease of 8% between the quarters.

Provision for Doubtful Accounts. The provision for doubtful accounts was a net expense of $724,000 for the fiscal quarter ended May 31, 2005, as compared to a net recovery of $134,000 for the fiscal quarter ended May 31, 2004, a difference of $858,000. The net expense for the three months ended May 31, 2005 was primarily attributable to bad debt provisions totaling approximately $743,000 associated with the operation of Michiana Behavioral Health Center and Poplar Springs Hospital, acquired on April 1, 2004 and June 1, 2004, respectively, and the long-term operating lease agreement associated with Laurelwood Hospital, effective January 1, 2005. An additional increase of approximately $319,000 was related to recording bad debt reserves for one terminated contract location and two contract locations still in operation. These increases were partially offset by bad debt recoveries of approximately $331,000 for one contract location still in operation and for one terminated contract location. The net recovery for the three months ended May 31, 2004 was a result of the recovery of amounts

expensed in prior periods due to receiving payments related to old receivables, net of legal costs. These recoveries were partially offset by bad debt reserves recorded for contract locations in which collectibility was uncertain.

Depreciation and Amortization. Depreciation and amortization expense increased approximately $114,000 or 16.8% between the quarters. An increase in depreciation expense of $254,000 is primarily due to the addition of the facilities associated with the acquisitions of Michiana Behavioral Health Center and Poplar Springs Hospital effective April 1, 2004 and June 1, 2004, respectively. This increase was partially offset by a decrease in contract amortization expense of approximately $130,000 associated with intangible assets that became fully amortized either during the current period or during the prior fiscal year.

Interest and Other Income (Expense), Net. Interest expense, interest income and other income for the quarter ended May 31, 2005 resulted in a net expense of $140,000 as compared to a net expense of $270,000 for the corresponding period in the prior fiscal year. The variance between the quarters is primarily attributable to an increase in interest income of approximately $140,000 as a result of higher average cash balances on hand during the period related to proceeds from the follow-on public offering of common stock.

Income Tax Expense. Income tax expense increased $531,000 or 31.2% between the quarters. This increase in income tax expense was largely due to a corresponding increase in pre-tax earnings. The effective tax rates for the quarters ended May 31, 2005 and 2004 were 39.0% and 38.4%, respectively.

Nine Months Ended May 31, 2005 Compared to the Nine Months Ended May 31, 2004

Revenue. Total revenue between the year-to-date periods increased $35.5 million or 27.5%. Revenue for Behavioral Health Services increased primarily as a result of the operation of three freestanding behavioral health hospitals and their related facilities, and an increase in same store sales for the Company' s contract management of behavioral health programs. Physical Rehabilitation Services revenue decreased primarily due to a decrease in the average number of physical rehabilitation locations in operation. Revenue for EAP Services decreased and is primarily due to the termination of two significant managed care contracts and the discontinuance of the Florida clinic operations, which was partially offset by the commencement of a significant EAP contract. Revenue for ProCare One Nurses decreased primarily as a result of a decrease in the number of shifts worked, which was partially offset by an increase in the average revenue per shift. Additionally, revenue for Other Services decreased primarily attributable to the phase out of the Company' s PsychScope Phase IV projects.

Behavioral Health Services

Revenue associated with behavioral health services, consisting of contract management of behavioral health programs and the Company' s freestanding behavioral health care facilities, increased $38.4 million, or 62.7%, between the year-to-date periods. $35.6 million of this increase is primarily attributable to the operation of Michiana Behavioral Health Center and Poplar Springs Hospital, acquired on April 1, 2004 and June 1, 2004, respectively, and the long-term operating lease agreement associated with Laurelwood Hospital effective January 1, 2005. Additionally, same store sales related to behavioral health contract management increased 4.4% resulting in a $2.1 million increase to revenue between the year-to-date periods.

Physical Rehabilitation Services

Revenue associated with the contract management of physical rehabilitation services decreased $1.2 million or 8.5% between the year-to-date periods. This decrease was primarily attributable to a decrease in the average number of physical rehabilitation locations in operation from 28.1 for the nine months ended May 31, 2004 to 24.5 for the nine months ended May 31, 2005.

EAP Services

Revenue associated with employee assistance programs and managed behavioral services decreased by $1.3 million, or 3.4% between the year-to-date periods. A decrease of $2.1 million is primarily attributable to the termination of two significant managed care contracts on December 31, 2004 and April 30, 2005. An additional decrease of $300,000 is due to the discontinuance of the Florida clinic operations on December 31, 2004. These decreases are partially offset by an increase of $872,000 that is related to the commencement of a significant EAP contract on June 1, 2004.

ProCare One Nurses

Revenue associated with nurse staffing services decreased $179,000, or 1.3%, between the year-to-date periods. This decrease is primarily attributable to a reduction in the number of shifts worked between the periods. This decrease is partially offset by an increase in the average revenue per shift, as a result of an increase in the number of long-term assignments, which generally command higher fees.

Other Services

Revenue associated with other services decreased $211,000 between the year-to-date periods. This decrease is primarily attributable to the phase out of the PsychScope Phase IV projects.

Cost of Services. Total cost of services provided between the periods increased $26.3 million, or 26.5%. This increase is primarily the result of the cost of services associated with the acquisition of three freestanding behavioral health hospitals and their related facilities. This increase is also attributable to an increase in medical claims expense, as well as an increase in travel and relocation expenses in the EAP Services group associated with the opening of the call center in Lewisville, Texas. These increases were partially offset by decreases in the

EAP Services group as a result of the discontinuance of the Florida clinic operations and cost savings as a result of the elimination of expenses associated with the termination of a significant managed care contract. In addition, the Company' s Physical Rehabilitation Services group had a decrease in costs as a result of a decrease in the average number of physical rehabilitation locations in operation, and ProCare One Nurses experienced a decrease due to a

corresponding decrease in the number of shifts worked. Cost of services associated with other services decreased as a result of the phase out of the PsychScope Phase IV projects.

Behavioral Health Services

Cost of services provided associated with behavioral health services consisting of the contract management of behavioral health programs and the Company' s free standing behavioral health care facilities, increased $29.5 million, or 72.8%, between the year-to-date periods. This increase is primarily attributable to the cost of operations of Michiana Behavioral Health Center and Poplar Springs Hospital, acquired on April 1, 2004 and June 1, 2004, respectively, and the long-term operating lease agreement associated with Laurelwood Hospital effective January 1, 2005, which were $29.7 million during the nine months ended May 31, 2005.

Physical Rehabilitation Services

Cost of services provided associated with the contract management of physical rehabilitation services decreased by $1.4 million, or 12.3% between the year-to-date periods. This decrease is primarily a result of the decrease in the average number of physical rehabilitation locations in operation, from 28.1 for the nine months ended May 31 2004 to 24.5 for the nine months ended May 31, 2005.

EAP Services

Cost of services provided associated with employee assistance programs and managed behavioral services decreased by $1.2 million or 3.3%, between the year-to-date periods. A decrease of approximately $1.9 million in salaries and benefits is due to a 18.7% decrease in full-time equivalents as a result of the cost saving initiatives related to the termination of a significant contract as previously mentioned. An additional decrease of $1.4 million is related to the discontinuance of the Florida clinic operations on December 31, 2004. These decreases are partially offset by an increase of $1.8 million in medical claims expense due to an increase in existing client utilization and costs per unit of service for the at risk managed care contracts which will terminate by August 31, 2005. An additional increase of $156,000 is related to relocation expenses associated with the opening of the call center in Lewisville, Texas on May 2, 2005. In addition, travel expenses increased $67,000 between the year-to-date periods.

ProCare One Nurses

Cost of services provided associated with specialized temporary nurse staffing services decreased by $337,000, or 2.7%, between the year-to-date periods. This decrease is primarily a result of a reduction in salaries and benefits costs due to the decline in number of nursing shifts worked between the periods. This decrease is offset by an increase in per diem expenses resulting from the rise in the number of long-term assignments.

Other Services

Cost of Services provided associated with other services decreased by $361,000 between the year-to-date periods. This decrease is primarily due to the phase out of the PsychScope Phase IV projects.

Selling, General, and Administrative. Total selling, general, and administrative expenses, on a net basis, increased $3.0 million, or 21.1%, between the year-to-date periods. Salaries & benefits increased $1.6 million primarily due to the expansion of several support center departments including the additions of a dedicated Acquisitions & Development department and in-house legal counsel. Consulting fees increased $412,000 due to Sarbanes-Oxley compliance efforts and support center related consulting projects. Auditing & Accounting Fees increased $429,000 due to increased fees related to the Company' s annual audit as well as to Sarbanes-Oxley compliance testing efforts. As a percent of revenues, selling, general and administrative expenses decreased to 10.4% as compared to 10.9% for the same period in the previous year, a decrease of 4.6% between the year-to-date periods.

Provision for Doubtful Accounts. The provision for doubtful accounts was a net expense of $2.1 million for the nine months ended May 31, 2005, as compared to a net recovery of $250,000 for the nine months ended May 31, 2004, a difference of $2.4 million. The increase for the nine months ended May 31, 2005 was primarily attributable to bad debt provisions totaling approximately $1.8 million associated with the operation of Michiana Behavioral Health Center and Poplar Springs Hospital, acquired on April 1, 2004 and June 1, 2004, respectively, and the long-term operating lease agreement associated with Laurelwood Hospital, effective January 1, 2005. Also included in this expense are bad debt reserves in the amount of $852,000 for three terminated contract locations and one contract location still in operation for which collectability is uncertain. These expenses were partially offset by

bad debt recoveries of $584,000. The net recovery for the nine months ended May 31, 2004 was primarily the result of the recovery of amounts expensed in prior periods due to receiving payments related to old receivables, net of legal costs, including $352,000 for one contract location still in operation and $90,000 related to previously terminated units. These recoveries were partially offset by reserves recorded for contract locations in which collectability was uncertain.

Depreciation and Amortization. Depreciation and amortization expense increased approximately $491,000 or 24.7% between the year-to-date periods. An increase in depreciation expense of $835,000 is primarily due to the addition of the facilities associated with the acquisitions of Michiana Behavioral Health Center and Poplar Springs Hospital effective April 1, 2004 and June 1, 2004, respectively. This increase was offset by a decrease in contract amortization expense of approximately $303,000 associated with intangible assets that became fully amortized either during the current period or during the prior fiscal year.

Interest and Other Income (Expense), Net. Interest expense, interest income and other income for the six months ended May 31, 2005 resulted in a net expense of approximately $1.3 million as compared to a net expense of $735,000 for the corresponding period in the prior fiscal year. This net change is primarily the result of an increase in interest expense of approximately $686,000 related to the increase in the weighted average principal balance outstanding under the credit facility between the periods. The weighted average outstanding credit facility balance for the nine months ending May 31, 2005 was $36.8 million with an ending balance of $0. The weighted average outstanding credit facility balance for the corresponding period in the prior fiscal year was $10.5 million with an ending balance of $12.7 million. This increase is partially offset by an increase in interest income of approximately $112,000 as a result of higher average cash balances on hand during the period.

Income Tax Expense. Income tax expense increased $1.1 million or 23.1% between the year to date periods. This increase in income tax expense was largely due to a corresponding increase in pre-tax earnings. The effective tax rates for the nine-month periods ended May 31, 2005 and 2004 were 39.0% and 38.3%, respectively.

Newly Issued Accounting Standards

See in Note 1, *Organization,* the caption "Basis of Presentation and New Accounting Standards" in the notes to the consolidated financial statements included elsewhere herein for a discussion of newly issued accounting standards.

Sarbanes-Oxley and Related Compliance

The Sarbanes-Oxley Act of 2002, which became law in July 2002 requires changes in certain of the Company' s corporate governance practices. In addition, related rules have been made by the Securities and Exchange Commission and NASDAQ. These new rules and regulations will increase the Company' s legal and financial compliance costs, and make some activities more difficult, time consuming and/or costly. Additional costs related to compliance with the new requirements of Sarbanes-Oxley Rule Section 404 are expected for the remainder of 2005 and in future fiscal periods.

The Company' s initiatives to comply with Section 404 of the Sarbanes-Oxley Act and related regulations regarding management' s required assessment of its internal control over financial reporting and the independent auditors' attestation of that assessment has required, and continues to require, the commitment of significant financial and managerial resources. In part to prepare for compliance with Section 404, as well as to generally improve its internal control environment, the Company has undertaken substantial measures, including among other things, projects to strengthen both its accounting and information technology systems, including initiatives related to recent acquisitions. These projects, which represent both operational and compliance risks, require significant resources and must be completed in a timely manner in order to enable the Company to comply with the Section 404 requirements. Although management believes that ongoing efforts to improve its internal control over financial reporting will enable management to provide the required report, and its independent auditors to provide the required attestations, under Section 404 as of August 31, 2005, the Company can give no assurance that such efforts will be completed on a timely and successful basis to enable management and independent auditors to provide the required report and attestation. Moreover, because of the new and changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to disclosure and governance practices.

Liquidity and Capital Resources

The Company believes that its future cash flows from operations (which were $11.6 million for the nine months ended May 31, 2005), along with cash of $30.8 million at May 31, 2005, and its credit facility of $125.0 million with an accordion feature allowing additional increases to $175.0 million, subject to satisfaction of certain conditions, will be sufficient to cover operating cash requirements over the next 12 months. The Company' s cash flows from operations were $5.7 million for the three months ended May 31, 2005, and $12.4 million for the fiscal year ended August 31, 2004. At May 31, 2005, $79.7 million of the then existing $90 million credit facility was available to the Company after letter of credit obligations. As a result of its strong and consistent cash flows generated from operations, its significant cash balance generated from a follow-on stock offering, its significant amount of available funds under the existing credit facility, and its relatively low ordinary and customary capital expenditure requirements, including legal and financial compliance costs with new governmental regulatory requirements, the Company expects to be able to continue to fund operating cash requirements.

Cash outlays for property and equipment purchases in the normal course of business totaled approximately $2.1 million for the nine months ended May 31, 2005. The Company anticipates its normal property and equipment expenditures for the remainder of the fiscal year to be approximately $750,000.

The Company repurchased $293,000 of its common stock during the nine months ended May 31, 2005. Under the credit facility in place as of May 31, 2005, the Company may repurchase up to $7.5 million of its common stock in the period beginning, August 29, 2003 through the maturity of the revolving credit facility, which was May 31, 2006. On October 7, 2002 the Board of Directors authorized the repurchase of

up to 1,600,000 shares of its common stock. As of May 31, 2005, the company had repurchased 1,429,182 shares in total of the 1,600,000-share

authorization, which remains in effect. All the number of shares and per share amounts have been changed to reflect the impact of the June 15, 2005 two-for-one stock split.

Effective May 23, 2002, the Company entered into a Second Amended and Restated Credit Agreement. See Note 7, *"Long-Term Debt"* to the Notes to the Consolidated Financial Statements included elsewhere herein for a general discussion including a summary of certain material provisions of the Credit Agreement which does not purport to be complete, and is subject to, and qualified in its entirety by reference to, the Second Amended Credit Agreement, a copy of which was previously filed as Exhibit 10.1 in the May 2002 Form 10-Q.

Effective May 4, 2004 the Company amended the credit agreement. The amendment increased the facility size from $60 million to $90 million (including an accordion expansion feature up to $120 million). See Note 7, *"Long-Term Debt"* to the Notes to the Consolidated Financial Statements included elsewhere herein.

Effective March 16, 2005, the Company sold in a follow-on public offering 3,450,000 shares of its common stock at a price of $18.13 per share (shares and share price restated to reflect the impact of the June 15, 2005 two-for-one stock split). The aggregate net proceeds to the Company (after deducting underwriters discounts and estimated expenses) were $58.3 million. The Company utilized approximately $34.5 million of the proceeds to repay all outstanding debt under its revolving credit facility. The balance of the net proceeds will be used for general corporate purposes including acquisitions.

The June 1, 2004 purchase agreement associated with the acquisition of the assets of PSH Acquisition Corporation ("PSH") provides for additional variable payments in future years based on the future performance of the facilities. The first payment was made on March 31, 2005 in the amount of $381,000.

Effective June 10, 2005, the Company entered into a Third Amended and Restated Credit Agreement. See Note 7, *"Long-Term Debt"* to the Notes to the Consolidated Financial Statements included elsewhere herein for a general discussion including a summary of certain material provisions of the Credit Agreement which does not purport to be complete, and is subject to, and qualified in its entirety by reference to, the Third Amended Credit Agreement, a copy of is filed as Exhibit 10.1 in this Form 10-Q.

Construction of a building to serve as the new national support center ("NSC"), which is in close proximity to the current NSC facility in Lewisville, Texas, began during June 2005. The Company will lease the 80,000 square foot facility and anticipates completion and occupancy beginning in April 2006. The term of the office lease agreement is ten (10) years with renewal options of two periods of five-years each.

Critical Accounting Policies and Estimates

See the section captioned "*Critical Accounting Policies"* in "*Management's Discussion and Analysis*" as well as "*Significant Accounting Policies and Estimates*" described in Note 2 to the consolidated financial statements presented in the Company's August 31, 2004 Annual Report on Form 10-K, both of which are incorporated herein by reference, for information concerning those accounting policies and estimates considered critical by the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In its normal operations, the Company has market risk exposure to interest rates due to its interest bearing debt obligations, which are entered into for purposes other than trading. To manage its exposure to changes in interest rates, the Company uses both variable rate debt and fixed rate debt of short duration with maturities ranging from 30 to 180 days. The Company has historically estimated its market risk exposure using sensitivity analyses assuming a 10% change in market rates. As of May 31, 2005, the Company did not have any debt obligations outstanding under its credit facility and therefore is currently not subject to market risk exposure.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commissions' rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that are filed under the Exchange Act is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Under the supervision of and with the participation of management, including the chief executive officer and chief financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of May 31, 2005 and based on its evaluation, the Company' s chief executive officer and chief financial officer have concluded that these controls and procedures are effective.

There have been no significant changes in disclosure controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation described above, including any corrective actions with regard to significant deficiencies and material weaknesses.

During the period covered by this report on Form 10-Q, there have been no changes in our internal control over financial reporting that has materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the quarter, there were no significant developments in connection with the civil qui tam lawsuit styled United States ex rel. Debra Hockett, M.D., Linda Thompson, M.D., and Chyrissa Staley, R.N., Plaintiffs v. Columbia/HCA Healthcare Corp., Indian Path Hospital, Inc., Horizon Mental Health Management, Inc. and Superior Home Health of East Tennessee, Inc., Defendants, 01-MS-50 (RCL) (part of Civil Action No. 99-3311 (RCL) pending in the United States District Court for the District of Columbia described in Item 3 of Part I of the Company' s Annual Report on Form 10-K for the year ended August 31, 2004.

During the quarter, the court dismissed the civil qui tam lawsuit styled United States of America, ex rel. Michael M. Meyer, Patricia J. Szerlip and Vicki Weatherford, Plaintiffs, v. Horizon Health Corporation, Summit Medical Center and Sukhdeep Grewal, M.D., Defendants, Civil Action No. 00-01-1303 MEJ, pending in the United States District court for the Northern District of California described in Item 3 of Part I of the Company' s Annual Report on Form 10-K for the year ended August 31, 2004 for failure to state a claim. The Plaintiffs have amended the pleadings and the Defendants have filed motions to dismiss in response to the amended complaint. The court has not ruled on the motions.

The Company is a party to a lawsuit styled Jeanine Phillips, on behalf of herself and all others simultaneously situated v. ProCare One Nurses, LLC, Obstetrical Nurses, Inc. and Horizon Health Corporation, Case Number 030000425, pending in the Superior Court of the State of California for the County of Orange. The complaint alleges various violations of California wage and hour laws and seeks the recovery of substantial amounts for wages, fines, penalties and attorneys fees. The case is filed as a private attorney general action under Section 17200 of the California Business and Profession Code. The Company considers that it is entitled to indemnity from Obstetrical Nurses, Inc., a predecessor to ProCare One Nurses, LLC for liability relating to a portion of the claims and has asserted a claim for indemnity in a separate

lawsuit. The parties are engaged in discovery proceedings. The case is filed as a class action, but the court has not yet ruled on a motion for class certification.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

NUMBER	EXHIBIT
3.1	Certificate of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 to the Company' s Current Report on Form 8-K dated August 11, 1997).
3.2	Amended and Restated Bylaws of the Company, as amended (incorporated herein by reference to Exhibit 3.1 to the Company' s Current Report on Form 8-K dated April 21, 2005).
4.1	Specimen certificate for the Common Stock, $.01 par value of the Company (incorporated herein by reference to Exhibit 4.1 to the Company' s Current Report on Form 8-K dated August 11, 1997).
4.2	Rights Agreement, dated February 6, 1997, between the Company and American Stock Transfer & Trust Company, as Rights Agent (incorporated herein by reference to Exhibit 4.1 to the Company' s Registration Statement on Form 8-A, Registration No. 000-22123, as filed with the Commission on February 7, 1997).
4.3	First Amendment to Rights Agreement dated April 22, 2005, by and between the Company and American Stock Transfer and Trust Company (incorporated herein by reference to Exhibit 4.1 to the Company' s Current Report on Form 8-K dated April 21, 2005).
10.1	Third Amended and Restated Credit Agreement dated June 10, 2005 between Horizon Health Corporation and Horizon Health Management, Inc., as Borrowers and J.P Morgan Chase Bank as Agent, and the banks named therein (filed herewith).
10.2	Asset Acquisition and Contribution Agreement dated April 22, 2005 by and between Friends Hospital, as Seller, and Friends Behavioral Health System, LP, as Purchaser (incorporated herein by reference to Exhibit 10.1 to the Company' s Current Report on Form 8-K dated July 6, 2005).
10.3	Asset Purchase Agreement dated June 9, 2005 by and between Mountain State Behavioral Health Services, LLC, as Seller, and HHC River Park, as Purchaser (filed herewith).
10.4	Stock Purchase Agreement dated June 9, 2005 by and between Scott C. Stamm and Patrick D. Burrows, as Sellers, HHC River Park, Inc., as Purchaser and Psychmanagement Group, Inc. (filed herewith).
10.5	Office Lease Agreement dated May 6, 2005 between Opus West LP, as Landlord, and Horizon Health Corporation, as Tenant (filed herewith).
10.6	Underwriting Agreement dated March 10, 2005, by and between the Company and J.P. Morgan Securities, Inc., as Representative of the Several Underwriters listed on the scheduled 1 thereto (incorporated herein by reference to Exhibit 1.1 to the Company' s Current Report on Form 8-K dated March 10, 2005).
31.1	Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a) (filed herewith).
31.2	Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a) (filed herewith).
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith).

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.

Date: July 11, 2005

HORIZON HEALTH CORPORATION

By: /s/ John E. Pitts

John E. Pitts
Senior Vice President – Finance and
Principal Financial Officer

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THIRD AMENDED AND RESTATED CREDIT AGREEMENT

among

HORIZON HEALTH CORPORATION
as Parent,

HORIZON MENTAL HEALTH MANAGEMENT, INC.
as Borrower,

JPMORGAN CHASE BANK, N.A.

as Agent,

and
the banks named herein

with
KeyBank National Association and Wells Fargo Bank, N.A.
as co-documentation agents,
and
Bank of America, N.A.,
as syndication agent

10 June 2005

with
J.P. Morgan Securities Inc.

AS SOLE LEAD ARRANGER

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THIS THIRD AMENDED AND RESTATED CREDIT AGREEMENT (the "Agreement"), dated as of June 10, 2005, is among HORIZON HEALTH CORPORATION, a corporation duly organized and validly existing under the laws of the State of Delaware ("Parent"), HORIZON MENTAL HEALTH MANAGEMENT, INC., a corporation duly organized and validly existing under the laws of the State of Texas ("Borrower"), each of the banks or other lending institutions which is or which may from time to time become a party hereto or any successor or assignee thereof (individually, a "Bank" and, collectively, the "Banks"), and JPMORGAN CHASE BANK, N.A. (who was formerly JPMorgan Chase Bank, who was successor in interest by merger to The Chase Manhattan Bank, who was the successor in interest by merger to the Chase Bank of Texas, National Association, formerly known as Texas Commerce Bank National Association), individually as a Bank and as agent for itself and the other Banks (in its capacity as agent, together with its successors in such capacity, the "Agent").

R E C I T A L S:

A. Parent, Borrower, Bank of America, JPMorgan Chase Bank and the Agent entered into that certain Second Amended and Restated Credit Agreement dated as of May 23, 2002 which has been amended by the following amendments:

(i) First Amendment to Second Amended and Restated Credit Agreement dated as of September 25, 2002;

(ii) Second Amendment to Second Amended and Restated Credit Agreement dated as of October 4, 2002;

(iii) Third Amendment to Second Amended and Restated Credit Agreement dated as of April 4, 2003;

(iv) Fourth Amendment to Second Amended and Restated Credit Agreement dated as of August 29, 2003 pursuant to which, among other things, Wells Fargo Bank Texas, National Association was added as a "Bank" under the Second Amended and Restated Credit Agreement;

(v) Fifth Amendment to Second Amended and Restated Credit Agreement dated as of February 10, 2004;

(vi) Sixth Amendment to Second Amended and Restated Credit Agreement dated as of April 19, 2004; and

(vii) Seventh Amendment to Second Amended and Restated Credit Agreement dated as of May 4, 2004 pursuant to which, among other things, KeyBank National Association was added as a "Bank" under the Second Amended and Restated Credit Agreement

Such Second Amended and Restated Credit Agreement, as amended or otherwise modified, herein the "Second Credit Agreement".

B. On the date of the closing of the Second Credit Agreement, the following parties were "Obligated Parties" under the Second Credit Agreement:

Mental Health Outcomes, Inc.
Geriatric Medical Care, Inc.
Specialty Rehab Management, Inc.
HHMC Partners, Inc.
Horizon Behavioral Services, Inc.
Florida Psychiatric Associates, Inc.
Horizon Behavioral Services of Florida, Inc.
FPMBH of Texas, Inc.
HMHM of Tennessee, Inc.
Occupational Health Consultants of America, Inc.
Employee Assistance Services, Inc.
Horizon Behavioral Services IPA, Inc.
Horizon Behavioral Services Of New Jersey, Inc.
Horizon Behavioral Services Of New York, Inc.

C. Since the closing date under the Second Credit Agreement, the following events have occurred:

(i) Geriatric Medical Care, Inc. was merged with and into the Borrower on August 31, 2002;

(ii) The Parent purchased all of the membership interests of ProCare One Nurses, LLC, a Delaware limited liability company ("ProCare"). ProCare entered into a Subsidiary Joinder Agreement, dated as of July 3, 2002, joining into the Subsidiary Security Agreement and the Guaranty (as both such terms are defined herein) as a debtor and guarantor, respectively, thereunder. The Parent entered into a Pledge Amendment, dated as of July 3, 2002, amending Schedule 1 to the Parent Pledge Agreement (as such term is defined herein) to add 100% of the membership interests of ProCare thereto;

(iii) Horizon Behavioral Services, Inc. ("HBS") purchased all of the issued and outstanding capital stock of Health and Human Resource Center, Inc., doing business as Integrated Insights, a California corporation ("Insights") and Insights was designated as a "Restricted Subsidiary" under the Second Credit Agreement and therefor did not join into the Subsidiary Security Agreement nor the Guaranty.

(iv) HBS purchased all of the capital stock of Employee Assistance Programs International, Inc., a Colorado corporation ("EAPI") EAPI entered into a Subsidiary Joinder Agreement, dated as of November 12, 2002, joining into the Subsidiary Security Agreement and the Guaranty as a debtor and guarantor, respectively, thereunder. The HBS entered into a Pledge Amendment, dated as of November 12, 2002, amending Schedule 1 to its Subsidiary Pledge Agreement to add 100% of the capital stock of EAPI thereto;

(v) On June 1, 2003, the Parent transferred 1,000 shares of Mental Health Outcomes, Inc. to the Borrower.

(vi) Effective as of June 30, 2003: EAPI was converted into Employee Assistance Programs International, LLC; Occupational Health Consultants of America, Inc. was converted into Occupational Health Consultants of America, LLC; Horizon Behavioral Services of Florida, Inc. merged into HBS-FL Acquisition, LLC and HBS-FL Acquisition, LLC changed its name to Horizon Behavioral Services of Florida, LLC; and

Florida Psychiatric Associates, Inc. merged into FPA-FL Acquisition, LLC and FPA-FL Acquisition, LLC changed its name to Florida Psychiatric Associates, LLC;

(vii) Pursuant to the terms of that certain Lease Agreement dated as of December 20, 1995 between North Central Development Company and the Parent, by deed dated July 31, 2003 the Parent exercised its right to purchase North Central Development Company' s interest in the premises lease pursuant to such Lease Agreement and the Parent executed a Mortgage encumbering such property in favor of the Agent;

(viii) The Parent entered into an Asset Purchase Agreement dated as of March 12, 2004 with Northern Indiana Hospital, LLC (the "NIH Asset Purchase Agreement"). The Parent assigned its rights and obligations under the NIH Asset Purchase Agreement to HHC Indiana, Inc. ("HHC Indiana"), a wholly-owned subsidiary of the Borrower. In connection with the transactions contemplated by the NIH Asset Purchase Agreement, HHC Indiana entered into (1) a Subsidiary Joinder Agreement, dated as of April 1, 2004, joining into the Subsidiary Security Agreement and the Guaranty as a debtor and a guarantor, respectively, under the Second Credit Agreement and (2) a Commercial Mortgage, Absolute Assignment of Rents, Security Agreement and Financing Statement, dated as of April 1, 2004, granting Agent a lien in the real property commonly known as 1800 N. Oak Road, Plymouth, IN 46563. The Borrower entered into a Pledge Amendment, dated as of April 1, 2004, amending Schedule 1 to the Borrower Pledge Agreement to add 100% of the capital stock of HHC Indiana thereto;

(ix) Specialty Rehab Management, Inc. changed it name to Horizon Health Physical Rehabilitation Services, Inc.;

(x) The Borrower created a new subsidiary, HHC Poplar Springs, Inc., a Virginia Corporation ("HHC Poplar"). HHC Poplar purchased Poplar Springs Hospital and certain other assets of PSH Acquisition Corporation and in connection with that acquisition: (1) HHC Poplar enter into a Subsidiary Joinder Agreement joining into the Subsidiary Security Agreement and the Guaranty as a debtor and guarantor, respectively, under the Second Credit Agreement, (2) the Borrower entered into a Pledge Amendment amending Schedule 1 to the Borrower Pledge Agreement to add 100% of the capital stock of HHC Poplar thereto and (3) HHC Poplar entered into a Deed of Trust, Absolute Assignment of Rents, Security Agreement and Financing Statement granting Agent a lien in real property located in the Commonwealth of Virginia;

(xi) The Borrower created a new subsidiary, HHC Ohio, Inc. ("HHC Ohio"). Effective January 1, 2005, HHC Ohio subleased real and personal property related to Laurelwood Hospital from Lake Hospital System, Inc. As part of the transaction, HHC Ohio also became the sole beneficiary of Laurelwood Associates Trust, which is the sole owner of Laurelwood Associates, Inc., a professional corporation. In connection with those transactions, HHC Ohio enter into a Subsidiary Joinder Agreement joining into the Subsidiary Security Agreement and the Guaranty as a debtor and guarantor, respectively, under the Second Credit Agreement but did not pledge its beneficiary interest in Laurelwood Associates Trust to the Agent to secure the Obligations pursuant to the terms of the Subsidiary Pledge Agreement and Laurelwood Associates Trust and Laurelwood Associates, Inc. were not joined into the Loan Documents as Obligated Parties;

(xii) The Borrower created new subsidiaries, Friends Behavioral Health Systems, LP, a Pennsylvania limited partnership ("Friends LP"), and Friends GP, LLC, a Pennsylvania limited liability company which is the sole general partner of Friends LP

("FGP"), for the purpose of acquiring the psychiatric hospital and residential treatment center owned by Friends Hospital, a Pennsylvania nonprofit corporation (which upon such acquisition will change its name Thomas Scattergood Behavioral Health Foundation) ("FH"), located in Philadelphia, Pennsylvania and operated under the name "Friends Hospital" (the "Hospital"). The acquisition of the Hospital will occur pursuant to that certain Asset Acquisition and Contribution Agreement dated as of April 22, 2005, between Friends LP and FH (the "Friends Acquisition Agreement"), pursuant to which Friends LP will acquire the Hospital and FH will receive a 19.98% limited partnership interest in Friends LP and a 20% membership interest in FGP, with Borrower retaining a 79.92% limited partnership interest in Friends LP and an 80% membership interest in FGP. In connection with the issuance of such interests to FH at the closing of the transactions contemplated by the Friends Acquisition Agreement, FGP, FH and the Borrower will execute an Amended and Restated Limited Partnership Agreement of Friends LP (the "Friends Partnership Agreement") and an Amended and Restated Operating Agreement of FGP (the "FGP Operating Agreement"). The Borrower also created a new subsidiary, HHC Pennsylvania, LLC, a Pennsylvania limited liability company, to enter into an agreement to manage the Hospital following the closing of the transaction contemplated by the Friends Acquisition Agreement, however, the Borrower now intends to manage the Hospital itself pursuant to a management agreement and does not anticipate that HHC Pennsylvania, LLC will be an active Subsidiary;

(xiii) Borrower created a new subsidiary, HHC River Park, Inc., a West Virginia corporation, for the purpose of acquiring (A) a psychiatric hospital located in Huntington, West Virginia and known as River Park Hospital from Mountain State Behavioral Health Services, LLC, a West Virginia limited liability company, and (B) all of the outstanding capital stock of PsychManagement Group, Inc., a West Virginia corporation, from Scott C. Stamm and Patrick Burrows;

(xiv) Horizon Behavioral Services IPA, Inc., Horizon Behavioral Services of New Jersey, Inc., Horizon Behavioral Services of New York, Inc., and Horizon Behavioral Services of California, Inc. have merged into Horizon Behavioral Services, Inc; and

(xv) FPMBH of Texas, Inc. and FPM Behavioral Health Services, Inc. have been dissolved and any assets were transferred to their respective shareholder.

D. Amegy Bank National Association and Wachovia Bank, National Association wish to be added as "Banks" under the Credit Agreement.

E. Each of Parent, Borrower, the Obligated Parties under the Second Credit Agreement, the Banks party hereto and Agent wish to amend and restate the Second Credit Agreement in its entirety, as hereinafter set forth, to among other things, increase the committed amount of the facility provided under the Second Credit Agreement and join Amegy Bank National Association and Wachovia Bank, National Association as "Banks" hereunder.

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I.

Definitions

Section 1.1. Definitions. As used in this Agreement, the following terms have the following meanings:

"Account" means either a Base Rate Account or a Eurodollar Account.

"Acquisition Subsidiary" means a Subsidiary which is created solely for the purpose of consummating an acquisition and which does not have any business operations. Upon the consummation of the proposed acquisition, such Subsidiary shall no longer be considered an Acquisition Subsidiary and shall be subject to the provisions of Sections 8.10(b) and (c). As of the Closing Date, HHC River Park, Inc., Friends LP, FGP, and HHC Pennsylvania, LLC are the only Acquisition Subsidiaries.

"Act" has the meaning specified in Section 13.22.

"Additional Costs" has the meaning specified in Section 5.1.

"Adjusted EBITDA" has the meaning specified in Section 10.4.

"Adjusted Eurodollar Rate" means, for any Eurodollar Account for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) determined by Agent to be equal to the Eurodollar Rate for such Eurodollar Account for such Interest Period divided by 1 minus the Reserve Requirement for such Eurodollar Account for such Interest Period.

"Adjustment Date" has the meaning specified in Section 3.2.

"Affiliate" means, as to any Person, any other Person (a) that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, such Person; (b) that directly or indirectly beneficially owns or holds five percent (5%) or more of any class of voting stock of such Person; or (c) five percent (5%) or more of the voting stock of which is directly or indirectly beneficially owned or held by the Person in question. The term "control" means the possession, directly or indirectly, of the power to direct or cause direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise; provided, however, in no event shall Agent or any Bank be deemed an Affiliate of Parent or any Subsidiaries.

"Agent" has the meaning set forth in the introductory paragraph of this Agreement.

"Agreement" has the meaning set forth in the introductory paragraph of this Agreement.

"Applicable Lending Office" means for each Bank and each Type of Account, the lending office of such Bank (or of an Affiliate of such Bank) designated for such Account below its name on the signature pages hereof or such other office of such Bank (or of an Affiliate of such Bank) as such Bank may from time to time specify to Borrower and Agent as the office by which its Loans subject to Accounts of such Type are to be made and maintained.

"Applicable Rate" has the meaning set forth in Section 3.1.

"Approved Fund" has the meaning set forth in Section 13.8.

"Assignment and Assumption" means an Assignment and Assumption entered into by a Bank and its assignee and accepted by Agent pursuant to Section 13.8, in substantially the form of Exhibit B.

"Bank" has the meaning set forth in the introductory paragraph of this Agreement.

"Base Margin" has the meaning specified in Section 3.2.

"Base Rate" means, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Federal Funds Effective Rate in effect on such day plus ½ of 1% or (b) the Prime Rate in effect on such day. For purposes hereof, "Prime Rate" shall mean the rate of interest per annum then most recently publicly announced from time to time by JPMorgan as its prime rate in effect at its Principal Office; each change in the Prime Rate shall be effective on the date such change is publicly announced as effective. "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as released on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so released for any day which is a Business Day, the arithmetic average (rounded upwards to the next 1/100th of 1%), as determined by Agent, of the quotations for the day of such transactions received by Agent from three federal funds brokers of recognized standing selected by it. If for any reason Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability of Agent to obtain sufficient quotations in accordance with the terms thereof, the Base Rate shall be determined without regard to clause (a) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively. The Base Rate may not be any Bank' s best or favored rate and the Banks may make other loans to other Persons at rates lower than the Base Rate.

"Base Rate Account" means a portion of a Loan that bears interest at a rate based upon the Base Rate.

"Borrower" has the meaning specified in the introductory paragraph of this Agreement.

"Borrower Pledge Agreement" that certain Pledge and Security Agreement, dated as of December 9, 1997 between the Parent and the Agent, as the same has been and may hereafter be amended or otherwise modified, including, without limitation, the following amendments: Pledge Amendment dated as of June 1, 1998, Pledge Amendment dated as of August 1, 1998, and Pledge Amendment dated as of July 3, 2002.

"Business Day" means (a) any day excluding Saturday, Sunday, and any day which either is a legal holiday under the laws of the State of Texas or the State of New York or is a day on which banking institutions located in the State of Texas or the State of New York are closed, and (b), with respect to all borrowings, payments, Conversions, Continuations, Interest Periods, and notices in connection with Loans subject to Eurodollar Accounts, any day which is a Business Day described in clause (a) above and which is also a day on which dealings in Dollar deposits are carried out in the European interbank market.

"Calculation Period" has the meaning specified in Section 3.2.

"Capital Expenditures" means, for any period, all expenditures of Parent and its Subsidiaries which are classified as capital expenditures in accordance with GAAP including all such expenditures associated with Capital Lease Obligations.

"Capital Lease Obligations" means, as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal property, which obligations are required to be classified and accounted for as a capital lease on a balance

sheet of such Person under GAAP. For purposes of this Agreement, the amount of such Capital Lease Obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"Closing Date" means June 10, 2005.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated and rulings issued thereunder.

"Collateral" means the property in which Liens have been granted pursuant to the Parent Security Agreement, the Parent Pledge Agreement, the Subsidiary Security Agreement, the Subsidiary Pledge Agreements, and the Mortgages whether such Liens are now existing or hereafter arise.

"Commitment Fee Rate" has the meaning specified in Section 3.2(c).

"Commitment Percentage" means, as to any Bank, the percentage equivalent of a fraction, the numerator of which is the amount of the Revolving Commitment of such Bank and the denominator of which is the aggregate amount of the Revolving Commitments of all of the Banks.

"Compliance Certificate" means a certificate in substantially the form of Exhibit C properly completed and executed by the chief financial officer of Parent.

"Consolidated Net Income" has the meaning specified in Section 10.2.

"Continue", "Continuation", and "Continued" shall refer to the continuation pursuant to Section 3.5 of a Eurodollar Account as a Eurodollar Account from one Interest Period to the next Interest Period.

"Convert", "Conversion", and "Converted" shall refer to a conversion pursuant to Section 3.5 or Article V of one Type of Account into the other Type of Account.

"Debt" means as to any Person at any time (without duplication): (a) all obligations of such Person for borrowed money; (b) all obligations of such Person evidenced by bonds, notes, debentures, or other similar instruments; (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable of such Person arising in the ordinary course of business that are not past due by more than ninety (90) days or that are past due by more than ninety (90) days but are being contested in good faith by appropriate proceedings diligently pursued; (d) all Capital Lease Obligations of such Person; (e) all Debt or other obligations of others Guaranteed by such Person; (f) all obligations secured by a Lien existing on property owned by such Person, whether or not the obligations secured thereby have been assumed by such Person or are non-recourse to the credit of such Person; (g) all reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, bankers' acceptances, surety or other bonds, and similar instruments; (h) all liabilities of such Person in respect of all unfunded vested benefits under any Plan; (i) all obligations of such Person in respect of mandatory redemption or mandatory dividend rights on capital stock (or other equity); (j) all obligations of such Person, contingent or otherwise, for the payment of money under any non-compete, consulting, performance based or similar agreement entered into with the seller of a Target or any other similar arrangements providing for the deferred payment of the purchase price for an acquisition permitted hereby or an acquisition consummated prior to the date hereof, in each case to the extent reflected as a liability on the balance sheet of a Person in accordance with GAAP; (k) all obligations of such Person under any interest rate or currency swap, cap, collar or similar hedge agreement; (l) all obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which lease is required or is permitted to be classified and accounted for as an operating lease under GAAP but which is intended by

the parties thereto for tax, bankruptcy, regulatory, commercial law, real estate law and all other purposes as a financing arrangement (sometimes known as a synthetic lease); and (m) any other amounts which are required to be reflected as a liability on the balance sheet of a Person in accordance with GAAP, excluding trade accounts payable excluded from Debt pursuant to clause (c) of this definition, accruals, deferred credits, and loss contingencies.

"Default" means an Event of Default or the occurrence of an event or condition which with notice or lapse of time or both would become an Event of Default.

"Default Rate" means, in respect of any principal of any Loan, or any other amount payable by Borrower under any Loan Document which is not paid when due (whether at stated maturity, by acceleration, or otherwise), a rate per annum during the period commencing on the due date until such amount is paid in full equal to the sum of two percent (2%) plus the Applicable Rate for Base Rate Accounts as in effect from time to time (provided, that if such amount in default is principal of a Loan subject to a Eurodollar Account and the due date is a day other than the last day of an Interest Period therefor, the "Default Rate" for such principal shall be, for the period from and including the due date and to but excluding the last day of the Interest Period therefor, two percent (2%) plus the interest rate for such Loan for such Interest Period as provided in Section 3.1 hereof, and, thereafter, the rate provided for above in this definition).

"Dollars" and "$" mean lawful money of the United States of America.

"EAPI" has the meaning specified in the Recitals to this Agreement.

"EBITDA" has the meaning specified in Section 10.3.

"Eligible Assignee" has the meaning set forth in Section 13.8.

"Environmental Laws" means any and all federal, state, and local laws, regulations, and requirements pertaining to health, safety, or the environment, as such laws, regulations, and requirements may be amended or supplemented from time to time.

"Environmental Liabilities" means, as to any Person, all liabilities, obligations, responsibilities, Remedial Actions, losses, damages, punitive damages, consequential damages, treble damages, costs, and expenses, (including, without limitation, all reasonable fees, disbursements and expenses of counsel, expert and consulting fees and costs of investigation and feasibility studies), fines, penalties, sanctions, and interest incurred as a result of any claim or demand, by any Person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute, including any Environmental Law, permit, order, or agreement with any Governmental Authority or other Person, arising from environmental, health, or safety conditions or the Release or threatened Release of a Hazardous Material into the environment.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and published interpretations thereunder.

"ERISA Affiliate" means any corporation or trade or business which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as Parent or is under common control (within the meaning of Section 414(c) of the Code) with Parent.

"Eurodollar Account" means a portion of a Loan that bears interest at a rate based upon the Adjusted Eurodollar Rate.

"Eurodollar Rate" means, for any Eurodollar Account for any Interest Period therefor, the rate appearing on Page 3750 of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "Eurodollar Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of Five Million Dollars ($5,000,000) and for a maturity comparable to such Interest Period are offered by the principal London office of the Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Eurodollar Rate Margin" has the meaning specified in Section 3.2.

"Event of Default" has the meaning specified in Section 11.1.

"Existing Credit Agreement" means that certain Amended and Restated Credit Agreement dated as of November 15, 2000 among Parent, Borrower, Texas Commerce Bank National Association (now JPMorgan Chase Bank, N.A.) and the lenders party thereto, as such agreement was amended and modified from time to time prior to the effectiveness of the Second Credit Agreement.

"Federal Funds Effective Rate" has the meaning specified in the definition of Base Rate.

"FGP" has the meaning specified in the Recitals to this Agreement.

"FGP Operating Agreement" has the meaning specified in the Recitals to this Agreement.

"FH" has the meaning specified in the Recitals to this Agreement.

"Fiscal Quarters" means the four (4) periods falling in each Fiscal Year, each such period three (3) calendar months in duration with the first such period in any Fiscal Year beginning on the first day of September and the last such period in any Fiscal Year ending on the last day of August.

"Fiscal Year" means twelve (12) month period beginning on the first day of September and ending on the last day of August of the following year.

"Friends Acquisition Agreement" has the meaning specified in the Recitals to this Agreement.

"Friends LP" has the meaning specified in the Recitals to this Agreement.

"Friends Partnership Agreement" has the meaning specified in the Recitals to this Agreement.

"Fund" has the meaning specified in Section 13.8.

"GAAP" means generally accepted accounting principles, applied on a consistent basis, as set forth in Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and/or in statements of the Financial Accounting Standards Board and/or their respective successors and which are applicable in the circumstances as of the date in question. Accounting principles are applied on a "consistent basis" when the accounting principles applied in a current period are comparable in all material respects to those accounting principles applied in a preceding period.

"Governmental Authority" means any nation or government, any state or political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to government.

"Guarantee" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect the obligee against loss in respect thereof (in whole or in part), provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The amount of any Guarantee shall be equal to the amount of the obligations so guaranteed or otherwise supported or, if not a fixed and determined amount, the maximum amount so guaranteed.

"Guaranty" means that certain Unconditional Guaranty Agreement, dated as of December 9, 1997 in favor of the Agent and the banks party to the Original Credit Agreement originally entered into by Borrower, Mental Health Outcomes, Inc., HHG Colorado, Inc., HHMC Partners, Inc., Geriatric Medical Care, Inc., Specialty Rehab Management, Inc. (who is now Horizon Health Physical Rehabilitation Services, Inc.), Acorn Behavioral Healthcare Management Corporation and Florida Professional Psychological Services, Inc., as the same has been amended pursuant to Subsidiary Joinder Agreements so that all the Obligated Parties are party thereto (including, without limitation, the Subsidiary Joinder Agreements described on Schedule 1.1(b) hereto) and as the same has been and may hereafter be amended or otherwise modified.

"Hazardous Material" means any substance, product, waste, pollutant, material, chemical, contaminant, constituent, or other material which is or becomes listed, regulated, or addressed under any Environmental Law.

"HBS" has the meaning specified in the Recitals to this Agreement.

"HHC Ohio" has the meaning specified in the Recitals to this Agreement.

"HHC Poplar" has the meaning specified in the Recitals to this Agreement.

"Increased Commitment Supplement" means a supplement to this Agreement substantially in the form attached hereto as Exhibit D, executed and delivered by Borrower, Agent and one or more of the Banks and/or any New Banks, which sets forth the increase in the Revolving Commitment of each Bank party thereto, and to the extent that there are New Banks, the agreement of each such New Bank to become a Bank party to and bound by this Agreement and the other Loan Documents.

"Indebtedness" has the meaning specified in Section 10.3.

"Indebtedness to Adjusted EBITDA Ratio" means the ratio of Indebtedness to Adjusted EBITDA as determined and calculated in accordance with Section 10.3.

"Insights" means Health and Human Resource Center, Inc., doing business as Integrated Insights, a California Corporation.

"Interest Period" means with respect to any Eurodollar Accounts, each period commencing on the date such Account is established or Converted from a Base Rate Account or the last day of the next preceding Interest Period with respect to such Eurodollar Account, and ending on the numerically corresponding day in the first, second, third, sixth or twelfth calendar month thereafter, as Borrower may select as provided in Section 3.5 or 4.3, except that each such Interest Period which commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (a) each Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day (or if such succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day); (b) any Interest Period in existence under a Loan which would otherwise extend beyond the Revolving Termination Date shall end on the Revolving Termination Date; (c) no more than six (6) Interest Periods shall be in effect at the same time; and (d) no Interest Period for any Eurodollar Account shall have a duration of less than one (1) month and, if the Interest Period would otherwise be a shorter period, the related Eurodollar Account shall not be available hereunder.

"Issuing Bank" means JPMorgan, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.7(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"JPMorgan" means JPMorgan Chase Bank, N.A., in its individual capacity and not as Agent, and its successors, formerly JPMorgan Chase Bank who was successor in interest by merger to The Chase Manhattan Bank, who was the successor in interest by merger to Chase Bank of Texas, National Association, who was formerly known as Texas Commerce Bank National Association.

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time, plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Bank at any time shall be its Commitment Percentage of the total LC Exposure at such time.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement and any letter of credit issued or outstanding under the Second Credit Agreement and outstanding on the Closing Date.

"Letter of Credit Notice" has the meaning set forth in Section 2.7(b).

"Lien" means any lien, mortgage, security interest, tax lien, financing statement, pledge, charge, hypothecation, assignment, preference, priority, or other encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or title retention agreement), whether arising by contract, operation of law, or otherwise.

"Loan Change Notice" has the meaning set forth in Section 4.3.

"Loan Documents" means this Agreement, the Original Credit Agreement, the Existing Credit Agreement, the Second Credit Agreement, the Letters of Credit, the Revolving Notes, the Parent Security Agreement, the Parent Pledge Agreement, the Guaranty, the Subsidiary Security Agreement, the Subsidiary Pledge Agreements, and all other promissory notes, security agreements, deeds of trust, assignments, guaranties, letters of credit, applications and agreements for Letters of Credit, and other instruments, agreements, and other documentation executed and delivered pursuant to or in connection

with this Agreement (including, without limitation, those agreements described on Schedule 1.1(b) hereto), as such instruments, agreements, and other documentation may be amended or otherwise modified.

"Loans" means, as to any Bank, the advances made by such Bank pursuant to Section 2.1 and the loans outstanding under the Second Credit Agreement as of the Closing Date, which are not being repaid but are being continued as "Loans" hereunder.

"Material Adverse Effect" means (a) a material adverse effect on the business, condition (financial or otherwise), operations, prospects, or properties of Parent and the Subsidiaries taken as a whole or (b) a material adverse effect on the validity, perfection, priority, or ability of Agent to enforce Agent' s Lien on the Collateral or of the ability of Agent or any Bank to enforce a material provision of the Loan Documents. In determining whether any individual event could reasonably be expected to result in a Material Adverse Effect, notwithstanding that such event does not itself have such effect, a Material Adverse Effect shall be deemed to have occurred if the cumulative effect of such event and all other then existing events could reasonably be expected to result in a Material Adverse Effect.

"Maximum Rate" means, at any time and with respect to any Bank, the maximum rate of non-usurious interest under applicable law that such Bank may charge Borrower. The Maximum Rate shall be calculated in a manner that takes into account any and all fees, payments, and other charges contracted for, charged, or received in connection with the Loan Documents that constitute interest under applicable law. Each change in any interest rate provided for herein based upon the Maximum Rate resulting from a change in the Maximum Rate shall take effect without notice to Borrower at the time of such change in the Maximum Rate. For purposes of determining the Maximum Rate under Texas law, the applicable rate ceiling shall be the weekly ceiling described in, and computed in accordance with Chapter 303 of the Texas Finance Code.

"Mortgage" means a mortgage, deed of trust, assignment of leases and rents, leasehold mortgage or other security document granting a Lien on any Mortgaged Property to secure the Obligations, including, without limitation, the mortgages and deeds of trust described on Schedule 1.1(b) hereto, as each of the same may be amended or otherwise modified from time to time. Each Mortgage shall be satisfactory in form and substance to the Agent.

"Mortgaged Property" means, initially, each parcel of real property and the improvements thereto owned by an Obligated Party and identified on Schedule 7.6, and includes each other parcel of owned real property and improvements thereto with respect to which a Mortgage is granted pursuant to Section 8.10(e).

"Multiemployer Plan" means a multiemployer plan defined as such in Section 3(37) of ERISA to which contributions have been made by Parent or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Net Proceeds" has the meaning specified in Section 3.4(b).

"New Banks" has the meaning specified in Section 2.6(b).

"NIH Asset Purchase Agreement" has the meaning specified in the Recitals to this Agreement.

"Not-For-Profit Acquisition" means the acquisition of a business, which prior to the acquisition was operated by a not-for-profit entity, by the transfer of all or substantially all of the operating assets of the business to a new Person if that Person will be controlled (as defined in the definition of Affiliate) by

an Obligated Party and if the majority of the stock or other equity interest issued by such Person will be owned by an Obligated Party.

"Obligated Party" means Parent, the Subsidiaries who are parties to the Guaranty, the Subsidiary Security Agreement or a Subsidiary Pledge Agreement or any other Person (exclusive of Borrower) who is or becomes party to any agreement that guarantees or secures payment and performance of the Obligations or any part thereof. Not all Subsidiaries are Obligated Parties. As of the Closing Date, AHG Partnership, Insights, Laurelwood Associates Trust, Laurelwood Associates, Inc., Friends LP, FGP, HHC Pennsylvania, LLC and HHC River Park, Inc. are the only Subsidiaries of Parent that are not Obligated Parties. As of the Closing Date, the Subsidiaries who are Obligated Parties are listed on the Obligated Party Consent attached hereto.

"Obligation" means all obligations, indebtedness, and liabilities of Borrower to Agent, the Issuing Bank, and the Banks, or any of them, arising pursuant to: (a) any of the Loan Documents, (b) any interest rate swap, interest rate caps, interest rate collars, or other similar agreements entered into by Agent, the Issuing Bank, or any Bank with Parent or any Subsidiary enabling Parent or a Subsidiary to fix or limit its interest expense, and (c) any deposit, treasury management or other cash management arrangements entered into by Agent, the Issuing Bank, or any Bank with Parent or any Subsidiary, in each case, whether now existing or hereafter arising, whether direct, indirect, related, unrelated, fixed, contingent, liquidated, unliquidated, joint, several, or joint and several, including, without limitation, the obligation of Borrower to repay the Loans, the LC Disbursements, interest on the Loans and LC Disbursements, and all fees, costs, and expenses (including attorneys' fees and expenses) provided for in the Loan Documents, such agreements enabling Parent or any Subsidiary to fix or limit its interest expense or in the agreements relating to such deposit, treasury management or other cash management arrangements.

"Original Credit Agreement" means that certain Credit Agreement dated as of December 9, 1997 among Parent, Texas Commerce Bank National Association (now JPMorgan Chase Bank, N.A.), individually as a bank and as the agent, Bank of America National Trust and Savings Association (now known as Bank of America, N.A.), Comerica Bank-Texas, Coöperatieve Centrale Raiffeisen – Boerenleenbank B.A., "Rabobank Nederland," New York Bank, and Banque Paribas, Houston Agency, as such agreement was amended and modified from time to time prior to the effectiveness of the Existing Credit Agreement.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to all or any of its functions under ERISA.

"Parent" has the meaning specified in the introductory paragraph of this Agreement.

"Parent Joinder Agreement" means the Parent Joinder Agreement executed on November 15, 2000, and substantially in the format of Exhibit "D" to the Existing Credit Agreement.

"Parent Pledge Agreement" means the Pledge and Security Agreement, dated as of December 9, 1997 executed by the Parent for the benefit of the Agent, as the same has been amended by the Pledged Amendments described on Schedule 1.1(b) and as the same has otherwise been and may hereafter be amended or otherwise modified.

"Parent Security Agreement" means the a Security Agreement, dated as of December 9, 1997 executed by the Patent for the benefit of Agent, as the same has been and may hereafter be amended or otherwise modified.

"Permitted Acquisition" means an acquisition of a Person or its assets in a transaction complying with the conditions set out in Section 9.5(a).

"Person" means any individual, corporation, business trust, association, company, partnership, joint venture, Governmental Authority, or other entity.

"Plan" means any employee benefit plan established or maintained by Parent or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Principal Office" means the principal office of Agent, located at 1 Chase Manhattan Plaza, 8th Floor, New York, New York 10081.

"ProCare" has the meaning specified in the Recitals to this Agreement.

"Prohibited Transaction" means any transaction set forth in Section 406 or 407 of ERISA or Section 4975(c)(1) of the Code for which there does not exist a statutory or administrative exemption.

"Quarterly Payment Date" means the last day of May, August, November, and February of each year, the first of which shall be August 31, 2005.

"Reducible Amount" has the meaning specified in Section 10.2.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as the same may be amended or supplemented from time to time.

"Regulatory Change" means, with respect to any Bank or the Issuing Bank, any change after the date of the Existing Credit Agreement in United States federal, state, or foreign laws or regulations (including Regulation D) or the adoption or making after such date of any interpretations, directives, or requests applying to a class of banks including such Bank or the Issuing Bank of or under any United States federal or state, or any foreign, laws or regulations (whether or not having the force of law) by any Governmental Authority or monetary authority charged with the interpretation or administration thereof.

"Release" means, as to any Person, any release, spill, emission, leaking, pumping, injection, deposit, disposal, disbursement, leaching, or migration of Hazardous Materials into the indoor or outdoor environment or into or out of property owned by such Person, including, without limitation, the movement of Hazardous Materials through or in the air, soil, surface water, ground water, or property in violation of Environmental Laws.

"Remedial Action" means all actions required to (a) cleanup, remove, treat, or otherwise address Hazardous Materials in the indoor or outdoor environment, (b) prevent the Release or threat of Release or minimize the further Release of Hazardous Materials so that they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment, or (c) perform pre-remedial studies and investigations and post-remedial monitoring and care.

"Required Banks" means Banks having (a) fifty-one percent (51%) or more of the Revolving Commitments or (b) if all Revolving Commitments have terminated, fifty-one percent (51%) or more of the sum of the total Revolving Exposures.

"Reportable Event" means any of the events set forth in Section 4043 of ERISA.

"Reserve Requirement" means, for any Eurodollar Account for any Interest Period therefor, the average maximum rate at which reserves (including any marginal, supplemental, or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding One Billion Dollars against "Eurocurrency Liabilities" as such term is used in Regulation D. Without limiting the effect of the

foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against any category of liabilities which includes deposits by reference to which the Adjusted Eurodollar Rate is to be determined or any category of extensions of credit or other assets which include Eurodollar Accounts.

"Responsible Officer" means any chief executive officer, chairman, president, vice president, treasurer, assistant treasurer, assistant treasurer, controller or other financial officer of Parent or any Subsidiary.

"Restricted Group Member" means HHC Pennsylvania, LLC, a Pennsylvania limited liability company, Laurelwood Associates Trust, a trust organized under the laws of the state of Ohio, Laurelwood Associates, Inc., an Ohio professional corporation, Friends LP, FGP, Insights, and any other Subsidiary (whether or not wholly-owned) that is created or acquired after the date hereof that is not permitted to be joined as an Obligated Party hereunder and/or whose equity interest can not be pledged by its parent under the terms hereof, in each case as a result of restrictions imposed by law or agreement.

"Revolving Commitment" means, as to each Bank, the obligation of such Bank to make advances of funds and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Bank' s Revolving Exposure hereunder, as such commitment may be reduced, increased or terminated pursuant to Sections 2.6, 4.4(b), or 11.2. The amount of each Bank' s Revolving Commitment is set forth opposite the name of such Bank on Schedule 1.1(a) hereto under the heading "Revolving Commitment" or in the most recent Assignment and Assumption or Increased Commitment Supplement executed by such Bank pursuant to which such Bank shall have assumed its Revolving Commitment, as applicable. The aggregate amount of the Revolving Commitments of all Banks as of the Closing Date is equal to One Hundred Twenty-Five Million Dollars ($125,000,000).

"Revolving Exposure" shall mean, with respect to any Bank at any time, the sum of the outstanding principal amount of such Bank' s Loans and its LC Exposure (or, if determined with respect to a Bank who is the Issuing Bank, its direct interests in outstanding Letters of Credit minus all other Banks' participation interests therein whether or not notice of any such participation shall have been given).

"Revolving Notes" means the promissory notes provided for by Section 2.2 and all amendments or other modifications thereof.

"Revolving Termination Date" means May 31, 2010 or such earlier date on which the Revolving Commitments terminate as provided in this Agreement.

"Security Documents" means each of the Parent Pledge Agreement, the Parent Security Agreement, the Subsidiary Pledge Agreements, the Subsidiary Security Agreement, the Mortgages, and all amendments and other modifications thereto. The Security Documents include without limitation, the documents described on Schedule 1.1(b) hereto.

"Second Credit Agreement" has the meaning specified in the Recitals to this Agreement.

"Subsidiary" means any corporation (or other entity) of which at least a majority of the outstanding shares of stock (or other ownership interests) having by the terms thereof ordinary voting power to elect a majority of the board of directors (or similar governing body) of such corporation (or other entity) (irrespective of whether or not at the time stock (or other ownership interests) of any other class or classes of such corporation (or other entity) shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by Parent or one or more of the Subsidiaries or by Parent and one or more of the Subsidiaries.

"Subsidiary Joinder Agreement" means an agreement which has been or will be executed by a Subsidiary as required hereby adding it as a party to the Guaranty and the Subsidiary Security Agreement, in substantially the form of Exhibit "H" to the Original Credit Agreement, as the same may be amended or otherwise modified.

"Subsidiary Pledge Agreements" means each of the pledge and security agreements between a Subsidiary and the Agent for the benefit of itself and the Banks, in substantially the form of Exhibit "F" to the Original Credit Agreement, as the same may be amended or otherwise modified, and includes as of the Closing Date each of the following:

(a) the Pledge and Security Agreement dated as of December 9, 1997 executed by the Borrower for the benefit of the Agent, as amended by the Pledge Amendments described on Schedule 1.1(b) and as the same has otherwise been and may hereafter be amended or otherwise modified;

(b) the Pledge and Security Agreement, dated as of June 1, 1998, executed by FPM Behavioral Health, Inc. (who is now Horizon Behavioral Services, Inc.) pledging to the Agent its interests in its subsidiaries, as the same has been and may hereafter be amended or otherwise modified;

(c) FPMBH of Texas, Inc. the Pledge and Security Agreement, dated as of November 15, 2000, executed by FPMBH of Texas, Inc. for the benefit of the Agent as the same has been and may hereafter be amended or otherwise modified; and

(d) the Pledge and Security Agreement, dated as of December 20, 2001 executed by Occupational Health Consultants of America, Inc. (who is now Occupational Health Consultants of America, LLC) pledging to the Agent its interests in its subsidiaries, as the same has been and may hereafter be amended or otherwise modified.

"Subsidiary Security Agreement" means the Security Agreement dated as of December 9, 1997 executed by Borrower, Mental Health Outcomes, Inc., HHG Colorado, Inc., HHMC Partners, Inc., Geriatric Medical Care, Inc., Specialty Rehab Management, Inc. (who is now Horizon Health Physical Rehabilitation Services, Inc.), Acorn Behavioral Healthcare Management Corporation, and Florida Professional Psychological Services, Inc. in favor of the Agent and the banks party to the Original Credit Agreement, as amended by the Subsidiary Joinder Agreements described on Schedule 1.1(b) and as the same has otherwise been and may hereafter be amended or otherwise modified.

"Target" means the Person who is to be acquired or whose assets are to be acquired in an acquisition governed by Section 9.5.

"Type" means either type of Account (*i.e.*, either a Base Rate Account or Eurodollar Account).

"UCC" means the Uniform Commercial Code as in effect from time to time in the State of Texas.

Section 1.2. Other Definitional Provisions. All definitions contained in this Agreement are equally applicable to the singular and plural forms of the terms defined. The words "hereof", "herein", and "hereunder", and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all Article and Section references pertain to this Agreement. Terms used herein that are defined in the UCC, unless otherwise defined herein, shall have the meanings specified in the UCC.

Section 1.3. Accounting Terms and Determinations. Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to Agent and the Banks hereunder shall be prepared, in accordance with GAAP, on a basis consistent with those used in the preparation of the financial statements referred to in Section 7.2 hereof. All calculations made for the purposes of determining compliance with the provisions of this Agreement shall be made by application of GAAP, on a basis consistent with those used in the preparation of the financial statements referred to in Section 7.2 hereof. To enable the ready and consistent determination of compliance by Parent with its obligations under this Agreement, Parent will not change the manner in which either the last day of its Fiscal Year or the last days of the first three Fiscal Quarters of its Fiscal Year is calculated. In the event any changes in accounting principles required by GAAP or recommended by Parent' s certified public accountants and implemented by Parent occur and such changes result in a change in the method of the calculation of financial covenants, standards, or terms under this Agreement, then Parent, Borrower, Agent, and the Banks agree to enter into negotiations in order to amend such provisions of this Agreement so as to equitably reflect such changes with the desired result that the criteria for evaluating such covenants, standards, or terms shall be the same after such changes as if such changes had not been made. Until such time as such an amendment shall have been executed and delivered by Parent, Agent, Borrower, and the Banks, all financial covenants, standards, and terms in this Agreement shall continue to be calculated or construed as if such changes had not occurred.

Section 1.4. Time of Day. Unless otherwise indicated, all references in this Agreement to times of day shall be references to Dallas, Texas time.

ARTICLE II.

Revolving Credit Facility and Letters of Credit

Section 2.1. Revolving Commitments. Subject to the terms and conditions of this Agreement, each Bank severally agrees to make one or more advances to Borrower from time to time from and including the Closing Date to but excluding the Revolving Termination Date; provided that such Bank' s Revolving Exposure shall not exceed the amount of such Bank' s Revolving Commitment as then in effect. Subject to the foregoing limitations, and the other terms and provisions of this Agreement, Borrower may borrow, prepay, and reborrow hereunder the amount of the Revolving Commitments and may establish Base Rate Accounts and Eurodollar Accounts thereunder and, until the Revolving Termination Date, Borrower may Continue Eurodollar Accounts established under the Loans or Convert Accounts established under the Loans of one Type into Accounts of the other Type. Accounts of each Type under the Loan made by each Bank shall be established and maintained at such Bank' s Applicable Lending Office for Loans of such Type.

Section 2.2. Evidence of Debt. Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Bank resulting from each Loan made by such Bank, including the amounts of principal and interest payable and paid to such Bank from time to time hereunder. The Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Bank hereunder and (iii) the amount of any sum received by the Agent hereunder for the account of the Banks and each Bank' s share thereof. The entries made in the accounts maintained pursuant to this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Bank or the Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement. Any Bank may request that Loans made by it be evidenced by a promissory note. In

such event, the Borrower shall prepare, execute and deliver to such Bank a promissory note payable to the order of such Bank (or, if requested by such Bank, to such Bank and its registered assigns) and in a form of the Revolving Note attached hereto as Exhibit A. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.3. Repayment of Loans. The Borrower hereby unconditionally promises to pay to the Agent for the account of each Bank the then unpaid principal amount of each Loan on the Revolving Termination Date.

Section 2.4. Revolving Commitment Fee. Borrower agrees to pay to Agent for the account of each Bank a commitment fee on the daily average unused amount of such Bank' s Revolving Commitment for the period from and including the Closing Date to but excluding the Revolving Termination Date, at a rate per annum equal to the Commitment Fee Rate. Accrued commitment fees under this Section 2.4 shall be payable in arrears on each Quarterly Payment Date and on the Revolving Termination Date. For the purpose of calculating the commitment fee hereunder, the Revolving Commitments shall be deemed utilized by all outstanding Loans and Letters of Credit.

Section 2.5. Use of Proceeds. The proceeds of the Loans shall be used by Borrower for ongoing working capital needs and other general corporate purposes, including, without limitation, to finance the purchase price of Permitted Acquisitions and making loans to its Parent and Subsidiaries in accordance with Sections 9.4 and 9.5.

Section 2.6. Reduction, Termination, and Increase of Revolving Commitments.

(a) Voluntary Reductions or Terminations of Revolving Commitments. At any time and from time to time from and including the Closing Date to but excluding the Revolving Termination Date, Borrower shall have the right to terminate or reduce in part the unused portion of the Revolving Commitments, provided that: (i) Borrower shall give notice of each such termination or reduction as provided in Section 4.3; and (ii) each partial reduction shall be in an aggregate amount at least equal to Three Million Dollars ($3,000,000). The Revolving Commitments may not be reinstated after they have been terminated or reduced. Any reduction or termination of the Revolving Commitments shall be accompanied by any payment required under Section 4.4(b)(i).

(b) Increase of Revolving Commitments. From and including the Closing Date to but excluding the Revolving Termination Date, Borrower may increase the aggregate amount of the Revolving Commitments by an aggregate amount: (i) equal to any integral multiple of Five Million Dollars ($5,000,000) and not less than Five Million Dollars ($5,000,000) and (ii) not to exceed the sum of Fifty Million Dollars ($50,000,000); provided, that (i) no Default shall have occurred and be continuing on the effective date of the increase; (ii) the Revolving Commitments shall not have been reduced under this Section 2.6 (but may have been reduced pursuant to Section 4.4(b)(ii)), nor shall Borrower have given notice of any such reduction under Section 2.6(a), (iii) the Revolving Commitments shall not previously have been increased pursuant to this Section 2.6(b) on more than four (4) occasions, and (iv) no Bank shall have any obligation to increase its Revolving Commitment unless it is a party to an Increased Commitment Supplement. The increase in the Revolving Commitments under this Section 2.6(b) may be accomplished by one or more of the Banks increasing their respective Revolving Commitments or by one or more Persons being added as "Banks" hereunder (each a "New Bank") or by a combination of the foregoing; provided, that the Revolving Commitment of each New Bank shall be at least Five Million Dollars ($5,000,000) and the maximum number of New Banks shall be four (4)**.** Provided that no Default exists at such time or after giving effect to the increase, an increase in the Revolving Commitments made in accordance with this Section 2.6(b) shall become effective on the date

Agent receives a properly completed Increased Commitment Supplement executed by Borrower and the Banks willing to increase their respective Revolving Commitments and the New Banks (if any). Agent shall promptly execute any Increased Commitment Supplement so delivered in accordance with this Section 2.6(b) and deliver a copy thereof to the other Banks. If all existing Banks shall not have provided their pro rata portion of the requested increase, then after giving effect to the requested increase the outstanding Loans may not be held pro rata in accordance with the new Revolving Commitments. To remedy the foregoing, upon the effective date of the Increased Commitment Supplement, the Banks shall make advances among themselves (either directly or through the Agent) so that after giving effect thereto the Loans will be held by the Banks, pro rata in accordance with the Commitment Percentages. Any advances made under this Section 2.6(b) by a Bank shall be deemed to be a purchase of a corresponding amount of the Loans of the Bank or Banks who shall receive such advances. The Revolving Commitments of the Banks who do not agree to increase their Revolving Commitments can not be reduced or otherwise changed pursuant to this Section 2.6(b).

Section 2.7. Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, Borrower may request the issuance of Letters of Credit for its own account or for any of the Obligated Parties' benefit, in the form of a Letter of Credit Notice, at any time and from time to time from the Closing Date to but excluding the Revolving Termination Date. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by Borrower to, or entered into by Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) irrevocable written notice, in the form attached hereto as Exhibit F (a "Letter of Credit Notice"), requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with clause (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, Borrower also shall submit a letter of credit application on the Issuing Bank' s standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the LC Exposure shall not exceed Twenty-Five Million Dollars ($25,000,000) and (ii) the sum of the total Revolving Exposures shall not exceed the aggregate amount of the Revolving Commitments.

(c) Expiration Date. Each Letter of Credit shall expire (i) on the date approved by the Issuing Bank which approval shall be evidenced by the issuance of such Letter of Credit or (ii) at or prior to the close of business on the earlier of (A) the date one year after the date of issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (B) the date that is five Business Days prior to the Revolving Termination Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof or with respect to Letters of Credit outstanding under the Second

Credit Agreement on the Closing Date, as of the Closing Date) and without any further action on the part of the Issuing Bank or the Banks, the Issuing Bank hereby grants to each Bank, and each Bank hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Bank' s Commitment Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Bank hereby absolutely and unconditionally agrees to pay to Agent, for the account of the Issuing Bank, such Bank' s Commitment Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by Borrower on the date due as provided in clause (e) of this Section, or of any reimbursement payment required to be refunded to Borrower for any reason. Each Bank acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Revolving Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, Borrower shall reimburse such LC Disbursement by paying to Agent an amount equal to such LC Disbursement not later than 1:00 p.m. on the date that such LC Disbursement is made, if Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m. on such date, or, if such notice has not been received by Borrower prior to such time on such date, then not later than 1:00 p.m. on the Business Day immediately following the day that Borrower receives such notice; provided that Borrower may prior to the Revolving Termination Date, subject to the conditions to borrowing set forth herein, request in accordance with Section 5.3 that such payment be financed with a Loan subject to Base Rate Accounts in an equivalent amount and, to the extent so financed, Borrower' s obligation to make such payment shall be discharged and replaced by the resulting Loan subject to Base Rate Accounts. If Borrower fails to make such payment when due, Agent shall notify each Bank of the applicable LC Disbursement, the payment then due from Borrower in respect thereof and such Bank' s Commitment Percentage thereof. Promptly following receipt of such notice, each Bank shall pay to Agent its Commitment Percentage of the payment then due from Borrower, in the same manner as provided in Section 4.1 with respect to Loans made by such Bank (and Section 4.1 shall apply, *mutatis mutandis,* to the payment obligations of the Banks), and Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Banks. Promptly following receipt by Agent of any payment from Borrower pursuant to this paragraph, Agent shall distribute such payment to the Issuing Bank or, to the extent that the Banks have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Banks and the Issuing Bank as their interests may appear. Any payment made by a Bank pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of Loans subject to a Base Rate Account as contemplated above) shall not constitute a Loan and shall not relieve Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. Borrower' s obligation to reimburse LC Disbursements as provided in clause (e) of this Section shall be absolute, unconditional, and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent, or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Article, constitute a legal or equitable discharge of, or provide a right of setoff against, Borrower' s obligations hereunder. Neither Agent, the Banks nor the Issuing Bank, nor any Person related thereto, shall have any liability or responsibility by reason of or in connection with the issuance or

transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by Borrower to the extent permitted by applicable law) suffered by Borrower that are caused by the Issuing Bank' s failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify Agent and Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve Borrower of its obligation to reimburse the Issuing Bank and the Banks with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that Borrower reimburses such LC Disbursement, at the rate per annum equal to the Base Rate plus the Base Margin; provided that, if Borrower fails to reimburse such LC Disbursement when due pursuant to clause (e) of this Section, then Section 3.4 shall apply. Interest accrued pursuant to this Section shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Bank pursuant to clause (e) of this Section to reimburse the Issuing Bank shall be for the account of such Bank to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among Borrower, Agent, the replaced Issuing Bank and the successor Issuing Bank. Agent shall notify the Banks of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to clause (k) of this Section. From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that Borrower receives notice from Agent or the Required Banks demanding the deposit of cash collateral pursuant to this paragraph or if Borrower is otherwise required to provide cash collateral for LC Exposures under Section 4.4 or otherwise, Borrower shall deposit in an account with Agent, in the name of Agent and for the benefit of the Banks, to be held by Agent as collateral for the payment and performance of the obligations of Borrower under this Agreement, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid letter of credit fees relating thereto; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to Borrower described in clause (e) or (f) of Section 11.1 or on the Revolving Termination Date if any Letter of Credit has an expiration date beyond the Revolving Termination Date. Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of Agent and at Borrower' s risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of the Banks with LC Exposure representing greater than fifty-one percent (51%) of the total LC Exposure), be applied to satisfy other obligations of Borrower under this Agreement. If Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to Borrower within three Business Days after all Events of Default have been cured or waived.

(k) Fees. Borrower agrees to pay (i) to the Agent for the account of each Bank a participation fee with respect to its participations in Letters of Credit, which shall accrue on the average daily amount of such Bank' s LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements), during the period from and including the Closing Date to but excluding the later of the date on which such Bank' s Revolving Commitment terminates and the date on which such Bank ceases to have any LC Exposure, at a rate per annum equal to the Eurodollar Rate Margin in effect from time to time pursuant to Section 3.2, and (ii) to the Issuing Bank a fronting fee, which shall accrue on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements), during the period from and including the Closing Date to but excluding the later of the date of termination of the Issuing Bank' s commitments to issue Letters of Credit and the date on which there ceases to be any LC Exposure, at the rate or rates per annum separately agreed upon between the Borrower and the Issuing Bank, as well as the Issuing Bank' s standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Accrued participation fees and fronting fees shall be due and payable on the third Business Day following each Quarterly Payment Date; provided that all such fees shall be payable on the Revolving Termination Date and any such fees accruing after the Revolving Termination Date shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). None of the Banks are entitled to any portion of the fronting fee.

ARTICLE III.

Interest and Fees

Section 3.1. Interest Rate. Subject to Section 12.12, Borrower shall pay to Agent for the account of each Bank interest on the unpaid principal amount of each Loan made by such Bank for the period commencing on the date of such Loan to but excluding the date such Loan is due, at a fluctuating rate per annum equal to the Applicable Rate. The term "Applicable Rate" means (i) during the period that such Loans or portions thereof are subject to a Base Rate Account, the Base Rate plus the Base Margin and (ii) during the period that such Loans or portions thereof are subject to a Eurodollar Account, the Adjusted Eurodollar Rate plus the Eurodollar Rate Margin.

Section 3.2. Determinations of Margins and Fees. The margins identified in Section 3.1 and the fees payable under Section 2.4 under shall be defined and determined as follows:

(a) "Base Margin" shall mean (i) during the period commencing on the Closing Date and ending on but not including the first Adjustment Date (as defined below), one quarter percent (0.25%) per annum and (ii) during each period, from and including one Adjustment Date to but excluding the next Adjustment Date (herein a "Calculation Period"), the percent per annum set forth in the table below in this Section 4.2 under the heading "Base Margin" opposite the Indebtedness to Adjusted EBITDA Ratio which corresponds to the Indebtedness to Adjusted EBITDA Ratio set forth in, and as calculated in accordance with, the applicable Compliance Certificate.

(b) "Eurodollar Rate Margin" shall mean (i) during the period commencing on the Closing Date and ending on but not including the first Adjustment Date, one and one quarter percent (1.25%) per annum and (ii) during each Calculation Period, the percent per annum set forth in the table below under the heading Eurodollar Rate Margin opposite the Indebtedness to Adjusted EBITDA Ratio which corresponds to the Indebtedness to Adjusted EBITDA Ratio set forth in, and as calculated in accordance with, the applicable Compliance Certificate.

(c) "Commitment Fee Rate" shall mean (i) during the period commencing on the Closing Date and ending on but not including the first Adjustment Date, two tenths of one percent (0.200%) per annum and (ii) during each Calculation Period, the percent per annum set forth in the table below under the heading Commitment Fee Rate opposite the Indebtedness to Adjusted EBITDA Ratio which corresponds to the Indebtedness to Adjusted EBITDA Ratio set forth in, and as calculated in accordance with, the applicable Compliance Certificate.

Indebtedness to Adjusted EBITDA Ratio	Eurodollar Rate Margin	Base Margin	Commitment Fee Rate
Less than 1.25 to 1.00	1.25 %	.25 %	.200 %
Greater than or equal to 1.25 to 1.00 but less than 1.75 to 1.00	1.50 %	.50 %	.250 %
Greater than or equal to 1.75 to 1.00 but less than 2.25 to 1.00	1.75 %	.75 %	.300 %
Greater than or equal to 2.25 but less than 2.75 to 1.00	2.00 %	1.00 %	.375 %
Greater than or equal to 2.75 to 1.00	2.25 %	1.25 %	.500 %

Upon delivery of the Compliance Certificate pursuant to Section 8.1(c) in connection with the financial statements of Parent and the Subsidiaries required to be delivered pursuant to Section 8.1(b) at the end of each Fiscal Quarter commencing with such Compliance Certificate delivered with respect to the Fiscal

Quarter ending on May 31, 2005, the Base Margin, the Eurodollar Rate Margins (for Interest Periods commencing after the applicable Adjustment Date) and Commitment Fee Rate shall automatically be adjusted in accordance with the Indebtedness to Adjusted EBITDA Ratio set forth therein and the table set forth above, such automatic adjustment to take effect as of the first Business Day after the receipt by Agent of the related Compliance Certificate pursuant to Section 8.1(c) (each such Business Day when such margins or fees change pursuant to this sentence or the next following sentence, herein an "Adjustment Date"). If Parent fails to deliver such Compliance Certificate which so sets forth the Indebtedness to Adjusted EBITDA Ratio within the period of time required by Section 8.1(c): (i) the Base Margin shall automatically be adjusted to one and one quarter percent (1.25%) per annum; (ii) the Eurodollar Rate Margin (for Interest Periods commencing after the applicable Adjustment Date) shall automatically be adjusted to two and one quarter percent (2.25%) per annum; and (iii) the Commitment Fee Rate shall automatically be adjusted to one half of one percent (.500%) per annum, such automatic adjustments to take effect as of the first Business Day after the last day on which Parent was required to deliver the applicable Compliance Certificate in accordance with Section 8.1(c) and to remain in effect until subsequently adjusted in accordance herewith upon the delivery of a Compliance Certificate.

Section 3.3. Payment Dates. Accrued interest on the Loans shall be due and payable as follows: (i) in the case of Loans subject to Base Rate Accounts, on each Quarterly Payment Date and on the Revolving Termination Date; and (ii) in the case of Loans subject to Eurodollar Accounts and with respect to each such Account, on the last day of such Interest Period, the Revolving Termination Date and, if such Interest Period is longer than ninety days, every ninety (90) days after the commencement of such Interest Period.

Section 3.4. Default Interest. Notwithstanding the foregoing, Borrower will pay to Agent for the account of each Bank interest at the applicable Default Rate on any principal of any Loan made by such Bank, and (to the fullest extent permitted by law) any other amount payable by Borrower under any Loan Document to or for the account of Agent or such Bank, that is not paid in full when due (whether at stated maturity, by acceleration, or otherwise), for the period from and including the due date thereof to but excluding the date the same is paid in full. Interest payable at the Default Rate shall be payable from time to time on demand and if not sooner demanded, on each Quarterly Payment Date.

Section 3.5. Conversions and Continuations of Accounts. Subject to Section 4.2, Borrower shall have the right from time to time to Convert all or part of any Base Rate Account in existence under a Loan into a Eurodollar Account under the same Loan or to Continue Eurodollar Accounts in existence under a Loan as Eurodollar Accounts under the same Loan, provided that: (a) Borrower shall give Agent notice of each such Conversion or Continuation as provided in Section 4.3; (b) a Eurodollar Account may only be Converted on the last day of the Interest Period therefor; and (c) except for Conversions into Base Rate Accounts, no Conversions or Continuations shall be made while a Default has occurred and is continuing.

Section 3.6. Computations. Interest and fees payable by Borrower hereunder and under the other Loan Documents shall be computed as follows: (i) with respect to Eurodollar Accounts on the basis of a year of 360 days and the actual number of days elapsed (including the first day but excluding the last day) occurring in the period for which payable unless such calculation would result in a usurious rate, in which case interest shall be calculated on the basis of a year of 365 or 366 days, as the case may be; (ii) with respect to Base Rate Accounts (A) if based on the Prime Rate, on the basis of a year of 365 or 366 days, as the case may be and the actual number of days elapsed (including the first day but excluding the last day) occurring in the period for which payable or (B) if based on the Federal Funds Effective Rate on the basis of a year of 360 days and the actual number of days elapsed (including the first day but excluding the last day) occurring in the period for which payable unless in the case of clauses (i) or (ii) (B) such calculation would result in a usurious rate, in which case interest shall be calculated on the basis

of a year of 365 or 366 days, as the case may be; and (iii) with respect to all other calculations, on the basis of a year of 360 days and the actual number of days elapsed (including the first day but excluding the last day) occurring in the period for which payable unless such calculation would result in a usurious rate, in which case interest shall be calculated on the basis of a year of 365 or 366 days, as the case may be.

ARTICLE IV.

Administrative Matters

Section 4.1. Borrowing Procedure. Borrower shall give Agent, and Agent will give the Banks, notice of each borrowing under the Revolving Commitments in accordance with Section 4.3. Not later than 1:00 p.m. on the date specified for each such borrowing each Bank will make available to Agent the amount of the Loan to be made by it on such date, at the Principal Office, in immediately available funds, for the account of Borrower. The amount so received by Agent shall, subject to the terms and conditions of this Agreement, be made available to Borrower by (a) depositing the same, in immediately available funds, in an account of Borrower (designated by Borrower) maintained with Agent at the Principal Office or (b) wire transferring such funds to a Person or Persons designated by Borrower in writing; provided that Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.7(e) shall be remitted by Agent to the Issuing Bank.

Section 4.2. Minimum Amounts. Except for prepayments pursuant to Article V and financings of reimbursements of LC Disbursements as contemplated by Section 2.7(e), each borrowing under a Loan and each prepayment of principal of a Loan shall be in an amount at least equal to Five Hundred Thousand Dollars ($500,000) or any larger amounts in increments of One Hundred Thousand Dollars ($100,000). Except for Conversions pursuant to Article V, each Eurodollar Account applicable to a Loan shall be in a minimum principal amount of One Million Dollars ($1,000,000) or any larger amounts in increments of One Hundred Thousand Dollars ($100,000).

Section 4.3. Certain Notices. Each termination or reduction of Revolving Commitments, borrowing and prepayment of Loans, and Conversion and Continuation of Accounts shall be made upon Borrower' s irrevocable written notice delivered to Agent in the form attached hereto as Exhibit E (a "Loan Change Notice") and shall be effective only if received by Agent not later than 10:00 a.m. (a) on the Business Day of the borrowing, prepayment or repayment of Loans subject to Base Rate Accounts or of the Conversion into Base Rate Accounts and (b) with respect to any other repayments, terminations, reductions, borrowings, Conversions, Continuations, or prepayments, on the Business Day which is the number of Business Days prior to the day of the relevant action specified below:

Action	Number of Business Days Prior to Action
Termination or reduction of Revolving Commitments	5
Borrowing of Loans subject to Eurodollar Accounts, Conversions into or Continuations as Eurodollar Accounts or prepayment of Loans subject to Eurodollar Accounts	3

Any Loan Change Notice which is received by Agent after 10:00 a.m. on a Business Day shall be deemed to be received and shall be effective on the next Business Day. Each such Loan Change Notice when providing notice of a termination or reduction shall specify the amount of the Revolving Commitments to be terminated or reduced. Each such Loan Change Notice when providing notice of a borrowing, Conversion, Continuation, or prepayment shall specify: (a) the Loans to be borrowed or prepaid or the Accounts to be Converted or Continued; (b) the amount (subject to Section 4.2 hereof) to be borrowed,

Converted, Continued, or prepaid; (c) in the case of a Conversion, the Type of Account to result from such Conversion; (d) in the case of a borrowing the Type of Account or Accounts to be applicable to such borrowing and the amounts thereof; (e) in the event a Eurodollar Account is selected, the duration of the Interest Period therefor; and (f) the date of borrowing, Conversion, Continuation, or prepayment (which shall be a Business Day). Agent shall notify the Banks of the contents of each Loan Change Notice on the date of its receipt of the same or, if received on or after 10:00 a.m. on a Business Day, on the next Business Day. In the event Borrower fails to select the Type of Account applicable to a Loan, or the duration of any Interest Period for any Eurodollar Account, within the time period and otherwise as provided in this Section 4.3, such Account (if outstanding as a Eurodollar Account) will be automatically Converted into a Base Rate Account on the last day of the preceding Interest Period for such Account or (if outstanding as a Base Rate Account) will remain as, or (if not then outstanding) will be made as, a Base Rate Account. Borrower may not borrow any Loans subject to a Eurodollar Account, Convert any Base Rate Accounts into Eurodollar Accounts, or Continue any Eurodollar Account as a Eurodollar Account if the Applicable Rate for such Eurodollar Accounts would exceed the Maximum Rate or if a Default exists.

Section 4.4. Prepayments.

(a) Optional Prepayments. Subject to Section 4.2 and the provisions of this Section 4.4, Borrower may, at any time and from time to time without premium or penalty upon prior notice to Agent as specified in Section 4.3, prepay or repay any Loan in full or in part. Loans subject to a Eurodollar Account may be prepaid or repaid only on the last day of the Interest Period applicable thereto unless (i) Borrower pays to Agent for the account of the applicable Banks any amounts due under Section 5.5 as a result of such prepayment or repayment or (ii) after giving effect to such prepayment or repayment the aggregate principal amount of the Eurodollar Accounts applicable to the Loan being prepaid or repaid having Interest Periods that end after such payment date shall be equal to or less than the principal amount of such Loan after such prepayment or repayment.

(b) Mandatory Prepayments.

(i) Reduction of Revolving Commitment. On each date that the Revolving Commitments are reduced pursuant to Section 2.6 or clause (b) of this Section 4.4 prior to the Revolving Termination Date, Borrower shall prepay the Loans in the amount, if any, by which the sum of the total Revolving Exposure exceeds the total Revolving Commitments (as reduced) together with any amounts due under Section 5.5 as a result of such prepayment or, if no Loans are outstanding, deposit cash collateral in an account with Agent pursuant to Section 2.7(j) in an amount equal to such excess.

(ii) Asset Dispositions. If the Net Proceeds relating to any Asset Disposition exceed One Million Dollars ($1,000,000) (it being understood that if the Net Proceeds exceed One Million Dollars ($1,000,000), the entire Net Proceeds and not just the portion in excess of the foregoing amount shall be subject to this paragraph) for any single transaction or series of related transactions or if such Net Proceeds when aggregated with all other Net Proceeds from any Asset Disposition received during the same Fiscal Year exceed Two Million Five Hundred Thousand Dollars ($2,500,000), (it being understood that if the Net Proceeds exceed Two Million Five Hundred Thousand Dollars ($2,500,000), the entire Net Proceeds not just the portion in excess of the foregoing amount shall be subject to this Subsection), then: (A) the aggregate amount of the Revolving Commitments shall be automatically and permanently reduced by such Net Proceeds, such reduction to be effective on the date five (5) days after the receipt by Parent or any Subsidiary of such Net Proceeds; and (B) Borrower shall within five (5) days of receipt of such Net Proceeds prepay the Loans in an amount equal to such Net Proceeds or, if no Loans are outstanding and if any Event of Default shall have occurred and be continuing, deposit cash collateral in an account with Agent pursuant to Section 2.7(j) in an amount equal to such Net Proceeds. A

prepayment received pursuant to this Section 4.4(b)(ii) shall be accompanied with any amounts due under Section 5.5 as a result of such prepayment. Notwithstanding the foregoing, (A) the aggregate amount of the Revolving Commitments shall not be reduced and Parent or a Subsidiary may retain proceeds otherwise required to be delivered in accordance with the foregoing from an Asset Disposition if (1) no Default exists and (2) in the event the Person disposing of the asset in question reasonably expects to reinvest or has already reinvested, pursuant to a plan of which the Asset Disposition was a contemplated part, all of the Net Proceeds of such Asset Disposition in productive assets then used or useable in its business or, in the case of proceeds received due to loss, damage, destruction, or condemnation, to be used for rebuilding, repairing or replacing assets, in each case committed to such use within ninety (90) days after receipt of such proceeds and (B) an Asset Disposition not permitted by Section 9.8 is not permitted under this Section 4.4(b)(ii). For purposes of this Section 4.4(b) the following terms shall have the following meanings:

"Asset Disposition" means the disposition whether by sale, lease, sale/leaseback, transfer, loss, damage, destruction, condemnation or otherwise of any assets of the Parent or any Subsidiary other than any disposition permitted under Section 9.8.

"Net Proceeds" means cash proceeds (including casualty insurance proceeds paid with respect to damage to property) received by Parent or any Subsidiaries from any Asset Disposition (including payments under notes or other debt securities received in connection with any Asset Disposition and insurance proceeds and awards of condemnation), net of (a) the reasonable and customary costs of such sale, lease, transfer, or other disposition (including reasonable and customary professional fees and expenses and taxes attributable to such sale, lease, or transfer which are actually expected to be paid) and (b) amounts applied to repayment of Debt (other than the Obligations) secured by a Lien on the asset disposed.

(iii) Revolving Exposures Exceed Revolving Commitments. In the event and on each occasion, other than as described in Section 4.4(b)(i), that the sum of the total Revolving Exposures exceeds the total Revolving Commitments, Borrower shall prepay the Loans (or, if no Loans are outstanding, deposit cash collateral in an account with Agent pursuant to Section 2.7(j)) in an amount equal to such excess.

Section 4.5. Method of Payment. Except as otherwise expressly provided herein, all payments of principal, interest, and other amounts to be made by Borrower or any Obligated Party under the Loan Documents shall be made to Agent at the Principal Office for the account of each Bank' s Applicable Lending Office in Dollars and in immediately available funds, without setoff, deduction, or counterclaim, not later than 1:00 p.m. on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day). Borrower and each Obligated Party shall, at the time of making each such payment, specify to Agent the sums payable under the Loan Documents to which such payment is to be applied (and in the event that Borrower fails to so specify, or if an Event of Default has occurred and is continuing, Agent may apply such payment and any proceeds of any Collateral to the Obligations in such order and manner as the Required Banks may elect in their sole discretion, subject to Section 4.6 hereof). Each payment received by Agent under any Loan Document for the account of a Bank shall be paid to such Bank by 3:00 p.m. on the date the payment is deemed made to Agent in immediately available funds, for the account of such Bank' s Applicable Lending Office. Whenever any payment under any Loan Document shall be stated to be due on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of the payment of interest and commitment fee, as the case may be.

Section 4.6. Pro Rata Treatment. Except to the extent otherwise provided herein: (a) each Loan shall be made by the Banks, each payment of commitment fees under Section 2.4 shall be made for the account of the Banks, and each termination or reduction of the Revolving Commitments shall be applied to the Revolving Commitments of the Banks, pro rata according to their respective Commitment Percentages; (b) the making, Conversion, and Continuation of Accounts of a particular Type (other than Conversions provided for by Section 5.4) shall be made pro rata among the Banks holding Accounts of such Type according to their respective Commitment Percentages; (c) each payment and prepayment of principal of or interest on Loans by Borrower shall be made to Agent for the account of Agent or the Banks holding such Loans pro rata in accordance with the respective unpaid principal amounts of such Loans or participation interests held by Agent or such Banks; provided that as long as no default in the payment of interest exists, payments of interest made when the Banks are holding different Types of accounts applicable to the same Loan as a result of the application of Section 5.4 shall be made to the Banks in accordance with the amount of interest actually owed to each; and (d) proceeds of Collateral shall be shared by Agent and the Banks pro rata in accordance with the respective unpaid principal amounts of and interest on the Obligations then due Agent and the Banks. If at any time payment, in whole or in part, of any amount distributed by Agent hereunder is rescinded or must otherwise be restored or returned by Agent as a preference, fraudulent conveyance, or otherwise under any bankruptcy, insolvency, or similar law, then each Person receiving any portion of such amount agrees, upon demand, to return the portion of such amount it has received to Agent.

Section 4.7. Sharing of Payments. If a Bank shall obtain payment of any principal of or interest on any of the Obligations arising under the Loan Documents due to such Bank hereunder directly (and not through Agent) through the exercise of any right of set-off, banker' s lien, counterclaim, or similar right, or otherwise, it shall promptly purchase from the other Banks participations in such Obligations held by the other Banks in such amounts, and make such other adjustments from time to time as shall be equitable to the end that all the Banks shall share the benefit of such payment pro rata in accordance with the unpaid principal of and interest on such Obligations then due to each of them. To such end, all of the Banks shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if all or any portion of such excess payment is thereafter rescinded or must otherwise be restored. Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any Bank so purchasing a participation in such Obligations held by the other Banks may exercise all rights of set-off, banker' s lien, counterclaim, or similar rights with respect to such participation as fully as if such Bank were a direct holder of such Obligations in the amount of such participation. Nothing contained herein shall require any Bank to exercise any such right or shall affect the right of any Bank to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of Borrower.

Section 4.8. Non-Receipt of Funds by Agent. Unless Agent shall have been notified by a Bank or Borrower (the "Payor") prior to the date on which such Bank is to make payment to Agent hereunder or Borrower is to make a payment to Agent for the account of one or more of the Banks, as the case may be (such payment being herein called the "Required Payment"), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to Agent, Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient on such date and, if the Payor has not in fact made the Required Payment to Agent, (a) the recipient of such payment shall, on demand, pay to Agent the amount made available to it together with interest thereon in respect of the period commencing on the date such amount was so made available by Agent until the date Agent recovers such amount at a rate per annum equal to the Federal Funds Effective Rate for such period and (b) Agent shall be entitled to offset against any and all sums to be paid to such recipient, the amount calculated in accordance with the foregoing clause (a).

Section 4.9. Withholding Taxes. All payments by Borrower of amounts payable under any Loan Document shall be payable without deduction for or on account of any present or future taxes, duties, or other charges levied or imposed by the United States of America or by the government of any jurisdiction outside the United States of America or by any political subdivision or taxing authority of or in any of the foregoing through withholding or deduction with respect to any such payments (but excluding any tax imposed on or measured by the net income or profit of a Bank pursuant to the laws of the jurisdiction in which it is organized or in which the principal office or Applicable Lending Office of such Bank is located or any subdivision thereof or therein). If any such taxes, duties, or other charges are so levied or imposed, Borrower will make additional payments in such amounts so that every net payment of amounts payable by it under any Loan Document, after withholding or deduction for or on account of any such present or future taxes, duties, or other charges, will not be less than the amount provided for herein or therein, provided that Borrower may withhold to the extent required by law and shall have no obligation to pay such additional amounts to any Bank to the extent that such taxes, duties, or other charges are levied or imposed by reason of the failure or inability of such Bank to comply with the provisions of Section 4.10. Borrower shall furnish promptly to Agent for distribution to each affected Bank, as the case may be, official receipts evidencing any such withholding or reduction.

Section 4.10. Withholding Tax Exemption. Each Bank that is not organized under the laws of the United States of America or a state thereof agrees that it will deliver to Borrower and Agent two duly completed copies of the appropriate United States Internal Revenue Service Form certifying that such Bank is entitled to receive payments from Borrower under any Loan Document without deduction or withholding of any United States of America federal income taxes. Each Bank which so delivers such a form further undertakes to deliver to Borrower and Agent two (2) additional copies of such form on or before the date such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by Borrower or Agent, in each case certifying that such Bank is entitled to receive payments from Borrower under any Loan Document without deduction or withholding of any United States of America federal income taxes, unless an event (including without limitation any change in treaty, law, or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank advises Borrower and Agent that it is not capable of receiving such payments without any deduction or withholding of United States of America federal income tax.

ARTICLE V.

Yield Protection and Illegality

Section 5.1. Additional Costs.

(a) Borrower shall pay directly to each Bank or the Issuing Bank, as the case may be, from time to time such amounts as such Bank or the Issuing Bank may determine to be necessary to compensate it for any reasonable costs incurred by such Bank or the Issuing Bank, as the case may be, which such Bank or the Issuing Bank determines are attributable to its making or maintaining of any Loans or Letters of Credit, as the case may be, subject to Eurodollar Accounts hereunder or its obligation to make any of such Loans or Letters of Credit hereunder, or any reduction in any amount receivable by such Bank or the Issuing Bank hereunder in respect of any such Loans, such Letters of Credit or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change which:

(i) changes the basis of taxation of any amounts payable to such Bank or the Issuing Bank under this Agreement or its Revolving Notes in respect of any of such Loans or Letters of Credit (other than franchise taxes and taxes imposed on the overall net income of such Bank or the Issuing Bank or its Applicable Lending Office for any of such Loans or Letters of Credit by the United States of America or the jurisdiction in which such Bank or the Issuing Bank has its Principal Office or such Applicable Lending Office);

(ii) imposes or modifies any reserve, special deposit, minimum capital, capital ratio, or similar requirement relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, such Bank or the Issuing Bank, as the case may be, (including any of such Loans or any deposits referred to in the definition of "Eurodollar Rate" in Section 1.1 hereof); or

(iii) imposes any other condition affecting this Agreement or the Revolving Notes or the Letters of Credit or any of such extensions of credit or liabilities or commitments.

Each Bank and the Issuing Bank, as applicable, will notify Borrower (with a copy to Agent) of any event occurring after the date of this Agreement which will entitle such Bank or the Issuing Bank, as the case may be, to compensation pursuant to this Section 5.1(a) as promptly as practicable after it obtains knowledge thereof and determines to request such compensation, and will designate a different Applicable Lending Office for the Loans or Letters of Credit, as the case may be, affected by such event if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole opinion of such Bank or the Issuing Bank, as the case may be, violate any law, rule, or regulation or be in any way disadvantageous to such Bank or the Issuing Bank. Each Bank and the Issuing Bank, as applicable, will furnish Borrower with a certificate setting forth the basis and the amount of each request of such Bank or the Issuing Bank for compensation under this Section 5.1(a). If any Bank or the Issuing Bank requests compensation from Borrower under this Section 5.1(a), Borrower may, by notice to such Bank or the Issuing Bank, as the case may be, (with a copy to Agent) suspend the obligation of such Bank to make Loans subject to Eurodollar Accounts or Continue Eurodollar Accounts as Eurodollar Accounts or Convert Base Rate Accounts into Eurodollar Accounts or suspend the obligation of the Issuing Bank to issue Letters of Credit, as applicable, until the Regulatory Change giving rise to such request ceases to be in effect (in which case the provisions of Section 5.4 hereof shall be applicable with respect to such Eurodollar Accounts).

(b) Without limiting the effect of the foregoing provisions of this Section 5.1, in the event that, by reason of any Regulatory Change, any Bank or the Issuing Bank either (i) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of such Bank or the Issuing Bank, as the case may be, which includes deposits by reference to which the interest rate on the Loans subject to Eurodollar Accounts is determined as provided in this Agreement or a category of extensions of credit or other assets of such Bank which includes Loans subject to Eurodollar Accounts or with respect to the Issuing Bank which includes Letters of Credit or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold, then, if such Bank or the Issuing Bank, as the case may be, so elects by notice to Borrower (with a copy to Agent), the obligation of such Bank to make Loans subject to Eurodollar Accounts or Continue Eurodollar Accounts as Eurodollar Accounts or Convert Base Rate Accounts into Eurodollar Accounts hereunder or the obligation of the Issuing Bank to issue Letters of Credit, as the case may be, shall be suspended until the Regulatory Change giving rise to such request ceases to be in effect (in which case the provisions of Section 5.4 hereof shall be applicable).

(c) Determinations and allocations by any Bank or the Issuing Bank for purposes of this Section 5.1 of the effect of any Regulatory Change on its costs of maintaining its obligation to make

Loans, to issue Letters of Credit, of making or maintaining Loans, of making or maintaining Letters of Credit, or on amounts receivable by it in respect of the Loans or the Letters of Credit, as the case may be, and of the additional amounts required to compensate such Bank or the Issuing Bank in respect of any Additional Costs, shall, absent manifest error, be conclusive, provided that such determinations and allocations are made on a reasonable basis.

Section 5.2. Limitation on Eurodollar Accounts. Anything herein to the contrary notwithstanding, if with respect to any Eurodollar Accounts under a Loan for any Interest Period therefor:

(a) Agent determines (which determination shall be conclusive) that quotations of interest rates for the relevant deposits referred to in the definition of "Eurodollar Rate" in Section 1.1 hereof are not being provided in the relative amounts or for the relative maturities for purposes of determining the rate of interest for the Loans subject to such Eurodollar Accounts as provided in this Agreement; or

(b) Required Banks determine (which determination shall be conclusive) and notify Agent that the relevant rates of interest referred to in the definition of "Adjusted Eurodollar Rate" in Section 1.1 hereof on the basis of which the rate of interest for such Loans for such Interest Period is to be determined do not accurately reflect the cost to the Banks of making or maintaining such Loans for such Interest Period;

then Agent shall give Borrower prompt notice thereof specifying the relevant Eurodollar Account and the relevant amounts or periods, and so long as such condition remains in effect, the Banks shall be under no obligation to make additional Loans subject to a Eurodollar Account or to Convert Base Rate Accounts into Eurodollar Accounts and Borrower shall, on the last day(s) of the then current Interest Period(s) for the outstanding Eurodollar Accounts, either prepay the Loans subject to such Eurodollar Accounts or Convert such Eurodollar Accounts into Base Rate Accounts in accordance with the terms of this Agreement. Determinations made under this Section 5.2 shall be made on a reasonable basis.

Section 5.3. Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Bank or its Applicable Lending Office to (a) honor its obligation to make Loans subject to a Eurodollar Account hereunder or (b) maintain Loans subject to a Eurodollar Account hereunder, then such Bank shall promptly notify Borrower (with a copy to Agent) thereof and such Bank' s obligation to make or maintain Loans subject to a Eurodollar Account and to Convert Base Rate Accounts into Eurodollar Accounts hereunder shall be suspended until such time as such Bank may again make and maintain Loans subject to a Eurodollar Account (in which case the provisions of Section 5.4 hereof shall be applicable).

Section 5.4. Treatment of Affected Loans. If the Accounts applicable to a Loan of any Bank (hereinafter called "Affected Accounts") are to be Converted pursuant to Section 5.1 or 5.3 hereof, the Bank' s Affected Accounts shall be automatically Converted into Base Rate Accounts on the last day(s) of the then current Interest Period(s) (or, in the case of a Conversion required by Section 5.1(b) or Section 5.3 hereof, on such earlier date as such Bank may specify to Borrower with a copy to Agent) and, unless and until such Bank gives notice as provided below that the circumstances specified in Section 5.1 or 5.3 hereof which gave rise to such Conversion no longer exist: (a) to the extent that such Bank' s Affected Accounts have been so Converted, all payments and prepayments of principal which would otherwise be applied to such Bank' s Affected Accounts shall be applied instead to its Base Rate Accounts; and (b) all Accounts which would otherwise be established or Continued by such Bank as Eurodollar Accounts shall be made as or Converted into Base Rate Accounts and all Accounts of such Bank which would otherwise be Converted into Eurodollar Accounts shall be Converted instead into (or shall remain as) Base Rate Accounts. If such Bank gives notice to Borrower (with a copy to Agent) that the

circumstances specified in Section 5.1 or 5.3 hereof which gave rise to the Conversion of such Bank' s Affected Accounts pursuant to this Section 5.4 no longer exist (which such Bank agrees to do promptly upon such circumstances ceasing to exist) at a time when Eurodollar Accounts are outstanding, such Bank' s Base Rate Accounts shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Eurodollar Accounts to the extent necessary so that, after giving effect thereto, all Accounts held by the Banks holding Eurodollar Accounts and by such Bank are held pro rata (as to principal amounts, Types, and Interest Periods) in accordance with their respective Commitment Percentages.

Section 5.5. Compensation. Borrower shall pay to Agent for the account of each Bank, upon the request of such Bank, such amount or amounts as shall be sufficient (in the reasonable opinion of such Bank) to compensate it for any loss, cost, or expense incurred by it as a result of:

(a) Any payment or prepayment of a Loan subject to a Eurodollar Account or Conversion of a Eurodollar Account for any reason (including, without limitation, the acceleration of the outstanding Loans pursuant to Section 11.2(a)) on a date other than the last day of an Interest Period for the applicable Eurodollar Account; or

(b) Any failure by Borrower for any reason (including, without limitation, the failure of any conditions precedent specified in Article VII to be satisfied) to borrow or prepay a Loan subject to a Eurodollar Account, or Convert a Base Rate Account to a Eurodollar Account on the date for such borrowing, Conversion, or prepayment specified in the relevant notice of borrowing, prepayment, or Conversion under this Agreement.

Without limiting the effect of the preceding sentence, such compensation shall include an amount equal to the excess, if any, of (i) the amount of interest which otherwise would have accrued on the principal amount so paid or Converted or not borrowed for the period from the date of such payment, Conversion, or failure to borrow to the last day of the Interest Period for such Eurodollar Account (or, in the case of a failure to borrow, the Interest Period for such Eurodollar Account which would have commenced on the date specified for such borrowing) at the applicable rate of interest for such Eurodollar Account provided for herein over (ii) the interest component of the amount such Bank would have bid in the European interbank market for Dollar deposits of leading banks and amounts comparable to such principal amount and with maturities comparable to such period.

Section 5.6. Capital Adequacy. If any Bank shall have determined that any Regulatory Change has or would have the effect of reducing the rate of return on such Bank' s (or its parent' s) capital as a consequence of its obligations hereunder or the transactions contemplated hereby to a level below that which such Bank (or its parent) could have achieved but for such adoption, implementation, change, or compliance (taking into consideration such Bank' s policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within ten (10) Business Days after demand by such Bank (with a copy to Agent), Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank (or its parent) for such reduction. A certificate of such Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive, provided that the determination thereof is made on a reasonable basis. In determining such amount or amounts, such Bank may use any reasonable averaging and attribution methods.

ARTICLE VI.

Conditions Precedent

Section 6.1. Initial Loan. The effectiveness of this Agreement as an amendment and restatement of the Second Credit Agreement and the obligation of each Bank to make its initial Loan hereunder is subject to the condition precedent that Agent shall have received on or before the day of any such Loan and on or before the Closing Date, all of the following, each dated (unless otherwise indicated) the date hereof, in form and substance satisfactory to Agent:

(a) Resolutions. Resolutions of the Board of Directors or members (as applicable) of Parent and each Subsidiary certified by its Secretary or an Assistant Secretary which authorize its execution, delivery, and performance of the Loan Documents to which it is or is to be a party.

(b) Incumbency Certificate. A certificate of incumbency certified by the Treasurer, Secretary or an Assistant Secretary of Parent and each Subsidiary certifying the name of each of its officers (i) who are authorized to sign the Loan Documents to which it is or is to be a party (including the certificates contemplated herein) together with specimen signatures of each such officers and (ii) who will, until replaced by other officers duly authorized for that purpose, act as its representative for the purposes of signing documentation and giving notices and other communications in connection with the Loan Documents.

(c) Articles of Incorporation and Formation. The articles of incorporation or formation (or other similar document) of Parent and each Subsidiary certified by the Secretary of State of the state of its incorporation or organization (or the other appropriate governmental officials of its jurisdiction of organization) and dated a current date or, if applicable, a certification that such articles of incorporation or articles of formation have not changed since the certified copies delivered under the Second Credit Agreement, the Existing Credit Agreement or Original Credit Agreement.

(d) Bylaws, Limited Liability Company Agreement. The bylaws or limited liability company agreement (as applicable) of Parent and each Subsidiary certified by its Secretary or an Assistant Secretary or, if applicable, a certification that such bylaws have not changed since the certified copies delivered under the Second Credit Agreement, the Existing Credit Agreement or Original Credit Agreement.

(e) Governmental Certificates. Certificates of the appropriate government officials of the state of incorporation of Parent and each Subsidiary as to its existence and good standing, all dated a current date.

(f) Second Credit Agreement Interest and Fees. Evidence that all unpaid interest and commitment and letter of credit fees accrued under the Second Credit Agreement through the Closing Date and any amounts payable under Section 6.5 of the Second Credit Agreement shall have been paid in full.

(g) Fees. The fees due on the Closing Date as described in the fee letter dated April 29, 2005 between JPMorgan, J.P. Morgan Securities, Inc. and Parent.

(h) Opinion of Counsel. Favorable opinions of legal counsel to Borrower and the Subsidiaries, as to such matters as Agent may reasonably request.

Section 6.2. All Loans. The obligation of each Bank to make any Loan (including the initial Loan) is subject to the following additional conditions precedent:

(a) No Default. No Default shall have occurred and be continuing, or would result from such Loan;

(b) Representations and Warranties. All of the representations and warranties contained in Article VII hereof and in the other Loan Documents shall be true and correct on and as of the date of such Loan, with the same force and effect as if such representations and warranties had been made on and as of such date except to the extent that such representations and warranties relate specifically to another date; and

(c) Additional Documentation. Agent shall have received such additional approvals, opinions, or documents as Agent may reasonably request.

Each notice of borrowing and each request for the issuance, amendment, renewal, or extension of a Letter of Credit by Borrower hereunder, shall constitute a representation and warranty by Borrower that the conditions precedent set forth in Sections 6.2(a) and (b) have been satisfied (both as of the date of such notice and, unless Borrower otherwise notifies Agent prior to the date of such borrowing or the date of such issuance, amendment, renewal, or extension of such Letter of Credit, as applicable, as of the date of such borrowing or such issuance, amendment, renewal, or extension of such Letter of Credit, as applicable).

Section 6.3. Closing Date Advances and Adjustments. On the Closing Date, the aggregate amount of the commitments under the Second Credit Agreement are being increased hereunder and new "Banks" are being added hereto. As a result after giving effect to such increase and the addition of the new Banks, the Loans outstanding under the Second Credit Agreement which are continued hereunder will not be held pro rata by the Banks in accordance with the Commitment Percentages determined hereunder. To remedy the forgoing, on the Closing Date and upon fulfillment of the conditions in Section 6.1, the Banks shall make advances among themselves so that after giving effect thereto the Loans will be held by the Banks, pro rata in accordance with the Commitment Percentages hereunder. The advances made on the Closing Date under this Section by each Bank whose Commitment Percentage has increased (as compared to its Commitment Percentage under the Second Credit Agreement) shall be deemed to be a purchase of a corresponding amount of the Loans of the Bank or Banks whose Commitment Percentages have decreased (as compared to the Commitment Percentages under the Second Credit Agreement). The advances made under this Section shall be Base Rate Accounts made under each Bank' s Revolving Commitment.

ARTICLE VII.

Representations and Warranties

To induce Agent and the Banks to enter into this Agreement, Parent and Borrower each represent and warrant to Agent and the Banks that:

Section 7.1. Corporate Existence. Parent and each Subsidiary (a) is a corporation or other entity (as reflected on Schedule 7.14) duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority to own its assets and carry on its business as now being or as proposed to be conducted, and (c) is qualified to do business in all jurisdictions in which the nature of its business makes such qualification necessary and where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect. Parent and each Subsidiary has the corporate power and authority to execute, deliver, and perform their respective obligations under the Loan Documents to which it is or may become a party.

Section 7.2. Financial Statements. Parent has delivered to Agent and the Banks audited consolidated financial statements of Parent and the Subsidiaries as at and for the Fiscal Year ended August 31, 2004 and unaudited financial statements of Parent and the Subsidiaries as at and for the Fiscal Quarter ended February 28, 2005. Such financial statements have been prepared in accordance with GAAP and present fairly (subject with respect to the Fiscal Quarter financial statements to year end audit adjustments) the financial condition of Parent and the Subsidiaries as of the respective dates indicated therein and the results of operations for the respective periods indicated therein. Neither Parent nor any of the Subsidiaries has any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments, or unrealized or anticipated losses from any unfavorable commitments except as referred to or reflected in such financial statements. There has been no material adverse change in the business, condition (financial or otherwise), operations, prospects, or properties of Parent and the Subsidiaries taken as a whole since August 31, 2004.

Section 7.3. Corporate Action; No Breach. The execution, delivery, and performance by Parent and each Subsidiary of the Loan Documents to which each is or may become a party and compliance with the terms and provisions hereof and thereof have been duly authorized by all requisite action on the part of Parent and each Subsidiary and do not and will not (a) violate or conflict with, or result in a breach of, or require any consent under (i) the articles of incorporation, bylaws, articles of formation, limited liability company agreement or other governing documents of Parent or any of the Subsidiaries, (ii) any applicable law, rule, or regulation or any order, writ, injunction, or decree of any Governmental Authority or arbitrator, or (iii) any material agreement or instrument to which Parent or any Subsidiary is a party or by which any of them or any of their property is bound or subject, or (b) constitute a default under any such agreement or instrument, or result in the creation or imposition of any Lien (except as provided herein) upon any of the revenues or assets of Parent or any Subsidiary.

Section 7.4. Operation of Business. Parent and each of the Subsidiaries possess all licenses, permits, franchises, patents, copyrights, trademarks, and trade names, or rights thereto, necessary to conduct their respective businesses substantially as now conducted except those that the failure to so possess could not reasonably be expected to have a Material Adverse Effect, and Parent and each of its Subsidiaries are not in violation of any valid rights of others with respect to any of the foregoing except violations that could not reasonably be expected to have a Material Adverse Effect.

Section 7.5. Litigation and Judgments. There is no action, suit, investigation, or proceeding before or by any Governmental Authority or arbitrator pending, or to the knowledge of either Borrower or the Parent, threatened against or affecting Parent or any Subsidiary, that would, if adversely determined, have a Material Adverse Effect. There are no outstanding judgments against Parent or any Subsidiary.

Section 7.6. Rights in Properties; Liens. Parent and each Subsidiary have good title to or valid leasehold interests in their respective properties and assets, real and personal, including the properties, assets, and leasehold interests reflected in the financial statements furnished to the Agent and each Bank pursuant to Section 8.1 and in their respective Mortgaged Properties described on Schedule 7.6, and none of the properties, assets, or leasehold interests of Parent or any Subsidiary is subject to any Lien, except as of the Closing Date, as reflected on Schedule 9.2 and, at all times after Closing Date, as permitted by Section 9.2. Schedule 7.6 sets forth the address of each parcel of real property that is owned by the Parent or any of its Subsidiaries as of the Closing Date.

Section 7.7. Enforceability. The Loan Documents to which Parent or any Subsidiary is a party, when delivered, shall constitute the legal, valid, and binding obligations of Parent or the Subsidiary, as applicable, enforceable against Parent or the applicable Subsidiary in accordance with their respective terms, except as limited by bankruptcy, insolvency, or other laws of general application relating to the enforcement of creditors' rights and general principles of equity.

Section 7.8. Approvals. All authorizations, approvals, and consents of, and all filings or registrations with, any Governmental Authority or third party necessary for the execution, delivery, or performance by Parent or any Subsidiary of the Loan Documents to which each is or may become a party or for the validity or enforceability thereof have been obtained or made, provided, however, pursuant to the Knox Keene Health Care Service Plan Act of 1975 HBS' s pledge of Insights' stock will be restricted from sale or foreclosure by the Agent or any Bank without satisfaction of the California regulations requiring the approval of the applicable governmental agency to a change of control of a Knox-Keene license holder.

Section 7.9. Debt. Parent and the Subsidiaries have no Debt, except, as of the Closing Date, Debt to Agent and the Banks pursuant to the Loan Documents and the Debt described on Schedule 9.1 and, at all times after the Closing Date, as permitted by Section 9.1.

Section 7.10. Taxes. Parent and each Subsidiary have filed all material tax returns (federal, state, and local) required to be filed, including all income, franchise, employment, property, and sales tax returns, and have paid all of their respective liabilities for taxes, assessments, governmental charges, and other levies that are due and payable other than those being contested in good faith by appropriate proceedings diligently pursued for which adequate reserves have been established. Neither Borrower nor Parent knows of any pending investigation of Parent or any Subsidiary by any taxing authority or of any pending but unassessed tax liability of Parent or any Subsidiary.

Section 7.11. Margin Securities. Neither Parent nor any Subsidiary is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T, U, or X of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loan will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock.

Section 7.12. ERISA. Parent and each Subsidiary are in compliance in all material respects with all applicable provisions of ERISA. Neither a Reportable Event nor a Prohibited Transaction has occurred and is continuing with respect to any Plan. No notice of intent to terminate a Plan has been filed, nor has any Plan been terminated. No circumstances exist which constitute grounds entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings. Neither Parent nor any ERISA Affiliate has completely or partially withdrawn from a Multiemployer Plan. Parent and each ERISA Affiliate have met their minimum funding requirements under ERISA with respect to all of their Plans. The present value of all vested benefits under each Plan do not exceed the fair market value of all Plan assets allocable to such benefits, as determined on the most recent valuation date of the Plan and in accordance with ERISA, by an amount that will exceed Two Hundred Fifty Thousand Dollars ($250,000). Neither Parent nor any ERISA Affiliate has incurred any liability to the PBGC under ERISA.

Section 7.13. Disclosure. All factual information furnished by or on behalf of Parent in writing to Agent or any Bank (including, without limitation, all information contained in the Loan Documents) for purposes of or in connection with this Agreement, the other Loan Documents or any transaction contemplated herein or therein is, and all other such factual information hereafter furnished by or on behalf of Parent to Agent or any Bank, will be true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any fact necessary to make such information not misleading in any material respect at such time in light of the circumstances under which such information was provided.

Section 7.14. Subsidiaries. As of the Closing Date, Parent has no Subsidiaries other than those listed on Schedule 7.14 hereto. Schedule 7.14 sets forth the type of each Subsidiary listed thereon, the jurisdiction of incorporation or organization of each such Subsidiary, the percentage of Parent' s or a

Subsidiary' s ownership of the outstanding voting stock (or other ownership interests) of each such Subsidiary and, the authorized, issued, and outstanding capital stock (or other equity interests) of each such Subsidiary. All of the outstanding capital stock (or other equity interests) of each Subsidiary listed on Schedule 7.14 has been validly issued, is fully paid, and is nonassessable. There are no outstanding subscriptions, options, warrants, calls, or rights (including preemptive rights) to acquire, and no outstanding securities or instruments convertible into, capital stock of any Subsidiary except as disclosed on Schedule 7.14. As of the Closing Date, all of the outstanding capital stock (or other equity interests) of the Borrower, each of the Obligated Parties (other than the Parent) and Insights has been pledged to the Agent. Borrower and all of the Obligated Parties are parties to either the Subsidiary Security Agreement or the Parent Security Agreement and the Guaranty.

Section 7.15. Agreements. Neither Parent nor any Subsidiary is a party to any indenture, loan, or credit agreement, or to any lease or other agreement or instrument, or subject to any charter or corporate restriction that could reasonably be expected to have a Material Adverse Effect. Neither Parent nor any Subsidiary is in default in any respect in the performance, observance, or fulfillment of any of the obligations, covenants, or conditions contained in any agreement or instrument to which it is a party other than defaults which will not have a Material Adverse Effect.

Section 7.16. Compliance with Laws. Neither Parent nor any Subsidiary is in violation in any material respect of any applicable law, rule, regulation, order, or decree of any Governmental Authority or arbitrator.

Section 7.17. Investment Company Act. Neither Parent nor any Subsidiary is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 7.18. Public Utility Holding Company Act. Neither Parent nor any Subsidiary is a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Section 7.19. Environmental Matters.

(a) Parent, each Subsidiary, and all of their respective properties, assets, and operations are in full compliance with all Environmental Laws except where any noncompliance could not reasonably be expected to have a Material Adverse Effect. Neither Borrower nor Parent is aware of, nor has Borrower or Parent received written notice of, any past, present, or future conditions, events, activities, practices, or incidents which may interfere with or prevent the compliance or continued compliance of Parent and the Subsidiaries with all Environmental Laws except where any noncompliance could not reasonably be expected to have a Material Adverse Effect;

(b) Parent and each Subsidiary have obtained all permits, licenses, and authorizations that are required under applicable Environmental Laws, and all such permits are in good standing and Parent and its Subsidiaries are in compliance with all of the terms and conditions of such permits except where any noncompliance could not reasonably be expected to have a Material Adverse Effect;

(c) No Hazardous Materials have been used, generated, stored, transported, disposed of on, or Released from any of the properties or assets of Parent or any Subsidiary, and to the knowledge of Borrower and Parent, no Hazardous Materials are present at such properties, except in compliance with Environmental Laws. The use which Parent and the Subsidiaries make and intend to make of their respective properties and assets will not result in the use, generation, storage, transportation, accumulation, disposal, or Release of any Hazardous Material on, in, or from any of their properties or assets except in compliance with Environmental Laws;

(d) Neither Parent nor any of the Subsidiaries nor any of their respective currently or previously owned or leased properties or operations is subject to any outstanding or, to the best of its knowledge, threatened order from or agreement with any Governmental Authority or other Person or subject to any judicial or administrative proceeding with respect to (i) failure to comply with Environmental Laws, (ii) Remedial Action, or (iii) any Environmental Liabilities arising from a Release or threatened Release;

(e) Neither Parent nor any of the Subsidiaries is a treatment, storage, or disposal facility requiring a permit under the Resource Conservation and Recovery Act, 42 U.S.C. §6901 *et seq*., regulations thereunder or any comparable provision of state law. Parent and the Subsidiaries are in compliance with all applicable financial responsibility requirements of all Environmental Laws;

(f) Neither Parent nor any of the Subsidiaries has filed or failed to file any notice required under applicable Environmental Law reporting a Release; and

(g) No Lien arising under any Environmental Law has attached to any property or revenues of Parent or the Subsidiaries.

Section 7.20. Solvency. Parent and each Subsidiary, both individually and on a consolidated basis: (a) owns and will own assets the fair saleable value of which are (i) greater than the total amount of its liabilities (including contingent liabilities) and (ii) greater than the amount that will be required to pay probable liabilities of then existing debts as they become absolute and matured considering all financing alternatives and potential asset sales reasonably available to it; (b) has capital that is not unreasonably small in relation to its business as presently conducted; and (c) does not intend to incur and does not believe that it will incur debts beyond its ability to pay such debts as they become due.

Section 7.21. Benefit Received. Parent and the Subsidiaries will receive reasonably equivalent value in exchange for the obligations incurred under the Loan Documents to which each is a party.

ARTICLE VIII.

Positive Covenants

Parent and Borrower each covenant and agree that, as long as the Obligations or any part thereof are outstanding or any Bank has any Revolving Commitment hereunder, Parent and Borrower will perform and observe the following positive covenants:

Section 8.1. Reporting Requirements. Parent will furnish to Agent and each Bank:

(a) Annual Financial Statements. As soon as available, and in any event within ninety (90) days after the end of each Fiscal Year, beginning with the Fiscal Year ending on August 31, 2005, a copy of the annual audit report of Parent and the Subsidiaries for such Fiscal Year containing, on a consolidated basis, balance sheets and statements of income, retained earnings, and cash flow (and, upon request, on a consolidating basis, balance sheets and statements of income), in each case as at the end of such Fiscal Year and for the Fiscal Year then ended, in each case setting forth in comparative form the figures for the preceding Fiscal Year, all in reasonable detail and audited and certified on an unqualified basis by independent certified public accountants of recognized standing acceptable to Agent, to the effect that such report has been prepared in accordance with GAAP;

(b) Quarterly Financial Statements. As soon as available, and in any event within forty-five (45) days after the end of each Fiscal Quarter, a copy of an unaudited condensed financial report of Parent and the Subsidiaries as of the end of such period and for the Fiscal Quarter then ended

containing, on a consolidated basis, a balance sheet and statements of income, retained earnings, and cash flow (and, upon request, on a consolidating basis, balance sheets and statements of income), in each case setting forth in comparative form the figures for the corresponding Fiscal Quarter of the preceding Fiscal Year, all in reasonable detail certified by the chief financial officer of Parent to have been prepared in accordance with GAAP and to fairly present (subject to year-end audit adjustments) the financial condition and results of operations of Parent and the Subsidiaries, on a consolidated basis, at the date and for the periods indicated therein;

(c) Compliance Certificate. Within forty-five (45) days after the end of each Fiscal Quarter, or with respect to the last Fiscal Quarter of each Fiscal Year, within ninety (90) days of the end of such Fiscal Quarter, a Compliance Certificate;

(d) Annual Projections. As soon as available and in any event within forty-five (45) days after the beginning of each Fiscal Year, Parent will deliver its consolidated (and, upon request, consolidating) forecasted profit and loss statement for the current Fiscal Year set forth on a Fiscal Quarter by Fiscal Quarter basis consistent with Parent' s historical financial statements, together with appropriate supporting details, a statement of underlying assumption and a pro forma projection of Parent' s compliance with the financial covenants in this Agreement for the same period;

(e) Management Letters. Promptly upon receipt thereof, a copy of any management letter or written report submitted to Parent or any Subsidiary by independent certified public accountants with respect to the business, condition (financial or otherwise), operations, prospects, or properties of Parent or any Subsidiary;

(f) Notice of Litigation. Promptly after the commencement thereof, notice of all actions, suits, and proceedings before any Governmental Authority or arbitrator affecting Parent or any Subsidiary which, if determined adversely to Parent or such Subsidiary, could reasonably be expected to have a Material Adverse Effect;

(g) Notice of Default. As soon as possible and in any event within five (5) Business Days after a Responsible Officer has knowledge of the occurrence of each Default, a written notice setting forth the details of such Default and the action that Parent has taken and proposes to take with respect thereto;

(h) ERISA Reports. If requested by Agent, promptly after the filing or receipt thereof, copies of all reports, including annual reports, and notices which Parent or any Subsidiary files with or receives from the PBGC or the U.S. Department of Labor under ERISA; and as soon as possible and in any event within five (5) Business Days after Parent or any Subsidiary knows or has reason to know that any Reportable Event or Prohibited Transaction has occurred with respect to any Plan or that the PBGC or Parent or any Subsidiary has instituted or will institute proceedings under Title IV of ERISA to terminate any Plan, a certificate of the chief financial officer of Parent setting forth the details as to such Reportable Event or Prohibited Transaction or Plan termination and the action that Parent proposes to take with respect thereto;

(i) Reports to Other Creditors. Promptly after the furnishing thereof, copies of any statement or report furnished to any other party pursuant to the terms of any indenture, loan, or credit or similar agreement and not otherwise required to be furnished to Agent and the Banks pursuant to any other clause of this Section;

(j) Notice of Material Adverse Effect. As soon as possible and in any event within five (5) Business Days after an officer of Parent has knowledge of the occurrence thereof, written notice of any matter that could reasonably be expected to have a Material Adverse Effect;

(k) Proxy Statements, *etc.* As soon as available, one copy of each financial statement, report, notice or proxy statement sent by Parent or any Subsidiary to its stockholders generally and one copy of each regular, periodic, or special report, registration statement, or prospectus filed by Parent or any Subsidiary with any securities exchange or the Securities and Exchange Commission or any successor agency;

(l) Financial Statements for Insights. As soon as possible and in any event within five (5) Business Days after Insights submits financial statements or other documentation pursuant to the requirements of the Knox Keene Health Care Service Plan Act of 1975 or Title 10 of the California Code of Regulations, a copy of such financial statements and documentation; and

(m) General Information. Promptly, such other information concerning Parent or any Subsidiary as Agent or any Bank may from time to time reasonably request.

Section 8.2. Maintenance of Existence; Conduct of Business. Parent will, and will cause each Subsidiary to, preserve and maintain (a) its existence (except as permitted by Section 9.3) and (b) all of its privileges, licenses, permits, franchises, qualifications, and rights that are necessary or desirable in the ordinary conduct of its business. Parent will, and will cause each Subsidiary to, conduct its business in an orderly and efficient manner in accordance with good business practices.

Section 8.3. Maintenance of Properties. Parent will, and will cause each Subsidiary to, maintain, keep, and preserve in good working order and condition (exclusive of ordinary wear, tear and casualty) all of its material properties necessary in the conduct of its business.

Section 8.4. Taxes and Claims. Parent will, and will cause each Subsidiary to, pay or discharge at or before maturity or before becoming delinquent (a) all taxes, levies, assessments, and governmental charges imposed on it or its income or profits or any of its property, and (b) all valid and lawful claims for labor, material, and supplies, which, if unpaid, might become a Lien upon any of its property; provided, however, that neither Parent nor any Subsidiary shall be required to pay or discharge any tax, levy, assessment, or governmental charge which is being contested in good faith by appropriate proceedings diligently pursued, and for which adequate reserves have been established.

Section 8.5. Insurance. Parent will, and will cause each Subsidiary to, maintain insurance with financially sound and reputable insurance companies in such amounts and covering such risks as are usually carried by corporations engaged in similar businesses and owning similar properties in the same general areas in which Parent and the Subsidiaries operate, provided that in any event Parent will maintain and cause each Subsidiary to maintain workmen' s compensation insurance (or alternate comparable coverage as required by law), property insurance, comprehensive general liability insurance and professional liability insurance reasonably satisfactory to Agent. Each general liability insurance policy shall name Agent as additional insured, each insurance policy covering Collateral shall name Agent as loss payee and shall provide that such policy will not be canceled or materially changed without fifteen (15) days prior written notice to Agent.

Section 8.6. Inspection Rights. Upon two (2) Business Day' s prior notice and from time to time during normal business hours, Parent will, and will cause each Subsidiary to, permit representatives of Agent to examine, copy, and make extracts from its books and records, to visit and inspect its properties, and to discuss its business, operations, and financial condition with its officers, employees, and independent certified public accountants. When a Default exists, the prior notice described in the first sentence of this Section 8.6 shall not be required. The representatives of any Bank may accompany Agent during any examination, visit, inspection or discussions under this Section 8.6.

Section 8.7. Keeping Books and Records. Parent will, and will cause each Subsidiary to, maintain proper books of record and account in which full, true, and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities.

Section 8.8. Compliance with Laws. Parent will, and will cause each Subsidiary to, comply in all material respects with all applicable laws (including, without limitation, all Environmental Laws and ERISA), rules, regulations, orders, and decrees of any Governmental Authority or arbitrator.

Section 8.9. Compliance with Agreements. Parent will, and will cause each Subsidiary to, comply in all material respects with all agreements, contracts, and instruments binding on it or affecting its properties or business.

Section 8.10. Further Assurances and Collateral Matters.

(a) Further Assurance and Exceptions to Perfection. Parent will, and will cause each Subsidiary, other than a Restricted Group Member, to, execute and deliver such further documentation and take such further action as may be requested by Agent or the Required Banks to carry out the provisions and purposes of the Loan Documents and to create, preserve, and perfect the Liens of Agent for the benefit of itself and the Banks in the Collateral; provided that, prior to the occurrence of a Default, neither Parent nor any Subsidiary, nor a Restricted Group Member at any time, shall be required to:

(i) execute or have filed any UCC Financing Statement fixture filings necessary to perfect Agent' s Lien on property at a location identified pursuant to the Parent Security Agreement or the Subsidiary Security Agreement as a "Contract Location" (herein a "Contract Location");

(ii) execute or deliver any waivers, subordinations or acknowledgments from any third parties who have possession or control of any Collateral;

(iii) except as required by Section 7.1(g) of the Original Credit Agreement, obtain any landlord or mortgagee waivers or subordinations;

(iv) deliver any certificates of title evidencing equipment of Parent or a Subsidiary with Agent' s Lien noted thereon; or

(v) grant Agent control over any deposit, security or commodity account.

If a Default occurs, then Parent shall, and shall cause each Subsidiary, other than a Restricted Group Member, to, take such action as Agent or the Required Banks may request to perfect and protect the Liens of Agent in all the Collateral, including any or all of the actions described in clauses (i) through (v) of this Section 8.10(a). Notwithstanding the foregoing, if prior to the occurrence of a Default, the book value of the equipment (excluding vehicles) and fixtures located at a Contract Location exceeds One Hundred Thousand Dollars ($100,000.00), then Parent shall, or shall cause the applicable Subsidiary, other than a Restricted Group Member, to, take all actions as Agent may request to perfect and protect the Liens of Agent in the equipment and fixtures held at such Contract Location. Parent shall promptly notify Agent if the book value of the equipment (excluding vehicles) and fixtures located at a Contract Location exceeds One Hundred Thousand Dollars ($100,000.00).

(b) Subsidiary Pledge. Within forty-five days of the creation or acquisition of any Subsidiary, other than the creation or acquisition of a Restricted Group Member or an Acquisition Subsidiary, the Parent shall cause such Subsidiary to execute and deliver a Subsidiary Joinder Agreement and such other documentation as the Agent may request to cause such Subsidiary to evidence, perfect, or otherwise implement the guaranty and security for repayment of the Obligations contemplated by a

Guaranty, the Subsidiary Security Agreement and, if applicable, a Subsidiary Pledge Agreement. Upon the earlier to occur of: (i) the date that is nine months from the date of the creation of any Acquisition Subsidiary (that is not a Restricted Group Member) or (ii) the date that is forty-five days after the date of the consummation of the acquisition for which the Acquisition Subsidiary was created, the Parent shall cause such Acquisition Subsidiary (that is not a Restricted Group Member) to execute and deliver a Subsidiary Joinder Agreement and such other documentation as the Agent may request to cause such Acquisition Subsidiary to evidence, perfect, or otherwise implement the guaranty and security for repayment of the Obligations contemplated by a Guaranty, the Subsidiary Security Agreement and, if applicable, a Subsidiary Pledge Agreement. Within forty-five days of the creation or acquisition of any Restricted Group Member (other than Friends LP and FGP) which is not restricted by law or agreement from joining as an Obligated Party, the Parent shall cause such Restricted Group Member to execute and deliver a Subsidiary Joinder Agreement and such other documentation as the Agent may request to cause such Restricted Group Member to evidence, perfect, or otherwise implement the guaranty and security for repayment of the Obligations contemplated by a Guaranty, the Subsidiary Security Agreement and, if applicable, a Subsidiary Pledge Agreement; provided, however, if such Restricted Group Member is an Acquisition Subsidiary, then such execution and delivery shall take place before the earlier to occur of: (i) the date that is nine months from the date of the creation of such Restricted Group Member or (ii) the date that is forty-five days after the date of the consummation of the acquisition for which such Restricted Group Member was created.

(c) Parent Pledge of Subsidiary Stock. If any Subsidiary (other than an Acquisition Subsidiary or a Restricted Group Member) is created or acquired after the Closing Date, Parent, within forty-five days of the creation or acquisition of such Subsidiary, shall cause the owner of the capital stock or other ownership interest of such Subsidiary to execute and deliver to Agent an amendment to the Pledge Agreements or a Pledge and Security Agreement, as applicable, describing as collateral thereunder the stock of or other ownership interests in such Subsidiary and Parent shall cause the owner of the capital stock of such Subsidiary to deliver the certificates representing such stock or other interests to Agent together with undated stock or other powers duly executed in blank. Upon the earlier to occur of: (i) the date that is nine months from the date of the creation of any Acquisition Subsidiary (that is not a Restricted Group Member) or (ii) the date that is forty-five days after the date of the consummation of the acquisition for which the Acquisition Subsidiary was created, Parent shall cause the owner of the capital stock or other ownership interest of such Acquisition Subsidiary (that is not a Restricted Group Member) to execute and deliver to Agent an amendment to the Pledge Agreements or a Pledge and Security Agreement, as applicable, describing as collateral thereunder the stock of or other ownership interests in such Acquisition Subsidiary and Parent shall cause the owner of the capital stock of such Acquisition Subsidiary to deliver the certificates representing such stock or other interests to Agent together with undated stock or other powers duly executed in blank. If any Restricted Group Member is created or acquired after the Closing Date and no law or agreement prohibits the equity interest of such Restricted Group Member from being pledged by its parent, Parent shall cause the owner of the capital stock or other ownership interest of such Restricted Group Member to execute and deliver to Agent an amendment to the Pledge Agreements or a Pledge and Security Agreement, as applicable, describing as collateral thereunder the stock of or other ownership interests in such Restricted Group Member and Parent shall cause the owner of the capital stock of such Restricted Group Member to deliver the certificates representing such stock or other interests to Agent together with undated stock or other powers duly executed in blank; provided, however, if such Restricted Group Member is an Acquisition Subsidiary, then Parent shall cause such execution and delivery to take place before the earlier to occur of: (i) the date that is nine months from the date of the creation of such Restricted Group Member or (ii) the date that is forty-five days after the date of the consummation of the acquisition for which such Restricted Group Member was created.

(d) Restricted Group Members. If as of any date, the aggregate amount of the Restricted Group Members' EBITDA as calculated for the most recently completed four (4) Fiscal Quarter period as of the date of determination exceeds the Applicable EBITDA Threshold as calculated for such date, then, within thirty (30) days after the date of determination, the Parent and Borrower shall:

(i) cause one or more of the Restricted Group Members to execute and deliver such documentation as the Agent may request to cause such Restricted Group Members to become "Obligated Parties" (and therefore no longer "Restricted Group Members") and to evidence, perfect, or otherwise implement the guaranty of and provision of security for the Obligations contemplated by the Guaranty and the Subsidiary Security Agreement so that after giving effect thereto the EBITDA of the remaining Restricted Group Members as calculated for such four (4) Fiscal Quarter period is less than the Applicable EBITDA Threshold;

(ii) provide Agent written notice that the Reducible Amount of the Restricted Group Members' consolidated Cash Flow and Adjusted EBITDA and the Applicable Percentage of the amount of Fixed Charges actually incurred by the Restricted Group Members shall be excluded from the calculation of all consolidated financial covenants hereunder including, without limitation, the Indebtedness to Adjusted EBITDA Ratio referenced in Section 3.2; or

(iii) cause one or more of the Restricted Group Members to pay a dividend to their respective parents (who are Obligated Parties) in an amount equal to the sum of (A) the Reducible Amount plus (B) the aggregate amount of loans, advances and other investments made to such Restricted Group Members by the Obligated Parties during the most recently completed four (4) Fiscal Quarter period as of such date of determination.

If Parent and the Borrower elect to exclude such Reducible Amount and such Applicable Percentage from the calculation of all consolidated financial tests set forth herein (including, without limitation, those set forth in Article 10, the Indebtedness to Adjusted EBITDA Ratio tests referenced in Section 3.2, and in Section 9.5(a)(ii) and (iii), all such financial tests, herein the "Financial Tests") then without any further amendment or other modification to the Loan Documents, such Reducible Amount and such Applicable Percentage shall thereafter be so excluded. In calculating compliance with the Financial Tests thereafter, the Parent will show the calculations utilized to exclude such Reducible Amount and such Applicable Percentage from such Financial Tests. For the purposes of this clause (d), the following terms have the following meanings:

"Applicable EBITDA Threshold" means, as of any Fiscal Quarter end, an amount equal to 12.50% of Parent' s Consolidated EBITDA (as calculated in Section 10.2) determined as of such Fiscal Quarter end; provided, however, if no Default exists and the Borrower provides written notice to the Agent that the Borrower elects to lower the maximum Indebtedness to Adjusted EBITDA Ratio permitted under Section 10.3 to (a) 2.75 to 1.00, then the Applicable EBITDA Threshold shall automatically be increased to 15% of Parent' s Consolidated EBITDA (as calculated in Section 10.2) determined as of such Fiscal Quarter end, or (b) 2.50 to 1.00, then the Applicable the Applicable EBITDA Threshold shall automatically be increased to 20% of Parent' s Consolidated EBITDA (as calculated in Section 10.2) determined as of such Fiscal Quarter end.

"Applicable Percentage" means the percentage determined by dividing (x) by (y) and multiplying the resulting product by 100 where:

(x) equals the Reducible Amount; and

(y) equals the Parent' s consolidated EBITDA' s as calculated for such Fiscal Quarter end for the four (4) Fiscal Quarters then ended.

"Reducible Amount" means the amount by which the Restricted Group Members' EBITDA exceeds the Applicable EBITDA Threshold as calculated for such Fiscal Quarter end for the Four (4) Fiscal Quarters then ended.

If the Borrower elects to lower the maximum Indebtedness to Adjusted EBITDA Ratio permitted under Section 10.3 pursuant to the proviso in the foregoing definition of "Applicable EBITDA Threshold" then the maximum Indebtedness to Adjusted EBITDA Ratio required by such Section 10.3 shall be automatically reduced without further action or consent of the Agent or any Bank.

(e) Mortgages; Title Insurance; Surveys and Related Documentation.

(i) Title Insurance. Within sixty (60) days following delivery of any Mortgage, Parent shall deliver or cause to be delivered to Agent lender' s title insurance policies issued by title insurers satisfactory to Agent (the "Mortgage Policies") in form and substance and in amounts satisfactory to Agent assuring Agent that such Mortgage is a valid and enforceable first priority mortgage liens on the respective Mortgaged Property or Additional Mortgaged Property (as defined below), free and clear of all defects and encumbrances except as approved by Agent. The Mortgage Policies shall be in form and substance satisfactory to Agent and shall include an endorsement insuring against the effect of future advances under this Agreement, for mechanics' liens and for any other matter that Agent may request, and shall provide for affirmative insurance and such reinsurance as Agent may request.

(ii) Additional Mortgaged Property. Agent may from time to time designate owned real property of Parent or any Subsidiary as "Additional Mortgaged Property", in which case Parent shall, or shall cause the applicable Subsidiary, as promptly as possible (and in any event within sixty (60) days after such designation) to deliver to Agent a fully executed Mortgage, in form and substance satisfactory to Agent together with title insurance policy commitments, surveys, appraisals, environmental reports and other documentation required by this Section 8.10. Parent and Borrower agree that, following the taking of the actions with respect to any Additional Mortgaged Property required by the immediately preceding sentence, Agent shall have a valid and enforceable first priority mortgage on the respective Additional Mortgaged Property, free and clear of all defects and encumbrances except as permitted by Section 9.2.

(iii) Surveys. If reasonably requested by Agent or required by applicable law, Parent shall deliver or cause to be delivered to Agent current surveys of any Mortgaged Property or Additional Mortgaged Property, certified by a licensed surveyor meeting ALTA requirements. All such surveys shall be sufficient to allow the issuer of the applicable mortgage policy to issue a lender' s policy.

(iv) Appraisals. If requested by Agent or required by applicable law, Parent shall deliver or cause to be delivered from time to time to Agent a current appraisal of each Mortgaged Property and each Additional Mortgaged Property, such appraisals to be in form and substance satisfactory to Agent.

(v) Environmental Reports. If Agent at any time has reasonable basis to believe that there may be a material violation of any Environmental Laws by, or any material liability arising thereunder of, Parent or any Subsidiary or related to any Mortgaged Property or Additional Mortgaged Property or real property adjacent to any Mortgaged Property or Additional Mortgaged

Property, then Parent agrees, upon the request of Agent to provide Agent with such environmental reports and assessments, certificates, engineering studies or other written material or data as Agent may reasonably require relating thereto. If Agent at any time has reasonable basis to believe that there may be a violation of any Environmental Laws by, or any liability arising thereunder of, Parent or any Subsidiary or related to any real property owned, leased or operated by Parent or any Subsidiary (other than the Mortgaged Property) or any property adjacent to such property which violation or liability could have a Material Adverse Effect, then Parent agrees, upon the request of Agent to provide Agent with such environmental reports and assessments, certificates, engineering studies or other written material or data as the Agent may reasonably require relating thereto.

(vi) Environmental Remediation. In the event that Agent determines from the environmental reports or information delivered pursuant to clause (f)(v) of this Section 8.10 or pursuant to any other information, that Remedial Action is necessary with respect to Parent or any Subsidiary or its property, Parent shall take such Remedial Action or other action as Agent may reasonably require to cure, or protect against, any material violation or potential violation of any Environmental Laws or any material actual or potential Environmental Liability.

Section 8.11. ERISA. Parent will, and will cause each Subsidiary to, comply with all minimum funding requirements and all other requirements of ERISA, if applicable, so as not to give rise to any liability which will have a Material Adverse Effect.

ARTICLE IX.

Negative Covenants

Parent and Borrower each covenant and agree that, as long as the Obligations or any part thereof are outstanding or any Bank has any Revolving Commitment hereunder, Parent and Borrower will perform and observe the following negative covenants:

Section 9.1. Debt. Parent will not, and will not permit any Subsidiary to, incur, create, assume, or permit to exist any Debt, except:

(a) Debt to Agent and Banks pursuant to the Loan Documents and existing Debt described on Schedule 9.1;

(b) Intercompany Debt owed by the Parent or a Subsidiary to Borrower or loans or advances between Subsidiaries; provided that the sum of (i) the aggregate amount of all Debt owed by Restricted Group Members to Borrower and the other Subsidiaries at any time outstanding plus (ii) the aggregate amount of all capital contributions to, investments in and purchases of stock, bonds or other equity securities of Restricted Group Members by Parent and the other Subsidiaries made after the Closing Date shall not exceed the amounts provided for in Section 9.5(l), provided further, that the Seventeen Million Five Hundred Thousand Dollar ($17,500,000) capital contribution by Borrower to Friends LP and FGP permitted under Section 9.5(m) shall be excluded from the foregoing calculation;

(c) Debt of Parent or any Subsidiary (other than Restricted Group Members) not to exceed Five Million Dollars ($5,000,000) in the aggregate for Parent and all Subsidiaries at any time outstanding secured by purchase money Liens permitted by Section 9.2;

(d) Debt constituting obligations to reimburse worker' s compensation insurance companies for claims paid by such companies on Parent' s or a Subsidiary' s behalf in accordance with the policies issued to Parent and the Subsidiaries;

(e) Guarantees by Parent of (i) trade accounts payable owed by a Subsidiary, and arising in the ordinary course of business, (ii) Debt of a Subsidiary or (iii) operating leases of a Subsidiary entered into in the ordinary course of business; provided that, (A) the Debt guaranteed is otherwise permitted hereunder; and (B) no Default exists or would result from such Guarantee;

(f) Guarantees incurred in the ordinary course of business with respect to surety and appeal bonds, performance and return-of-money bonds, and other similar obligations not exceeding at any time outstanding One Million Dollars ($1,000,000) in aggregate liability;

(g) Debt arising in connection with interest rate swap, cap, collar or similar agreements entered into in the ordinary course of business to fix or limit Parent' s or any Subsidiary' s (other than a Restricted Group Member) interest expense;

(h) Debt of any Person (or any of such Person' s subsidiaries) existing at the time such Person becomes a Subsidiary (or is merged into or consolidated with Parent or any of the Subsidiaries), but only to the extent that such Debt was not incurred in connection with, as a result of or in contemplation of such Person becoming a Subsidiary (or being merged into or consolidated with Parent or any Subsidiary); provided, however, that (i) in no event shall the aggregate amount of such Debt outstanding at any time that is Capital Lease Obligations exceed Ten Million Dollars ($10,000,000); (ii) in no event shall the aggregate amount of such Debt outstanding at any time that is not Capital Lease Obligations exceed Five Million Dollars ($5,000,000); and (iii) immediately after such acquired Person becomes a Subsidiary (or is merged into or consolidated with Parent or any Subsidiary), no Default exists;

(i) Debt constituting obligations to pay any deferred purchase price or performance payments pursuant to any agreement executed in connection with a Permitted Acquisition and any Guarantee of such Debt provided that (i) such Debt is not secured, (ii) the restrictions and conditions governing such Debt are no more onerous to the Parent and the Subsidiaries and no more beneficial to the parties entitled to the protections thereof, than the restrictions and conditions hereunder, (iii) the restrictions and conditions governing such Debt permit the Parent and the Subsidiaries to create, incur or permit to exist any Lien on their respective assets in favor of the Agent to secure the Obligations, and (iv) the estimated aggregate amount payable with respect to the obligations arising from such Debt does not at any time exceed Twenty Five Million Dollars ($25,000,000); and

(j) Debts of Parent or any Subsidiary (other than a Restricted Group Member), other than the Debts specifically described in clauses (a) through (i) of this Section 9.1, which in the aggregate for Parent and all Subsidiaries do not exceed Five Million Dollars ($5,000,000) at any time outstanding.

Section 9.2. Limitation on Liens and Restrictions on Subsidiaries. Parent will not, and will not permit any Subsidiary to, incur, create, assume, or permit to exist any Lien upon any of its property, assets, or revenues, whether now owned or hereafter acquired, except the following, none of which shall encumber the Collateral other than those Liens described in clauses (a), (b), (c), (d), (e), (g) and (h):

(a) Existing Liens disclosed on Schedule 9.2 hereto,

(b) Liens in favor of Agent for the benefit of itself and the Banks pursuant to the Loan Documents;

(c) Encumbrances consisting of minor easements, zoning restrictions, or other restrictions on the use of real property that do not (individually or in the aggregate) materially affect the value of the assets encumbered thereby or materially impair the ability of Parent or the Subsidiaries to use such assets in their respective businesses, and none of which is violated in any material respect by existing or proposed structures or land use;

(d) Liens (other than Liens relating to Environmental Liabilities or ERISA) for taxes, assessments, or other governmental charges that are not delinquent or which are being contested in good faith and for which adequate reserves have been established;

(e) Liens of mechanics, materialmen, warehousemen, carriers, landlords, or other similar statutory Liens securing obligations that are not yet due and are incurred in the ordinary course of business or which are being contested in good faith and for which adequate reserves have been established;

(f) Liens resulting from good faith deposits to secure payments of workmen' s compensation or other social security programs or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, and contracts (other than for payment of Debt);

(g) Liens for purchase money obligations and Capital Lease Obligations; provided that: (i) the Debt secured by any such Lien is permitted under Section 9.1; and (ii) any such Lien encumbers only the asset so purchased;

(h) Liens related to any attachment or judgment not constituting an Event of Default;

(i) Liens arising from filing UCC financing statements regarding leases permitted by this Agreement;

(j) Liens on the partnership interest of FGP in Friends LP arising pursuant to Section 3.3(b) of the Friends Partnership Agreement;

(k) Liens on the membership interest of Borrower in FGP arising pursuant to Section 3.3(b) of the FGP Operating Agreement; and

(l) Liens on fixed assets of a Person existing at the time such Person becomes a Subsidiary (or such Person is merged into or consolidated with Parent or any Subsidiary) in accordance with the provisions of Section 9.3 hereof; provided, however, that such Liens (i) only secure the Debt permitted by Section 9.1(h), (ii) were in existence prior to such acquired Person becoming a Subsidiary (or prior to the contemplation of such merger or consolidation), (iii) do not cover any property other than the property of such acquired Person which is subject to such Liens prior to such acquired Person becoming a Subsidiary (or prior to the contemplation of such merger or consolidation), and (iv) do not cover any accounts receivables, inventory or general intangibles.

Neither Parent nor any Subsidiary shall enter into or assume any agreement (other than the Loan Documents and other than the documentation relating to the guaranties described on Schedule 9.1) prohibiting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired; provided that, in connection with the creation of purchase money Liens, Parent or any Subsidiary may agree that it will not permit any other Liens to encumber the asset subject to such purchase money Lien. Except as provided herein, as provided in the documentation relating to the guaranties described on Schedule 9.1, the Friends Acquisition Agreement, FGP Operating Agreement or the Friends Partnership Agreement, and except for any restrictions imposed or required to be imposed by applicable law and regulation, Parent will not and will not permit any Subsidiaries directly or indirectly to create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Subsidiary to: (1) pay dividends or make any other distribution on any of such Subsidiary' s capital stock (or other equity interests) owned by Parent or any Subsidiary; (2) subject to subordination provisions, pay any Debt owed to Parent or any other Subsidiary; (3) make loans or advances to Parent or any other Subsidiary; or (4) transfer any of its property or assets to Parent or any other Subsidiary.

Section 9.3. Mergers, *etc*. Parent will not, and will not permit any Subsidiary to, become a party to a merger or consolidation, or purchase or otherwise acquire all or a substantial part of the business or assets of any Person or any shares or other evidence of beneficial ownership of any Person, or wind-up, dissolve, or liquidate itself; provided that, (a) Parent and the Subsidiaries may acquire assets or shares or other evidence of beneficial ownership of a Person in accordance with the restrictions set forth in Section 9.5; (b) if no Default exists or would result, any Subsidiary may merge into or consolidate with Parent, any other Subsidiary (other than a Restricted Group Member) or a Target if the surviving Person is or becomes a wholly owned Subsidiary directly owned by Parent, assumes the obligations of the applicable Subsidiary under the Loan Documents and is solvent as contemplated under Section 7.20 after giving effect to such merger or consolidation, (c) Parent or any wholly owned Subsidiary (other than a Restricted Group Member) directly owned by Parent (the "Acquiring Company") may acquire all or substantially all of the assets of any Subsidiary (a "Transferring Subsidiary") if the Acquiring Company assumes all the Transferring Subsidiary' s liabilities (including without limitation, all liabilities of the Transferring Subsidiary under the Loan Documents to which it is a party) and, following such assignment and assumption, such Transferring Subsidiary may wind up, dissolve, and liquidate, and (d) if no Default exists or would result, any Restricted Group Member may merge into or consolidate with any other Restricted Group Member if the surviving Restricted Group Member assumes the obligations of the applicable Restricted Group Member under the Loan Documents, if any, is solvent as contemplated under Section 7.20 after giving effect to such merger or consolidation and fulfills the obligations set forth in Section 8.10; provided that upon the occurrence of any merger or consolidation permitted in this clause (d) the Parent' s and the Subsidiaries' option to make additional capital contributions, loans, and advances to and/or investments in or to purchase any stocks, bonds, or other equity securities in (i) the surviving Restricted Group Member as permitted pursuant to the proviso set forth in Section 9.5(l) shall without any amendment or other modification to the Loan Documents be limited to the amount set forth in the proviso of Section 9.5(l) for the surviving Restricted Group Member minus the amount of additional capital contributions, loans, and advances to and/or investments in or purchases of any stocks, bonds, or other equity securities which have already been made in the surviving Restricted Group Member prior to such merger or consolidation and (ii) the non-surviving Restricted Group Member as permitted pursuant to the proviso set for in Section 9.5(l) shall without any amendment or other modification to the Loan Documents be terminated.

Section 9.4. Restrictions on Dividends and other Distributions. Parent will not and will not permit any Subsidiary to directly or indirectly declare, order, pay, make or set apart any sum for (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock (or other equity interest) of Parent or any Subsidiary now or hereafter outstanding other than dividends or other distributions payable solely in additional stock or other equity interests; (b) any redemption, conversion, exchange, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of stock (or other equity interest) of Parent or any Subsidiary now or hereafter outstanding; or (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options, or other rights to acquire shares of any class of stock (or other equity interest) of Parent or any Subsidiary now or hereafter outstanding; except that: (i) Subsidiaries (other than Parent) may make, declare and pay dividends and make other distributions with respect to their capital stock (or other equity interest) to Parent or the other Subsidiaries; (ii) this Section 9.4 shall not prohibit the transactions permitted by clauses (a), (j), or (l) of Section 9.5; and (iii) if no Default exists or would result, Parent may pay cash dividends on its capital stock and may repurchase shares of its capital stock; provided that if as of the date of any such repurchase or the date of the declaration of any such dividend, the ratio of pro forma Indebtedness outstanding as of such date (after giving effect to any borrowings made in connection therewith to fund the purchase or dividend) to the Adjusted EBITDA for the most recently completed four (4) Fiscal Quarter period as of the date of such repurchase or declaration, exceeds 1.75 to 1.00, then the aggregate amount of dividends and stock repurchases made by the Parent during the then current Fiscal

Year shall not exceed Ten Million Dollars ($10,000,000) (for the purposes of this Section 9.4(iii), stock conveyed, transferred or surrendered in connection with the exercise of stock options shall not be considered repurchased to the extent no cash consideration is paid to employees or directors in connection with such exercise).

Section 9.5. Investments. Parent will not, and will not permit any Subsidiary to, make or permit to remain outstanding any advance, loan, other extension of credit, or capital contribution to or investment in any Person, or purchase or own any stock, bonds, notes, debentures, or other securities of any Person, or be or become a joint venturer with or partner of any Person, except:

(a) Parent, any wholly owned Subsidiary directly owned by Parent, or any Restricted Group Member may acquire all or substantially all of shares, other equity securities or other evidence of beneficial ownership of a Person (or in connection with a Not-For-Profit Acquisition, a majority of the shares, other equity securities or other evidence of beneficial ownership of a Person) or all or substantially all of a Person' s assets or the assets of a division or branch of such Person, if, with respect to each such acquisition:

(i) Default. No Default exists or would result therefrom;

(ii) Indebtedness to Adjusted EBITDA. The ratio of Indebtedness outstanding as of the date of determination (which shall not be more than thirty (30) days prior to the acquisition date) to Adjusted EBITDA (as defined in Section 10.3) for the most recent four (4) Fiscal Quarter period then ended as of such date is less than the Indebtedness to Adjusted EBITDA Ratio then in effect under Section 10.3 reduced by 0.25, calculated on a pro forma basis as if the acquisition had occurred as of the first day of such four (4) Fiscal Quarters and including in the ratio calculation any Debt incurred or assumed in connection therewith as if the Target were a "Prior Target" for purposes of calculating Adjusted EBITDA;

(iii) Purchase Price. The ratio of Indebtedness outstanding as of the date of determination (which shall not be more than thirty (30) days prior to the acquisition date) to Adjusted EBITDA (as defined in Section 10.3) for the most recent four (4) Fiscal Quarter period then ended as of such date calculated on a pro forma basis as if the acquisition had occurred as of the first day of such four (4) Fiscal Quarters and including in the ratio calculation any Debt incurred or assumed in connection therewith as if the Target were a "Prior Target" for purposes of calculating Adjusted EBITDA is: (A) less than or equal to 2.00 to 1.00; or (B) is more than 2.00 to 1.00 but less than the Indebtedness to Adjusted EBITDA Ratio then in effect under Section 10.3 reduced by 0.25, and either (1) the Required Banks shall have provided their prior approval or (2) after giving effect to such acquisition, the aggregate of the Purchase Prices for all Permitted Acquisitions that have occurred during the then current Fiscal Year (including the Purchase Price for the acquisition in question) is less than Twenty-Five Million Dollars ($25,000,000) (As used above, the phrase "Purchase Price" means, as of any date of determination and with respect to a proposed acquisition, the purchase price to be paid for the Target or its assets, including all cash consideration paid (whether classified as purchase price, non-compete, consulting or post-closing performance based payments or otherwise) or to be paid (based on the estimated amount thereof), the value of all other assets to be transferred by the purchaser in connection with such acquisition to the seller (but specifically excluding any stock of Parent issued to the seller which shall not be part of the Purchase Price for purposes of this clause (iii)) all valued in accordance with the applicable purchase agreement and the outstanding principal amount of all Debt of the Target or the seller assumed or acquired in connection with such acquisition);

(iv) Delivery and Notice Requirements. Parent shall provide to Agent, prior to the consummation of the acquisition, the following: (A) notice of the acquisition, (B) the most recent financial statements of the Target that Parent has available, (C) such other documentation and information

relating to the Target and the acquisition as Agent may reasonably request and (D) evidence certified by the chief executive or chief financial officer of Parent that Parent shall be in compliance with the covenants contained in Article X on a pro forma basis for the four (4) Fiscal Quarter period then most recently ending (assuming (1) the consummation of the acquisition in question; (2) that the incurrence or assumption of any Debt in connection therewith occurred on the first day of such period; (3) to the extent such Debt bears interest at a floating rate, the rate in effect for the entire period of calculation was the rate in effect at the time of calculation; and (4) any sale of Subsidiaries or lines of business which occurred during such period occurred on the first day of such period);

(v) Diligence. Parent has completed due diligence on the Target or the assets to be acquired;

(vi) U.S. Acquisitions. The Target is organized under the laws of a state in the United States of America and is involved in the same general type of business activities as the Subsidiaries;

(vii) Structure. If the proposed acquisition is an acquisition of the stock or other equity interest issued by a Target and is not a Not-For-Profit Acquisition, the acquisition will be structured so that the Target will become a wholly owned Subsidiary directly owned by Parent or indirectly owned by Parent through a wholly owned Subsidiary, other than a Restricted Group Member, directly owned by Parent. If the proposed acquisition is an acquisition of assets and is not a Not-For-Profit Acquisition, the acquisition will be structured so that Parent or a Subsidiary who may be a Restricted Group Member, directly owned by Parent shall acquire the assets either directly or through a merger. If the proposed acquisition is a Not-For-Profit Acquisition, the acquisition will be structured so that Parent or a wholly owned Subsidiary, other than a Restricted Group Member, directly owned by Parent shall acquire control (as defined in the definition of the term "Affiliate") over and a majority of the stock or other equity interests of the entity established to acquire the assets and operate the business to be acquired;

(b) readily marketable direct obligations of the United States of America or any agency thereof with maturities of one (1) year or less from the date of acquisition;

(c) fully insured certificates of deposit with maturities of one (1) year or less from the date of acquisition issued by any commercial bank operating in the United States of America having capital and surplus in excess of $250,000,000;

(d) commercial paper or bonds of a domestic issuer if at the time of purchase such paper or bonds are rated in one of the two highest rating categories of Standard and Poor' s Corporation or Moody' s Investors Service, Inc.;

(e) current trade and customer accounts receivable for services rendered in the ordinary course of business;

(f) shares of any mutual fund registered under the Investment Company Act of 1940, as amended, which invests solely in investments of the type described in clauses (b) through (d) of this Section 9.5;

(g) loans to physicians; provided that (i) at the time of such loan no Default shall exist or result therefrom; (ii) the aggregate amount of such loans made by Parent and the Subsidiaries and outstanding at any one time shall not exceed Five Hundred Thousand Dollars ($500,000), calculated net of any bad debt reserves;

(h) advances to employees for business expenses incurred in the ordinary course of business including, without limitation, loans in connection with employee relocations and changes in Parent' s and the Subsidiaries' payroll payment dates;

(i) existing investments described on Schedule 9.5 hereto;

(j) loans, advances and other extensions of credit to Subsidiaries made in accordance with the restrictions set forth in Section 9.1(b); provided that, at the time any such loan, advance or other extension of credit is made, no Default exists or would result therefrom;

(k) Guarantees permitted by Section 9.1;

(l) if no Default exists, Parent and the Subsidiaries (other than a Restricted Group Member) may make additional capital contributions to and/or investments in or purchase any stocks, bonds, or other equity securities authorized to be issued under Section 9.6 of an Obligated Party, a wholly owned Subsidiary, a Restricted Group Member, or a newly created Person organized by Parent or a Subsidiary that, immediately after such investment or purchase, will be a wholly owned Subsidiary if the obligations under Section 8.10 shall be fulfilled; provided that as of any date of determination, the aggregate amount of such contributions, investments and purchases made to Restricted Group Members under the permissions of this clause (l) after the Closing Date plus the aggregate amount then outstanding of all loans and advances to the Restricted Group Members made under the permissions of Section 9.1(b) does not exceed an amount equal to twenty percent (20%) of the Parent' s Consolidated Net Worth (as calculated as of most recently ended Fiscal Quarter prior to the date of such proposed contribution, investment, loan or purchase); provided, however, Parent and the Subsidiaries may, in addition to the Purchase Price paid by HBS for its acquisition of Insights in accordance with the terms of Section 9.5, make additional capital contributions, loans, and advances to and/or investments in or purchase any stocks, bonds, or other equity securities authorized to be issued under Section 9.6 of Insights if the aggregate amount thereof made during the period from the closing date under the Second Credit Agreement through the Revolving Termination Date does not exceed One Million Dollars ($1,000,000);

(m) initial capital contribution of the Borrower to Friends LP and FGP in an aggregate amount not to exceed Seventeen Million Five Hundred Thousand Dollars ($17,500,000);

(n) investments in corporate debt securities maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, a rating of BBB- or better by Standard and Poor' s Corporation or Baa3 or better by Moody' s Investors Service, Inc.; and

(o) money market funds that (i) comply with the criteria set forth in Securities and Exchange Commission Rule 2a- 7 under the Investment Company Act of 1940, (ii) are rated AAA by Standard and Poor' s Corporation and Aaa by Moody' s Investors Service, Inc., and (iii) have portfolio assets of at least $5,000,000,000.

Section 9.6. Limitation on Issuance of Capital Stock. Except (a) as permitted by Section 9.4, (b) for issuances, sales, assignments or other disposition to Parent, or to a Subsidiary which is the parent of the issuer, (c) for issuances pursuant to the Friends Acquisition Agreement and (d) for sales of minority equity interests in Restricted Group Members, Parent will not permit any Subsidiary to, at any time issue, sell, assign, or otherwise dispose of (x) any of its capital stock (or other equity interests), (y) any securities exchangeable for or convertible into or carrying any rights to acquire any of its capital stock (or other equity interests), or (z) any option, warrant, or other right to acquire any of its capital stock (or other equity interests).

Section 9.7. Transactions With Affiliates. Parent will not, and will not permit any Subsidiary to, enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate of Parent or such Subsidiary, except in the ordinary course of and pursuant to the reasonable requirements of Parent' s or such Subsidiary' s business and upon fair and reasonable terms no less favorable to Parent or such Subsidiary than would be obtained in a comparable arms-length transaction with a Person not an Affiliate of Parent or such Subsidiary.

Section 9.8. Disposition of Assets. Parent will not, and will not permit any Subsidiary to, sell, lease, assign, transfer, or otherwise dispose of any of its assets, except (a) dispositions of inventory in the ordinary course of business; (b) dispositions of unnecessary, obsolete or worn out equipment; (c) the sale, discount or transfer of delinquent notes or accounts receivable in the ordinary course of business for purposes of collection in accordance with past practices; (d) if no Default exists or would result therefrom, the sale, lease, assignment, transfer or other disposition of assets to an Obligated Party, provided that the obligations under Section 8.10 are fulfilled; (e) if no Default exists or would result therefrom, dispositions resulting from mergers and liquidations permitted by Section 9.3 or sales of capital stock and other equity interests permitted by Section 9.6; (f) if no Default exists or would result therefrom, the sale of ProCare; (g) if no Default exists or would result therefrom, the sale of the real property and personal property located at 1500 and 1550 Waters Ridge Drive, Lewisville, Texas 75075; and (h) if no Default exists or would result therefrom, other dispositions of assets if: (i) the aggregate book value of the assets disposed of does not exceed Two Million Five Hundred Thousand Dollars ($2,500,000) in the aggregate during any Fiscal Year; (ii) the assets disposed of are not accounts or general intangibles; and (iii) the obligations under Section 4.4(b) are fulfilled.

Section 9.9. Lines of Business. Parent will not, and will not permit any Subsidiary to, engage in any line or lines of business activity other than the businesses in which they are engaged on the Closing Date and any businesses which are similar or related to those engaged in by Parent and the Subsidiaries on the Closing Date.

Section 9.10. Sale and Leaseback. Parent will not, and will not permit any Subsidiary to, enter into any arrangement with any Person pursuant to which it leases from such Person real or personal property that has been or is to be sold or transferred, directly or indirectly, by it to such Person.

Section 9.11. Prepayment of Debt. Parent will not, and will not permit any Subsidiary to, prepay or optionally redeem any Debt in an aggregate amount in excess of Two Million Five Hundred Thousand Dollars ($2,500,000) during the period from the closing date under the Second Credit Agreement through the Revolving Termination Date other than the Obligations; provided, however, that, as long as no Default exists or would result therefrom, Parent or any Subsidiary may prepay or optionally redeem Debt acquired or assumed by Parent or such Subsidiary in connection with Permitted Acquisitions with proceeds of the Loans in an aggregate amount up to Five Million Dollars ($5,000,000) during the period from the closing date under the Second Credit Agreement through the Revolving Termination Date.

ARTICLE X.

Financial Covenants

Parent and Borrower each covenant and agree that, as long as the Obligations or any part thereof are outstanding or any Bank has any Revolving Commitment hereunder, Parent and Borrower will perform and observe the following financial covenants:

Section 10.1. Consolidated Net Worth. Parent will at all times maintain Consolidated Net Worth in an amount not less than the sum of (a) $67,000,000, plus (b) fifty percent (50%) of Parent' s

cumulative net income determined on a consolidated basis in accordance with GAAP for each Fiscal Quarter to have completely elapsed since February 28, 2005, plus (c) one hundred percent (100%) of the net cash proceeds of any sale of equity securities or other contributions to the capital of Parent received by Parent since February 28, 2005. If Parent' s consolidated net income for a Fiscal Quarter is zero or less, no adjustment to the requisite level of Consolidated Net Worth shall be made. "Consolidated Net Worth" means, at any particular time, calculated without duplication, in conformity with GAAP, the sum of (a) the total amount of capital stock, plus (b) the total amount of preferred stock, plus (c) the total amount of paid-in capital, plus (d) the total amount of retained earnings.

Section 10.2. Fixed Charge Coverage. As of the end of each Fiscal Quarter, Parent shall not permit the ratio of Cash Flow for the four (4) Fiscal Quarters then ending to Fixed Charges as of such Fiscal Quarter end to be less than 1.25 to 1.00. For purposes of this Section 10.2 the following terms shall have the following meanings:

"Cash Flow" means, for any period, the total of the following for Parent and the Subsidiaries calculated on a consolidated basis without duplication for such period: (A) EBITDA; minus (B) any provision for (or plus any benefit from) cash income or franchise taxes included in determining Consolidated Net Income; minus (C) cash dividends and other distributions made on account of the Parent' s capital stock.

"Consolidated Net Income" means, for any period and any Person (a "Subject Person"), such Subject Person' s consolidated net income (or loss) determined in conformity with GAAP, but excluding without duplication and only to the extent otherwise included:

(a) any extraordinary gains or losses or nonrecurring revenue or expense;

(b) any gains or losses realized upon the sale or other disposition of any capital stock or debt security of any Person;

(c) any gains or losses in respect of the write-up of any asset including, with respect to the Borrower, its ownership interest in ProCare, at greater than original cost or write-down at less than original cost;

(d) any gains or losses realized upon the sale or other disposition of property, plant, equipment, or intangible assets of the Subject Person or any of its subsidiaries which is not sold or otherwise disposed of in the ordinary course of business including, with respect to the Borrower, its ownership interest in ProCare;

(e) any gains or losses from the disposal of a discontinued business;

(f) any net gains or losses arising from the extinguishment of any debt of the Subject Person or its subsidiaries;

(g) any restoration to income of any contingency reserve relating to any long term assets or long term liability, except to the extent that provision for such reserve was made out of income accrued during such period;

(h) the cumulative effect of any change in an accounting principle on income of prior periods;

(i) any deferred credit representing the excess of equity in any acquired company or assets at the date of acquisition over the cost of the investment in such company or asset;

(j) the income from any sale of assets in which the book value of such assets prior to their sale had been the book value inherited by the Subject Person from a transfer of such assets;

(k) the income (or loss) of any Person (other than a subsidiary) in which the Subject Person or a subsidiary has an ownership interest; provided, however, that (i) Consolidated Net Income shall include amounts in respect of the income of such Person when actually received in cash by the Subject Person or such subsidiary in the form of dividends or similar distributions and (ii) Consolidated Net Income shall be reduced by the aggregate amount of all investments, regardless of the form thereof, made by the Subject Person or any of its subsidiaries in such Person for the purpose of funding any deficit or loss of such Person;

(l) the income of any subsidiaries to the extent the payment of such income in the form of a distribution or repayment of any Debt to the Subject Person or a Subsidiary is not permitted, whether on account of any restriction in by-laws, articles of incorporation or similar governing document, any agreement or any law, statute, judgment, decree, or governmental order, rule, or regulation applicable to such Subsidiary;

(n) any reduction in or addition to income tax expense resulting from an increase or decrease in a deferred income tax asset due to the anticipation of future income tax benefits;

(o) any reduction in or addition to income tax expense due to the change in a statutory tax rate resulting in an increase or decrease in a deferred income tax asset or in a deferred income tax liability;

(p) any gains or losses attributable to returned surplus assets of any pension-benefit plan or any pension credit attributable to the excess of (i) the return on pension-plan assets over (ii) the pension obligation' s service cost and interest cost;

(q) the income or loss of any Person acquired by the Subject Person or a subsidiary for any period prior to the date of such acquisition;

(r) the income from any sale of assets in which the accounting basis of such assets had been the book value of any Person acquired by the Subject Person or a subsidiary prior to the date such Person became a subsidiary or was merged into or consolidated with the Subject Person or a subsidiary;

(s) the one time loss related to the reorganization of certain employees, locations and services of Employee Assistance Programs International, LLC in an amount not to exceed $3,000,000; and

(t) any non-cash expense attributable to the expensing of stock option programs of such Person; provided, however, that Consolidated Net Income shall be reduced by the aggregate amount of cash payments made by such Person during any period for the purpose of funding any such expense.

"EBITDA" means, for any period and any Person, the total of the following each calculated without duplication on a consolidated basis for such period: (a) Consolidated Net Income; plus (b) any provision for (or less any benefit from) income or franchise taxes included in determining Consolidated Net Income; plus (c) interest expense (including the interest portion of Capital Lease Obligations) deducted in determining Consolidated Net Income; plus (d) amortization and depreciation expense deducted in determining Consolidated Net Income.

"Fixed Charges" means, as of any date of determination, the total of the following for Parent and the Subsidiaries calculated on a consolidated basis without duplication but excluding any of the foregoing of any Prior Target for any period prior to the date of such acquisition: (a) cash interest expense (including the interest portion of Capital Lease Obligations) for the four (4) Fiscal Quarter period then ending; plus (b) the current maturities of long term debt reflected as of the date of determination on the Parent' s consolidated balance sheet excluding, beginning with the Fiscal Quarter ended August 31, 2009 and continuing thereafter, four-fifths (4/5) of the Parent' s and the Subsidiaries' outstanding balance of the Loans as of such Fiscal Quarter end; plus (c) the amount paid during the four (4) Fiscal Quarter period then ending with respect to deferred purchase price and performance obligations permitted under Section 9.1(i); (d) Capital Expenditures made during the four (4) Fiscal Quarter period then ending; plus (e) payments made during the four (4) Fiscal Quarter period then ending pursuant to any Capital Lease Obligations (excluding the interest portion thereof to the extent included under clause (a) above).

Section 10.3. Indebtedness to Adjusted EBITDA. As of the last day of each Fiscal Quarter, Parent shall not permit the ratio of Indebtedness outstanding as of such day to Adjusted EBITDA for the four (4) Fiscal Quarter period then ended to exceed 3.00 to 1.00. As used in this Section 10.3, the following terms have the following meanings:

"Adjusted EBITDA" means, for any period (the "Subject Period"), the total of the following calculated without duplication for such period: (a) Parent' s EBITDA (as defined in Section 10.2); plus (b) on a pro forma basis, the pro forma EBITDA of each Prior Target or, as applicable, the EBITDA of a Prior Target attributable to the assets acquired from such Prior Target, for any portion of such Subject Period occurring prior to the date of the acquisition of such Prior Target or the related assets; provided that, the EBITDA for a Prior Target will not be included unless it can be established in a manner satisfactory to Agent based on financial statements of the Prior Target prepared in accordance with GAAP without adjustment for expense or other charges that will be eliminated after the acquisition.

"Indebtedness" means, at the time of determination, the sum of the following determined for Parent and the Subsidiaries on a consolidated basis (without duplication):

(a) all obligations for borrowed money; (b) all obligations of such Person evidenced by bonds, notes, debentures, or other similar instruments; (c) all Capital Lease Obligations; (d) all obligations to reimburse the issuer of any letter of credit for amounts drawn or drawable; and (e) the estimated amount payable with respect to all deferred purchase price and performance obligations permitted under Section 9.1(i).

"Prior Target" means all Targets acquired or whose assets have been acquired in a transaction permitted by Section 9.5(a) or Section 10.5(a) of the Second Credit Agreement, the Existing Credit Agreement or the Original Credit Agreement.

Section 10.4. Managed Care Contracts. Without the prior written consent of the Required Banks, which shall not be unreasonably withheld, Parent will not at any time permit the gross revenue of Parent and its Subsidiaries, determined in conformity with GAAP as of any month and calculated for the immediately preceding twelve (12) month period, generated during such twelve (12) month period from (a) contracts providing exclusively for managed care plus (b) the managed care portions of contracts providing for Employee Assistance Programs and managed care to exceed in the aggregate twenty-five percent (25%) of total gross revenue of Parent and its Subsidiaries generated during such twelve (12) month period, determined in conformity with GAAP.

ARTICLE XI.

Default

Section 11.1. Events of Default. Each of the following shall be deemed an "Event of Default":

(a) Borrower shall fail to pay when due any principal, interest, fees, or other Obligations payable under any Loan Document or any part thereof.

(b) Any representation, warranty, or certification made or deemed made by Borrower or any Obligated Party (or any of their respective officers) in any Loan Document or in any certificate, report, notice, or financial statement furnished at any time in connection with any Loan Document shall be false, misleading, or erroneous in any material respect when made or deemed to have been made.

(c) Borrower or any Obligated Party shall fail to perform, observe or comply with (i) any covenant, agreement, or term contained in clause (g) of Section 8.1, Sections 8.5 or 8.6, Article IX, or Article X of this Agreement or (ii) any covenant, agreement, or term contained in any Loan Document relating to the creation, perfection or protection of the Liens required to be granted to secure the obligation of any Obligated Party under the Loan Documents.

(d) Borrower or any Obligated Party shall fail to perform, observe, or comply with any covenant, agreement, or term contained in any Loan Document (other than covenants to pay the Obligations and the covenants described in Section 11.1(c)) and such failure shall continue for a period of twenty (20) days after the earlier of (i) the date Agent or any Bank provides Borrower with notice thereof or (ii) the date Borrower or Parent should have, with the exercise of reasonable diligence, notified Agent thereof in accordance with Section 8.1(g).

(e) Borrower, any Obligated Party or any other Subsidiary shall (i) apply for or consent to the appointment of, or the taking of possession by a receiver, custodian, trustee, examiner, liquidator, or the like of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the United States Bankruptcy Code (as now or hereafter in effect, the "Bankruptcy Code"), (iv) institute any proceeding or file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation,

dissolution, winding-up, or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code, (vi) admit in writing its inability to, or be generally unable to pay its debts as such debts become due, or (vii) take any corporate action for the purpose of effecting any of the foregoing.

(f) A proceeding or case shall be commenced, without the application, approval, or consent of Borrower, any Obligated Party or any other Subsidiary, in any court of competent jurisdiction, seeking (i) its reorganization, liquidation, dissolution, arrangement, or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a receiver, custodian, trustee, examiner, liquidator, or the like of Borrower, any such Obligated Party or any such other Subsidiary or of all or any substantial part of its property, or (iii) similar relief in respect of Borrower, any such Obligated Party or any such other Subsidiary under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of thirty (30) or more days, or an order for relief against Borrower, any Obligated Party or any other Subsidiary shall be entered in an involuntary case under the Bankruptcy Code.

(g) Borrower, any Obligated Party or any other Subsidiary shall fail to discharge within a period of thirty (30) days after the commencement thereof any attachment, sequestration, forfeiture, or similar proceeding or proceedings involving an aggregate amount in excess of Two Million Five Hundred Thousand Dollars ($2,500,000) against any of its assets or properties.

(h) A final judgment or judgments for the payment of money in excess of Five Million Dollars ($5,000,000) in the aggregate shall be rendered by a court or courts against Borrower, any Subsidiaries, or any Obligated Party and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within thirty (30) days from the date of entry thereof, and Borrower or the relevant Subsidiary or Obligated Party shall not, within said period of thirty (30) days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.

(i) Borrower, any Obligated Party or any other Subsidiary shall fail to pay when due any principal of or interest on any Debt if the aggregate principal amount of the affected Debt equals or exceeds One Million Dollars ($1,000,000) (other than the Obligations), or the maturity of any such Debt shall have been accelerated, or any such Debt shall have been required to be prepaid prior to the stated maturity thereof or any event shall have occurred with respect to any Debt in the aggregate principal amount equal to or in excess of One Million Dollars ($1,000,000) that permits (or, with the giving of notice or lapse of time or both, would permit) any holder or holders of such Debt or any Person acting on behalf of such holder or holders to accelerate the maturity thereof or require any such prepayment.

(j) This Agreement shall cease to be in full force and effect or shall be declared null and void or the validity or enforceability thereof shall be contested or challenged by Borrower, any Obligated Party or any other Subsidiary or Borrower or any Obligated Party shall deny that it has any further liability or obligation under any of the Loan Documents, or any lien or security interest created by the Loan Documents shall for any reason (other than the negligence of Agent or the release thereof in accordance with the Loan Documents) cease to be a valid, first priority perfected security interest in and lien upon any of the Collateral purported to be covered thereby.

(k) Any of the following events shall occur or exist with respect to Parent or any ERISA Affiliate: (i) any Prohibited Transaction involving any Plan; (ii) any Reportable Event with respect to any Plan; (iii) the filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan; (iv) any event or circumstance that might constitute grounds entitling the PBGC to institute proceedings under Section 4042 of ERISA for the termination of, or for the

appointment of a trustee to administer, any Plan, or the institution by the PBGC of any such proceedings; or (v) complete or partial withdrawal under Section 4201 or 4204 of ERISA from a Multiemployer Plan or the reorganization, insolvency, or termination of any Multiemployer Plan; and in each case above, such event or condition, together with all other events or conditions, if any, have subjected or could in the reasonable opinion of Required Banks subject Parent to any tax, penalty, or other liability to a Plan, a Multiemployer Plan, the PBGC, or otherwise (or any combination thereof) which in the aggregate exceed or could reasonably be expected to exceed One Hundred Thousand Dollars ($100,000).

(l) Ninety (90) days shall have elapsed after the Management Change Date and James Ken Newman shall not have been replaced as Chairman of the Parent with a qualified individual. As used in this clause (l), the term "Management Change Date" means the date when James Ken Newman (i) ceases to hold the title and responsibilities of Chairman of the Parent or (ii) otherwise fails to be active in the management of the day to day operations of the Parent.

(m) Any Person or group (as defined in Section 13(d)(3) or 14(d)(2) of the Exchange Act) shall become the direct or indirect beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of more than 20% of the total voting power of all classes of capital stock then outstanding of Parent entitled (without regard to the occurrence of any contingency) to vote in elections of directors of Parent except as a result of stock repurchases by Parent otherwise authorized hereunder.

(n) Any Event of Default (as defined in any Mortgage) shall occur.

Section 11.2. Remedies. If any Event of Default shall occur and be continuing, Agent may (and if directed by Required Banks, shall) do any one or more of the following:

(a) Acceleration. By notice to Borrower, declare all outstanding principal of and accrued and unpaid interest on the Loans and the Revolving Notes and all other amounts payable by Borrower under the Loan Documents immediately due and payable, and the same shall thereupon become immediately due and payable, without further notice, demand, presentment, notice of dishonor, notice of acceleration, notice of intent to accelerate, protest, or other formalities of any kind, all of which are hereby expressly waived by Borrower and Parent.

(b) Termination of Revolving Commitments. Terminate the Revolving Commitments without notice to Borrower or Parent.

(c) Judgment. Reduce any claim to judgment.

(d) Foreclosure. Foreclose or otherwise enforce any Lien granted to Agent for the benefit of itself and the Banks to secure payment and performance of the Obligations in accordance with the terms of the Loan Documents.

(e) Rights. Exercise any and all rights and remedies afforded by the laws of the State of Texas or any other jurisdiction, by any of the Loan Documents, by equity, or otherwise.

Provided, however, that upon the occurrence of an Event of Default under Section 11.1(e) or (f), the Revolving Commitments of all of the Banks shall automatically terminate, and the outstanding principal of and accrued and unpaid interest on the Loans and the Revolving Notes and all other amounts payable by Borrower under the Loan Documents shall thereupon become immediately due and payable without notice, demand, presentment, notice of dishonor, notice of acceleration, notice of intent to accelerate, protest, or other formalities of any kind, all of which are hereby expressly waived by Borrower and Parent.

Section 11.3. Performance by Agent. If Borrower or any Obligated Party shall fail to perform any covenant or agreement in accordance with the terms of the Loan Documents, Agent may, at the direction of Required Banks, perform or attempt to perform such covenant or agreement on behalf of Borrower or the applicable Obligated Party. In such event, Borrower shall, at the request of Agent, promptly pay any amount expended by Agent or the Banks in connection with such performance or attempted performance to Agent at the Principal Office, together with interest thereon at the applicable Default Rate from and including the date of such expenditure to but excluding the date such expenditure is paid in full. Notwithstanding the foregoing, it is expressly agreed that neither Agent nor any Bank shall have any liability or responsibility for the performance of any obligation of Borrower or any Obligated Party under any Loan Document.

Section 11.4. Setoff. If an Event of Default shall have occurred and be continuing, each Bank is hereby authorized at any time and from time to time, without notice to Parent or Borrower (any such notice being hereby expressly waived by Borrower and Parent), to set off and apply any and all deposits (general, time, demand, provisional, or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of Borrower or Parent against any and all of the Obligations, irrespective of whether or not Agent or such Bank shall have made any demand under such Loan Documents and although such Obligations may be unmatured. Each Bank agrees promptly to notify Borrower (with a copy to Agent) after any such setoff and application; provided, that the failure to give such notice shall not affect the validity of such setoff and application. The rights and remedies of each Bank hereunder are in addition to other rights and remedies (including, without limitation, other rights of setoff) which such Bank may have.

Section 11.5. Continuance of Default. For purposes of all Loan Documents, a Default shall be deemed to have continued and exist until Agent shall have actually received evidence satisfactory to Agent that such Default shall have been remedied.

ARTICLE XII.

Agent

Section 12.1. Appointment, Powers and Immunities. Each Bank and the Issuing Bank hereby appoints (and continues the appointment created by the Original Credit Agreement) and authorizes JPMorgan to act as its agent hereunder and under the other Loan Documents with such powers as are specifically delegated to Agent by the terms of the Loan Documents, together with such other powers as are reasonably incidental thereto. Neither Agent nor any of its Affiliates, officers, directors, employees, attorneys, or agents shall be liable for any action taken or omitted to be taken by any of them hereunder or otherwise in connection with any Loan Document or any of the other Loan Documents except for its or their own gross negligence or willful misconduct. Without limiting the generality of the preceding sentence, Agent (i) may treat the payee of any Revolving Note as the holder thereof until it receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to Agent; (ii) shall have no duties or responsibilities except those expressly set forth in the Loan Documents, and shall not by reason of any Loan Document be a trustee or fiduciary for any Bank; (iii) shall not be required to initiate any litigation or collection proceedings under any Loan Document except to the extent requested by Required Banks; (iv) shall not be responsible to the Banks for any recitals, statements, representations, or warranties contained in any Loan Document, or any certificate or other documentation referred to or provided for in, or received by any of them under, any Loan Document, or for the value, validity, effectiveness, enforceability, or sufficiency of any Loan Document or any other documentation referred to or provided for therein or for any failure by any Person to perform any of its obligations thereunder; (v) may consult with legal counsel (including counsel for Parent), independent public accountants, and other experts selected by it and shall not be liable for any action taken or omitted to be

taken in good faith by it in accordance with the advice of such counsel, accountants, or experts; and (vi) shall incur no liability under or in respect of any Loan Document by acting upon any notice, consent, certificate, or other instrument or writing believed by it to be genuine and signed or sent by the proper party or parties. As to any matters not expressly provided for by any Loan Document, Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions signed by Required Banks, and such instructions of Required Banks and any action taken or failure to act pursuant thereto shall be binding on all of the Banks; provided, however, that Agent shall not be required to take any action which exposes it to personal liability or which is contrary to any Loan Document or applicable law.

Section 12.2. Rights of Agent as a Bank. With respect to its Revolving Commitment, the Loans made by it, the Letters of Credit issued by it as the Issuing Bank, and the Revolving Note issued to it, JPMorgan (and any successor acting as Agent) in its capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not acting as Agent, and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include Agent in its individual capacity. Agent and its Affiliates may (without having to account therefor to any Bank) accept deposits from, lend money to, act as trustee under indentures of, provide merchant banking services to, and generally engage in any kind of banking, trust, or other business with Borrower, any Obligated Party or any other Subsidiary, and any other Person who may do business with or own securities of Borrower, any Obligated Party or any other Subsidiary, all as if it were not acting as Agent and without any duty to account therefor to the Banks.

Section 12.3. Defaults. Agent shall not be deemed to have knowledge or notice of the occurrence of a Default (other than the non-payment of principal of or interest on the Loans or of commitment fees) unless Agent has received notice from a Bank, Parent or Borrower specifying such Default and stating that such notice is a "Notice of Default." In the event that Agent receives such a notice of the occurrence of a Default, Agent shall give prompt notice thereof to the Banks (and shall give each Bank prompt notice of each such non-payment). Agent shall (subject to Section 12.1) take such action with respect to such Default as shall be directed by Required Banks, provided that unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable and in the best interest of the Banks.

Section 12.4. Indemnification. THE BANKS HEREBY AGREE TO INDEMNIFY AGENT FROM AND HOLD AGENT HARMLESS AGAINST (TO THE EXTENT NOT REIMBURSED UNDER SECTIONS 13.1 AND 13.2, BUT WITHOUT LIMITING THE OBLIGATIONS OF BORROWER AND PARENT UNDER SECTIONS 13.1 AND 13.2), RATABLY IN ACCORDANCE WITH THEIR RESPECTIVE COMMITMENT PERCENTAGES, ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, DEFICIENCIES, SUITS, COSTS, EXPENSES (INCLUDING ATTORNEYS' FEES AND EXPENSES), AND DISBURSEMENTS OF ANY KIND OR NATURE WHATSOEVER WHICH MAY BE IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST AGENT IN ANY WAY RELATING TO OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY AGENT UNDER OR IN RESPECT OF ANY OF THE LOAN DOCUMENTS; PROVIDED, THAT NO BANK SHALL BE LIABLE FOR ANY PORTION OF THE FOREGOING TO THE EXTENT CAUSED BY AGENT' S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. WITHOUT LIMITATION OF THE FOREGOING, IT IS THE EXPRESS INTENTION OF THE BANKS THAT AGENT SHALL BE INDEMNIFIED HEREUNDER FROM AND HELD HARMLESS AGAINST ALL OF SUCH LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, DEFICIENCIES, SUITS, COSTS, EXPENSES (INCLUDING ATTORNEYS' FEES AND EXPENSES), AND DISBURSEMENTS OF ANY KIND OR NATURE DIRECTLY OR

INDIRECTLY ARISING OUT OF OR RESULTING FROM THE SOLE OR CONTRIBUTORY NEGLIGENCE OF AGENT. WITHOUT LIMITING ANY OTHER PROVISION OF THIS SECTION, EACH BANK AGREES TO REIMBURSE AGENT PROMPTLY UPON DEMAND FOR ITS PRO RATA SHARE (CALCULATED ON THE BASIS OF THE COMMITMENT PERCENTAGES) OF ANY AND ALL OUT-OF-POCKET EXPENSES (INCLUDING ATTORNEYS' FEES AND EXPENSES) INCURRED BY AGENT IN CONNECTION WITH THE PREPARATION, EXECUTION, DELIVERY, ADMINISTRATION, MODIFICATION, AMENDMENT, OR ENFORCEMENT (WHETHER THROUGH NEGOTIATIONS, LEGAL PROCEEDINGS, OR OTHERWISE) OF, OR LEGAL ADVICE IN RESPECT OF RIGHTS OR RESPONSIBILITIES UNDER, THE LOAN DOCUMENTS, TO THE EXTENT THAT AGENT IS NOT REIMBURSED FOR SUCH EXPENSES BY BORROWER OR PARENT.

Section 12.5. Independent Credit Decisions. Each Bank agrees that it has independently and without reliance on Agent or any other Bank, and based on such documentation and information as it has deemed appropriate, made its own credit analysis of Borrower and decision to enter into any Loan Document and that it will, independently and without reliance upon Agent or any other Bank, and based upon such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under any Loan Document. Except as otherwise specifically set forth herein, Agent shall not be required to keep itself informed as to the performance or observance by Borrower or any Obligated Party of any Loan Document or to inspect the properties or books of Borrower or any Obligated Party. Except for notices, reports, and other documents and information expressly required to be furnished to the Banks by Agent hereunder or under the other Loan Documents, Agent shall not have any duty or responsibility to provide any Bank with any credit or other financial information concerning the affairs, financial condition, or business of Borrower or any Obligated Party (or any of their Affiliates) which may come into the possession of Agent or any of its Affiliates.

Section 12.6. Several Revolving Commitments. The Revolving Commitments and other obligations of the Banks under any Loan Document are several. The default by any Bank in making a Loan in accordance with its Revolving Commitment shall not relieve the other Banks of their obligations under any Loan Document. In the event of any default by any Bank in making any Loan, each non-defaulting bank shall be obligated to make its Loan but shall not be obligated to advance the amount which the defaulting Bank was required to advance hereunder. No Bank shall be responsible for any act or omission of any other Bank

Section 12.7. Successor Agent. Subject to the appointment and acceptance of a successor Agent as provided below, Agent may resign at any time by giving notice thereof to the Banks, the Issuing Bank, and Borrower, and Agent may be removed at any time by Required Banks if it has breached its obligations under the Loan Documents. Upon any such resignation or removal, Required Banks will have the right to appoint a successor Agent with Borrower' s consent, which shall not be unreasonably withheld. If no successor Agent shall have been so appointed by Required Banks and shall have accepted such appointment within thirty (30) days after the retiring Agent' s giving of notice of resignation or the Required Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks and the Issuing Bank, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or any State thereof and having combined capital and surplus of at least One Hundred Million Dollars ($100,000,000). Upon the acceptance of its appointment as successor Agent, such successor Agent shall thereupon succeed to and become vested with all rights, powers, privileges, immunities, contractual obligations, and duties of the resigning or removed Agent, and the resigning or removed Agent shall be discharged from its duties and obligations under the Loan Documents. After any Agent' s resignation or removal as Agent, the provisions of this Article XII shall

continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was Agent.

Section 12.8. Agent Fee. Parent and Borrower, jointly and severally, agree to pay to JPMorgan the administrative fee described in the certain fee letter dated April 29, 2005 among Parent, J.P. Morgan Securities Inc., and JPMorgan.

Section 12.9. Release of Collateral.

(a) Automatic Release. If Borrower or any Obligated Party sells any Collateral which is permitted to be disposed of under Section 9.8, the Liens in the Collateral granted to the Agent under the Security Documents shall automatically terminate and the Collateral will be disposed of free and clear of all Liens of the Agent.

(b) Written Release Request. The Agent is authorized to release of record, and shall release of record, any Liens encumbering any Collateral that is permitted to be sold upon an officer of the Parent certifying in writing to the Agent that the proposed disposition of Collateral is permitted under Section 9.8, unless the Agent is aware that the proposed disposition is not permitted under the terms of the Loan Documents. To the extent the Agent is required to execute any release documents in accordance with the immediately preceding sentence, the Agent shall do so promptly upon request of the Borrower without the consent or further agreement of any Bank. If the sale or other disposition of Collateral is not permitted under or pursuant to the Loan Documents, the Liens encumbering the Collateral may only be released with the consent of all the Banks.

(c) Other Authorized Release of Collateral. The Agent is irrevocably authorized by the Banks, without any consent or further agreement of any Bank to subordinate or release the Liens granted to the Agent to secure the Obligations with respect to any property which is permitted to be subject to a Lien in favor of another party under the permissions set out in Section 9.2 including any purchase money Liens granted in accordance with such Section.

Section 12.10. Other Agents. Bank of America, N.A., has been designated as the "syndication agent" and KeyBank National Association and Wells Fargo Bank, N.A. have been designated as "co-documentation agents" hereunder in recognition of the level of each of their Revolving Commitments. No such Bank is an agent for the Banks and no such Bank shall have any obligation hereunder other than those existing in its capacity as a Bank. Without limiting the foregoing, no such Bank shall have or be deemed to have any fiduciary relationship with or duty to any Bank.

ARTICLE XIII.

Miscellaneous

Section 13.1. Expenses. Parent and Borrower hereby, jointly and severally, agree to pay on demand: (a) all reasonable costs and expenses of Agent arising in connection with the preparation, negotiation, execution, and delivery of the Loan Documents executed and delivered on the Closing Date, including, without limitation, the reasonable fees and expenses of legal counsel for Agent; (b) all reasonable costs and expenses of Agent arising in connection with (i) the preparation, negotiation, execution, and delivery of any of the Loan Documents executed and delivered after the Closing Date and any and all amendments or other modifications to the Loan Documents, and (ii) the syndication of the Loans, including in all instances, without limitation, the reasonable fees and expenses of legal counsel for Agent; (c) all reasonable costs and expenses of Agent and the Banks in connection with any Default and

the enforcement of any Loan Document, including, without limitation, the reasonable fees and expenses of legal counsel for Agent and each of the Banks (including the allocated costs of in house counsel); (d) all transfer, stamp, documentary, or other similar taxes, assessments, or charges levied by any Governmental Authority in respect of any Loan Document; (e) all costs, expenses, assessments, and other charges incurred in connection with any filing, registration, recording, or perfection of any security interest or Lien contemplated by any Loan Document; (f) all other costs and expenses incurred by Agent in connection with any Loan Document, including, without limitation, all reasonable costs, expenses, and other charges incurred in connection with obtaining any audit or appraisal in respect of the Collateral; and (g) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder.

Section 13.2. Indemnification. PARENT AND BORROWER, JOINTLY AND SEVERALLY, INDEMNIFY AGENT, THE ISSUING BANK, AND EACH BANK AND EACH AFFILIATE (INCLUDING WITHOUT LIMITATION, J.P. MORGAN SECURITIES, INC.) THEREOF AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, ATTORNEYS, AND AGENTS FROM, AND HOLD EACH OF THEM HARMLESS AGAINST, ANY AND ALL LOSSES, LIABILITIES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, DISBURSEMENTS, COSTS, AND EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEES AND EXPENSES) TO WHICH ANY OF THEM MAY BECOME SUBJECT WHICH DIRECTLY OR INDIRECTLY ARISE FROM OR RELATE TO (A) THE NEGOTIATION, EXECUTION, DELIVERY, PERFORMANCE, ADMINISTRATION, OR ENFORCEMENT OF ANY OF THE LOAN DOCUMENTS, (B) ANY OF THE TRANSACTIONS CONTEMPLATED BY THE LOAN DOCUMENTS, (C) ANY BREACH BY BORROWER OR ANY OBLIGATED PARTY OF ANY REPRESENTATION, WARRANTY, COVENANT, OR OTHER AGREEMENT CONTAINED IN ANY OF THE LOAN DOCUMENTS, (D) THE PRESENCE, RELEASE, THREATENED RELEASE, DISPOSAL, REMOVAL, OR CLEANUP OF ANY HAZARDOUS MATERIAL LOCATED ON, ABOUT, WITHIN, OR AFFECTING ANY OF THE PROPERTIES OR ASSETS OF PARENT OR ANY SUBSIDIARY, OR (E) ANY INVESTIGATION, LITIGATION, OR OTHER PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY THREATENED INVESTIGATION, LITIGATION, OR OTHER PROCEEDING RELATING TO ANY OF THE FOREGOING; PROVIDED THAT THE PERSON ENTITLED TO BE INDEMNIFIED UNDER THIS SECTION SHALL NOT BE INDEMNIFIED FROM OR HELD HARMLESS AGAINST ANY LOSSES, LIABILITIES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, DISBURSEMENTS, COSTS, OR EXPENSES ARISING OUT OF OR RESULTING FROM ITS GROSS NEGLIGENCE, WILLFUL MISCONDUCT OR BREACH OF ITS OBLIGATIONS UNDER THE LOAN DOCUMENTS. WITHOUT LIMITING ANY PROVISION OF ANY LOAN DOCUMENT, IT IS THE EXPRESS INTENTION OF THE PARTIES HERETO THAT EACH PERSON TO BE INDEMNIFIED UNDER THIS SECTION SHALL BE INDEMNIFIED FROM AND HELD HARMLESS AGAINST ANY AND ALL LOSSES, LIABILITIES, CLAIMS, DAMAGES, PENALTIES, JUDGMENTS, DISBURSEMENTS, COSTS, AND EXPENSES (INCLUDING ATTORNEYS' FEES AND EXPENSES) ARISING OUT OF OR RESULTING FROM THE SOLE OR CONTRIBUTORY NEGLIGENCE OF SUCH PERSON.

Section 13.3. Limitation of Liability. None of Agent, any Bank, or any Affiliate, officer, director, employee, attorney, or agent thereof shall have any liability with respect to, and Parent, Borrower and, by the execution of the Loan Documents to which it is a party each other Obligated Party, hereby waives, releases, and agrees not to sue any of them upon, any claim for any special, indirect, incidental, consequential, or punitive damages suffered or incurred by Parent, Borrower or any other Obligated Party in connection with, arising out of, or in any way related to any of the Loan Documents, or any of the transactions contemplated by any of the Loan Documents.

Section 13.4. No Duty. All attorneys, accountants, appraisers, and other professional Persons and consultants retained by Agent or any Bank shall have the right to act exclusively in the interest of Agent and the Banks and shall have no duty of disclosure, duty of loyalty, duty of care, or other duty or obligation of any type or nature whatsoever to Parent, Borrower or any of Parent' s shareholders or any other Person.

Section 13.5. No Fiduciary Relationship. The relationship between Borrower and the Obligated Parties on the one hand and Agent and each Bank on the other is solely that of debtor and creditor, and neither Agent nor any Bank has any fiduciary or other special relationship with Borrower or any Obligated Parties, and no term or condition of any of the Loan Documents shall be construed so as to deem the relationship between Borrower and the Obligated Parties on the one hand and Agent and each Bank on the other to be other than that of debtor and creditor.

Section 13.6. Equitable Relief. Parent and Borrower recognize that in the event Borrower or any Obligated Party fails to pay, perform, observe, or discharge any or all of the obligations under the Loan Documents, any remedy at law may prove to be inadequate relief to Agent and the Banks. Parent and Borrower therefore agree that Agent and the Banks, if Agent or the Required Banks so request, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

Section 13.7. No Waiver; Cumulative Remedies. No failure on the part of Agent, the Issuing Bank, or any Bank to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under any Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in the Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 13.8. Successors and Assigns.

(a) Benefit and Binding Effect. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) neither the Borrower nor the Parent may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Bank (and any attempted assignment or transfer by the Borrower or the Parent without such consent shall be null and void) and (ii) no Bank may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Affiliates, officers, directors and agents of each of the Agent, the Issuing Bank and the Banks) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments.

(i) Subject to the conditions set forth in paragraph (b)(ii) below, any Bank may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Commitment and the Revolving Exposure at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Bank, an Affiliate of a Bank, an Approved Fund or, if a Default has occurred and is continuing, any other assignee;

(B) the Agent, provided that no consent of the Agent shall be required for an assignment to an assignee that is a Bank; and

(C) the Issuing Bank.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Bank or an Affiliate of a Bank or an assignment of the entire remaining amount of the assigning Bank' s Revolving Commitment or Loans, the amount of the Revolving Commitment or Loans of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Agent) shall not be less than Five Million Dollars ($5,000,000), unless each of the Borrower and the Agent otherwise consent, provided that no such consent of the Borrower shall be required if a Default has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Bank' s rights and obligations under this Agreement;

(C) the parties to each assignment shall execute and deliver to the Agent an Assignment and Assumption, together with a processing and recordation fee of Three Thousand Five Hundred Dollars ($3,500); and

(D) the assignee, if it shall not be a Bank, shall deliver to the Agent an Administrative Questionnaire in a form approved by the Agent.

For the purposes of this Section 13.8(b), the term "Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Bank, (b) an Affiliate of a Bank or (c) an entity or an Affiliate of an entity that administers or manages a Bank.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Bank under this Agreement, and the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Bank' s rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Section 5.9, Article VI and Section 13.2). Any assignment or transfer by a Bank of rights or obligations under this Agreement that does not comply with this Section 13.8 shall be treated for purposes of this Agreement as a sale by such Bank of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Banks, and the Revolving Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Bank pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Parent, the

Borrower, the Agent, the Issuing Bank and the Banks may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Bank and an assignee, the assignee' s completed Administrative Questionnaire (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Agent shall accept such Assignment and Assumption and record the information contained therein in the Register; provided that if either the assigning Bank or the assignee shall have failed to make any payment required to be made by it pursuant to Section 2.07(d), 4.1, 4.7, 4.8 or 12.4, the Agent shall have no obligation to accept such Assignment and Assumption and record the information therein in the Register unless and until such payment shall have been made in full, together with all accrued interest thereon. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) Participations.

(i) Any Bank may, without the consent of the Parent, the Borrower, the Agent or the Issuing Bank, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Bank' s rights and obligations under this Agreement (including all or a portion of its Revolving Commitment and the Loans owing to it); provided that (A) such Bank' s obligations under this Agreement shall remain unchanged, (B) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Agent, the Issuing Bank and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank' s rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Bank sells such a participation shall provide that such Bank shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Bank will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the third sentence of Section 13.11 that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 5.1, 5.5 and 4.9 to the same extent as if it were a Bank and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 11.4 as though it were a Bank, provided such Participant agrees to be subject to Section 5.7 as though it were a Bank.

(ii) A Participant shall not be entitled to receive any greater payment under Section 5.1 or 5.5 than the applicable Bank would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower' s prior written consent. A Participant that would be a foreign Bank if it were a Bank shall not be entitled to the benefits of Section 4.9 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 4.10 as though it were a Bank.

(d) Pledge. Any Bank may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Bank, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Bank from any of its obligations hereunder or substitute any such pledgee or assignee for such Bank as a party hereto.

Section 13.9. Survival. All representations and warranties made in any Loan Document or in any document, statement, or certificate furnished in connection with any Loan Document shall survive the execution and delivery of the Loan Documents and no investigation by Agent or any Bank or any closing shall affect the representations and warranties or the right of Agent or any Bank to rely upon them. Without prejudice to the survival of any other obligation of Borrower or Parent hereunder, the obligations of Borrower and Parent under Article V and Sections 13.1 and 13.2 shall survive repayment of the Loans and the Revolving Notes, the expiration or termination of the Letters of Credit, and termination of the Revolving Commitments.

Section 13.10. Entire Agreement; Amendment and Restatement; Ratification. THIS AGREEMENT, THE REVOLVING NOTES, AND THE OTHER LOAN DOCUMENTS REFERRED TO HEREIN EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF (PROVIDED THAT THE FEE LETTER DATED APRIL 29, 2005, FROM JPMORGAN AND J.P. MORGAN SECURITIES, INC. TO PARENT IS NOT REPLACED BY THE LOAN DOCUMENTS) AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES HERETO. This Agreement amends and restates the Second Credit Agreement in its entirety. The execution of this Agreement, the Revolving Note, and the other Loan Documents executed in connection herewith does not extinguish the indebtedness outstanding in connection with the Second Credit Agreement nor does it constitute a novation. At all times during the period prior to the date hereof, all of the provisions of the Second Credit Agreement are hereby ratified and confirmed and shall remain in full force and effect. Any reference in any Loan Document to the Second Credit Agreement, the Existing Credit Agreement or the Original Credit Agreement is hereby amended to be a reference to this Agreement. The Parent, Borrower, Agent and the Banks ratify and confirm each of the Loan Documents entered into prior to the Closing Date (but excluding the Second Credit Agreement, the Existing Credit Agreement and the Original Credit Agreement) and agree that such Loan Documents continue to be legal, valid, binding and enforceable in accordance with their respective terms, except as modified hereby as described below. PARENT, BORROWER AND EACH OTHER OBLIGATED PARTY (BY ITS EXECUTION OF THIS AGREEMENT BELOW), REPRESENTS AND WARRANTS THAT AS OF THE DATE HEREOF THERE ARE NO CLAIMS OR OFFSETS AGAINST OR DEFENSES OR COUNTERCLAIMS TO ITS OBLIGATIONS UNDER THE LOAN DOCUMENTS. TO INDUCE AGENT AND THE BANKS TO ENTER INTO THIS AGREEMENT, PARENT, BORROWER AND EACH OTHER OBLIGATED PARTY WAIVES ANY AND ALL CLAIMS, OFFSETS, DEFENSES OR COUNTERCLAIMS, WHETHER KNOWN OR UNKNOWN, ARISING PRIOR TO THE DATE HEREOF AND HEREBY RELEASES AGENT AND THE BANKS AND THEIR OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, AND ATTORNEYS (COLLECTIVELY THE "RELEASED PARTIES") FROM ANY AND ALL OBLIGATIONS, INDEBTEDNESS, LIABILITY, CLAIMS, RIGHTS, CAUSES OF ACTION OR DEMANDS WHATSOEVER, WHETHER KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED WHICH PARENT, BORROWER OR ANY OTHER OBLIGATED PARTY EVER HAD, NOW HAS, CLAIMS TO HAVE OR MAY HAVE AGAINST ANY RELEASED PARTY ARISING PRIOR TO THE CLOSING DATE AND FROM OR IN CONNECTION WITH THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY. Without limiting the generality of the foregoing and notwithstanding anything in any Loan Document to the contrary, Parent, Borrower, the other Obligated Parties, Agent and the Banks agree and acknowledge that:

(i) the term "Obligations" as used in the Guaranty, the Parent Security Agreement and the Parent Pledge Agreement means the "Obligations" as defined herein;

(ii) the term "Obligations" as used in the Parent Security Agreement and the Parent Pledge Agreement also includes the obligations, indebtedness and liability of the Parent under this Agreement and the Guaranty, whether now existing or hereafter arising, whether direct, indirect, related, unrelated, fixed, contingent, liquidated, unliquidated, joint, several, or joint and several;

(iii) the term "Secured Obligations" as used in the Subsidiary Security Agreement and the Subsidiary Pledge Agreement, when used with respect to Borrower only, includes without limitation, the "Obligations," as defined herein;

(iv) the term "Borrower" as used in the Guaranty, the Parent Security Agreement, the Parent Pledge Agreement, the Subsidiary Pledge Agreements or the Subsidiary Security Agreement means Horizon Mental Health Management, Inc. as the "Borrower" hereunder and successor by assumption to the obligations of Parent;

(v) any reference in the Security Documents or the Guaranty to any Revolving Note, Term Note or Note, shall mean, the Revolving Notes executed pursuant hereto;

(vi) any reference in the Security Documents or the Guaranty to "Secured Party", "Pledgee", or "Agent" is hereby amended to be a reference to JPMorgan Chase Bank, N.A. (formerly JPMorgan Chase Bank who was successor in interest by merger to The Chase Manhattan Bank, who was the successor in interest by merger to Chase Bank of Texas, National Association, who was formerly known as Texas Commerce Bank National Association), as agent for itself and the Banks; and

(vii) any reference in the Loan Documents to terms "FPMI" and Florida Psychiatric Management, Inc. means Horizon Behavioral Services of Florida, LLC;

(viii) any reference in the Loan Documents to terms "EAPI" or Employee Assistance Programs International, Inc. means Employee Assistance Programs International, LLC;

(ix) any reference in the Loan Documents to Occupational Health Consultants of America, Inc. means Occupational Health Consultants of America, LLC;

(x) any reference in the Loan Documents to Horizon Behavioral Services of Florida, Inc. means Horizon Behavioral Services of Florida, LLC successor in interest by merged to Horizon Behavioral Services of Florida, Inc.;

(xi) any reference in the Loan Documents to Florida Psychiatric Associates, Inc. means Florida Psychiatric Associates, LLC successor in interest by merged to Florida Psychiatric Associates, Inc.; and

(xii) any reference in the Loan Documents to Specialty Rehab Management, Inc. means Horizon Health Physical Rehabilitation Services, Inc.

Section 13.11. Amendments. No amendment or waiver of any provision of any Loan Document to which Borrower or Parent is a party, nor any consent to any departure by Borrower or Parent therefrom, shall in any event be effective: (a) unless pursuant to an Increased Commitment Supplement executed in accordance with the terms and conditions thereof and Section 2.6(b) which only needs to be signed by Borrower, Parent, Agent and the Banks increasing or providing new Revolving Commitments thereunder and (b), in the case of this Agreement, and any circumstance other than as described in clause (a) preceding; unless the same shall be agreed or consented to by Required Banks, Parent and Borrower and in the case of any other Loan Document, unless the same shall be agreed or consented to by Agent acting with the consent of the Required Banks and the other parties thereto. Each such waiver or consent shall

be effective only in the specific instance and for the specific purpose for which given. Notwithstanding the foregoing, no amendment, waiver, or consent shall: (i) increase the Revolving Commitment of any Bank without the written consent of such Bank, (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Bank affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Revolving Commitment, without the written consent of each Bank affected thereby, (iv) change Section 4.6 or 4.7 in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Bank, or (v) change any of the provisions of this Section or the definition of "Required Banks" or any other provision hereof specifying the number or percentage of Banks required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Bank or (vi) release any Collateral or release Borrower or any Obligated Party from liability without the consent of all Banks; provided further that no amendment, waiver, or consent shall be made (a) with respect to Article XII hereof or which otherwise affects the rights or duties of the Agent without the prior written consent of the Agent and (b) which affects the rights or duties of the Issuing Bank without the prior written consent of the Issuing Bank.

Section 13.12. Maximum Interest Rate.

(a) No interest rate specified in any Loan Document shall at any time exceed the Maximum Rate. If at any time the interest rate (the "Contract Rate") for any Obligation shall exceed the Maximum Rate, thereby causing the interest accruing on such Obligation to be limited to the Maximum Rate, then any subsequent reduction in the Contract Rate for such Obligation shall not reduce the rate of interest on such Obligation below the Maximum Rate until the aggregate amount of interest accrued on such Obligation equals the aggregate amount of interest which would have accrued on such Obligation if the Contract Rate for such Obligation had at all times been in effect.

(b) No provision of any Loan Document shall require the payment or the collection of interest in excess of the maximum amount permitted by applicable law. If any excess of interest in such respect is hereby provided for, or shall be adjudicated to be so provided, in any Loan Document or otherwise in connection with this loan transaction, the provisions of this Section shall govern and prevail and neither Borrower nor the sureties, guarantors, successors, or assigns of Borrower shall be obligated to pay the excess amount of such interest or any other excess sum paid for the use, forbearance, or detention of sums loaned pursuant hereto. In the event any Bank ever receives, collects, or applies as interest any such sum, such amount which would be in excess of the maximum amount permitted by applicable law shall be applied as a payment and reduction of the principal of the Obligations, and, if the principal of the Obligations has been paid in full, any remaining excess shall forthwith be paid to Borrower. In determining whether or not the interest paid or payable exceeds the Maximum Rate, Borrower and each Bank shall, to the extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee, or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the entire contemplated term of the Obligations so that interest for the entire term does not exceed the Maximum Rate.

Section 13.13. Notices. All notices and other communications provided for in any Loan Document to which Borrower or any Obligated Party is a party shall be given or made in writing and telecopied, mailed by certified mail return receipt requested, or delivered, by hand or overnight courier service, to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof and, if to an Obligated Party, at the address for notices for Parent, or, as to any party, at such other address as shall be designated by such party in a notice to each other party given in accordance with

this Section. Except as otherwise provided in any Loan Document, all such communications shall be deemed to have been duly given when transmitted by telecopy, subject to telephone confirmation of receipt, or when personally delivered or, in the case of a mailed notice, three (3) Business Days after being duly deposited in the mails, in each case given or addressed as aforesaid; provided, however, notices to Agent pursuant to Section 4.3 shall not be effective until received by Agent. Notices and other communications to the Banks hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by Agent; provided that the foregoing shall not apply to notices pursuant to Article II and Sections 4.1 through 4.3 unless otherwise agreed by Agent and the applicable Bank. Agent or Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications. All notices and other communications given to any party hereto by electronic communications in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 13.14. Governing Law; Venue of Service of Process. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas and the applicable laws of the United States of America. ANY ACTION OR PROCEEDING AGAINST PARENT OR BORROWER UNDER OR IN CONNECTION WITH ANY LOAN DOCUMENT MAY BE BROUGHT IN ANY STATE COURT LOCATED IN DALLAS, TEXAS OR ANY FEDERAL COURT IN THE NORTHERN DISTRICT OF TEXAS. PARENT AND BORROWER EACH HEREBY IRREVOCABLY (a) SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURTS, AND (b) WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN SUCH COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. PARENT AND BORROWER EACH AGREE THAT SERVICE OF PROCESS UPON IT MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT ITS ADDRESS SPECIFIED OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF SECTION 13.13 OF THIS AGREEMENT. NOTHING IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL AFFECT THE RIGHT OF AGENT, THE ISSUING BANK, OR ANY BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF AGENT, THE ISSUING BANK, OR ANY BANK TO BRING ANY ACTION OR PROCEEDING AGAINST PARENT, BORROWER OR WITH RESPECT TO ANY OF THEIR RESPECTIVE PROPERTY IN COURTS IN OTHER JURISDICTION. ANY ACTION OR PROCEEDING BY PARENT OR BORROWER AGAINST AGENT OR ANY BANK SHALL BE BROUGHT ONLY IN A COURT LOCATED IN DALLAS, TEXAS.

Section 13.15. Counterparts. This Agreement may be executed in one or more counterparts and on telecopy counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

Section 13.16. Severability. Any provision of any Loan Document held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of any Loan Document and the effect thereof shall be confined to the provision held to be invalid or illegal.

Section 13.17. Headings. The headings, captions, and arrangements used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

Section 13.18. Non-Application of Chapter 346 of The Finance Code of Texas. The provisions of Chapter 346 of The Finance Code of Texas are specifically declared by the parties hereto not to be applicable to any Loan Documents or to the transactions contemplated thereby.

Section 13.19. Construction. Parent, Borrower, each other Obligated Party (by its execution of the Loan Documents to which its is a party), Agent, and each Bank acknowledges that each of them has

had the benefit of legal counsel of its own choice and has been afforded an opportunity to review the Loan Documents with its legal counsel and that the Loan Documents shall be construed as if jointly drafted by the parties thereto.

Section 13.20. Independence of Covenants. All covenants under the Loan Documents shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default if such action is taken or such condition exists.

Section 13.21. Waiver of Jury Trial. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND EXPRESSLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY OR THE ACTIONS OF AGENT OR ANY BANK IN THE NEGOTIATION, ADMINISTRATION, OR ENFORCEMENT THEREOF.

Section 13.22. USA PATRIOT Act. Each Bank that is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act") hereby notifies the Borrower and each Obligated Party that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Borrower and the Obligated Parties, which information includes the name and address of the Borrower and the Obligated Party and other information that will allow such Bank to identify the Borrower and the Obligated Parties in accordance with the Act.

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

PARENT:

HORIZON HEALTH CORPORATION

By:
/s/ John Pitts

Name: John Pitts

Title: Sr. VP Finance

Address for Notices:

1500 Waters Ridge Drive
Lewisville, Texas 75057
Fax No.: (972) 420-8282
Telephone No.: (972) 420-8200
Attention: Chief Financial Officer

BORROWER:

HORIZON MENTAL HEALTH MANAGEMENT,
INC.

By:
/s/ John Pitts

Name: John Pitts

Title: Sr. VP Finance

Address for Notices:

1500 Waters Ridge Drive
Lewisville, Texas 75057
Fax No.: (972) 420-8282
Telephone No.: (972) 420-8200
Attention: Chief Financial Officer

AGENT AND BANKS:

JPMORGAN CHASE BANK, N.A. (formerly JPMorgan Chase Bank who was successor in interest by merger to The Chase Manhattan Bank, who was successor-in-interest by merger to the Chase Bank of Texas, National Association who was formerly known as Texas Commerce Bank National Association), individually as a Bank and as Agent

By:
/s/ Matthew H. Hildreth

Matthew H. Hildreth, Senior Vice President

Address for Notices:

Mail Address:

P.O. Box 660197

Dallas, Texas 75266-0197

Hand Delivery Address:

2200 Ross Avenue

5th Floor

Dallas, Texas 75201

Lending Office for Base Rate

Accounts and Eurodollar Accounts:

2200 Ross Avenue

5th Floor

Dallas, Texas 75201

BANK OF AMERICA, N.A.

By:
/s/ Daniel H. Penkar

Daniel H. Penkar, Senior Vice President

Address for Notices:

Bank of America, National Association

901 Main Street, 67th Floor

Dallas, Texas 75202

Fax No.: (214) 209-3140

Telephone No.: (214) 209-1178

Attention: Daniel H. Penkar

Lending Office for Base Rate

Accounts and Eurodollar Accounts:

901 Main Street, 67th Floor

Dallas, Texas 75202

Attention: Nancy Santos

Fax No.: (214) 209-3140

Telephone No.: (214) 209-3878

WELLS FARGO BANK, N.A. (formerly Wells Fargo Bank Texas, National Association)

By: /s/ Linda G. Davis

Name: Linda G. Davis

Title: Vice President

Address for Notices:

Wells Fargo Bank, N.A.

4975 Preston Park Boulevard, Suite 280

MAC T5322-020

Plano, Texas 75093

Fax No.: (972) 867-5674

Telephone No.: (972) 599-5301

Attention: Linda Davis

Lending Office for Base Rate Accounts and Eurodollar Accounts:

1740 Broadway

Denver, Colorado 80274

Attention: Christy Washko

Fax No.: (303) 863-6176

Telephone No.: (303) 863-5768

KEYBANK NATIONAL ASSOCIATION

By:
/s/ Joanne K. Bramanti

Joanne K. Bramanti, Senior Vice President

Address for Notices:

8117 Preston Road, Suite 440

Preston Commons West Tower

Dallas, Texas 75225

Attention: Joanne Bramanti

Fax No.: (214) 414-2623

Telephone No.: (214) 414-2576

Lending Office for Base Rate Accounts and Eurodollar Accounts:

8117 Preston Road, Suite 440

Preston Commons West Tower

Dallas, Texas 75225

Attention: Joanne Bramanti

Fax No.: (214) 414-2623

Telephone No.: (214) 414-2576

8117 Preston Road, Suite 440

Preston Commons West Tower

Dallas, Texas 75225

Attention: Charlotte Hardin

Fax No.: (214) 414-2623

Telephone No.: (214) 414-2597

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Jennifer L. Norris

Name: Jennifer Norris

Title: Senior Vice President

Address for Notices:

5080 Spectrum Drive, STE 500E

Addison, TX 75001-4648

Attention: Jennifer Norris

Fax No.: (972) 419-3136

Telephone No.: (972) 419-3119

Lending Office for Base Rate Accounts and Eurodollar Accounts:

5080 Spectrum Drive, STE 500E

Addison, TX 75001-4648

Attention: Jennifer Norris

Fax No.: (972) 419-3136

Telephone No.: (972) 419-3119

201 South College Street

Charlotte, NC 28288-1183

Attention: Roshenna Smith or Valessa Davis

Fax No.: (704) 715-0099

Telephone No.: (704) 374-6171

AMEGY BANK NATIONAL ASSOCIATION

By:
/s/ Lisa Armstrong

Lisa Armstrong, Vice President

Address for Notices:

1807 Ross Avenue, Suite 400

Dallas, TX 75201

Fax No.: (214) 754-6613

Telephone No.: (214) 754-9434

Attention: Lisa Armstrong

Lending Office for Base Rate Accounts and Eurodollar Accounts:

1807 Ross Avenue, Suite 400

Dallas, TX 75201

Fax No.: (214) 754-9652

Telephone No.: (214) 754-9501

Attention: Lisa Sulak

OBLIGATED PARTY CONSENT

Each Obligated Party (i) consents and agrees to this Third Amended and Restated Credit Agreement including, without limitation, Section 13.10 of this Third Amended and Restated Credit Agreement; (ii) agrees that the Guaranty, Subsidiary Security Agreement, and the Subsidiary Pledge Agreement to which it is a party shall remain in full force and effect and shall continue to be the legal, valid, and binding obligation of such Obligated Party enforceable against it in accordance with its terms; (iii) agrees that the "Obligations" as defined herein are "Obligations" as defined in the Guaranty; and (iv) agrees that any reference to the "Borrower" in the Guaranty, Subsidiary Security Agreement or Subsidiary Pledge Agreement shall mean Horizon Mental Health Management, Inc. as the "Borrower" hereunder successor by assumption to the obligations of the Parent.

OBLIGATED PARTIES:

MENTAL HEALTH OUTCOMES, INC.

HORIZON HEALTH PHYSICAL REHABILITATION SERVICES, INC.
(formerly Specialty Rehab Management, Inc.)

HHMC PARTNERS, INC.

HORIZON BEHAVIORAL SERVICES, INC.
(successor in interest by merger to Horizon Behavioral Services IPA, Inc., Horizon Behavioral Services of New Jersey, Inc., Horizon Behavioral Services of New York, Inc., and Horizon Behavioral Services of California, Inc.)

FLORIDA PSYCHIATRIC ASSOCIATES, LLC
(successor in interest by merger to Florida Psychiatric Associates, Inc.)

HORIZON BEHAVIORAL SERVICES OF FLORIDA, LLC (as successor in interest by merger to Horizon Behavioral Services of Florida, Inc.)

HMHM OF TENNESSEE, INC.

OCCUPATIONAL HEALTH CONSULTANTS OF AMERICA, LLC (formerly Occupational Health Consultants of America, Inc.)

EMPLOYEE ASSISTANCE SERVICES, INC.

PROCARE ONE NURSES, LLC

EMPLOYEE ASSISTANCE PROGRAMS INTERNATIONAL, LLC (formerly Employee Assistance Programs International, Inc.)

HHC INDIANA, INC.

HHC OHIO, INC.

HHC POPLAR SPRINGS, INC.

By: /s/ John Pitts

Name: John Pitts

Authorized Officer for each Obligated Party

INDEX TO EXHIBITS

Exhibit	Description of Exhibit
A	Revolving Note
B	Assignment and Assumption
C	Compliance Certificate
D	Increased Commitment Supplement
E	Loan Change Notice
F	Letter of Credit Notice

INDEX TO SCHEDULES

Schedule	Description of Schedule
1.1(a)	Revolving Commitments
1.1(b)	Security Documents
7.6	Rights in Properties; Liens
7.14	List of Subsidiaries
9.1	Debt
9.2	Existing Liens
9.5	Existing Investments

EXHIBIT A
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Revolving Note

EXHIBIT A, Cover Page

FIFTH AMENDED AND RESTATED REVOLVING NOTE

Dallas, Texas _____, ____

$_____

FOR VALUE RECEIVED, the undersigned, HORIZON MENTAL HEALTH MANAGEMENT, INC., a Texas corporation ("Borrower") hereby promises to pay to the order of _____ ("Bank"), at the Principal Office of the Agent, in lawful money of the United States of America and in immediately available funds, the principal amount of _____ DOLLARS ($_____) or such lesser amount as shall equal the aggregate unpaid principal amount of the Loans made by Bank to Borrower under the Credit Agreement referred to below, on the dates and in the principal amounts provided in the Credit Agreement, and to pay interest on the unpaid principal amount of each such Loans, at such office, in like money and funds, for the period commencing on the date of such Loans until such Loan shall be paid in full, at the rates per annum and on the dates provided in the Credit Agreement.

Borrower hereby authorizes Bank to record in its records the amount of each Loan and Type of Accounts established under each Loan and all Continuations, Conversions and payments of principal in respect thereof, which records shall, in the absence of manifest error, constitute *prima facie* evidence of the accuracy thereof; provided, however, that the failure to make such notation with respect to any such Loan or payment shall not limit or otherwise affect the obligations of Borrower under the Credit Agreement or this Revolving Note.

This Revolving Note is one of the Revolving Notes referred to in the Third Amended and Restated Credit Agreement dated as of June 10, 2005, among Borrower, Horizon Health Corporation, Bank, the other banks and lending institutions named therein and JPMorgan Chase Bank, N.A., as agent for Bank and such other banks and lending institutions ("Agent") (such Credit Agreement, as the same may be amended or otherwise modified from time to time, being referred to herein as the "Credit Agreement"), and evidences the Loans made by Bank thereunder. The Credit Agreement, among other things, contains provisions for acceleration of the maturity of this Revolving Note upon the happening of certain stated events and for prepayments of the Loans prior to the maturity of this Revolving Note upon the terms and conditions specified in the Credit Agreement. Capitalized terms used in this Revolving Note have the respective meanings assigned to them in the Credit Agreement.

This Revolving Note shall be governed by and construed in accordance with the laws of the State of Texas and the applicable laws of the United States of America.

Except for any notices expressly required by the Loan Documents, Borrower and each surety, guarantor, endorser and other party ever liable for payment of any sums of money payable on this Revolving Note jointly and severally waive notice, presentment, demand for payment, protest, notice of protest and non-payment or dishonor, notice of acceleration, notice of intent to accelerate, notice of intent to demand, diligence in collecting, grace and all other formalities of any kind, and consent to all extensions without notice for any period or periods of time and partial payments, before or after maturity, and any impairment of any collateral securing this Revolving Note, all without prejudice to the holder. The holder shall similarly have the right to deal in any way, at any time, with one or more of the foregoing parties without notice to any other party, and to grant any such party any extensions of time for payment of any of said indebtedness, or to release any such party or to release or substitute part or all of the collateral securing this Revolving Note, or to grant any other indulgences or forbearances whatsoever, without notice to any other party and without in any way affecting the personal liability of any party hereunder.

This Revolving Note amends, in their entirety, one or more of the Revolving Notes executed pursuant to the Second Credit Agreement (herein the "Prior Notes") to the extent such Prior Notes were payable to the Bank and/or to the extend the indebtedness evidenced thereby the Prior Notes has been assigned to the Bank. This Revolving Note evidences indebtedness previously evidenced by the Prior Notes. With respect to matters relating to the period prior to the date hereof, all provisions of the Prior Notes are hereby ratified and confirmed and shall remain in full force and effect.

HORIZON MENTAL HEALTH MANAGEMENT, INC.

By: _____

Name: _____

Title: _____

EXHIBIT B
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Assignment and Assumption

EXHIBIT B, Cover Page

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [*Insert name of Assignor*] (the "Assignor") and [*Insert name of Assignee*] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Agent as contemplated below (i) all of the Assignor' s rights and obligations in its capacity as a Bank under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including any letters of credit, guarantees, and swingline loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Bank) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor: _____

2. Assignee: _____

[and is an Affiliate/Approved Fund of [*identify Bank*][1]]

3. Borrower: Horizon Health Management, Inc.

4. Agent: JPMorgan Chase Bank, N.A., as the administrative agent under the Credit Agreement

5. Credit Agreement: Third Amended and Restated Credit Agreement dated as of May__, 2005 among Horizon Health Corporation, Horizon Health Management, Inc., the Banks parties thereto, and JPMorgan Chase Bank, N.A., as agent

[1] Select as applicable.

6. Assigned Interest:

Aggregate Amount of Revolving Commitments for all Banks	Amount of Revolving Commitment Assigned	Percentage Assigned of total Revolving Commitments[2]
$	$	%

Effective Date: _____ __, 20__ [TO BE INSERTED BY AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

[NAME OF ASSIGNOR]

By: _____

Name: _____

Title: _____

[NAME OF ASSIGNEE]

By: _____

Name: _____

Title: _____

Address for Notices:

Telecopy No.: _____

Telephone No. _____

Lending Office for Base Rate Accounts

Lending Office for Eurodollar Accounts

[2] Set forth, to at least 9 decimals, as a percentage of the Revolving Commitments of all Banks thereunder.

ACCEPTED BY:

JPMORGAN CHASE BANK, N.A.,[3]
as Agent

By: _____

Name:

_____

Title:

_____

HORIZON MENTAL HEALTH MANAGEMENT,
INC., as Borrower[4]

By: _____

Name:

_____

Title:

_____

[3] To be added only if the consent of the Agent is required by the terms of the Credit Agreement.

[4] To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

Horizon Health Management, Inc.
Third Amended and Restated Credit Agreement

STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Parent, the Borrower, any of the Parent' s Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Parent, the Borrower, any of the Parent' s Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Bank under the Credit Agreement, (ii) it satisfies the requirements, if any, specified in the Credit Agreement that are required to be satisfied by it in order to acquire the Assigned Interest and become a Bank, (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Bank thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Bank thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements referred to in Section 7.2 or delivered pursuant to Section 8.1 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Agent or any other Bank, and (v) if it is a foreign Bank, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Agent, the Assignor or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Bank.

2. Payments. From and after the Effective Date, the Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of Texas.

ANNEX I to Assignment and Assumption, Solo Page

EXHIBIT C
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Compliance Certificate

EXHIBIT C, Cover Page

COMPLIANCE CERTIFICATE
for the
Fiscal Quarter ending _____ ____, _____

To: JPMorgan Chase Bank, N.A.
P.O. Box 660197
Dallas, Texas 75266-0197
Fax No.: (972) 888-7837
Telephone No.: (972) 888-7802
Attention: Brian McDougal

Ladies and Gentlemen:

This Compliance Certificate (the "Certificate") is being delivered pursuant to Section 8.1(c) of that certain Third Amended and Restated Credit Agreement (as amended, the "Agreement") dated as of June 10, 2005, among the Horizon Health Corporation ("Parent"), Horizon Mental Health Management, Inc. ("Borrower"), the banks and lending institutions named therein (the "Banks") and JPMorgan Chase Bank, N.A., as agent for the Banks ("Agent"). All capitalized terms, unless otherwise defined herein, shall have the same meanings as in the Agreement. All the calculations set forth below shall be made pursuant to the terms of the Agreement.

The undersigned, as an authorized financial officer of Parent, and not individually, does hereby certify to the Agents and the Banks that:

1. **DEFAULT.**

No Default has occurred and is continuing or if a Default has occurred and is continuing, I have described on the attached Exhibit A the nature thereof and the steps taken or proposed to remedy such Default.

2. **SECTION 8.1 - Financial Statements and Records**

(a) Annual audited financial statements of Parent and the Subsidiaries on or before ninety (90) days after the end of each Fiscal Year.

Yes No N/A

(b) Quarterly unaudited financial statements of Parent and the Subsidiaries within forty-five (45) days after the end of each Fiscal Quarter.

Yes No N/A

(c) Financial Projections of Parent and Subsidiaries within forty-five (45) days after the beginning of each Fiscal Year.

Yes No N/A

3. **SECTION 8.10(d) - Restricted Group Members**

EBITDA for the Restricted Group Members for the most recently completed four Fiscal Quarter period not to exceed 12.5% of line 9(f) (*such percentage may increase to 15% or 20% depending on the Borrower's election to amend Section 10.3*):

$_____

Actual EBITDA for the Restricted Group Members for the most recently completed four Fiscal Quarter period:

$_____ Yes No

4. **SECTION 9.1 - Debt**

(a) Purchase money not to exceed:

$5,000,000

Actual Outstanding:

$_____ Yes No

(b) Guarantees of surety, appeal bonds, *etc.* not to exceed:

$1,000,000

Actual Outstanding:

$_____ Yes No

(c) Aggregate Debt of newly acquired or merged Subsidiaries not to exceed:

Capital Lease Obligations

$10,000,000

Actual Outstanding:

$_____ Yes No

Other Debt:

$5,000,000

Actual Outstanding:

$_____ Yes No

(d) Debt owing from Restricted Group Members *plus* Investments in Restricted Group Members may not exceed 20% of line 8(f)

$_____

Actual Outstanding:

$_____ Yes No

(e) Other Debt not to exceed:

$5,000,000

Actual Outstanding:

$_____ Yes No

5. **SECTION 9.5 - Investments**

(a) Aggregate amount of loans to physicians employed by a Subsidiary not to exceed (calculated net of bad debt reserve):

$500,000

Actual Outstanding:

$_____ Yes No

(b) Aggregate amount of investments in Insights in addition to the Purchase Price paid for Insights not to exceed:

$1,000,000

Actual Aggregate Amount:

$_____ Yes No

(c) Aggregate amount of initial capital contribution made to Friends LP not to exceed without being included in line 4(d)

$17,500,000

Actual Aggregate Amount:

$_____ Yes No

6. **SECTION 9.8 - Asset Dispositions**

(a) Aggregate book value of assets disposed during current Fiscal Year not to exceed:

$2,500,000

(b) Total book value of asset dispositions not otherwise permitted for the current Fiscal Year:

$_____ Yes No

7. **SECTION 9.11 - Prepayment of Debt**

(a) Aggregate amount of Debt, other than the Obligations, prepaid or optionally redeemed during period from the Closing Date to the Revolving Termination Date not to exceed:

$2,500,000

(b) Total amount of Debt, other than the Obligations, prepaid or optionally redeemed:

$_____ Yes No

8. **SECTION 10.1 – Consolidated Net Worth**

(a) Base Consolidated Net Worth

$_____

(b) Cumulative positive Net Income since 2/28/05 Fiscal Quarter end

$_____

(c) 50% of 8(b)

$_____

(d) Aggregate amount of net cash proceeds or other Capital Contribution to Parent since 2/28/05

$_____

(e) Required Consolidated Net Worth:
8(a) plus 9(c) plus 8(d)

$_____

(f) Actual Consolidated Net Worth

$_____ Yes No

9. **Section 10.2 – Fixed Charge Coverage**

(a) Parent and the Subsidiaries' Consolidated Net Income for last four Fiscal Quarters (from Schedule 1)

$_____

(b) Plus provisions for tax

$_____

(c) less benefit from tax

$_____

(d) Plus interest expense

$_____

(e) Plus amortization and depreciation

$_____

(f) Parent and the Subsidiaries' EBITDA:
(9(a) plus 9(b) minus 9(c) plus 9(d) plus 9(e)) $_____

(g) provisions for taxes

$_____

(h) plus benefit from taxes

$_____

(i) minus cash dividends and other distributions made on account of the Parent' s capital stock

$_____

(j) Cash Flow
(10(g) plus 9(h) minus 9(g) minus 9(i)) $_____

(k) Fixed Charges

(i) Cash interest expense for last four Fiscal Quarters
$_____

(ii) as of each date of determination, the current maturities of long term debt reflected on Parent' s consolidated balance sheet
$_____

(iii) 4/5 of the outstanding Loans (excluded beginning August 31, 2009 and each Fiscal Quarter thereafter)
$_____

(iv) Aggregate amount of Capital Expenditures for last four Fiscal Quarters
$_____

(v) Payments made pursuant to Capital Lease Obligations for last four Fiscal Quarters
$_____

(vi) Payments made with respect to deferred purchase price and performance obligations for last four Fiscal Quarters
$_____

(vi) Sum of 9(k)(i)+(ii)-(iii)+(iv)+(v)+(vi)
$_____

(l) Actual Fixed Charge Coverage (9(j) : 9(k)(vi))=
_____:1.00

(m) Minimum Fixed Charge Coverage
1.25:1.00 Yes No

10. **SECTION 10.3 – Indebtedness to Adjusted EBITDA**

(a) Debt for borrowed money

$_____

(b) Debt evidenced by bonds, notes, *etc*.

$_____

(c) Capital Lease Obligations

$_____

(d) Reimbursement obligations for letters of credit

$_____

(e) Amount payable with respect to all deferred purchase price and performance obligations

$_____

(f) Sum of 10(a) through 10(e)

$_____

(g) Actual EBITDA (from 9(f))

$_____

(h) Prior Period/Prior Target EBITDA; provided that, the EBITDA for a Prior Target will not be included unless it can be established in a manner satisfactory to Agent based on financial statements of the Prior Target prepared in accordance with GAAP without adjustment for expense or other charges that will be eliminated after the acquisition;

$_____

(i) Adjusted EBITDA (10(g) plus 10(h))

$_____

(j) 10(f) : 10(i)

____:1.00

(k) Maximum Indebtedness to Adjusted EBITDA allowed by Credit Agreement (*such ratio may decrease to 2.75:1.00 or 2.50:1:00 depending on the Borrower's election under Section .8.10(d)*):

3.00:1.00 Yes No

11. **SECTION 10.4 – Managed Care Contracts**

(a) Gross revenue during the immediately preceding 12 month period from contracts providing exclusively for managed care

$_____

(b) Gross revenue during the immediately preceding 12 month period from the managed care portions of contracts providing for employee assistance services and managed care

$_____

(c) Total Managed Care Gross Revenue (11(a) plus (11(b))

$_____

(d) Total Gross Revenue during such 12 month period

$_____

(e) 25% of 11(d)

$_____

(f) Maximum Permitted Gross Revenue from Managed Care Contracts

11(c) > 11(e) Yes No

13. **ATTACHED SCHEDULES**

Attached hereto as schedules are the calculations supporting the computation set forth above in this Certificate. All information contained herein and on the attached schedules is true and correct.

14. **FINANCIAL STATEMENTS**

The unaudited financial statements attached hereto were prepared in accordance with GAAP (excluding footnotes) and fairly present (subject to year end audit adjustments) the financial conditions and the results of the operations of the Persons reflected thereon, at the date and for the periods indicated therein.

15. **CREATION OF SUBSIDIARIES**.

Since the delivery of the last Compliance Certificate, the Obligated Parties have created the following Subsidiaries each of which has been designated as an Acquisition Subsidiary, a Restricted Group Member or both.

16. **CONFLICT**

In the event of any conflict between the definitions or covenants contained in the Credit Agreement and as they may be interpreted or abbreviated in the Compliance Certificate, the Credit Agreement shall control.

17. **REPRESENTATION AND WARRANTY**

The undersigned, as an authorized financial officer of Parent, and not individually, does hereby represent and warrant to the Agents and the Banks that the expenses or other charges excluded from the calculation of the EBITDA of Warm Springs Rehabilitation Foundation, Inc. as permitted by Section 11.4 of the Credit Agreement will be or have been eliminated in conjunction with the acquisition by the Warm Springs Purchaser of certain assets of Warm Springs Rehabilitation Foundation, Inc.

IN WITNESS WHEREOF, the undersigned has executed this Certificate effective this _____ day of _____, _____.

HORIZON HEALTH CORPORATION

By: _____

Name:

_____

Title:

_____

Schedule 1
to
Compliance Certificate

Parent Consolidated Net Income
for period _____ to _____

1. GAAP consolidated net income for Parent (the "Subject Person") excluding the following (to the extent included): $_____

(a) extraordinary gains or losses or nonrecurring revenue or expenses _____

(b) gains on sale of securities _____

(c) losses on sale of securities _____

(d) any gains or losses in respect of the write-up of any asset at greater than original cost or write-down at less than original cost; _____

(e) any gains or losses realized upon the sale or other disposition of property, plant, equipment or intangible assets which is not sold or otherwise disposed of in the ordinary course of business; _____

(f) any gains or losses from the disposal of a discontinued business; _____

(g) any net gains or losses arising from the extinguishment of any debt; _____

(h) any restoration to income of any contingency reserve for long term asset or long term liabilities, except to the extent that provision for such reserve was made out of income accrued during such period; _____

(i) the cumulative effect of any change in an accounting principle on income of prior periods; _____

(j) any deferred credit representing the excess of equity in any acquired company or assets at the date of acquisition over the cost of the investment in such company or asset; _____

(k) the income from any sale of assets in which the book value of such assets prior to their sale had been the book value inherited; _____

(l) the income (or loss) of any Person (other than a subsidiary) in which the Subject Person or a subsidiary has an ownership interest; provided, however, that (i) Consolidated Net Income shall include amounts in respect of the income of such Person when actually received in cash by the Subject Person or such subsidiary in the form of dividends or similar distributions and (ii) Consolidated Net Income shall be reduced by the aggregate amount of all investments, regardless of the form thereof, made by the Subject Person or any of its subsidiaries in such Person for the purpose of funding any deficit or loss of such Person; _____

(m) the income of any subsidiaries to the extent the payment of such income in the form of a distribution or repayment of any Debt to the Subject Person or a Subsidiary is not permitted, whether on account of any restriction in by-laws, articles of incorporation or similar governing document, any agreement or any law, statute, judgment, decree or governmental order, rule or regulation applicable to such Subsidiary; _____

(n) any reduction in or addition to income tax expense resulting from an increase or decrease in a deferred income tax asset due to the anticipation of future income tax benefits; _____

(o) any reduction in or addition to income tax expense due to the change in a statutory tax rate resulting in an increase or decrease in a deferred income tax asset or in a deferred income tax liability; _____

(q) any gains or losses attributable to returned surplus assets of any pension-benefit plan or any pension credit attributable to the excess of (i) the return on pension-plan assets over (ii) the pension obligation' s service cost and interest cost; _____

(p) the income or loss of any Person acquired by the Subject Person or a subsidiary for any period prior to the date of such acquisition; _____

(q) the income from any sale of assets in which the accounting basis of such assets had been the book value of any Person acquired by the Subject Person or a subsidiary prior to the date such Person became a subsidiary or was merged into or consolidated with the Subject Person or a subsidiary; _____

(r) One‑time loss relating to reorganization of certain employees, locations and services of Employee Assistance Programs International, LLC in an amount not to exceed $3,000,000; and _____

(s) any non-cash expense attributable to the expensing of stock option programs of such Person; provided, however, that Consolidated Net Income shall be reduced by the aggregate amount of cash payments made by such Person during any period for the purpose of funding any such expense. _____

TOTAL:

$

SCHEDULE 1 to Compliance Certificate, Page 2

EXHIBIT D
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Increased Commitment Supplement

EXHIBIT D, Cover Page

INCREASED COMMITMENT SUPPLEMENT

This INCREASED COMMITMENT SUPPLEMENT (this "Supplement") is dated as of _____, 200_ and entered into by and among HORIZON HEALTH CORPORATION, a corporation duly organized and validly existing under the laws of the State of Delaware ("Parent"), HORIZON MENTAL HEALTH MANAGEMENT, INC., a corporation duly organized and validly existing under the laws of the State of Texas ("Borrower"), each of the banks or other lending institutions which is or which may from time to time become a signatory hereto or any successor or assignee thereof (individually, a "Bank" and, collectively, the "Banks") and JPMORGAN CHASE BANK, N.A. (formerly known as JPMorgan Chase Bank, who was the successor in interest by merger to The Chase Manhattan Bank, who was the successor in interest by merger to the Chase Bank of Texas, National Association, who was formerly known as Texas Commerce Bank National Association), individually as a Bank and as agent for itself and the other Banks (in its capacity as agent, together with its successors in such capacity, the "Agent") and is made with reference to that certain Third Amended and Restated Credit Agreement dated as of June 10, 2005, (as amended, the "Credit Agreement"), by and among the Parent, the Borrower, the Banks and the Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS**,** pursuant to Section 2.6(b) of the Credit Agreement, the Borrower and the Banks are entering into this Increased Commitment Supplement to provide for the increase of the aggregate Revolving Commitments;

WHEREAS, each Bank [party hereto and already a party to the Credit Agreement] wishes to increase its Revolving Commitments [, and each Bank, to the extent not already a Bank party to the Credit Agreement (herein a "New Bank"), wishes to become a Bank party to the Credit Agreement];[5]

WHEREAS**,** the Banks are willing to agree to supplement the Credit Agreement in the manner provided herein.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

Section 1. Increase in Commitments. Subject to the terms and conditions hereof, each Bank severally agrees that its Revolving Commitment shall be increased to [or in the case of a New Bank, shall be] the amount set forth opposite its name on the signature pages hereof.

Section 2. [New Banks. Each New Bank (i) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered under Section 8.1 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Supplement; (ii) agrees that it will, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (iv) agrees that it is a "Bank" under the Credit Agreement and will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Bank; and

[5] Bracketed alternatives should be included if there are New Banks.

(v) attaches executed counterparts of any U.S. Internal Revenue Service or other forms required under Section 4.10.]

Section 3. New Notes. To the extent requested pursuant to Section 2.2 of the Credit Agreement, Borrower agrees to execute and deliver to each Bank a new Revolving Note in the amount of such Bank' s Revolving Commitment after giving effect to this Supplement, each such Revolving Note payable to a Bank already party to the Credit Agreement to be delivered in modification of, but not in extinguishment of the indebtedness evidenced by, the Revolving Note previously payable to such Bank (each herein a "Prior Note"). Each of the parties hereto hereby acknowledges and agrees that each such new Revolving Note is a Revolving Note for all purposes under the Credit Agreement and the other Loan Documents and that the loans evidenced by such Revolving Notes shall constitute Loans for all purposes under the Credit Agreement and the other Loan Documents. Each Bank agrees to return to Borrower the Prior Note payable to such Bank (if any) upon its receipt of a new Revolving Note under the terms of this Section 3.

Section 4. Conditions to Effectiveness. Section 1 and 2 of this Supplement shall become effective only upon the satisfaction of the condition precedent that the Agent shall have received on or before the effective date hereof (the "Effective Date") all of the following, each dated (unless otherwise indicated) the date hereof, in form and substance satisfactory to the Agent:

(a) Resolutions. Resolutions of the Board of Directors of Borrower certified by its Secretary or an Assistant Secretary which authorize the execution, delivery, and performance by Borrower of this Supplement and the Revolving Notes executed pursuant hereto or a certification that the resolutions have not changed since the certified copies were delivered at closing;

(b) Incumbency Certificate. A certificate of incumbency certified by the Secretary or an Assistant Secretary of Borrower certifying the name of each officer of Borrower who is authorized to sign this Supplement and the Revolving Notes executed pursuant hereto (including the certificates contemplated herein) together with specimen signatures of each such officer;

(c) Certificate of Incorporation. The certificate of incorporation of Borrower certified by the Secretary of State of the state of incorporation of Borrower and dated a current date or a certification that the certificate of incorporation has not changed since the certified copies were delivered at closing;

(d) Bylaws. The bylaws of Borrower certified by the Secretary or an Assistant Secretary of Borrower or a certification that the bylaws have not changed since the certified copies were delivered at closing;

(e) Governmental Certificates. Certificates of the appropriate government officials of the state of incorporation of Borrower as to the existence and good standing of Borrower, each dated a current date;

(f) Revolving Notes. The Revolving Notes required to be executed by Borrower pursuant hereto; and

(g) Attorneys' Fees and Expenses. Evidence that the costs and expenses (including reasonable attorney' s fees) referred to in Section 13.1 of the Credit Agreement, to the extent incurred, shall have been paid in full by the Borrower.

Section 5. Representations and Warranties. In order to induce the Banks to enter into this Supplement and to supplement the Credit Agreement in the manner provided herein, Borrower and Parent each represent and warrant to Agent and each Bank that (a) this Supplement and the Revolving Notes executed pursuant hereto are Loan Documents as defined in the Credit Agreement; (b) the representations

and warranties of Borrower and Parent contained in Article VII of the Credit Agreement are true and correct; provided, however, that the reference in Section 7.2 of the Credit Agreement, to financial statements will be deemed for purposes of this Supplement to refer to the most recent year end and interim financial statements delivered to Agent pursuant to Section 8.1 of the Credit Agreement; (c) no event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Supplement that would constitute a Default; and (d) AS OF THE DATE OF ITS EXECUTION OF THIS SUPPLEMENT THERE ARE NO CLAIMS OR OFFSETS AGAINST OR DEFENSES OR COUNTERCLAIMS TO ITS OBLIGATIONS UNDER THE LOAN DOCUMENTS AND IN ACCORDANCE THEREWITH, IT WAIVES ANY AND ALL SUCH CLAIMS, OFFSETS, DEFENSES OR COUNTERCLAIMS, WHETHER KNOWN OR UNKNOWN, ARISING PRIOR TO THE DATE OF ITS EXECUTION OF THIS SUPPLEMENT. PARENT, BORROWER AND EACH OTHER OBLIGATED PARTY (BY ITS EXECUTION OF THIS AGREEMENT BELOW), REPRESENTS AND WARRANTS THAT AS OF THE DATE HEREOF THERE ARE NO CLAIMS OR OFFSETS AGAINST OR DEFENSES OR COUNTERCLAIMS TO ITS OBLIGATIONS UNDER THE LOAN DOCUMENTS. TO INDUCE AGENT AND THE BANKS TO ENTER INTO THIS SUPPLEMENT, PARENT, BORROWER AND EACH OTHER OBLIGATED PARTY WAIVES ANY AND ALL CLAIMS, OFFSETS, DEFENSES OR COUNTERCLAIMS, WHETHER KNOWN OR UNKNOWN, ARISING PRIOR TO THE DATE HEREOF AND HEREBY RELEASES AGENT AND THE BANKS AND THEIR OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, AND ATTORNEYS (COLLECTIVELY THE "RELEASED PARTIES") FROM ANY AND ALL OBLIGATIONS, INDEBTEDNESS, LIABILITY, CLAIMS, RIGHTS, CAUSES OF ACTION OR DEMANDS WHATSOEVER, WHETHER KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED WHICH PARENT, BORROWER OR ANY OTHER OBLIGATED PARTY EVER HAD, NOW HAS, CLAIMS TO HAVE OR MAY HAVE AGAINST ANY RELEASED PARTY ARISING PRIOR TO THE CLOSING DATE AND FROM OR IN CONNECTION WITH THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY.

Section 6. Effect of Supplement. The terms and provisions set forth in this Supplement shall modify and supersede all inconsistent terms and provisions set forth in the Credit Agreement and except as expressly modified and superseded by this Supplement, the terms and provisions of the Credit Agreement and the other Loan Documents are ratified and confirmed and shall continue in full force and effect. Borrower, Parent, the Agent, and the Banks party hereto agree that the Credit Agreement as supplemented hereby and the other Loan Documents shall continue to be legal, valid, binding and enforceable in accordance with their respective terms. Each of the Loan Documents, including the Credit Agreement and any and all other agreements, documents, or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Credit Agreement as supplemented hereby, are hereby amended so that any reference in such Loan Documents to the Agreement shall mean a reference to the Agreement as amended hereby.

Section 7. Fees and Expenses. Borrower acknowledges that all costs, fees and expenses as described in Section 13.1 of the Credit Agreement incurred by the Agent and its counsel with respect to this Supplement and the documents and transactions contemplated hereby shall be for the account of Borrower.

Section 8. Applicable Law. This Agreement and the Revolving Notes executed pursuant hereto shall be governed by, and construed in accordance with, the laws of the State of Texas.

Section 9. Counterparts, Effectiveness. This Supplement may be executed in any number of counterparts, by different parties hereto in separate counterparts and on telecopy counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the

same document. This Supplement (other than the provisions of Sections 1 and 2 hereof, the effectiveness of which is governed by Section 4 hereof) shall become effective upon the execution of a counterpart hereof by Borrower, Parent, the Banks and receipt by Borrower and the Agent of written or telephonic notification of such execution and authorization of delivery thereof.

Section 10. ENTIRE AGREEMENT. THIS SUPPLEMENT AND ALL OTHER INSTRUMENTS, DOCUMENTS AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS SUPPLEMENT EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS SUPPLEMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO.

Section 11. Survival. All representations and warranties made in this Supplement or any other Loan Document including any Loan Document furnished in connection with this Supplement shall survive the execution and delivery of this Supplement and the other Loan Documents, and no investigation by Agent or any Bank or any closing shall affect the representations and warranties or the right of Agent or any Bank to rely upon them.

IN WITNESS WHEREOF**,** the parties hereto have caused this Supplement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

HORIZON HEALTH CORPORATION

HORIZON MENTAL HEALTH MANAGEMENT, INC.

By: _____

Name: _____

Title: _____

JPMORGAN CHASE BANK, N.A. (formerly known as JPMorgan Chase Bank who was the successor in interest by merger to The Chase Manhattan Bank, who was successor in interest by merger to the Chase Bank of Texas, National Association who was formerly know as Texas Commerce Bank National Association), individually as a Bank and as Agent

By: _____

Name: _____

Title:

_____

[BANK],

New Total Revolving Commitment:

$_____

By: _____

Name: _____

Title: _____

[NEW BANK],

New Total Revolving Commitment:

$_____

By: _____

Name: _____

Title: _____

EXHIBIT E
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Loan Change Notice

EXHIBIT E, Cover Page

LOAN CHANGE NOTICE

JPMorgan Chase Bank, N.A., as Agent
2200 Ross Avenue
5th Floor
Dallas, Texas 75201

Ladies and Gentlemen:

This Loan Change Notice (the "Notice") is being delivered pursuant to Section 4.3 of that certain Third Amended and Restated Credit Agreement (as amended, the "Agreement") dated as of June 10, 2005, among the Horizon Health Corporation ("Parent"), Horizon Mental Health Management, Inc. ("Borrower"), the banks and lending institutions named therein (the "Banks"), and JPMorgan Chase Bank, N.A., as agent for the Banks ("Agent"). All capitalized terms, unless otherwise defined herein, shall have the same meanings as in the Agreement. All the calculations set forth below shall be made pursuant to the terms of the Agreement.

The undersigned, as an authorized officer of Borrower, and not individually, does hereby give to the Agent and the Banks notice that it requests [check and complete whichever is applicable]:

☐ The Revolving Commitments be terminated;

☐ A reduction of the Revolving Commitments in the aggregate amount of $_____[6] be made;

☐ The Banks make an advance under the Revolving Commitments on _____ (which is a Business Day) in an aggregate amount equal to _____ and upon the terms set forth below:

Account	**Amount**[7]	
Base Rate	$_____	
		Interest Period[8]
Eurodollar	$_____	_____ Months
	$_____	_____ Months
	$_____	_____ Months
	$_____	_____ Months
	$_____	_____ Months
	$_____	_____ Months

6 Not less than $3,000,000.

7 Not less than $500,000 (and in integral multiples of $100,000) if a Base Rate Account, or not less than $1,000,000 (and in integral multiples of $100,000) if a Eurodollar Account, and not greater than the Revolving Commitments then available.

8 Which shall be subject to the definition of "Interest Period" and end not later than the Revolving Termination Date.

☐ A [Continuation] [Conversion] [prepayment] under the Agreement on _____ (which is a Business Day) and upon the terms set forth below:

Account	Amount	Interest Period[10]
Base Rate	$_____	
Eurodollar	$_____	_____ Months
	$_____	_____ Months
	$_____	_____ Months
	$_____	_____ Months
	$_____	_____ Months
	$_____	_____ Months

Borrower certifies that on the date hereof: (a) all of the representations and warranties contained in Article VII of the Agreement and in the other Loan Documents are true and correct on and as of the date of such reduction, termination, borrowing, Conversion, Continuation, or prepayment, as applicable, with the same force and effect as if such representations and warranties had been made on and as of such date except to the extent that such representations and warranties relate specifically to another date and (b) no default shall have occurred and be continuing, or result from such reduction, termination, borrowing, Conversion, Continuation, or prepayment, as applicable.

IN WITNESS WHEREOF, the undersigned has executed this Notice effective this _____ day of _____, ____.

HORIZON MENTAL HEALTH MANAGEMENT, INC.

By: _____

Name: _____

Title: _____

[9] Not less than $500,000 (and in integral multiples of $100,000) if a Base Rate Account or prepayment, or not less than $1,000,000 (and in integral multiples of $100,000) if a Eurodollar Account, and not greater than the Revolving Commitments then available.

[10] Which shall be subject to the definition of "Interest Period" and end not later than the Revolving Termination Date. Loans subject to a Eurodollar Account may be prepaid or repaid only on the last day of the Interest Period applicable thereto unless the requirements of Section 4.4 of the Agreement are satisfied.

EXHIBIT F

TO

HORIZON HEALTH CORPORATION

THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Letter of Credit Notice

EXHIBIT F, Cover Page

LETTER OF CREDIT NOTICE

JPMorgan Chase Bank, N.A., as Agent
2200 Ross Avenue
5th Floor
Dallas, Texas 75201

Ladies and Gentlemen:

This Letter of Credit Notice (the "Notice") is being delivered pursuant to Section 2.7(b) of that certain Third Amended and Restated Credit Agreement (as amended, the "Agreement") dated as of June 10, 2005, among the Horizon Health Corporation ("Parent"), Horizon Mental Health Management, Inc. ("Borrower"), the banks and lending institutions named therein (the "Banks"), and JPMorgan Chase Bank, N.A., as agent for the Banks ("Agent"). All capitalized terms, unless otherwise defined herein, shall have the same meanings as in the Agreement. All the calculations set forth below shall be made pursuant to the terms of the Agreement.

The undersigned, as an authorized officer of Borrower, and not individually, does hereby give to the Agent and the Banks notice that it requests [check and complete whichever is applicable]:

☐ That Letter of Credit number _____ in the face amount of $_____ issued in favor of _____ to expire on _____ be [amended] [renewed] [extended] on _____ (which shall be a Business Day) upon the terms set forth below:

Beneficiary (name and address)	LC #	Face Amount	Expiration Date[11]

☐ The Issuing Bank Issue a Letter of Credit on _____ (which is a Business Day) upon the terms set forth below:

Beneficiary (name and address)	LC #	Face Amount	Expiration Date[12]

Borrower certifies that on the date hereof: (a) all of the representations and warranties contained in Article VII of the Agreement and in the other Loan Documents are true and correct on and as of the date of such issuance, amendment, renewal, or extension, as applicable, with the same force and effect as if such representations and warranties had been made on and as of such date except to the extent that such representations and warranties relate specifically to another date; (b) no default shall have occurred and be continuing, or result from such issuance, amendment, renewal, or extension, as applicable; and(c) after giving affect to such issuance, amendment, renewal, or extension, as applicable, the LC Exposure does not exceed Twenty-Five Million dollars ($25,000,000) and the sum of the Revolving Exposures does not exceed the aggregate amount of the Revolving Commitments.

[11] Which shall expire on the date approved by the Issuing Bank or at or prior to the close of business on the earlier of (a) the date one year after the renewal or extension of such Letter of Credit and (b) the date that is five Business Days prior to the Revolving Termination Date

[12] Which shall expire on the date approved by the Issuing Bank or at or prior to the close of business on the earlier of (a) the date one year after the issuance of such Letter of Credit and (b) the date that is five Business Days prior to the Revolving Termination Date

IN WITNESS WHEREOF, the undersigned has executed this Notice effective this _____ day of _____, ____.

HORIZON MENTAL HEALTH MANAGEMENT, INC.

By: _____

Name: _____

Title: _____

SCHEDULE 1.1(a)
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Revolving Commitments

BANK	AMOUNT
1. JPMorgan Chase Bank, N.A.	$25,000,000.00
2. Bank of America, National Association	$25,000,000.00
3. Wells Fargo Bank Texas, National Association	$25,000,000.00
4. KeyBank National Association	$25,000,000.00
5. Wachovia Bank, National Association	$15,000,000.00
6. Amegy Bank, National Association	$10,000,000.00
Total	$125,000,000.00

SCHEDULE 1.1(a), Solo Page

SCHEDULE 1.1(b)
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Security Documents

1. Security Agreement (Borrower) executed by Horizon Health Corporation and Agent, dated as of December 9, 1997.

2. Pledge and Security Agreement (Borrower) executed by Horizon Health Corporation and Agent, dated as of December 9, 1997:

a. Pledge Amendment dated as of June 1, 1998

b. Pledge Amendment dated as of August 1, 1998

c. Pledge Amendment dated as of July 3, 2002

3. Unconditional Guaranty Agreement executed by Horizon Mental Health Management, Inc., Mental Health Outcomes, Inc., HHG Colorado, Inc., Geriatric Medical Care, Inc., Specialty Rehab Management, Inc. (who is now Horizon Health Physical Rehabilitation Services, Inc.), Acorn Behavioral Healthcare Management Corporation, HHMC Partners, Inc., and Florida Professional Psychological Services, Inc., dated as of December 9, 1997

4. Parent Joinder Agreement dated as of November 15, 2000

5. Subsidiary Security Agreement dated as of December 9, 1997

6. First Amendment to Subsidiary Security Agreement dated as of November 15, 2000

7. Second Amendment to Subsidiary Security Agreement dated as of December 20, 2000

8. Acknowledgment and Reaffirmation dated as of August 25, 2003 evidencing Employee Assistance Programs International, LLC' s and Occupational Health Consultants of America, LLC' s continuing obligations under the Subsidiary Security Agreement and the Guaranty Agreement as required by the Credit Agreement

9. Pledge and Security Agreement of Horizon Mental Health Management, Inc., dated as of December 9, 1997

a. Pledge Amendment dated as of May 19, 1998

b. Pledge Amendment dated as of November 15, 2000

c. Pledge Amendment dated as of August 25, 2003

d. Pledge Amendment dated as of April 1, 2004

e. Pledge Amendment dated as of June 1, 2004

f. Pledge Amendment dated as of March 1, 2005

10. Pledge and Security Agreement of FPMBH of Texas, Inc., dated as of November 15, 2000

11. Subsidiary Joinder Agreement of FPM Behavioral Health, Inc., dated as of June 1, 1998 (name changed to Horizon Behavioral Services, Inc.)

12. Pledge and Security Agreement of FPM Behavioral Health, Inc., dated as of June 1, 1998 (name changed to Horizon Behavioral Services, Inc.)

a. Pledge Amendment dated as of September 10, 1998

b. Pledge Amendment dated as of November 15, 2000

c. Pledge Amendment dated as of December 20, 2001

d. Pledge Amendment dated as of February 28, 2002

e. Pledge Amendment dated as of November 12, 2002

f. Pledge Amendment dated as of August 25, 2003

13. Subsidiary Joinder Agreement of Arizona Psychiatric Affiliates, Inc., dated as of June 1, 1998 (merged into Florida Psychiatric Associates, Inc.)

14. Subsidiary Joinder Agreement of Florida Psychiatric Associates, Inc., dated as of June 1, 1998

15. Subsidiary Joinder Agreement of FPM/Hawaii, Inc., dated as of June 1, 1998 (merged into Horizon Behavioral Services, Inc.)

16. Subsidiary Joinder Agreement of Florida Psychiatric Management, Inc., dated as of June 1, 1998

17. Pledge and Security Agreement of Florida Psychiatric Management, Inc., dated as of June 1, 1998

18. Subsidiary Joinder Agreement of FPM of Louisiana, Inc., dated as of June 1, 1998 (merged into Horizon Behavioral Services, Inc.)

19. Subsidiary Joinder Agreement of FPM Management, Inc., dated as of June 1, 1998 (merged into Horizon Behavioral Services, Inc.)

20. Subsidiary Joinder Agreement of FPM of Ohio, Inc., dated as of June 1, 1998 (merged into Horizon Behavioral Services, Inc.)

21. Subsidiary Joinder Agreement of FPM of Utah, Inc., dated as of June 1, 1998 (merged into Horizon Behavioral Services, Inc.)

22. Subsidiary Joinder Agreement of FPM/Southeast, Inc., dated as of June 1, 1998 (merged into Horizon Behavioral Services, Inc.)

23. Subsidiary Joinder Agreement of FPM of West Virginia, Inc., dated as of June 1, 1998 (merged into Horizon Behavioral Services, Inc.)

24. Subsidiary Joinder Agreement of FPMBH of Arizona, Inc., dated as of June 1, 1998

25. Subsidiary Joinder Agreement of FPMBH Clinical Services, Inc., dated as of June 1, 1998 (merged into Florida Psychiatric Associates, Inc.)

26. Pledge and Security Agreement of FPMBH Clinical Services, Inc., dated as of June 1, 1998 (merged into Florida Psychiatric Associates, Inc.)

27. Subsidiary Joinder Agreement of FPMBH of Texas, Inc., dated as of June 1, 1998

28. Subsidiary Joinder Agreement of Horizon Behavioral Services-Colorado, Inc., and HMHM of Tennessee, Inc., dated as of November 15, 2000

29. Subsidiary Joinder Agreement of Occupational Health Consultants of America, Inc., Employee Assistance Services, Inc., and Resource EAP, Inc., dated as of December 20, 2001

30. Pledge and Security Agreement of Occupational Health Consultants of America, Inc., dated as of December 20, 2001

a. Pledge Amendment dated as of February 28, 2002

31. Subsidiary Joinder Agreement of Horizon Behavioral Services IPA, Inc., Horizon Behavioral Services of New Jersey, Inc., and Horizon Behavioral Services of New York, Inc.

32. Subsidiary Joinder Agreement of ProCare One Nurses, LLC dated as of July 3, 2002

33. Subsidiary Joinder Agreement of Employee Assistance Programs International, Inc., dated as of November 12, 2002

34. Subsidiary Joinder Agreement of Horizon Behavioral Services of Florida, LLC and Florida Psychiatric Associates, LLC dated as of August 25, 2003

35. Deed of Trust, Absolute Assignment of Rents, Security Agreement and Financing Statement executed by Horizon Health Corporation dated as of August 25, 2003, and recorded in Denton County, Texas on September 4, 2003, at Volume 5410, Page 1477, Instrument 147173

36. UCC-1 Fixture Financing Statement regarding Horizon Health Corporation recorded in Denton County, Texas on September 4, 2003, at Instrument Number 2003-R0147231

37. Deed of Trust, Absolute Assignment of Rents, Security Agreement and Financing Statement dated February 10, 2004, executed by Parent and filed in Denton County, Texas real estate records on February 25, 2004, at Instrument Number 2004-23470

38. UCC-1 Financing Statement filed against Parent with the Delaware Secretary of State covering the collateral described in the Deed of Trust (also covers real property described in Deed of Trust dated August 2003) on February 13, 2004, Instrument Number 40409716

39. UCC-1 Fixture Filing filed against Parent in the real property records of Denton County, Texas on February 18, 2004, Instrument Number 2004-20447

40. Subsidiary Joinder Agreement of HHC Indiana, Inc. dated as of April 1, 2004

41. Commercial Mortgage, Absolute Assignment of Rents, Security Agreement and Financing Statement covering the property located at 1800 North Oak Road, Plymouth, IN 46563, filed in the real property records of Marshall County, Indiana as Instrument No. 200402565 on April 5, 2004

42. UCC-1 Financing Statement filed against HHC Indiana, Inc. with the Indiana Secretary of State covering the collateral described in the Deed of Trust on April 5, 2004 at file number 200400003161704

43. UCC-1 Fixture Filing filed against HHC Indiana, Inc. in the real property records of Marshall County, Indiana on April 5, 2004 at file number U20040117

44. Subsidiary Joinder Agreement of HHC Poplar Springs, Inc. dated as of April 19, 2004

45. Deed of Trust, Absolute Assignment of Rents, Security Agreement and Financing Statement covering property located in the City of Petersburg, Virginia, filed in the real property records of the City of Petersburg, Virginia as Instrument No. 040002400 on June 1, 2004

46. UCC-1 Financing Statement filed against HHC Poplar Springs, Inc. with the Virginia Secretary of State covering the collateral described in the Deed of Trust on June 10, 2004, at File No. 04-06-10-7333-3

47. UCC-1 Fixture Financing Statement filed against HHC Poplar Springs, Inc. with the City of Petersburg, Virginia, File No. 31, on June 10, 2004

48. Subsidiary Joinder Agreement of HHC Ohio, Inc. dated as of March 1, 2005

SCHEDULE 7.6
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Rights in Properties; Liens

Owned Locations:

Name of Obligated Party	Street Address	City	State	Zip Code
Horizon Health Corporation	1500 Waters Ridge Drive	Lewisville	Texas	75057
Horizon Health Corporation	1550 Waters Ridge Drive	Lewisville	Texas	75057
HHC Indiana, Inc.	1800 N. Oak Road	Plymouth	Indiana	46563
HHC Poplar Springs, Inc.	350 Poplar Drive	Petersburg	Virginia	23805
HHC Poplar Springs, Inc.	240 Wagner Road	Petersburg	Virginia	23805
HHC Poplar Springs, Inc.	19103 White Oak Road	Sutherland	Virginia	23885

Real Property Descriptions:

Description for 1500 Waters Ridge Drive, Lewisville, Texas 75057

Being Lot 2D, in Block B, of WATERS RIDGE ADDITION, PHASE 1, an Addition to the City of Lewisville, Denton County, Texas, according to the Map thereof recorded in Cabinet L, Page 365, of the Plat Records of Denton County, Texas.

Description for 1550 Waters Ridge Drive, Lewisville, Texas 75057

Being Lot 2C, in Block B, of WATERS RIDGE ADDITION, PHASE 1, an Addition to the City of Lewisville, Denton County, Texas, according to the Map thereof recorded in Cabinet L, Page 365, of the Plat Records of Denton County, Texas.

Description for 1800 N. Oak Road, Plymouth, Indiana 46563

Beginning Five Hundred Fifty-six and zero hundredths (556.00') feet North 0°00' 00" East (record bearing) of the Southwest corner of the Northwest Quarter (NW 1/4) of Section 32, Township 34 North, Range 2 East, City of Plymouth, Marshall County, Indiana, on the West line of said Northwest Quarter (NW 1/4) (centerline of North Oak Road); thence South 65°37' 54" East One Hundred Twenty-six and forty-seven hundredths (126.47') feet; thence North 90°00' 00" East One thousand and sixty-four hundredths (1000.64') feet to the Southwesterly line of the Nickel Plate railroad right-of-way; thence North 46°18' 15" West Eight Hundred Seventy-one and fifty-eight hundredths (871.58') feet along said Southwesterly railroad right-of-way line; thence North 89°59' 29" West Four Hundred Eighty-five and sixty-eight hundredths (485.68') feet to said West line of the Northwest Quarter (NW 1/4) (centerline of North Oak Road); thence South 0°00' 00" West Five Hundred Fifty and zero hundredths (550.00') feet along said West line of the Northwest Quarter (NW 1/4) to the point of beginning, all in the

Southwest Quarter (SW 1/4) of the Northwest Quarter (NW 1/4) of Section 32, Township 34 North, Range 2 East, City of Plymouth, Marshall County, Indiana.

Description for 350 Poplar Drive Petersburg, Virginia 23805

Situated, lying and being all that certain piece or parcel of land located in the City of Petersburg, Virginia and being more particularly described as follows:

Commencing at point on the southern right of way line of Wagner Road and the southern right of way line of Poplar Drive, thence along the said right of way line of Poplar Drive South 81 degrees 25 minutes 00 seconds East a distance of 398.72 feet to a set rod, said rod being True Point And Place Of Beginning, thence continuing along said southern right of way line Poplar Drive South 81 degrees 25 minutes 00

SCHEDULE 7.6, Page 1

seconds East a distance of 350.91 feet to a found rod, thence leaving said right of way line South 20 degrees 09 minutes 21 seconds East a distance of 937.78 feet to a found pipe, said pipe lying on the northern right of way line of Seyler Drive, thence along said right of way line South 70 degrees 09 minutes 30 seconds West a distance of 100.00 feet to a found rod, thence leaving said right of way line of Seyler Drive North 19 degrees 45 minutes 06 seconds West a distance of 165.87 feet to a pipe found, thence South 70 degrees 00 minutes 27 seconds West a distance of 1135.70 feet to a rod found, thence North 23 degrees 27 minutes 15 seconds West a distance of 799.68 feet to a rod found, thence North 68 degrees 28 minutes 40 seconds East a distance of 24.04 feet to a found pipe, thence North 67 degrees 37 minutes 22 seconds East a distance of 224.81 feet to a found pipe, thence North 67 degrees 34 minutes 37 seconds East a distance of 379.25 feet to a found rod, thence South 81 degrees 25 minutes 00 seconds East a distance of 196.40 feet to a set rod, thence North 08 degrees 35 minutes 00 seconds East a distance of 93.66’ to a set rod, thence along a curve to the right having a radius of 1160.80 feet, an interior angle of 07 degrees 27 minutes 51 seconds, and arc length of 151.22 feet, a chord bearing of North 42 degrees 14 minutes 38 seconds East and a chord distance of 151.12 feet to a set rod, thence along a non tangent curve to the right having a radius of 50.00 feet, an interior angle of 69 degrees 14 minutes 59 seconds, an arc length of 60.43 feet, a chord bearing of North 26 degrees 09 minutes 24 seconds West and a chord distance of 56.82 feet to a set rod, said rod being True Point And Place Of Beginning, and containing 24.053 acres of land, more or less.

BEING a part of the same real estate conveyed to PSH Acquisition Corporation, a Virginia corporation, by deed from The Most Reverend Walter F. Sullivan, Bishop of the Catholic Diocese of Richmond, Virginia, dated June 22, 2002, recorded July 19, 2002, in the Clerk’ s Office, Circuit Court, City of Petersburg, Virginia, as Instrument No. 02-002739.

Description for 240 Wagner Road Petersburg, Virginia 23805

Situated, lying and being all that certain piece or parcel of land located in the City of Petersburg, Virginia and being more particularly described as follows:

Commencing at a point on the southern right of way line of Wagner Road and the southern right of way line of Poplar Drive, thence along the said right of way line of Poplar Drive South 81 degrees 09 minutes 46 seconds East a distance of 1241.46 feet to a found pipe, said pipe being True Point And Place Of Beginning, thence continuing along said southern right of way line Poplar Drive South 81 degrees 09 minutes 46 seconds East a distance of 230.10 feet to a found rod, thence South 77 degrees 50 minutes 06 seconds East a distance of 21.21 feet to a point, said point lying on the southwestern right of way line of Interstate 95, thence leaving the southern right of way line of Poplar Drive, and continuing along the said right of way line of Interstate 95 along a curve to the left having a radius of 465.00 feet, a length of 221.47 feet, an interior angle of 27 degrees 17 minutes 22 seconds, a chord bearing South 67 degrees 39 minutes 33 seconds East, a chord distance of 219.39 feet to a set rod, thence South 81 degrees 18 minutes 14 seconds East a distance of 188.43 feet to a found rod, thence along a curve to the right having a radius of 535.00 feet, a length 489.03 feet, an interior angle of 52 degrees 22 minutes 21 seconds, a chord bearing South 55 degrees 07 minutes 03 seconds East, a chord distance of 472.18 feet to a found rod, thence South 21 degrees 44 minutes 06 seconds East a distance of 480.11 feet to a found pipe, thence leaving said right of way line of Interstate 95 South 85 degrees 45 minutes 20 seconds West a distance of 815.63 feet to a found rod, thence South 85 degrees 44 minutes 24 seconds West a distance of 47.41 feet to a found pipe, thence North 20 degrees 08 minutes 42 seconds West a distance of 992.31 feet to a found pipe, said pipe being True Point And Place of Beginning, and containing 15.528 acres of land, more or less

BEING the same property conveyed to PSH Acquisition Corporation by deed from Poplar Springs Holding Company, Inc., dated February 14,1997, recorded February 14,1997, in the Clerk’ s Office, Circuit Court, City of Petersburg, Virginia, in Deed Book 567, page 262.

Description for 19103 White Oak Road Sutherland, Virginia 23885

Situated, lying and being all that certain piece or parcel of land located in the Rowanty District of Dinwidie County, Virginia and being more particularly described as follows:

Commencing at point at the intersection of the western right of way line of Boisseau Road and the southern right of way line of White Oak Road, thence along the said right of way line of White Oak Road in an easterly direction approximately 0.2 mile to a found rod, said rod being True Point And Place Of Beginning, thence continuing along said southern right of way line of White Oak Road North 81 degrees 29 minutes 05 seconds East a distance of 299.47 feet to a set rod, thence leaving said right of way line south 00 degrees 06 minutes 36 seconds West a distance of 1637.82 feet to a found pipe, thence North 84 degrees 58 minutes 14 seconds West a distance of 235.49 feet to a found rod, thence North 04 degrees 06 minutes 48 seconds East a distance of 269.00 feet to a set rod, thence North 03 degrees 17 minutes 33 seconds West a distance of 298.50 feet to a found 36 inch poplar tree, thence North 13 degrees 14 minutes 10 seconds West a distance of 234.04 feet to a found pipe, thence North 00 degrees 03 minutes 56 seconds West a distance of 778.55 feet to a found rod, said rod lying on the southern right of way line of White Oak Road and being the True Point and Place Of Beginning, and containing 9.711 acres of land more or less.

BEING the same real estate conveyed to HHC Poplar Springs, Inc., a Virginia corporation, by deed from PSH Acquisition Corporation, a Virginia corporation, dated June 1, 2004, recorded June 1, 2004, in the Clerk' s Office, Circuit Court, Dinwiddie County, Virginia, as Deed No. 04-2549.

SCHEDULE 7.6, Page 3

SCHEDULE 7.14
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

List of Subsidiaries

I. FIRST TIER SUBSIDIARIES

	Subsidiary	Parent	% Ownership	Type	Jurisdiction	Equity Type	Equity Authorized	Equity Issued and Outstanding
1.	Horizon Health Physical Rehabilitation Services, Inc.	Parent	100%	Corporation	Delaware	Common stock $.01 par value	10,000	9,494
2.	Horizon Mental Health Management, Inc. ("Borrower")	Parent	100%	Corporation	Texas	Common stock $.01 par value	1,000	1,000
3.	Horizon Behavioral Services, Inc. ("HBS")	Parent	100%	Corporation	Delaware	Common stock $.01 par value	1,000	1,000
4.	ProCare One Nurses, LLC	Parent	100%	Limited liability company	Delaware	Membership Interest	N/A	N/A

SECOND TIER SUBSIDIARIES

5.	HHMC Partners, Inc. ("HHMC")	Borrower	100%	Corporation	Delaware	Common stock $.10 par value	10,000	1,000
6.	Mental Health Outcomes, Inc.	Borrower	100%	Corporation	Delaware	Common stock $.01 par value	10,000	1,000
7.	HMHM of Tennessee, Inc.	Borrower	100%	Corporation	Tennessee	Common stock $.01 par value	10,000	1,000

	Subsidiary	Parent	% Ownership	Type	Jurisdiction	Equity Type	Equity Authorized	Equity Issued and Outstanding
8.	Florida Psychiatric Associates, LLC	HBS	100%	Limited liability company	Florida	Membership Interest	N/A	N/A
9.	Occupational Health Consultants of America, LLC ("OHCA")	HBS	100%	Limited liability company	Tennessee	Membership Interest	N/A	N/A
10.	HHC Indiana, Inc.	Borrower	100%	Corporation	Indiana	Common stock $1.00 par value	1,000	1,000
11.	HHC Poplar Springs, Inc.	Borrower	100%	Corporation	Virginia	Common stock $1.00 par value	1,000	1,000
12.	Horizon Behavioral Services of Florida, LLC	HBS	100%	Limited liability company	Florida	Membership Interest	N/A	N/A
13.	Health and Human Resource Center, Inc. d/b/a Integrated Insights	HBS	100%	Corporation	California	Common stock	10,000	1,000
14.	Employee Assistance Programs International, LLC	HBS	100%	Limited liability company	Colorado	Membership Interest	N/A	NA
15.	HHC Ohio, Inc. ("HHC Ohio")	Borrower	100%	Corporation	Ohio	Common stock $1.00 par value	1,000	1,000
16.	Friends GP, LLC ("FGP")	Borrower	100%*	Limited liability company	Pennsylvania	Membership Interest	N/A	N/A
17.	Friends Behavioral Health System, LP ("Friends LP")	Borrower/ FGP	99.9%/ 0.1%*	Limited Partnership	Pennsylvania	Limited Partner Interest/ General Partner Interest	N/A	N/A

	Subsidiary	Parent	% Ownership	Type	Jurisdiction	Type	Equity Authorized	Equity Issued and Outstanding
18.	HHC Pennsylvania, LLC	Borrower	100%	Limited liability company	Pennsylvania	Membership Interest	N/A	N/A
19.	HHC River Park, Inc.	Borrower	100%	Corporation	West Virginia	Common stock $1.00 par value	1,000	1,000
	II. THIRD TIER SUBSIDIARIES							
20.	AHG Partnership	HHMC	60%	General Partnership	Texas	General partner Interest	N/A	N/A
21.	Employee Assistance Services, Inc.	OHCA	100%	Corporation	Kentucky	Common stock No par value	2,000	100
22.	Laurelwood Associates Trust (“Trust”)	HHC Ohio	100%	Business Trust	Ohio	Beneficial trust interests	100	100
23.	Laurelwood Associates, Inc.	Trust	100%	Professional Corporation	Ohio	Common stock No par value	750	100

* Upon the closing of the transactions contemplated by the Friends Acquisition Agreement, Borrower will own an 80% membership interest in FGP and a 79.92% limited partner interest in Friends LP; FGP will continue to hold its 0.1% general partner interest in Friends LP.

SCHEDULE 9.1
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Debt

NONE.

SCHEDULE 9.1 – Debt, Solo Page

SCHEDULE 9.2
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Existing Liens

NONE.

SCHEDULE 9.2 – Existing Liens, Solo Page

SCHEDULE 9.5
TO
HORIZON HEALTH CORPORATION
THIRD AMENDED AND RESTATED CREDIT AGREEMENT

Existing Investments

NONE.

SCHEDULE 9.5 – Existing Investments, Solo Page

Exhibit 10.3

EXECUTION COPY

ASSET PURCHASE AGREEMENT

by and between

MOUNTAIN STATE BEHAVIORAL HEALTH SERVICES, LLC

as Seller,

and

HHC RIVER PARK, INC.

as Purchaser

Dated as of June 9, 2005

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ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (this "Agreement") is made and entered into as of the 9th day of June, 2005 (the "Execution Date") by and between **MOUNTAIN STATE BEHAVIORAL HEALTH SERVICES, LLC**, a West Virginia limited liability company ("Seller"), and **HHC RIVER PARK, INC.**, a West Virginia corporation ("Purchaser"). Seller and Purchaser are sometimes collectively referred to herein as the "Parties" and individually referred to herein as a "Party."

R E C I T A L S:

A. Seller owns and operates a 165 bed acute psychiatric hospital located at 1230 6th Avenue, Huntington, West Virginia 25701 (the "Hospital"), and Seller also operates and manages a state-owned psychiatric residential treatment facility located at 1525 Martha Road, Barboursville, West Virginia 25504 ("Barboursville School"); and

B. Purchaser desires to purchase from Seller, and Seller desires to sell to Purchaser, all of the assets owned by Seller used in connection with the operation of the Hospital, other than certain excluded assets, for the consideration and upon the terms and conditions contained in this Agreement.

A G R E E M E N T:

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants contained in this Agreement, the Parties hereto agree as follows:

ARTICLE 1
DEFINITIONS; SALE AND TRANSFER OF ASSETS;
CONSIDERATION; CLOSING

1.1 Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires,

(a) The defined terms used in this Agreement shall include the plural as well as the singular.

(b) All accounting terms not otherwise defined herein have the meanings assigned under GAAP.

(c) All references in this Agreement to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of the body of this Agreement.

(d) Pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms.

(e) The words "including" and "include" shall be deemed to mean in each instance "including, without limitation", except as stated otherwise herein.

(f) The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole, including the Exhibits and Schedules attached hereto, and not to any particular Article, Section or other subdivision.

(g) "Disclosure Schedules" shall mean the schedules attached to and constituting a part of this Agreement.

(h) "Knowledge of Purchaser," and similar variations thereof, shall mean the actual knowledge, as of the relevant date, of Donald Thayer, Peter Kavanaugh, Dave White, Tony Vadella, David Meyercord or Matt Lisagor after reasonable inquiry of employees or agents of Purchaser that were involved in its due diligence review of Seller and the Hospital.

(i) "Knowledge of Seller," and similar variations thereof, shall mean the actual knowledge, as of the relevant date, of Scott C. Stamm or Patrick D. Burrows after reasonable inquiry of senior employees of the Hospital responsible for the relevant matters.

(j) "Material Adverse Change" or "Material Adverse Effect," when used with respect to the Seller or the Hospital, shall mean any material adverse change in or effect on the Hospital taken as a whole or the Assets taken as a whole, other than changes or effects that are or result from occurrences relating to the United States economy generally or the United States health care industry generally.

(k) Any reference in this Agreement to an "Affiliate" shall mean any Person directly or indirectly controlling, controlled by or under common control with a second Person. The term "Control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. A "Person" shall mean any natural person, partnership, corporation, limited liability company, association, trust or other legal entity.

Capitalized terms used in this Agreement shall have the definitions assigned to such terms elsewhere in this Agreement. For ease of reference, the section containing the definition of each such capitalized term is set forth in the table of defined terms included elsewhere as a part of this Agreement.

1.2 Transfer of Seller Assets. On the Closing Date, Seller shall assign, transfer, convey and deliver to Purchaser, and Purchaser shall acquire, all right, title and interest in and to all assets and properties of Seller, as such assets and properties shall exist on the Closing Date, that are utilized in any respect in connection with the operation of the Hospital, other than the Excluded Assets (collectively, the "Assets"), such transfer being deemed to be effective at the Effective Time, including the following:

(a) all of the real property that is owned by Seller and used with respect to the operation of the Hospital which is described in Schedule 1.2(a) (such description to include a

legal description and address), together with all buildings, improvements and fixtures located thereupon and all construction in progress thereon (collectively, the "Owned Real Property");

(b) all of the real property that is leased by Seller and used with respect to the operation of the Hospital, which is described in Schedule 1.2(b) (the land described therein being referred to herein as the "Leased Real Property");

(c) all of the tangible personal property owned by Seller with respect to the operation of the Hospital, including all equipment, furniture, fixtures, machinery, vehicles, office furnishings, and leasehold improvements, including the items listed in Schedule 1.2(c) (the "Personal Property");

(d) all of Seller' s rights, to the extent assignable or transferable, to all licenses, permits, approvals, certificates of need, certificates of exemption, franchises, accreditations and registrations and other governmental licenses, permits or approvals issued to Seller with respect to the operation of the Hospital which are listed in Schedule 1.2(d) (the "Licenses");

(e) all of Seller' s interest, to the extent assignable or transferable, in and to all real property leases and personal property leases with respect to the operation of the Hospital which are listed in Schedule 1.2(e), other than the Lease Agreement dated as of October 31, 2000 between Seller and S&P Properties, LLC which is listed on Schedule 1.3(c) (collectively, the "Leases");

(f) all of Seller' s interest, to the extent assignable or transferable, in and to all contracts and agreements relating to the operation of the Hospital which are listed in Schedule 1.2(f) and all contracts and agreements relating to the operation of the Hospital executed after the date hereof which Purchaser has assumed (the "Contracts"); *provided, however*, the term "Contracts" as used in this Agreement shall exclude all other contracts and agreements relating to the Hospital, including contracts listed in Schedule 1.3(c) (the "Excluded Contracts");

(g) all advance payments, prepayments, prepaid expenses, deposits which exist as of the Closing Date and do not constitute Excluded Assets under Section 1.3(e) hereof (the "Prepaids");

(h) all inventories of supplies, drugs, food, janitorial and office supplies and other disposables and consumables located or held for use at the Hospital (the "Inventory");

(i) all documents, records, policy and procedure manuals, compliance programs, staff bylaws, operating manuals, files and computer software owned or used by Seller with respect to the operation of the Hospital, including all patient records, medical records, employee records, financial records with respect to the operation of the Hospital, equipment records, construction plans and specifications, and medical and administrative libraries;

(j) to the extent assignable, all rights in all warranties of any manufacturer or vendor in connection with the Personal Property;

(k) all goodwill and other intangible assets used or useful in connection with the business of the Hospital;

(l) the name, symbols, telephone numbers, facsimile numbers, domain names, trademarks, trade names, service marks and copyrights used with respect to the operation of the Hospital, including the name "River Park Hospital," all variants thereof and all common law trademark rights associated therewith;

(m) all of Seller' s rights with respect to its Medicare, Medicaid and other third-party provider numbers (the "Hospital Provider Numbers") accruing after the Effective Time; and

(n) any other assets of Seller used in the operation of the Hospital (which are not otherwise specifically described above in this Section 1.2);

provided, however, that the Assets shall not include the Excluded Assets as defined in Section 1.3 below.

1.3 Excluded Assets. Seller shall retain the following assets, whether owned directly or indirectly by Seller (or any of Seller' s Affiliates) (collectively, the "Excluded Assets"):

(a) cash and cash equivalents;

(b) all accounts, notes, interest and other receivables of Seller, and all claims, rights, interests and proceeds related thereto, including all accounts and other receivables, including cost report receivables due and owing from any Government Programs that settle on a cost report basis or otherwise, arising from the rendering of services by Seller, whether billed or unbilled, recorded or unrecorded, and any rights of Seller to settlement and retroactive adjustments, if any, for all cost reporting periods ending on or before the Closing Date (whether open or closed) arising from any Government Programs that settle on a cost report basis, and any disproportionate share payments or enhanced payments from any Government Program;

(c) the Excluded Contracts, including those listed in Schedule 1.3(c) and all of Seller' s rights and interests thereunder;

(d) all Seller records relating to the Excluded Assets and Excluded Liabilities to the extent that Purchaser does not need the same in connection with the ongoing activities of the Hospital, the Assets, or the Assumed Obligations, as well as all records which by law Seller is required to maintain in its possession;

(e) any reserves or prepaid expenses to the extent related to Excluded Assets and Excluded Liabilities;

(f) all rights of Seller under or pursuant to this Agreement and related documents;

(g) all of Seller' s limited liability company minute and other record books;

(h) all rights of Seller under any insurance policies maintained by Seller, except as otherwise provided in Section 1.14 hereof;

(i) all claims, rights, causes of action and choses in action relating to Excluded Liabilities or Excluded Assets;

(j) all rights of Seller to the name "Mountain State Behavioral Health Services, LLC" and all abbreviations and variations thereof and all service marks, symbols and logos related thereto; and

(k) any other assets of Seller identified in Schedule 1.3(k).

1.4 Assumed Obligations. On the Closing Date, Seller shall assign, and Purchaser shall assume and agree to discharge and perform on and after the Effective Time, only the following liabilities and obligations of Seller (collectively, the "Assumed Obligations"):

(a) the Contracts, but only to the extent of the obligations either arising thereunder with respect to events or periods after the Effective Time or included in the calculation of Net Assets;

(b) the Leases but only to the extent of the obligations either arising thereunder with respect to events or periods after the Effective Time or included in the calculation of Net Assets;

(c) obligations and liabilities as of the Closing Date in respect of accrued, paid time off and extended sick leave ("ESL") attributable to Hired Employees, and related taxes;

(d) the sponsorship of the River Park Hospital 401(k) and Profit Sharing Plan maintained by Seller, and all obligations arising after the Effective Time thereunder;

(e) all obligations and liabilities with respect to the Hospital Provider Numbers arising after the Effective Time, but excluding any liabilities excluded from the Assumed Obligations pursuant to Section 1.5(f);

(f) any obligations regarding the use, ownership or operation of the Hospital or the Assets after the Effective Time (without regard to whether such use, ownership or operation is consistent with Seller' s policies, procedures and/or practices prior to the Effective Time), other than as specifically included in the Excluded Liabilities; and

(g) any other obligations and liabilities identified in Schedule 1.4(g), but only to the extent included in the calculation of "Net Assets."

1.5 Excluded Liabilities. Purchaser shall not assume or become responsible for any of Seller' s duties, obligations or liabilities that are not expressly assumed by Purchaser pursuant to the terms of this Agreement or the Bill of Sale (the "Excluded Liabilities"), and Seller shall remain fully and solely responsible for all Excluded Liabilities. The Excluded Liabilities shall include:

(a) any liabilities of Seller with respect to the operation of the Hospital incurred prior to the Effective Time which are not otherwise specifically included in the Assumed Obligations;

(b) all liabilities of Seller arising out of or relating to any act, omission, event or occurrence connected with the use, ownership or operation by Seller of the Hospital or any of the Assets prior to the Effective Time, other than as specifically included in the Assumed Obligations;

(c) all obligations and liabilities of Seller to Seller' s employees, including salary, wages and benefits accrued through the Effective Time, except to the extent assumed in Sections 1.4(c) and 1.4(d);

(d) all liabilities of Seller in connection with claims of professional malpractice to the extent arising out of or relating to acts, omissions, events or occurrences prior to the Effective Time;

(e) all liabilities of Seller for matching contributions for eligible beneficiaries' 401(k) plans, Section 125 plans and other Seller Plans and all administrative costs associated with such welfare benefit plans other than as specifically included in the Assumed Obligations;

(f) all liabilities of Seller relating to Seller Cost Reports with respect to periods ending prior to the Effective Time and all liabilities of Seller with respect to refund, recoupment, set-off and other liabilities arising out of the billings to third party payors, including Medicare and Medicaid, for services rendered by Seller prior to the Effective Time;

(g) all liabilities of Seller for violations of any law, regulation or rule to the extent arising from acts or omissions prior to the Effective Time, including those pertaining to Medicare and Medicaid fraud or abuse;

(h) all liabilities of Seller under the Excluded Contracts;

(i) all liabilities of Seller for commissions or fees owed to any finder or broker in connection with the transactions contemplated hereunder; and

(j) all other liabilities or obligations of Seller and/or the Hospital which are not Assumed Obligations.

1.6 Purchase Price. Subject to the terms and conditions of this Agreement, the aggregate purchase price to be paid by Purchaser to Seller for the purchase of the Assets (the "Purchase Price") shall consist of:

(a) Seven Million Three Hundred Eighty-Five Thousand and 00/100 Dollars ($7,385,000.00) (the "Closing Purchase Price Payment") which shall be payable in cash at the Closing;

(b) the Net Assets Payment which shall be the payment determined as set forth in Section 1.11 and shall, as applicable, be added to or be deducted from the Closing Purchase Price Payment at Closing, as set forth in Section 1.11;

(c) Five Hundred Thousand and 00/100 Dollars ($500,000.00) which shall be deposited by Purchaser in an escrow account with United Bank, Inc., Charleston, West Virginia (the "Escrow Agent"), as described in Section 1.12;

(d) Variable Payment A described in Section 1.13(a); and

(e) Variable Payment B described in Section 1.13(b).

1.7 Closing Date. The consummation of the transactions contemplated by this Agreement (the "Closing") shall take place at 10:00 a.m. at the offices of Strasburger & Price, L.L.P., located at 901 Main Street, Suite 4300, Dallas, Texas, on or before five (5) business days after all conditions precedent and other matters required to be completed as of the Closing Date have been or will be completed on such date or such other date, time and place as the Parties shall mutually agree (the "Closing Date"). The Closing with respect to the transfer of the Assets, shall be deemed to have occurred and to be effective as between the Parties as of 12:01 a.m. (determined by reference to the local time zone in which the Hospital is located) on the Closing Date (the "Effective Time").

1.8 Items to be Delivered by Seller at Closing. At or before the Closing, Seller shall deliver to Purchaser the following, duly executed by Seller where appropriate and in the form attached hereto as an Exhibit:

(a) General Assignment, Bill of Sale and Assumption of Liabilities in the form of Exhibit A attached hereto (the "Bill of Sale");

(b) General Warranty Deed in the form of Exhibit B attached hereto with respect to each Owned Real Property (the "General Warranty Deed");

(c) Assignment and Assumption of Lease in the form of Exhibit C attached hereto with respect to each Leased Real Property (the "Real Estate Lease Assignments");

(d) Post-Closing Escrow Agreement in the form of Exhibit D attached hereto (the "Escrow Agreement");

(e) original certificates of good standing, or comparable status, of Seller, issued by the State of West Virginia, dated no earlier than a date which is fourteen (14) calendar days prior to the Closing Date;

(f) a certificate of Seller, executed by the President or any Vice President of Seller, certifying to Purchaser (i) that all the representations and warranties of Seller contained herein are true as of the Closing Date with the same effect as though made at such time, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true on and as of such earlier date, (ii) that Seller has in all material respects performed or complied with the covenants and agreements required of Seller

set forth in this Agreement to be satisfied by the Closing Date and (iii) that all of the conditions contained in Article 6 have been satisfied except those, if any, waived in writing by Seller;

(g) a certificate of the Secretary of Seller certifying to Purchaser (i) the incumbency of the officers of Seller on the Execution Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement and (ii) the due adoption and text of the resolutions of the manager and members of Seller, authorizing (A) the transfer of the Assets and Assumed Obligations by Seller to Purchaser and (B) the execution, delivery and performance of this Agreement and all ancillary documents and instruments by Seller, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

(h) releases of liens and mortgages and UCC termination statements for any and all liens, mortgages, security interests, restrictions and financing statements with respect to the Assets (other than those exclusively relating to any of the Contracts and other than the Permitted Encumbrances) by the holders of such liens or mortgages or the secured parties named in such financing statements or written understandings to provide the same to Purchaser upon payment of the amounts secured thereby;

(i) to the extent the provisions thereof are permitted by and consistent with applicable law, a limited Power of Attorney for use of Pharmacy License, DEA and Other Registration Numbers, and DEA Order Forms, in the form of Exhibit E attached hereto (the "Power of Attorney");

(j) all consents to the assignment of the Material Contracts from the third parties listed in Schedule 1.8(j) required to assign such Material Contracts to Purchaser (the "Contract Consents"), subject to Section 9.3 hereof;

(k) all governmental approvals and authorizations that are required for the consummation of the transactions contemplated by this Agreement (the "Governmental Approvals");

(l) the Stock Purchase Agreement by and between Purchaser and the shareholders of PsychManagement Group, Inc., a West Virginia corporation, (the "PMG Stock Purchase Agreement") and all items and documents required to be delivered therewith; and

(m) such other instruments, certificates, consents or other documents which are reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

1.9 Items to be Delivered by Purchaser at Closing. At or before the Closing, Purchaser shall execute and deliver or cause to be delivered to Seller the following, duly executed by Purchaser where appropriate:

(a) payment of the Closing Purchase Price Payment (plus or minus the Net Assets Payment) on the Closing Date by wire transfer of immediately available funds to Seller to the account specified by Seller which account Seller shall specify to Purchaser not less than three (3) business days prior to the Closing Date in writing;

(b) payment of the Escrow Deposit on the Closing Date by wire transfer of immediately-available funds to the Escrow Agent;

(c) a certificate of Purchaser, executed by the President or any Vice President of Purchaser, certifying to Seller (i) that all the representations and warranties of Purchaser contained herein are true as of the Closing Date with the same effect as though made at such time, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true on and as of such earlier date, (ii) that Purchaser has in all material respects performed or complied with the covenants and agreements required of Purchaser set forth in this Agreement required to be satisfied by the Closing Date and (iii) that all of the conditions contained in Article 7 have been satisfied except those, if any, waived in writing by Purchaser;

(d) a certificate of the corporate Secretary of Purchaser certifying to Seller (i) the incumbency of the officers of Purchaser on the Execution Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement and (ii) the due adoption and text of the resolutions of the directors of Purchaser authorizing (A) the purchase of the Assets and the assumption of the Assumed Obligations by Purchaser and (B) the execution, delivery and performance of this Agreement and all ancillary documents and instruments by Purchaser, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

(e) original certificate of good standing, or comparable status, of Purchaser, issued by the West Virginia Secretary of State dated no earlier than a date which is fourteen (14) calendar days prior to the Closing Date;

(f) the Bill of Sale;

(g) the Real Estate Lease Assignments;

(h) the Escrow Agreement;

(i) the Power of Attorney;

(j) the PMG Stock Purchase Agreement and all items and documents required to be delivered therewith;

(k) such other instruments, certificates, consents or other documents which are reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof; and

(l) the Guaranty and Suretyship Agreement of Horizon Health Corporation (the "Parent Guaranty"), attached to this Agreement as Exhibit F.

1.10 Prorations and Utilities. To the extent not included in the calculation of Net Assets or otherwise prorated pursuant to this Agreement, Purchaser and Seller shall prorate (as of the Effective Time), to the extent applicable to the Assets, real estate and personal property lease

payments, real estate and personal property taxes, assessments and other similar charges against real estate, and utility charges. If accurate allocations as to such matters cannot be made at Closing because current bills are not obtainable, the Parties shall allocate such income or expense at Closing on the best available information, subject to adjustment upon receipt of the final bill or other evidence of the applicable item of income or expense.

1.11 Net Assets Settlement.

(a) As used herein, the term "Net Assets," as determined in accordance with generally accepted accounting principles, including the methods and practices as historically applied by Seller prior to the Closing and as are reflected in the audited balance sheet of the Seller as of December 31, 2004 ("Hospital Historical GAAP"), shall mean the Inventory and Prepaids, less the amount of accrued paid time off, and 16% of the amount of ESL attributable to the Hired Employees being assumed by the Purchaser pursuant to Section 1.4(c) hereof plus the amount of any capital expenditure relating to the Hospital (other than normal and customary maintenance and replacement items) which was (i) approved in advance by Purchaser in writing and (ii) paid by the Seller or the Hospital after the Execution Date and prior to the Closing. Prepaids from and after the Closing Date shall only be included in Net Assets to the extent that Purchaser receives the economic benefit of such prepaid expense. In the event an accounting principle, including the methods and practices as historically applied by Seller is not in accordance with GAAP, it shall not constitute a Hospital Historical GAAP Principle for any purpose under this Agreement and shall not be followed in the determination of Net Assets or the EBITDA of the Hospital under Section 1.13 hereof.

(b) At least ten (10) business days prior to Closing, Seller shall in good faith deliver to Purchaser a reasonable estimate of Net Assets as of the end of the most recently ended calendar month prior to the Closing Date for which financial statements are available ("Estimated Net Assets") and containing reasonable detail and supporting documents showing the derivation of such estimate. The "Net Assets Payment" shall equal the difference between the Estimated Net Assets and $199,000. If Estimated Net Assets exceeds $199,000, the Net Assets Payment shall be added to the Closing Purchase Price Payment. If Estimated Net Assets is less than $199,000, the Closing Purchase Price Payment shall be reduced by the amount of the Net Assets Payment. Within ninety (90) days after the Closing, Purchaser shall deliver to Seller its determination of the Net Assets as of the Effective Time. Each Party shall have full access to the financial books and records pertaining to the Hospital to confirm or audit Net Assets computations. Should Seller disagree with Purchaser' s determination of Net Assets, Seller shall notify Purchaser in writing within fifteen (15) days after Purchaser' s delivery of its determination of Net Assets and state the basis for its disagreement. If Seller and Purchaser fail to agree within thirty (30) days after Seller' s delivery of notice of disagreement on the amount of Net Assets, such disagreement shall be resolved in accordance with the procedures set forth in Section 1.11(c), which shall be the sole and exclusive remedy for resolving disputes relative to the determination of Net Assets. The Purchase Price shall be increased or decreased based on the difference between the actual Net Assets as of the Effective Time and the Estimated Net Assets calculated at the Closing and, within five (5) business days after determination thereof, any excess of actual Net Assets over Estimated Net Assets shall be paid in cash to Seller, and any deficiency in actual Net Assets versus Estimated Net Assets shall be paid in cash to Purchaser pursuant to the Post-Closing Escrow Agreement, in either case without interest on such amount.

(c) Dispute of Adjustments. In the event that Seller and Purchaser are not able to agree on the actual Net Assets within thirty (30) days after Seller' s delivery of notice of disagreement in accordance with Section 1.11(b) hereof, Seller and Purchaser shall each have the right to require that such disputed determination be submitted to Arnett & Foster, PLLC, or if Arnett & Foster, PLLC is not available for any reason or does not maintain its independent status, such other independent certified public accounting firm as Seller and Purchaser may then promptly mutually agree upon in writing (the "Accounting Firm") for computation or verification in accordance with the provisions of this Agreement. The Accounting Firm shall review the matters in dispute and, acting as arbitrators, shall promptly decide the proper amounts of such disputed entries (which decision shall also include a final calculation of Net Assets). The submission of the disputed matter to the Accounting Firm shall be the exclusive remedy for resolving disputes relative to the determination of Net Assets. The Accounting Firm' s determination shall be binding upon Seller and Purchaser. The Accounting Firm' s fees and expenses shall be borne equally by Seller and Purchaser.

1.12 Escrow Deposit. At Closing, Purchaser shall deposit Five Hundred Thousand and No/100 Dollars ($500,000.00) with the Escrow Agent, by wire transfer of immediately-available funds to the account of the Escrow Agent (the "Escrow Deposit," and, together with all earnings thereon, the "Escrow Funds"). The Escrow Funds shall be held, invested and disbursed by the Escrow Agent as specified in and pursuant to the terms and conditions of the Escrow Agreement in the form of Exhibit D attached hereto.

1.13 Variable Payments.

(a) On or before ninety (90) days after the end of the twelve month period described below (the "First Variable Payment Date"), Purchaser shall make an additional payment to Seller ("Variable Payment A") in an amount equal to $1,201,222.00 subject, however, to the following adjustments:

(i) In the event that the EBITDA of the Hospital for the 12-month period commencing as of the first day of the month after the month in which the Closing occurs is less than $1,445,000.00 (the "Year 1 EBITDA Target") then Variable Payment A shall be decreased by six times (6x) the amount that the actual EBITDA of the Hospital for such 12-month period is less than the Year 1 EBITDA Target; or

(ii) In the event that the EBITDA of the Hospital for such 12-month period is more than the Year 1 EBITDA Target, then, subject to the provisions of subsection 1.13(e) below, Variable Payment A shall be increased by six times (6x) the amount that the actual EBITDA of the Hospital for such 12-month period is in excess of the Year 1 EBITDA Target.

Within fifteen (15) days after the initial settlement with the Government Programs of the cost reports relating to the 12-month period commencing as of the first day of the month after the month in which the Closing occurs, any increase in Variable Payment A as a result of the affect such cost reports have on EBITDA for such 12-month period will be paid by the Purchaser to the

Seller and any decrease in Variable Payment A as a result of the affect such cost reports have on EBITDA for such 12-month period will be paid by the Seller to the Purchaser. Upon final settlement or audit of such cost reports, any changes from the initial settlement shall be paid between the Parties in the same manner.

(b) On or before ninety (90) days after the end of the twelve month period described below (the "Second Variable Payment Date"), Purchaser shall make an additional payment to Seller ("Variable Payment B") in an amount equal to $664,700.00 subject, however, to the following adjustments:

(i) In the event that the EBITDA of the Hospital for the second 12-month period commencing after the first twelve month period referenced in Section 1.13(a) above is less than $1,858,500.00 (the "Year 2 EBITDA Target") then Variable Payment B shall be decreased by six times (6x) the amount that the actual EBITDA of the Hospital for such 12-month period is less than the Year 2 EBITDA Target; or

(ii) In the event that the EBITDA of the Hospital for such 12-month period is more than the Year 2 EBITDA Target, then, subject to the provisions of subsection 1.13(e) below, Variable Payment B shall be increased by six times (6x) the amount that the actual EBITDA of the Hospital for such 12-month period is in excess of the Year 2 EBITDA Target.

Within fifteen (15) days after the initial settlement with the Government Programs of the cost reports relating to the second 12-month period commencing after the first twelve month period referenced in Section 1.2(a) above, any increase in Variable Payment B as a result of the affect such cost reports have on EBITDA for such 12-month period will be paid by the Purchaser to the Seller and any decrease in Variable Payment B as a result of the affect such cost reports have on EBITDA for such 12-month period will be paid by the Seller to the Purchaser. Upon final settlement or audit of such cost reports, any changes from the initial settlement shall be paid between the Parties in the same manner.

(c) For the purposes of this Section 1.13, the term "EBITDA of the Hospital" shall mean the net income of Purchaser plus the amount of interest, income taxes, depreciation and amortization for the applicable period, all as determined by Purchaser in accordance with Hospital Historical GAAP. As specified in Section 9.8, Purchaser shall maintain its separate corporate existence until the end of the second twelve-month period described in Section 1.13(b) above. The principles and methodologies for determining the EBITDA of the Hospital and other terms and conditions relating to the payment of Variable Payment A and Variable Payment B hereunder shall be as specified in Schedule 1.13.

(d) Purchaser shall deliver to Seller its determination of the applicable EBITDA of the Hospital with each Variable Payment. Seller may dispute such determination and have such determination finally resolved in the same manner and within the same time periods as are applicable to the determination of the actual Net Assets of Seller as of the Effective Time under Section 1.11.

(e) Notwithstanding any provision of this Agreement to the contrary, the total amount of the Variable Payment A and the Variable Payment B shall be capped and not exceed Four Million Five Hundred Thirty-Five Thousand Dollars ($4,535,000) in the aggregate.

1.14 Risk of Loss.

(a) The risk of loss or damage to any of the Personal Property, Owned Real Property, the Hospital and all other assets and property of Seller, the transfer of which is contemplated by this Agreement, shall remain with Seller until the Effective Time and Seller shall maintain in effect without material change all of its insurance policies covering the Personal Property, Owned Real Property, the Hospital and all other assets and property of Seller through the Effective Time. With respect to the Owned Real Property and Leased Real Property (collectively, the "Real Property"), if prior to the Closing, all or any part of the Real Property is destroyed or damaged by fire or the elements or by any other cause where such damage or destruction is in the aggregate (the "Aggregate Damage") less than ten percent (10%) of the Purchase Price and Seller has duly maintained the insurance policies described above, the parties' duties and obligations under this Agreement shall not be affected and the Closing shall proceed as scheduled; provided, however, that Seller shall assign, transfer and set over to Purchaser all of Seller' s right, title and interest in and to any insurance proceeds on account of such damage or destruction up to the cost of repairs or rebuilding and, if such insurance policy proceeds are insufficient to repair, restore and/or replace the Real Property, the difference between the cost to repair, restore and/or replace and the amount of such proceeds shall be deducted from the Purchase Price. If prior to the Closing, all or any part of the Real Property is destroyed or damaged by fire or the elements or by any other cause where the Aggregate Damage exceeds ten percent (10%) of the Purchase Price, Purchaser may elect to (i) purchase such Owned Real Property or take assignment of such Leased Real Property, and the Closing shall proceed as scheduled (provided, however, that at the Closing Seller shall assign, transfer and set over to Purchaser all of Seller' s right, title and interest in and to any insurance proceeds on account of such damage or destruction loss plus the amount of any deductibles under such insurance policies), (ii) not purchase such Owned Real Property or not take assignment of such Leased Real Property, and, in such event, an appropriate adjustment to the Purchase Price shall be made by Purchaser and Seller, provided, however, that Seller shall not be required to accept any adjustment to the Purchase Price and, in the event the Seller and Purchaser are unable to agree on the amount of the adjustment to the Purchase Price, the Seller or Purchaser may terminate this Agreement; or (iii) elect to terminate this Agreement by written notice to Seller. If Purchaser and Seller are unable to agree upon the amount of the Aggregate Damage by the originally scheduled Closing Date (the "Original Closing Date"), the amount of the Aggregate Damage shall be determined by a consulting firm mutually selected by Seller and Purchaser (the "Independent Consultant") pursuant to Section 1.14(d) hereof.

(b) With respect to any Assets other than Real Property which are destroyed or damaged by fire or the elements or by any other cause prior to the Closing, Seller shall assign, transfer and set over to Purchaser all of Seller' s right, title and interest to any insurance proceeds on account of such damage or destruction up to the cost of repairs or replacement of such Assets and shall reimburse Purchaser for any deductible Purchaser is required to pay in connection with the receipt of such insurance proceeds.

(c) If prior to the Closing, all or any part of a parcel of the Real Property is made subject to an eminent domain or condemnation proceeding which would in Purchaser' s judgment materially adversely impair access to the Real Property or be materially adverse to the operations of the Hospital, Purchaser may elect to (i) purchase such affected Owned Real Property or take assignment of such Leased Real Property, and the Closing shall proceed as scheduled (provided, however, at the Closing Seller shall assign, transfer and set over to Purchaser all of Seller' s right, title and interest in and to any award in such eminent domain or condemnation proceeding), (ii) not purchase the affected Owned Real Property or not take assignment of such Leased Real Property, and, in such event, an appropriate adjustment to the Purchase Price shall be made by Purchaser and Seller, provided, however, that Seller shall not be required to accept any adjustment to the Purchase Price and, in the event the Seller and Purchaser are unable to agree on the amount of the adjustment to the Purchase Price, the Seller or Purchaser may terminate this Agreement, or (iii) terminate this Agreement by written notice to Seller.

(d) If pursuant to Section 1.14(a) hereof, the amount of the Aggregate Damage (and any applicable Purchase Price adjustment) is to be determined by the Independent Consultant, within five (5) calendar days after the Original Closing Date (the "Submittal Date"), each Party shall submit to the other Party and to the Independent Consultant its proposed Aggregate Damage (and any applicable Purchase Price adjustment) as a result of the event(s) contemplated by Section 1.14(a), along with a detailed description of the basis for such amount and any applicable adjustment. Within ten (10) calendar days after the Submittal Date, the Independent Consultant, acting as an expert and not as an arbitrator, shall determine the Aggregate Damage (and any applicable Purchase Price adjustment), taking into account any submissions by Seller or Purchaser made by the Submittal Date. The decision of the Independent Consultant shall be conclusive and binding as between Purchaser and Seller, and the costs of such review shall be borne equally by Seller and Purchaser. Upon any such determination of the adjustment to the Purchase Price in accordance with this Section 1.14(d), the Parties shall, subject to the terms and conditions of this Agreement, consummate the transactions contemplated by this Agreement at a mutually agreeable time and place, in accordance with the provisions of this Agreement, which shall be no later than the twenty-fifth (25th) calendar day following the Original Closing Date unless the Parties mutually agree upon a later date.

ARTICLE 2
REPRESENTATIONS AND WARRANTIES OF SELLER

Except as otherwise indicated on the applicable Disclosure Schedules expressly related to the particular representation or warranty stated below in this Article 2, Seller hereby represents and warrants to Purchaser as to the following matters as of the Execution Date. Except as otherwise provided herein, Seller shall be deemed to remake all of the following representations and warranties as of the Closing Date and the Effective Time:

2.1 Authority. Seller has full limited liability company power and authority to enter into this Agreement and all documents required to be delivered hereunder and full limited liability company power and authority to carry out and perform the transactions contemplated herein.

2.2 Authorization/Execution. All limited liability company and other actions required to be taken by Seller to authorize the execution, delivery and performance of this Agreement, all documents executed by Seller which are necessary to give effect to this Agreement and all transactions contemplated hereby, have been duly and properly taken or obtained by Seller. No other corporate or other action on the part of Seller is necessary to authorize the execution, delivery and performance of this Agreement, all documents necessary to give effect to this Agreement and all transactions contemplated herein. This Agreement and all documents delivered hereunder have been duly and validly executed and delivered by Seller and, assuming due and valid execution by, and enforceability against, Purchaser, this Agreement and all documents delivered hereunder constitute valid and binding obligations of Seller enforceable in accordance with their respective terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and (b) limitations on the enforcement of equitable remedies.

2.3 Organization and Good Standing; No Subsidiaries; No Conflicts.

(a) Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of West Virginia. Seller has full power and authority to own, operate and lease its properties and to carry on its business as now conducted.

(b) Seller has no subsidiaries, whether direct or indirect. Seller has no equity interest or investment in, and does not have any other right or obligation to purchase any equity interest or other investment in, and is not a partner of or joint venturer with, any other person or entity.

(c) Except as provided in Schedule 2.3(c), the execution and delivery of this Agreement and the performance of the transactions contemplated by this Agreement and all other instruments, agreements, and certificates referenced herein to which Seller is or will be a party do not (i) violate any decree or judgment of any court or governmental authority which is applicable to or binding upon Seller; (ii) violate any law, rule or regulation applicable to Seller; (iii) violate or conflict with, or result in a breach of, or constitute a default (or an event which, with or without notice or lapse of time or both, would constitute a default) under, or permit cancellation of, or result in the creation of any encumbrance upon any of the Assets under, any Material Contract, lease, sales order, purchase order, indenture, mortgage, note, bond, or, license to which Seller is a party, or by which Seller is bound; (iv) permit the acceleration of the maturity of any indebtedness of Seller; or (v) violate or conflict with any provision of the Articles of Organization or Operating Agreement of Seller.

2.4 Financial Statements; Changes.

(a) Seller has delivered to Purchaser the audited balance sheets for Seller at December 31, 2004, 2003 and 2002 and the related statements of operations for the periods then ended. All such financial statements have been prepared in conformity with Hospital Historical GAAP applied on a consistent basis throughout such periods. Such statements of operations present fairly in all material respects the results of operations of Seller for the respective periods covered, and the balance sheets present fairly in all material respects the financial condition of

Seller as of their respective dates. Since December 31, 2004, there has been no change in any of the significant accounting policies, practices or procedures of Seller.

(b) Seller has delivered to Purchaser an unaudited balance sheet for Seller at April 30, 2005 (the "Interim Balance Sheet Date") and the related statement of operations for the four month period then ended. Such interim financial statements have been prepared in conformity with Hospital Historical GAAP. The interim statement of operations presents fairly in all material respects the results of the operations of Seller for the period covered, and the interim balance sheet presents fairly in all material respects the financial condition of Seller at the Interim Balance Sheet Date. Such interim financial statements reflect all adjustments necessary for a fair presentation of the financial information contained therein other than normal year-end adjustments which are not material in amount in the aggregate. At the Interim Balance Sheet Date, Seller had no material liability (actual, contingent or accrued) that, in accordance with Hospital Historical GAAP applied on a consistent basis, should have been shown or reflected on the interim balance sheet but was not.

(c) Except as set forth in Schedule 2.4(c), since the Interim Balance Sheet Date, whether or not in the ordinary course of business, there has not been, occurred or arisen:

(i) any change in or event affecting Seller or the business of the Hospital, that has had or would reasonably be expected to have a Material Adverse Effect; or

(ii) any strike or other labor dispute; or

(iii) any casualty, loss, damage or destruction (whether or not covered by insurance) of any property of Seller that is material or that has involved or may involve a material loss to Seller in excess of applicable insurance coverage.

2.5 Tax and Other Returns and Reports. Except as set forth in Schedule 2.5:

(a) For purposes of this Agreement, "Tax" or "Taxes" shall be defined as set forth below in Section 2.5(c) and shall include (i) any obligations under any agreements or arrangements with any other Person with respect to such amounts and including any liability for Taxes of any predecessor or previously owned entity and (ii) any liability for any Taxes as a result of being a member of an affiliated, consolidated, combined or unitary group. For purposes of this Section 2.5 and Schedule 2.5, with respect to matters pertaining to this Section 2.5, the terms "Seller," "Subsidiary" or "Subsidiaries" shall include all entities currently or previously owned, directly or indirectly, by Seller.

(b) Tax Returns and Audits.

(i) Seller has timely filed (taking into account valid extensions of the time for filing) all Tax returns required to have been filed and all such Tax returns were true, correct and complete in all material respects. All Taxes owed by Seller (whether or not shown on any Tax return) that have become due and payable have been paid. Seller is not currently the beneficiary of any extension of time within which to file any Tax return. No claim has ever been made by an authority in a jurisdiction where Seller does not file Tax returns that it is or may be subject to taxation by that jurisdiction.

(ii) Seller has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, member, or other third party.

(iii) Seller has made available (or will make available through the date of Closing) to Purchaser (i) correct and complete copies of all Tax returns of Seller relating to the Assets and (ii) any examination reports, statements of deficiencies and assessments by any governmental authority against or agreed to by Seller since December 31, 2001. Seller does not expect any authority to assess additional Taxes for any period for which Tax returns have been filed. There is no dispute or claim concerning any Tax liability of Seller claimed, threatened or otherwise raised by any authority. Seller has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(iv) There are no liens or security interests on any of the Assets that arose in connection with any failure (or alleged failure) to pay any Tax.

(v) No property owned by Seller is "tax-exempt use property" within the meaning of Section 168(h) of the Code. Seller is not a party to any lease made pursuant to former Section 168(f)(8) of the Internal Revenue Code of 1954.

(vi) Seller is not under any obligation to make a payment that will not be deductible under Section 280G of the Internal Revenue Code of 1986 (the "Code"). Seller has disclosed on its Tax returns all positions taken therein that could give rise to a substantial understatement (i) of federal income tax under Code Section 6662 or (ii) of any Tax under a similar provision of state, local or foreign Tax law. Seller has not engaged in any transaction which would be treated as a "reportable transaction" within the meaning of Treasury Regulations Section 1.6011-4 or otherwise been involved in a transaction which would require it to disclose a "reportable transaction." Seller has not been a member of an affiliated group filing a consolidated federal income Tax return and does not have any liability for the Taxes of any Person (other than Seller) under Treasury Regulations Section 1.1502-6, or any similar provision of state, local or foreign law, as a transferee or successor, by contract, or otherwise. Seller has not been a party to any Tax allocation or sharing agreement. Neither Seller nor its subsidiaries is currently or has been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code.

(vii) Seller is and has been in full compliance with all terms and conditions of any Tax exemptions, Tax holidays or other Tax reduction agreements. The consummation of the transactions contemplated herein will not have any material adverse effect on the continued validity and effectiveness of any such Tax exemption, Tax holiday or other Tax reduction agreement or order.

(viii) Neither the Seller nor any of its Subsidiaries has constituted either a "distribution corporation" or a "controlled corporation" in a distribution of stock qualifying for tax-free treatment under Code Section 355 (a) in the two year prior to the date of this Agreement or (b) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Code Section 355(c)).

(ix) Seller has not, with respect to any open taxable period, applied for and been granted permission to adopt a change in its method of accounting requiring adjustments under Section 481 of the Code or comparable state or foreign law.

(x) None of Seller nor its Subsidiaries is a partner in any entity classified as a partnership for federal income Tax purposes.

(xi) Neither Seller nor any of its Subsidiaries has made an election under Treasury Regulations Section 301.7701-3 with respect to any entity.

(xii) None of Seller nor its Subsidiaries will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending prior to, on, or after the Closing Date as a result of any deferred intercompany gain or any excess loss account described in Treasury Regulations under Code Section 1502 (or any corresponding or similar provision of federal state, local or foreign income Tax law).

(c) "Tax" and "Taxes" means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

2.6 Material Contracts. Schedule 2.6 lists each Material Contract to which Seller is a party or to which any of its properties are subject or by which any thereof is bound, other than the Excluded Contracts listed in Schedule 1.3(c). Unless otherwise so noted in Schedule 2.6, each such Material Contract was entered into in the ordinary course of business. As used herein, "Material Contract" means any contract that (a) after the Interim Balance Sheet Date obligates Seller to pay an amount of twenty-five thousand dollars ($25,000) or more in any one twelve month period on an annual basis or obligates Seller to pay an aggregate amount of Fifty Thousand Dollars ($50,000) or more, (b) has an unexpired term as of the Interim Balance Sheet Date in excess of twelve (12) months that is not terminable upon ninety (90) days or less notice by Seller at any time during the term, without penalty, (c) contains a covenant not to compete or otherwise significantly restricts business activities, (d) limits the ability of Seller to conduct its business, including as to manner or place, (e) grants a power of attorney, agency or similar authority to another person or entity, (f) contains a right of first refusal, (g) constitutes a collective bargaining agreement including any collective bargaining agreement with physicians or any other referral source, (h) constitutes an employment or severance agreement with any director, officer or employee of Seller, (i) represents a contract upon which the business of the Hospital is substantially dependent or a contract which is otherwise material to the business of the Hospital, (j) represents a contract with a physician, or to the Knowledge of Seller, an immediate family member of a physician (as that term is defined in 42 C.F.R. § 411.351) or any other referral source, including any contract with a pharmacy or any other supplier of medical products to patients of the Hospital, (k) to the Knowledge of Seller, represents a contract with an entity in which a referring physician (as that term is defined in 42 U.S.C. § 1395m(h)(7)) or a

referring physician' s immediate family member has an ownership or investment interest, (l) represents a third party payor, managed care or preferred provider organization contract, or (m) was not made in the ordinary course of business. True, correct and complete copies of the Material Contracts and the Excluded Contracts, including all amendments and supplements, have been made available to Purchaser. Each Material Contract is valid and subsisting; except as set forth in Schedule 2.6, Seller has duly performed in all material respects all its obligations thereunder to the extent that such obligations to perform have accrued; and, except as set forth in Schedule 2.6, no breach or default, alleged breach or default, or event which would (with the passage of time, notice or both) constitute a material breach or default thereunder by Seller (or, to the Knowledge of Seller, any other party or obligor with respect thereto), has occurred or as a result of the execution of this Agreement or its performance will occur.

2.7 Real and Personal Property; Title to Property; Leases.

(a) Seller has good and valid title, free of encumbrances in and to the Owned Real Property, the Personal Property and the other Assets, except for (i) any lien for taxes not yet due and payable, (ii) any lease obligations included in the Assumed Obligations, (iii) easements, rights of way, and other restrictions of record, (iv) statutory liens of landlords, liens of carriers, warehousemen, mechanical and materialmen and other liens imposed by law in the ordinary course of business, (v) any liens on any furniture, equipment, fixtures or Inventory pursuant to any capital lease or any other lease being assumed by Purchaser as an Assumed Obligation, (vi) any encumbrances or defects that do not materially interfere with the operations of the Hospital in any manner consistent with the current use by Seller, and (vii) those liens and encumbrances relating to Seller' s outstanding debt owed to The Huntington National Bank listed in Schedule 2.7(a), which shall be discharged at or prior to the Closing (collectively, the "Permitted Encumbrances"). Except as shown in Schedule 2.7(a), all material tangible properties of Seller are, to the Knowledge of Seller, in a reasonably good state of maintenance and repair (except for ordinary wear and tear) and in operating condition.

(b) The Owned Real Property listed in Schedule 1.2(a) consists of all Real Property owned by Seller and used in the conduct of the business of the Hospital.

(c) The Leased Real Property listed in Schedule 1.2(b) consists of all Real Property leased by Seller and used in the conduct of the business of the Hospital.

(d) Seller has heretofore made available to Purchaser a true, correct and complete copy of all of the Leases. Except as shown in Schedule 2.7(d), no consents are required of third parties to the assignment of the Leases.

(e) At Closing, Seller will convey to Purchaser good and valid title to the Owned Real Property and all other Assets and a valid leasehold interest in the Leased Real Property, subject to no mortgage, lien, pledge, security interest, conditional sales agreement, right of first refusal, option or encumbrance, except for Permitted Encumbrances and the rights of any lessor or licensor of leased or licensed personal property.

(f) The Leases constitute the entire agreement to which Seller is a party with respect to the properties which are demised pursuant thereto.

(g) Seller has accepted possession of the Leased Real Property pursuant to each Real Property Lease in which it is the lessee and is in actual possession thereof and has not sublet, assigned or hypothecated its leasehold interest.

(h) As of the date hereof, all conditions precedent to the enforceability of each Lease have been satisfied and, to the Knowledge of Seller, there exists no breach or default, nor state of facts which, with the passage of time, notice, or both, would result in a breach or default on the part of Seller or, to the knowledge of Seller, the other party thereunder.

(i) Seller has no Knowledge of, and, during the past three (3) years, Seller has not received any written notice of, non-compliance with law, zoning ordinance or other restriction with respect to any Real Property.

(j) There is no pending or, to the Knowledge of Seller, threatened action that would materially interfere with the ownership, use or quiet enjoyment of any Real Property by Seller.

(k) Seller has no Knowledge of, and, during the past three (3) years, Seller has not received any notice of, any proposed special assessments, threatened condemnation or any proposed material changes in property tax or land use laws affecting the Real Property.

(l) The Assets constitute all of the property necessary for Purchaser to operate the Hospital after the Effective Time in substantially the same manner as Seller operates the Hospital as of the date hereof.

2.8 Intangible Property. Schedule 2.8 lists any and all marks and other material items of intangible property in which Seller has an interest and the nature of such interest ("Intangible Property"). Except as shown in Schedule 2.8, the Intangible Property includes all permits or other rights with respect to any of the foregoing. Seller has rights to use or ownership of all Intangible Property required for use in connection with the business of the Hospital. Except as disclosed in Schedule 2.8, Seller does not use any Intangible Property by consent of any other person and is not required to and does not make any payments to others with respect thereto. Except as shown in Schedule 2.8 and except for Permitted Encumbrances, the Intangible Property of Seller is fully assignable free and clear of any encumbrances. Seller has in all material respects performed all obligations required to be performed by, and Seller is not in default in any material respect under, any contract relating to any of the foregoing. Seller has not received any notice to the effect (or otherwise has Knowledge) that such intangible property or any use thereof by Seller conflicts with or infringes (or allegedly conflicts with or infringes upon) the rights of any Person.

2.9 Legal Proceedings. Except as set forth in Schedule 2.9, there is no order or action pending, or, to the Knowledge of Seller threatened, against or affecting Seller, or any of its respective properties or assets that involves a claim of aggregate liability in excess of $25,000.00 against Seller. Schedule 2.9 lists each order and each action that involves a claim of aggregate liability in excess of $25,000.00 against, or that enjoins or seeks to enjoin or excludes or seeks to exclude the conduct of any activity by, Seller.

2.10 Accounting Records; Internal Controls; Absence of Certain Payments.

(a) Accounting Records. Seller has records that accurately and validly reflect its respective transactions, and accounting controls sufficient to insure that such transactions are (i) executed in accordance with management' s general or specific authorization and (ii) recorded in conformity with Hospital Historical GAAP so as to maintain accountability for assets.

(b) Data Processing; Access. Such records, to the extent they contain important information that is not easily and readily available elsewhere, have been duplicated, and such duplicates are stored safely and securely pursuant to procedures and techniques utilized by companies of comparable size in similar lines of business.

2.11 Insurance. Schedule 2.11 lists all insurance policies and bonds that are maintained by Seller and are material to the business of the Hospital and indicates the type of insurance, policy number, term, identity of insurer, premiums and coverage amounts for the previous five (5) years and basic coverages (including applicable deductibles) for each such insurance policy and bond. Seller is not in default under any insurance policy or bond. Seller has timely filed claims with its respective insurers with respect to all matters and occurrences for which it believes it has coverage. Schedule 2.11 lists all claims in excess of $20,000 which have been made by Seller in the last two (2) years under any insurance policy or bond. Except as set forth in Schedule 2.11, all insurance policies and bonds are in full force and effect. Except as shown in Schedule 2.11, Seller has not received notice from any insurer or agent of any intent to cancel or not to renew any of such insurance policies and bonds. There are no outstanding requirements or recommendations by any insurance company that issued a policy with respect to any of the properties and assets of Seller or by any Board of Fire Underwriters or other body exercising similar functions or by any governmental entity requiring or recommending any action which has not been taken.

2.12 Employees.

(a) Schedule 2.12 sets forth a complete list (as of the date set forth therein) of names, positions and current annual salaries or wage rates, bonus and other compensation and/or benefit arrangements, accrued paid time off and ESL and period of service credited for vesting as of the date thereof of all full-time and part-time employees of Seller with respect to the operation of the Hospital or Barboursville School and indicating whether such employee is a part-time, full-time or PRN employee. The maximum accrual for extended sick leave for employees of the Seller is 160 hours and no employee currently has an amount of accrued sick leave in excess of such maximum. Except as shown in Schedule 2.12, there are no employment agreements or severance agreements with employees of Seller.

(b) There are no labor union or collective bargaining agreements in effect with respect to the employees of Seller with respect to the operation of the Hospital. There is no unfair labor practice complaint against Seller pending, or to the Knowledge of Seller threatened, before the National Labor Relations Board with respect to the operation of the Hospital. There is no labor strike, arbitration, dispute, slowdown or stoppage, and no union organizing campaign, pending, or to the Knowledge of Seller threatened by or involving the employees of Seller with respect to the operation of the Hospital.

2.13 Employee Benefits.

(a) Schedule 2.13 contains a list of each pension, retirement, savings, deferred compensation, and profit-sharing plan and each bonus or other incentive plan, severance plan, health, group insurance or other welfare plan, or other similar plan and any "employee plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), under which any employee, former employee or independent contractor (or beneficiary of any employee, former employee or independent contractor) of Seller have or may have any current or future right to benefits (the term "plan" shall include any written contract, agreement, policy or understanding, each such plan being hereinafter referred to in this Agreement individually as a "Plan"). Seller has made available to Purchaser true and complete copies of (i) each Plan and (ii) the summary plan description, if any, for each Plan. Each Plan intended to be tax qualified under Sections 401(a) and 501(a) of the Code either has received a favorable determination letter from the IRS or is a prototype plan as to which the prototype sponsor has received a favorable GUST opinion or advising letter as described in IRS Announcement 2001-6 on which Seller is entitled to reliance on all qualification issues under IRS Announcement 2001-77, and no amendment to or failure to amend any such Plan and, to Seller' s Knowledge, no other event or circumstance has occurred that would reasonably be expected to materially and adversely affect its tax qualified status. To Seller' s Knowledge, there has been no prohibited transaction within the meaning of Section 4975 of the Code and Section 406 of Title I of ERISA with respect to any Plan as to which there is no statutory or administrative exemption.

(b) There are no actions pending, or, to Seller' s Knowledge, threatened, with respect to any Plan or the assets of any Plan, other than claims for benefits in the ordinary course. Each Plan has been administered in all material respects in accordance with its terms and with all applicable laws (including ERISA).

(c) Neither Seller nor any Commonly Controlled Entity contributes to or has an obligation to contribute to, nor has Seller or any Commonly Controlled Entity at any time within six (6) years prior to the Closing contributed to or had an obligation to contribute to, either (i) a multiemployer plan within the meaning of Section 3(37) of ERISA, or (ii) any plan subject to Title IV of ERISA. Seller has performed timely and shall timely perform all obligations of Seller and each Commonly Controlled Entity, whether arising by operation of law or by contract, required to be performed under Section 4980B of the Code (or similar state law), including, but not limited to, such obligations that may arise by virtue of the transactions contemplated by this Agreement. For the purposes of this Section 2.13, "Commonly Controlled Entity" means any corporation, trade, business, or entity under common control with Seller within the meaning of Section 414(b), (c), (m), or (o) of the Code or Section 4001 of ERISA.

(d) Each employee, former employee and independent contractor of Seller has been properly classified as such for all purposes under the Code and ERISA.

2.14 Certain Interests. Except as shown in Schedule 2.14, no Affiliate of Seller, nor any officer or director of any thereof, nor any associate of any such individual, has any material interest in any property used in or pertaining to the business of the Hospital; no such Person is indebted or otherwise obligated to Seller; and Seller is not indebted or otherwise obligated to any

such Person, except for amounts due under normal arrangements applicable to all employees generally as to salary, or reimbursement of ordinary business expenses not unusual in amount or significance. Except as shown in Schedule 2.14, the consummation of the transactions contemplated by this Agreement will not (either alone, or upon the occurrence of any act or event, or with the lapse of time, or both) result in any benefit or payment (severance or other) arising or becoming due from Seller or the successor or assign of any thereof to any Person.

2.15 Intercompany Transactions. Except as shown in Schedule 2.15, Seller has not engaged in any transaction with any Affiliate of Seller. Except as shown in Schedule 2.15, Seller has no liabilities or obligations to any Affiliate of Seller and no Affiliate of Seller has any liabilities or obligations to Seller.

2.16 Inventory. All Inventory of Seller is of merchantable quality, reasonable in balance or currently usable in the ordinary course of business in all material respects. The value at which any Inventory is carried reflects the customary Inventory valuation policy of Seller, as applicable, for stating Inventory, in accordance with Hospital Historical GAAP consistently applied.

2.17 Receivables. The accounts receivable reflected on the books and records of Seller and the Hospital arose from bona fide commercial transactions, and the financial statements referred to in Section 2.4 include all material refunds, discounts or setoffs payable or assessable with respect to such accounts receivable, taken as a whole. Seller adequately records on its financial statements in accordance with generally accepted accounting principles consistently applied ("GAAP") all estimates for future Seller Cost Report settlements for all years open to settlement. Seller records government program recoupments on its financial statements as they occur in accordance with GAAP.

2.18 Third Party Payors and Suppliers. Schedule 2.18 lists the names of and describes all Material Contracts with and the respective percentage of the revenues of the business of the Hospital for the year ended December 31, 2004, attributable to the ten largest third party payors and any sole-source suppliers of significant goods or services (other than electricity, gas, telephone or water) to the business of the Hospital with respect to which alternative sources of supply are not readily available on comparable terms and conditions.

2.19 Worker Adjustment and Retraining Notification (WARN). Seller has complied with the Worker Adjustment and Retraining Notification Act, 29 U.S.C.A. §2102, et seq., as amended (the "WARN Act"), insofar as applicable to any acts or transactions with respect to the operation of the Hospital prior to the Closing.

2.20 Environmental Compliance. Except as set forth in Schedule 2.20:

(a) Seller is in material compliance with all applicable Environmental Laws. As used herein, "Environmental Laws" shall mean all applicable federal, state or local laws relating to pollution or protection of the environment (including, without limitation, ambient air, surface water, ground water, land or surface or subsurface strata), including all federal, state or local laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes into the environment and all federal, state or local laws relating to the manufacture, processing,

distribution, use, treatment, storage, disposal, transport or handling of any of the foregoing, including the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. § 6901, et. seq., and the rules and regulations promulgated thereunder.

(b) Seller has obtained all material permits required under applicable Environmental Laws for the use, operation or ownership of the Real Property and the business of the Hospital. The Real Property and the Hospital are in material compliance with each such applicable material permit. No federal, state or local governmental entity has notified Seller that any such material permits may or will be suspended, cancelled, revoked or materially modified, or cannot be renewed in the ordinary course of business.

(c) Seller has not received from any federal, state or local governmental entity or other person any written order, directive, information request, notice of violation, notice of alleged violation, notice of noncompliance, notice of liability or potential liability, regarding compliance with, or liability or potential liability under, applicable Environmental Laws concerning any of the Real Property or the business of the Hospital or any off-site disposal of a hazardous substance (including any letter or request for information under Section 104 of the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. § 9604) or any comparable state law).

(d) No judicial proceeding, action, claim, suit, or governmental or administrative action is pending or, to the Knowledge of Seller, threatened, under any applicable Environmental Law pursuant to which Seller is, or to the Knowledge of Seller could be, reasonably expected to be named as a party with respect to the Real Property or the business operations of the Hospital.

(e) Seller has not entered into any agreement with any federal, state or local governmental entity or any other person pursuant to which Seller assumed responsibility for the investigation or remediation of any condition resulting from the release, treatment, storage or disposal of hazardous substances.

(f) Seller has disclosed and made available to Purchaser all relevant information, including all studies, site assessments, compliance audits and similar environmental reports, analyses, and test results that are in Seller' s possession, custody or control, relating to any past and present (i) environmental conditions concerning the business of the Hospital or on, under or about the Real Property, (ii) use or operation of the Real Property used in or held for use in connection with the business of the Hospital, and (iii) activities relating to hazardous substances on, or any off-site disposal of a hazardous substance from, the Real Property or used in connection with the business of the Hospital. Seller has disclosed and made available to Purchaser any and all documents that are in Seller' s possession, custody or control relating to projected environmental expenditures for the business of the Hospital and the Real Property, including capital and operating budgets and reports prepared by independent auditors or accountants and prepared by personnel, and including reports, studies or documents relating to the costs (including, anticipated capital costs and annual expenses) of compliance with Environmental Laws.

(g) Seller has no Knowledge of any soil or groundwater contamination on, under, or about any Real Property except as disclosed in the environmental reports described in Section 2.20(f) above.

(h) Seller does not hold and is not required to hold a permit for the generation, treatment, storage, or disposal of hazardous waste in accordance with the Resource Conservation and Recovery Act (42 U.S.C. § 6901, et seq.).

2.21 Powers of Attorney. Except as set forth in Schedule 2.21, Seller has not given any power of attorney (irrevocable or otherwise) to any person for any purpose relating to the business of the Hospital, other than powers of attorney given to regulatory authorities in connection with routine qualifications to do business.

2.22 Accreditation; Medicare and Medicaid; Third-Party Payors; Compliance with Health Care Laws.

(a) The Hospital is duly accredited by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") as evidenced by the Hospital' s most recent JCAHO accreditation survey reports and is duly licensed by the West Virginia Department of Health and Human Resources ("DHHR") as an inpatient psychiatric hospital and psychiatric residential treatment facility. Seller has the lawful authority and all federal, state or local governmental authorizations, certificates of authority, certificates of need, licenses or permits necessary for or required to conduct the business operations of the Hospital as such are being conducted. In order to conduct the business operations of the Hospital as presently conducted, Seller is not required to hold any licenses, permits and other governmental approvals or authorizations except for the licenses currently held by Seller as set forth in Schedule 2.22. The licenses listed in Schedule 2.22 are in full force and effect and Seller is in full compliance in all material respects with all requirements of each license that it holds. Seller has made all material filings with governmental agencies required for the conduct of its business operations. There are no judgments, consent decrees or injunctions of any court or any governmental department, commission, agency or instrumentality by which Seller is bound or to which Seller is subject which relates in any manner to the business of the Hospital. Seller has not received nor, to the Knowledge of Seller, is it subject to any notice, subpoena, demand letter, administrative inquiry or formal or informal complaint or claim from any governmental department, commission, agency or instrumentality which relate in any manner to the business operations of the Hospital.

(b) Without limiting the generality of the foregoing, the applicable facilities, equipment, staffing and operations of the business of the Hospital satisfy in all material respects the accreditation standards of JCAHO, and Seller has previously delivered to Purchaser true, correct and complete copies of (i) the Hospital' s most recent JCAHO accreditation survey report, a list of deficiencies, if any, and, if applicable, a plan of correction; (ii) the Hospital' s most recent DHHR survey, lists of deficiencies, if any, and, if applicable, plan of correction; (iii) the Hospital' s fire marshal' s surveys for the past two (2) years and lists of deficiencies, if any; and (iv) the Hospital' s boiler inspection reports for the past two (2) years and lists of deficiencies, if any. Seller has taken all reasonable steps to correct all such deficiencies and a description of any uncorrected deficiency is set forth in Schedule 2.22.

(c) Seller receives payment without restriction under Medicare and Medicaid and has a valid and current provider agreement and one or more properly issued provider numbers with each Federal Health Care Program as such term is defined in 72 U.S.C. § 1320a-7b(f) (the "Government Programs"). The Hospital Provider Numbers are listed in Schedule 2.22 by facility, to the extent applicable. Except as set forth in Schedule 2.22, Seller is in compliance in all material respects with the conditions of participation for the Government Programs applicable to psychiatric hospitals.

(d) Seller has timely filed in accordance with instructions from the Centers for Medicare & Medicaid Services or the applicable payor or shall cause to be timely filed in accordance with instructions from the Centers for Medicare & Medicaid Services or the applicable payor all cost reports and other reports that are required by third-party payors to have been filed or made on or before the Closing Date with respect to the purchase of services of the business of the Hospital, including Government Programs and other insurance carriers, and, except as disclosed in Schedule 2.22, all such reports are or when filed shall be complete and accurate in all material respects. Except as disclosed in Schedule 2.22, Seller is and has been in material compliance with filing requirements with respect to cost reports of Seller, and such reports do not claim, and Seller has not received, payment or reimbursement in excess of the amount provided or allowed by applicable law or any applicable agreement, except where excess reimbursement was noted on the cost report. True and correct copies in electronic format of all such reports for the three (3) most recent fiscal years for which cost reports have been filed by Seller, and any other cost report for which a final settlement has not been issued, have been made available to Purchaser. Except as disclosed in Schedule 2.22 and except for claims, actions and appeals in the ordinary course of business, Seller has neither initiated nor received written notice of any material claims, actions or appeals pending before any commission, board or agency, including any fiscal intermediary or carrier, governmental entity, or the Administrator of the Center for Medicare & Medicaid Services, with respect to any Government Program cost reports or claims filed with any Government Program on behalf of Seller with respect to the business of the Hospital, on or before the date of this Agreement. Schedule 2.22 indicates which of such cost reports have been audited by the fiscal intermediary and finally settled.

(e) Except as disclosed in Schedule 2.22, no validation review or program integrity review related to the Hospital, the operation of the Hospital, or the consummation of the transactions contemplated by this Agreement, has been conducted by any commission, board, agency or government entity in connection with the Government Programs, and to the best Knowledge of Seller, no such reviews are scheduled, pending or threatened against or affecting Seller with respect to the Hospital, or the consummation of the transactions contemplated by this Agreement.

(f) All billing practices of Seller with respect to the Hospital to all third-party payors, including the Government Programs and private insurance companies, are and have been in compliance with all applicable laws and policies of such third-party payors and Government Programs in all material respects, and neither Seller with respect to the Hospital nor the Hospital has billed or received any payment or reimbursement in excess of amounts allowed by law.

(g) Seller has performed through third party contractors a review of the website of the Office of Inspector General of the United States Department of Health and Human

Services and based upon such review and except as listed in Schedule 2.22, (i) no employee or independent contractor of Seller or any physician currently on the medical staff at the Hospital is listed as having been, and to the Knowledge of Seller is not, excluded from participating in Medicare or any other federal health care program (as that term is defined in 42 U.S.C. § 1320a-7b(f)), and (ii) none of the business of the Hospital, or Seller or Seller' s officers, directors, agents or management employees (as that term is defined in 42 U.S.C. § 1320a-5(b)), has been excluded from participating in Medicare or any other federal health care program (as that term is defined in 42 U.S.C. § 1320a-7b(f) or has been subject to sanction pursuant to 42 U.S.C. § 1320a-7a or 1320a-8 or has been convicted of a criminal offense under the Anti-Kickback Laws.

(h) In the five (5) year period immediately preceding the Execution Date and since the Execution Date, to the Knowledge of Seller, none of Seller' s employees while an employee of the Hospital has committed a violation of federal or state laws regulating health care fraud, including the Anti-Kickback Laws, the Stark Laws and the False Claims Act which violation relates in any material respect to the business operations of the Hospital.

2.23 Compliance Program. Seller has made available to Purchaser (i) a copy of the Hospital' s current compliance program materials, including all program descriptions, compliance officer and committee descriptions, ethics and risk area policy materials, training and education materials, auditing and monitoring protocols, reporting mechanisms, and disciplinary policies and (ii) copies of any written complaints received in the previous five (5) years from the date hereof from employees, independent contractors, vendors, physicians or any other person asserting that the Hospital or Seller have violated any health care fraud law or regulation, including the Anti-Kickback Laws and the Stark Laws. Seller (a) is not a party to a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services, (b) has no reporting obligations pursuant to any settlement agreement entered into with any Governmental Program, (c) to the Knowledge of Seller, has not been the subject of any Government Program investigation conducted by any federal or state enforcement agency during the past five (5) years, (d) to the best of Seller' s Knowledge, has not been a defendant in any *qui tam*/False Claims Act litigation during the past five (5) years, or (e) has not been served with or received any written search warrant, subpoena, civil investigative demand or contact letter from any federal or state enforcement agency (except in connection with medical services provided to, or medical supplies purchased from, third parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health care businesses conducted by Seller).

2.24 HIPAA. Seller is in compliance in all material respects with the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 and the rules and regulations promulgated thereunder ("HIPAA") as of the applicable effective dates for such requirements.

2.25 Restricted Grant and Loan Programs. The transactions contemplated by this Agreement will not result in any obligation on Seller to repay any loans, grants or loan guarantees or provide uncompensated care in consideration thereof pursuant to the Hill Burton Program or any similar statute or program with respect to the ownership or operation of the business of the Hospital.

2.26 Experimental Procedures. Seller has not performed or authorized the performance of any experimental or research procedures or studies involving patients of the Hospital that require the prior approval of any governmental entity that has not been obtained.

2.27 Medical Staff; Physician Relations. Seller has delivered to Purchaser complete and genuine copies of the bylaws and rules and regulations of the medical staff and medical executive committees of the Hospital. Schedule 2.27 sets forth (a) the name and status on the medical staff of each member of the medical staff of the Hospital and (b) the degree (e.g., M.D., D.O.), title specialty and board certification, if any, of each such medical staff member. Except as set forth in Schedule 2.27, there are no pending or, to Seller' s knowledge, threatened disputes with the Hospital medical staff members or applicants or allied health professionals, and all appeal periods in respect of any medical staff member or applicant against whom an adverse action has been taken have expired.

2.28 Solvency. Seller is not insolvent and will not be rendered insolvent as a result of any of the transactions contemplated by this Agreement. For purposes hereof, the term "solvency" means that: (a) the fair salable value of Seller' s tangible assets is in excess of the total amount of its liabilities (including for purposes of this definition all liabilities, whether or not reflected on a balance sheet prepared in accordance with GAAP, and whether direct or indirect, fixed or contingent, secured or unsecured, and disputed or undisputed); (b) Seller is able to pay its debts or obligations in the ordinary course as they mature; and (c) Seller has capital sufficient to carry on its businesses and all businesses which it is about to engage.

2.29 No Brokers or Finders. No agent, broker, finder, or investment or commercial banker, or other Person or firm engaged by or acting on behalf of Seller, or any of their respective Affiliates in connection with the negotiation, execution or performance of this Agreement or the transactions contemplated by this Agreement, is or will be entitled to any brokerage or finder' s or similar fee or other commission as a result of this Agreement or such transactions; except for such fees or other commissions as to which Seller shall have full responsibility and, with respect to such fees or commissions, Purchaser shall not have any liability.

2.30 Improper Payments. Neither Seller nor any shareholder, director, officer, employee or agent of Seller has made any bribes, kickbacks or other illegal payments to, or received any such illegal payments from, customers, vendors, suppliers or other persons contracting with Seller and has not proposed or offered to make or receive any such illegal payments.

2.31 No Misrepresentations. The representations, warranties and statements made by Seller in this Agreement (including any Disclosure Schedule, Exhibit or certificate furnished by Seller in accordance with the terms of this Agreement), are true, complete and correct in all material respects and do not contain any untrue statement of a material fact or omit to state any material fact necessary to make any such representation, warranty or statement, under the circumstances in which it is made, not misleading.

2.32 No Other Representations or Warranties. Except to the extent set forth in this Article 2, Seller has not made, nor makes, and expressly disclaims, any representation or

warranty of any kind or character, express or implied, oral or written, past present or future, with respect to the Assets, the transactions contemplated hereby or the matters set forth herein, including any warranty of merchantability or fitness for a particular purpose. Except as otherwise expressly set forth in this Agreement, Seller shall sell the Assets, and Purchaser shall purchase the Assets, at the Closing "AS IS, WHERE IS" with all faults.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF PURCHASER

As an inducement to Seller to enter into this Agreement and to consummate the transactions contemplated by this Agreement, Purchaser hereby represents, warrants and covenants to Seller as to the following matters as of the Execution Date and, except as otherwise provided herein, shall be deemed to remake all of the following representations, warranties and covenants as of the Closing Date and the Effective Time:

3.1 Authority. Purchaser has full corporate power and authority to enter into this Agreement and to carry out the transactions contemplated hereby.

3.2 Authorization/Execution. All corporate and other actions required to be taken by Purchaser to authorize the execution, delivery and performance of this Agreement, all documents executed by Purchaser which are necessary to give effect to this Agreement, and all transactions contemplated hereby, have been duly and properly taken or obtained by Purchaser. No other corporate or other action on the part of Purchaser is necessary to authorize the execution, delivery and performance of this Agreement, all documents necessary to give effect to this Agreement and all transactions contemplated hereby. This Agreement and all documents delivered hereunder have been duly and validly executed and delivered by Purchaser and, assuming due and valid execution by, and enforceability against, Seller, this Agreement and all documents delivered hereunder constitute the valid and binding obligations of Purchaser enforceable in accordance with their respective terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and (b) limitations on the enforcement of equitable remedies.

3.3 Organization and Good Standing; No Violation.

(a) Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of West Virginia, and has full power and authority to own, operate and lease its properties and to carry on its business as now conducted.

(b) The execution and delivery of this Agreement and the performance of the transactions contemplated by this Agreement and all other instruments, agreements, certificates and documents contemplated hereby to which Purchaser is or will be a party do not (i) violate any decree or judgment of any court or governmental authority which may be applicable to or bind Purchaser; (ii) violate any law, rule or regulation applicable to Purchaser which would have a material adverse effect on Purchaser; (iii) violate or conflict with, or result in a breach of, or constitute a default (or an event which, with or without notice or lapse of time or both, would constitute a default) under, or permit cancellation of, any material contract, lease, sales order, purchase order, indenture, mortgage, note, bond, instrument, license or other agreement to which Purchaser is a party, or by which Purchaser is bound; (iv) permit the acceleration of the maturity

of any indebtedness of Purchaser; or (v) violate or conflict with any provision of the Articles of Incorporation or Bylaws of Purchaser.

3.4 Legal Proceedings. There is no order or action pending, or, to the Knowledge of Purchaser, threatened, against or affecting Purchaser, or any of its respective properties or assets.

3.5 Solvency. Purchaser is not insolvent and will not be rendered insolvent as a result of the consummation of any of the transactions contemplated by this Agreement. For purposes hereof, the term "solvency" means that: (a) the fair salable value of Purchaser' s tangible assets is in excess of the total amount of its liabilities; (b) Purchaser is able to pay its debts or obligations in the ordinary course as they mature; and (c) Purchaser has capital sufficient to carry on its business and all businesses which it is about to engage.

3.6 No Conflicts; Consents. Except as provided in Schedule 3.6, the execution and delivery of this Agreement and the performance of the transactions contemplated by this Agreement and all other instruments, agreements, and certificates referenced herein to which Purchaser is or will be a party do not (i) violate any decree or judgment of any court or governmental authority which is applicable to or binding upon Purchaser, (ii) violate any law, rule or regulation applicable to Purchaser which would have a material adverse effect on Purchaser; (iii) violate or conflict with, or result in a material breach of, or constitute a material default (or an event which, with or without notice or lapse of time or both, would constitute a material default) under, any material contract, lease, sales order, purchase order, indenture, mortgage, note, bond, instrument, license or other agreement to which Purchaser is a party, or by which Purchaser is bound; (iv) permit the acceleration of the maturity of any indebtedness of Purchaser; or (v) violate or conflict with any provision of the Articles of Incorporation or Bylaws of Purchaser.

3.7 Availability of Funds; Performance of Obligations. Purchaser has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash which are sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement. Purchaser has the ability to perform and discharge all of its obligations under this Agreement.

3.8 Brokers and Finders. No agent, broker, finder, or investment or commercial banker, or other Person or firm engaged by or acting on behalf of Purchaser, or any of their respective Affiliates in connection with the negotiation, execution or performance of this Agreement or the transactions contemplated by this Agreement, is or will be entitled to any brokerage or finder' s or similar fee or other commission as a result of this Agreement or such transactions; except for such fees and other commissions as to which Purchaser shall have full responsibility and, with respect to such fees or commissions, Seller shall not have any liability.

ARTICLE 4
COVENANTS OF SELLER

4.1 Access and Information; Inspection Period, Preparation of Exhibits and Schedules. From the Execution Date through the Closing, Seller shall afford to the officers and agents of Purchaser (which shall include accountants, attorneys, bankers and other consultants

and agents of Purchaser) full and complete access during normal business hours to and the right to inspect the plants, properties, books, accounts, records and all other relevant documents and information with respect to the assets, liabilities and business of the Hospital and all of the other Assets being purchased or leased by Purchaser hereunder. From the Execution Date through the Closing, Seller shall furnish Purchaser with such additional financial and operating data and other information in Seller' s possession as to businesses and properties of the Hospital and all of the Assets as Purchaser or its representatives may from time to time reasonably request, without regard to where such information may be located. Purchaser agrees that Purchaser' s right of access and inspection shall be exercised in such a manner as not to interfere unreasonably with the operations of the Hospital. Such access may include consultations with the personnel of Seller. Further, Purchaser may, at its sole cost and expense, undertake environmental, mechanical and structural surveys of the Hospital and the Real Property. Purchaser agrees that, after performing any inspections, tests or surveys, Purchaser shall restore the Hospital and the Real Property as nearly as possible to its original condition and repair any damage to same caused by the performance of such inspections, tests, or surveys. Purchaser agrees that, prior to Purchaser' s or its agents' , contractors' or employees' entry onto the Hospital or the Real Property to perform any such inspections, tests, or surveys, Purchaser shall, and shall cause its agents and contractors to, maintain levels of liability and other insurance as are considered generally acceptable in the industry for the activities to be undertaken on the Hospital or the Real Property. Purchaser hereby assumes, and agrees to defend, indemnify and save Seller harmless from and against, any claim, damage, liability, cost or expense (including reasonable attorneys' fees) arising from acts or omissions of Purchaser (and from the acts or omissions of Purchaser' s agents, contractors or employees) in any way pertaining to any entry upon, or inspection, test, or survey of, the Hospital or the Real Property (or any parts thereof). Purchaser agrees to do no act prior to Closing that would encumber title to the Hospital or the Real Property, except for any act which results in a Permitted Encumbrance. Purchaser' s obligations under this Section with respect to acts or omissions occurring prior to Closing, but not thereafter, shall survive Closing or termination hereunder.

4.2 Conduct of Business. On and after the Execution Date and prior to the Closing, and except as otherwise consented to or approved by an authorized officer of Purchaser or required by this Agreement, Seller shall, with respect to the operation of the Hospital:

(a) carry on its businesses with respect to the operation of the Hospital in substantially the same manner as presently conducted and not make any material change in personnel, operations, finance, accounting policies (unless Seller is required to adopt such changes under GAAP), Tax elections or Tax returns or real or personal property;

(b) maintain the Hospital and all parts thereof and all other Assets in operating condition in a manner consistent with past practices, ordinary wear and tear excepted;

(c) perform all of its material obligations under agreements relating to or affecting the Hospital, its operations or the Assets;

(d) keep in full force and effect present insurance policies or other comparable self-insurance; and

(e) use commercially reasonable efforts to maintain and preserve its business organization intact, retain its present employees at the Hospital and maintain its relationships with physicians, suppliers, customers and others having business relationships with the Hospital.

4.3 Negative Covenants. From the Execution Date until the Closing, with respect to the operation of the Hospital, Seller shall not, without the prior written consent of Purchaser or except as may be required by law:

(a) amend or terminate any of the Contracts or Leases, enter into any new contract or commitment, or incur or agree to incur any liability, except in the ordinary course of business (which ordinary course of business shall include renewals of any Contract), and in no event with respect to any such contract, commitment or liability as to which the total to be paid in the future under the contract, commitment or liability exceeds $25,000.00;

(b) increase compensation payable or to become payable or make any bonus payment to or otherwise enter into one or more bonus agreements with any employee, except in the ordinary course of business in accordance with Seller' s customary personnel policies;

(c) create, assume or permit to exist any new debt, mortgage, deed of trust, pledge or other lien or encumbrance (other than Permitted Encumbrances) upon any of the Assets, except for draw downs on existing lines of credit in the ordinary course of business;

(d) acquire (whether by purchase or lease) or sell, assign, lease, or otherwise transfer or dispose of any property, plant or equipment, except in the ordinary course of business;

(e) except with respect to previously budgeted expenditures, purchase capital assets or incur costs in respect of construction in progress;

(f) take any action outside the ordinary course of business; or

(g) reduce Inventory except in the ordinary course of business.

For purposes of this Section 4.3, Seller shall be deemed to have obtained Purchaser' s prior written consent to undertake the actions otherwise prohibited by this Section 4.3 if Seller gives Purchaser written notice of a proposed action and Seller does not receive from Purchaser a written notice of objection to such action within five (5) business days after Purchaser receives Seller' s written notice.

4.4 Consents. Seller shall use commercially reasonable efforts to obtain all Contract Consents and shall cooperate with Purchaser and its representatives and attorneys: (a) in Purchaser' s efforts to obtain all other consents, approvals, authorizations, clearances, certificates of need and licenses required to carry out the transactions contemplated by this Agreement (including, without limitation, those of governmental and regulatory authorities) or which Purchaser reasonably deems necessary or appropriate, and (b) in the preparation of any document or other material which may be required by any governmental agency as a predicate to or result of the transactions contemplated in this Agreement.

4.5 Additional Financial Information. Within fifteen (15) calendar days following the end of each calendar month after the Execution Date and prior to Closing, Seller shall deliver to Purchaser complete copies of the unaudited balance sheet and related unaudited statements of income in accordance with Hospital Historical GAAP with respect to the operation of the Hospital for each month then ended, together with corresponding year-to-date amounts.

4.6 No-Shop. From and after the Execution Date until the earlier of the Closing Date or the termination of this Agreement, Seller shall not, without the prior written consent of Purchaser: (a) offer for sale or lease the assets of the Hospital or the Assets (or any material portion thereof); (b) solicit offers to buy all or any material portion of the assets of the Hospital or the Assets; (c) hold discussions with any party (other than Purchaser) relating to such an offer or solicitation; or (d) enter into any agreement with any party (other than Purchaser) with respect to the sale or other disposition of the assets of the Hospital or the Assets. Notwithstanding the foregoing, this Section 4.6 shall not be construed to prohibit Seller or its Affiliates from engaging in corporate transactions, including mergers, reorganizations or other transactions, so long as the terms thereof do not contemplate the sale or lease or other disposition of the assets of the Hospital or the Assets and Seller complies with the provisions of Section 12.3 requiring Purchaser' s consent to any assignment of this Agreement by Seller.

4.7 Seller' s Efforts to Close. Seller shall use its commercially reasonable efforts to satisfy all of the conditions precedent set forth in Articles 6 and 7 to its or Purchaser' s obligations under this Agreement to the extent that Seller' s action or inaction can control or influence the satisfaction of such conditions.

4.8 Title Matters.

(a) On or prior to ten (10) days after the Execution Date, Purchaser, at its expense, shall request (i) a preliminary binder(s) or title commitment(s) (collectively, the "Title Commitment") sufficient for the issuance of A.L.T.A. Extended Coverage Owner' s Title Insurance Policy with respect to the Owned Real Property together with such endorsements as are customary in West Virginia, (the "Owner' s Title Policy") and an A.L.T.A. Extended Coverage Leasehold Title Policy with respect to any ground lease specified in Schedule 4.8 together with such endorsements as are customary in West Virginia, (the "Leasehold Title Policy") (the Owner' s Title Policy and the Leasehold Title Policy are collectively referred to in this Agreement as the "Title Policy"), issued by First American Title Insurance Company (the "Title Company"), together with true, correct and legible copies of all instruments referred to therein as conditions or exceptions to title (the "Title Instruments") and (ii) shall order an A.L.T.A. survey of the Owned Real Property complying with the Minimum Standard Detail Requirements for ALTA/ASCM Land Title Survey for the Owned Real Property (the "Survey"). The cost of the Title Policy and the Survey shall be borne by Purchaser.

(b) Within ten (10) business days after receipt of the Title Commitment and the Survey, Purchaser shall deliver a copy thereof to Seller and advise Seller in writing (the "Title Notice") of any survey or title matters that, in Purchaser' s sole discretion, will adversely affect, impede or hinder Purchaser' s use of the Real Property (collectively, the "Objections").

Seller shall give written notice to Purchaser within three (3) business days of Seller' s receipt of the Title Notice of any Objections which Seller is willing and able to cure (Seller having no obligation whatsoever to cure). Purchaser shall permit such time as is reasonably necessary, including a reasonable extension of the date of Closing, in which to cure any Objections identified by Seller as items to be cured. In the event Seller advises Purchaser of its inability or unwillingness to cure one or more Objections (or in the event Seller does not give any responsive notice within such three-day period), Purchaser, within the earlier to occur of three (3) business days after receipt of Seller' s response, or the expiration of such three-day period for Seller' s response, shall elect either to (i) waive such objections and proceed to Closing without any adjustment to any of the terms of this Agreement, or (ii) terminate this Agreement by giving written notice to Seller, in which event the Parties shall be relieved of all further liability hereunder (except those which expressly survive termination); provided, however, that Purchaser shall return all materials provided by Seller to Purchaser, as well as copies of any reports or results arising from Purchaser' s inspections, tests, and surveys of the Real Property. If Purchaser does not give timely notice of such election, Purchaser shall be deemed to have elected the option to waive the Objections specified in clause (i) immediately above.

(c) All matters affecting title to the Real Property as of the date of Purchaser' s survey and title report that are not objected to in the Title Notice or waived (or deemed waived) by Purchaser shall be deemed consented to by Purchaser, and (i) all such deemed consented matters, (ii) any subsequent title matters permitted hereby, consented to by Purchaser, or not otherwise arising through Seller' s acts or omissions, and (iii) any other survey or title matter that does not materially and adversely affect insurability of title, marketability, use, occupancy, possession, ownership or utility of the Real Property, shall be collectively referred to herein as "Permitted Encumbrances," in addition to those matters identified as Permitted Encumbrances in Section 2.7(a) hereof (other than The Huntington National Bank liens and encumbrances to be discharged at or prior to the Closing). The state of title at the date of Closing shall be subject only to the Permitted Encumbrances, except as permitted hereby. Except for Permitted Encumbrances, on or after the Execution Date, Seller shall neither take, nor consent to, any steps or actions which will in any manner adversely alter the status of the title to the Real Property without Purchaser' s prior written consent, which consent shall not be unreasonably withheld. Except for Permitted Encumbrances, Seller shall not execute, grant or record any easements, covenants, conditions, liens, restrictions, leases or other agreements or matters with respect to the Real Property without Purchaser' s prior written consent, which shall not be unreasonably withheld.

4.9 Updating of Disclosure Schedules.

(a) Seller shall notify Purchaser of any changes, additions, or events which may cause any change in or addition to the Disclosure Schedules delivered by Seller under this Agreement promptly after the occurrence of the same and again at the Closing by delivery of appropriate updates to all such Schedules. No notification of a change or addition to a Disclosure Schedule made pursuant to this Section 4.9 shall be deemed to cure any breach of any representation or warranty resulting from such change or addition unless in any such case Purchaser specifically agrees thereto in writing, nor shall any such notification be considered to constitute or give rise to a waiver by Purchaser of any condition set forth in this Agreement, unless in any such case Purchaser specifically agrees thereto in writing; provided, however, that,

in the event Seller has so notified Purchaser by the delivery of appropriate updates to the Disclosure Schedules, and Purchaser proceeds with the Closing and does not terminate this Agreement, then Purchaser shall be deemed to have agreed to such revised Disclosure Schedule or to have waived such condition, as the case may be. In the event Purchaser does so agree in writing or is deemed to have so agreed by proceeding with the Closing, then the applicable Disclosure Schedule shall be deemed changed or modified or the condition waived, as the case may be, as set forth in the notification from Seller for all purposes of this Agreement. Nothing contained herein shall be deemed to create or impose on Purchaser any duty to examine or investigate any matter or thing for the purposes of verifying the representations and warranties made by Seller herein.

(b) Certain Disclosure Schedules to the Agreement set forth exceptions to the representations, warranties and other agreements made by Seller in the Agreement and are intended to qualify such representations, warranties and agreements. The information expressly set forth in a Disclosure Schedule with respect to any section of the Agreement shall also be deemed to qualify each other section of the Agreement to which such information is applicable (regardless of whether or not such other section is qualified by reference to a Disclosure Schedule), so long as application to such section is reasonably discernible from such disclosure. Notwithstanding the foregoing, the representations, warranties and other agreements of a party set forth in the Agreement shall not be affected, modified, waived or limited in any respect by the information contained in any agreement or document listed or referenced in a Disclosure Schedule unless the reference on the face of the Disclosure Schedule expressly indicates how such agreement or document limits the scope of a representation, warranty or other agreement of the party set forth in the Agreement.

ARTICLE 5
COVENANTS OF PURCHASER

5.1 Purchaser' s Efforts to Close. Purchaser shall use its commercially reasonable efforts to satisfy all of the conditions precedent set forth in Articles 6 and 7 to its or Seller' s obligations under this Agreement to the extent that Purchaser' s action or inaction can control or influence the satisfaction of such conditions.

5.2 Required Governmental Approvals. Purchaser (a) shall use commercially reasonable efforts to secure, as promptly as practicable before the Closing Date, all consents, approvals, authorizations, clearances, certificates of need, licenses and permits required to be obtained from governmental and regulatory authorities necessary for Purchaser to perform its obligations under this Agreement, cause all of its covenants and agreements to be performed, satisfied and fulfilled and operate the Hospital after the Closing; and (b) will provide such other information and communications to governmental and regulatory authorities as Seller or such authorities may reasonably request.

5.3 Excluded Assets. As soon as practicable after the Closing Date, Purchaser shall deliver to Seller or Seller' s designee any Excluded Assets found at the Hospital on and after the Effective Time, without imposing any charge on Seller for Purchaser' s storage or holding of same on and after the Effective Time.

5.4 Confidentiality. Until Closing, Purchaser shall, and shall cause its employees, representatives and agents to, hold in strict confidence, unless specifically compelled to disclose by judicial or administrative process, all Confidential Information, and Purchaser shall not disclose the Confidential Information to any person, except as otherwise may be reasonably necessary to carry out the transactions contemplated by this Agreement, including any business or diligence review by or on behalf of Purchaser. Purchaser' s obligations set forth in the immediately preceding sentence shall apply (a) between the Execution Date and the Effective Time with respect to Confidential Information which is among the Assets and (b) after the Effective Time for all Confidential Information which is not described in subsection (a) above. For the purposes hereof, "Confidential Information" shall mean (x) all information of any kind concerning Seller or the business of the Hospital, in connection with the transactions contemplated by this Agreement except information (i) ascertainable or obtained from public or published information, (ii) received from a third party not known by Purchaser to be under an obligation to Seller or any Affiliate of Seller to keep such information confidential, (iii) which is or becomes known to the public (other than through a breach of this Agreement), or (iv) which was in Purchaser' s possession prior to disclosure thereof to Purchaser in connection herewith, and (y) all "Individually Identifiable Health Information," as such term is defined in 45 CFR §160.102, of patients and others receiving services from the Hospital. In the event of any termination, expiration or removal of this Agreement, Purchaser shall, in addition to complying with the covenant of nondisclosure set forth in this Section 5.4, return to Seller any and all Individually Identifiable Health Information in Purchaser' s possession without retaining copies thereof.

5.5 Enforceability. Purchaser hereby acknowledges that the restrictions contained in Section 5.4 above are reasonable and necessary to protect the legitimate interests of Seller. The Parties also hereby acknowledge and agree that any breach of Section 5.4 would result in irreparable injury to Seller and that any remedy at law for any breach of Section 5.4 would be inadequate. Notwithstanding any provision to the contrary contained in this Agreement, the Parties hereto agree, and Purchaser hereby specifically consents that, without necessity of proof of actual damage, (a) Seller may be granted temporary or permanent injunctive relief, (b) Seller shall be entitled to an equitable accounting of all earnings, profits and other benefits arising from such breach, and (c) Seller shall be entitled to recover its reasonable fees and expenses, including attorneys' fees, incurred by Seller in enforcing the restrictions contained in Section 5.4.

5.6 Waiver of Bulk Sales Law Compliance. Purchaser hereby waives compliance by Seller with the requirements, if any, of Article 6 of the Uniform Commercial Code as in force in any state in which the Assets are located and all other similar laws applicable to bulk sales and transfers.

ARTICLE 6
CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER

Seller' s obligation to sell the Assets and to close the transactions as contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by Seller in whole or in part at or prior to the Closing:

6.1 Accuracy of Representations and Warranties and Compliance with Obligations. The representations and warranties of Purchaser contained in this Agreement shall have been true and correct at the date of this Agreement, and they shall be true and correct in all respects as of the Closing with the same force and effect as though made at and as of the Closing. Purchaser shall have performed and complied with all of its obligations required by this Agreement to be performed or complied with at or prior to the Closing.

6.2 Signing and Delivery of Instruments. Purchaser shall have executed and delivered all documents, instruments and certificates required to be executed and delivered by it pursuant to the provisions of this Agreement and Horizon Health Corporation shall have executed and delivered the Parent Guaranty. Purchaser acknowledges that Purchaser shall not satisfy the condition precedent set forth in this Section 6.2, as it relates to the delivery of the Purchase Price, unless Purchaser initiates the wire transfer of the amount set forth in Section 1.6 to Seller, and provides to Seller a Federal Reserve wire reference number with respect thereto, on or before 3:00 p.m. (Central time) on the Closing Date.

6.3 Unfavorable Action or Proceeding. On the Closing Date, no orders, decrees, judgments or injunctions of any court or governmental body shall be in effect, and no claims, actions, suits, proceedings, arbitrations or investigations shall be pending or threatened, which challenge or seek to challenge, or which could reasonably be expected to prevent or cause the rescission of, the consummation of the transactions contemplated in this Agreement.

6.4 Governmental Authorizations. Seller shall have obtained all material licenses, permits, approvals and authorizations from governmental agencies or governmental bodies that are necessary or required for Seller to complete the transactions contemplated by this Agreement. Purchaser shall have obtained all material licenses, permits, approvals and authorizations from governmental agencies or governmental bodies that are necessary or required for Purchaser to complete the transactions contemplated by this Agreement and the operation of the Hospital by Purchaser after the Closing. All consents, waivers, and estoppels of third parties which are reasonably necessary, in the opinion of Seller, to complete effectively the transactions herein contemplated shall have been obtained in form and substance reasonably satisfactory to Seller.

ARTICLE 7
CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER

Purchaser' s obligation to purchase the Assets and to close the transactions contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by Purchaser in whole or in part at or prior to the Closing.

7.1 Accuracy of Representations and Warranties and Compliance with Obligations. The representations and warranties of Seller in this Agreement shall have been true and correct on the date of this Agreement, and they shall be true and correct in all respects as of the Closing with the same force and effect as though made at and as of the Closing. Seller shall have performed and complied with all of their respective obligations required by this Agreement to be performed or complied with at or prior to the Closing.

7.2 Governmental Authorizations. Purchaser shall have obtained all material licenses, permits, approvals and authorizations from governmental agencies or governmental bodies that are necessary or required for Purchaser to complete the transactions contemplated by this Agreement and the operation of the Hospital by Purchaser after the Closing. Seller shall have obtained all material licenses, permits, approvals and authorizations from government agencies or governmental bodies that are necessary or required for Seller to complete the transactions contemplated by this Agreement. All consents, waivers, and estoppels of third parties which are reasonably necessary, in the opinion of the Purchaser, to complete effectively the transactions herein contemplated shall have been obtained in form and substance reasonably satisfactory to Purchaser.

7.3 Signing and Delivery of Instruments. Seller shall have executed and delivered all documents, instruments and certificates required to be executed and delivered pursuant to all of the provisions of this Agreement.

7.4 Unfavorable Action or Proceeding. On the Closing Date, no orders, decrees, judgments or injunctions of any court or governmental body shall be in effect, and no claims, actions, suits, proceedings, arbitrations or investigations shall be pending or threatened, which challenge or seek to challenge, or which could reasonably be expected to prevent or cause the rescission of, the consummation of the transactions contemplated in this Agreement.

7.5 Title Insurance Policy. Purchaser shall have received the fully effective Title Policy issued to Purchaser by the Title Company covering the Owned Real Property and any ground lease specified in Schedule 4.8 in the amount of the full insurable value of the Owned Real Property and any such ground lease, respectively, and which is reasonably satisfactory to Purchaser in all respects. The Title Policy shall show fee simple title to the Owned Real Property vested in Purchaser and valid leasehold title to the Leased Real Property which is subject to any ground lease specified in Schedule 4.8, subject only to: (a) current real estate taxes not yet due and payable; and (b) Permitted Encumbrances. The Title Policy shall have all standard and general exceptions deleted so as to afford full "extended form coverage."

7.6 Survey. Purchaser shall have received and reviewed the Survey which is reasonably satisfactory to Purchaser in all respects.

7.7 No Material Adverse Change. There shall not have been any Material Adverse Change in or affecting the business of the Hospital or Seller between the Execution Date and the Closing Date.

7.8 Required Consents. The Contract Consents shall have been received or obtained on or prior to the Closing Date without the imposition of any burdens or conditions materially adverse to the party or parties entitled to the benefit thereof. In addition, Seller shall have obtained a letter of concurrence from the DHHR Division of Recruitment with respect to each of Dr. Sumit Anand, Dr. Kiran S. Devaraj and Dr. Maria-Andrea Vidal, which will permit each of them to continue working at the Hospital under new ownership.

7.9 Disclosure Schedules. Seller shall have promptly and fully updated the Disclosure Schedules hereto.

7.10 S & P Properties Lease. Purchaser and S & P Properties, LLC shall have entered into a Lease Agreement in the form attached hereto as Exhibit G.

7.11 PMG Stock Purchase Agreement. The transactions contemplated by the PMG Stock Purchase Agreement shall be consummated simultaneously with the Closing under this Agreement.

ARTICLE 8
TERMINATION

8.1 Termination. This Agreement may be terminated at any time prior to Closing:

(a) by the mutual written consent of the Parties;

(b) by Seller if a material breach of this Agreement has been committed by Purchaser and such breach has not been (i) waived in writing by Seller or (ii) cured by Purchaser to the reasonable satisfaction of Seller within fifteen (15) business days after notice from Seller to Purchaser which describes the nature of such breach;

(c) by Purchaser if a material breach of this Agreement has been committed by Seller and such breach has not been (i) waived in writing by Purchaser or (ii) cured by Seller to the reasonable satisfaction of Purchaser within fifteen (15) business days after notice from Purchaser to Seller of a written notice which describes the nature of such breach;

(d) by Purchaser if any of the conditions in Article 7 have not been satisfied as of the Closing Date or if satisfaction of any condition in Article 7 is or becomes impossible and Purchaser has not waived such condition in writing on or before the Closing Date (provided that the failure to satisfy the applicable condition or conditions has occurred by reason other than (i) through the failure of Purchaser to comply with its obligations under this Agreement or (ii) Seller' s failure to provide its closing deliveries on the Closing Date as a result of Purchaser not being ready, willing and able to close the transaction on the Closing Date);

(e) by Seller if any of the conditions in Article 6 have not been satisfied as of the Closing Date or if satisfaction of any such condition in Article 6 is or becomes impossible and Seller has not waived such condition in writing on or before the Closing Date (provided that the failure to satisfy the applicable condition or conditions has occurred by reason other than (i) through the failure of Seller to comply with its obligations under this Agreement or (ii) Purchaser' s failure to provide its closing deliveries on the Closing Date as a result of Seller not being ready, willing and able to close the transaction on the Closing Date);

(f) by Purchaser as provided in Section 4.8(b) hereof;

(g) by either Purchaser or Seller as provided in Section 1.14 hereof; or

(h) by either Purchaser or Seller if the Closing has not occurred (other than through the breach by the Party seeking to terminate this Agreement of its obligations under this Agreement) by August 31, 2005.

8.2 Termination Consequences. If this Agreement is terminated pursuant to Section 8.1, (a) all further obligations of the Parties under this Agreement shall terminate, except that the obligations in Sections 5.4 (Confidentiality), 12.4 (Governing Law), 12.8 (Confidentiality and Publicity), and 12.10 (Expenses and Attorneys' Fees) shall survive, (b) each Party shall pay the costs and expenses incurred by it in connection with this Agreement, except as provided in Section 12.10, and (c) nothing shall prevent any Party hereto from pursuing any of its legal rights or remedies that may be granted to any such Party by law against any other Party to this Agreement.

ARTICLE 9
POST-CLOSING MATTERS

9.1 Excluded Assets and Excluded Liabilities. Subject to Section 11.2 hereof, any asset or any liability, all other remittances and all mail and other communications that is an Excluded Asset or an Excluded Liability (a) pursuant to the terms of this Agreement, (b) as otherwise determined by the Parties' mutual written agreement or (c) absent such agreement, as determined by adjudication by a court or similar tribunal, and which comes into the possession, custody or control of Purchaser (or its successors-in-interest, assigns or Affiliates) shall within five (5) business days following receipt be transferred, assigned or conveyed by Purchaser (and its successors-in-interest, assigns and Affiliates) to Seller at Purchaser' s cost. Purchaser (and its successors-in-interest, assigns and Affiliates) shall not have any right, title or interest in or obligation or responsibility with respect to, such asset or liability except that Purchaser shall hold such asset in trust for the benefit of Seller.

9.2 Preservation and Access to Records After the Closing.

(a) From the Closing Date until seven (7) years after the Closing Date or such longer period as required by law or Section 10.5 of the Asset Purchase Agreement, dated as of August 10, 2000, between Seller and Tri Cities Health Services Corp. (the "Document Retention Period"), Purchaser shall keep and preserve all medical records, patient records, medical staff records and other books and records which are among the Assets as of the Effective Time, but excluding any records which are among the Excluded Assets. Purchaser will afford to the representatives of Seller, including its counsel and accountants, full and complete access to, and copies (including, without limitation, color laser copies) of, such records with respect to time periods prior to the Effective Time (including access to records of patients treated at the Hospital prior to the Effective Time) during normal business hours after the Effective Time, to the extent reasonably needed by Seller or Seller' s Affiliates for business purposes. Purchaser acknowledges that, as a result of entering into this Agreement and operating the Hospital, it will gain access to patient records and other information which are subject to rules and regulations concerning confidentiality. Purchaser shall abide by any such rules and regulations relating to the confidential information it acquires. Purchaser shall maintain the patient and medical staff records at the Hospital in accordance with applicable law and the requirements of relevant insurance carriers. After the expiration of the Document Retention Period, if Purchaser intends to destroy or otherwise dispose of any of the documents described in this Section 9.2(a), Purchaser shall provide written notice to Seller of Purchaser' s intention no later than ninety (90) calendar days prior to the date of such intended destruction or disposal. Seller shall have the right, at its sole cost, to take possession of such documents during such ninety (90) calendar day

period. If Seller does not take possession of such documents during such ninety (90) calendar day period, Purchaser shall be free to destroy or otherwise dispose of such documentation upon the expiration of such ninety (90) calendar day period.

(b) Purchaser shall give its commercially reasonable cooperation to Seller, Seller' s Affiliates and their insurance carriers in respect of the defense of claims by third parties against Seller or any Affiliate of Seller, in respect of events occurring prior to the Effective Time with respect to the operation of the Hospital. Such cooperation shall include making the Hired Employees available at reasonable times for interviews, depositions, hearings and trials. Such cooperation shall also include making all of its employees available to assist in the securing and giving of evidence and in obtaining the presence and cooperation of witnesses (all of which shall be done without payment of any fees or expenses to Purchaser or to such employees). In addition, Seller and Seller' s Affiliates shall be entitled to remove from the Hospital originals of any such records, but only for purposes of pending litigation involving the persons to whom such records refer, as certified in writing prior to removal by counsel retained by Seller or any of Seller' s Affiliates in connection with such litigation. Any records so removed from the Hospital shall be promptly returned to Purchaser following Seller' s or its applicable Affiliate' s use of such records. Purchaser shall be entitled to require that such records be copied for Purchaser prior to their removal at Seller' s cost.

(c) In connection with (i) the transition of ownership and operation of the Hospital to Purchaser pursuant to the transaction contemplated by this Agreement, (ii) Seller' s rights to the Excluded Assets and (iii) Seller' s obligations under the Excluded Liabilities, Purchaser shall after the Effective Time give Seller, Seller' s Affiliates and their respective representatives access during normal business hours to Purchaser' s books, accounts and records and all other relevant documents and information with respect to the assets, liabilities and business of the Hospital as representatives of Seller and Seller' s Affiliates may from time to time reasonably request, all in such manner as not to unreasonably interfere with the operations of the Hospital. The confidentiality obligations of Section 5.4 applicable to Purchaser shall apply to Seller with respect to its access to and use of Purchaser' s books and records pursuant to this Section, except that such obligations do not expire at Closing.

(d) Purchaser and its representatives shall be given access by Seller during normal business hours to the extent reasonably needed by Purchaser for business purposes to all documents, records, correspondence, work papers and other documents retained by Seller pertaining to any of the Assets or with respect to the operation of the Hospital prior to the Effective Time, all in such manner as to not interfere unreasonably with Seller' s business.

9.3 Provision of Benefits of Certain Contracts. If, as of the Effective Time, Seller has not obtained a required consent to the assignment of a Material Contract to Purchaser which is intended to be assumed by Purchaser as an Assumed Obligation, or Purchaser is unable to enter into a new third party contract with respect to such Material Contract, until such consent is obtained or a new third party contract is obtained, Seller shall use reasonable commercial efforts to provide Purchaser the benefits of such Material Contract only with respect to the Hospital and cooperate in any reasonable and lawful arrangement designed to provide such benefits to Purchaser. Purchaser shall use reasonable commercial efforts to perform, on behalf of Seller, the obligations of Seller under such Material Contract or in connection therewith, limited to those

obligations of the Hospital thereunder, but only to the extent that such action would not result in a material default under the applicable Material Contract and such obligation would have been an obligation of Purchaser had it received consent to the assignment of such Material Contract or had entered into a new third party contract on substantially similar terms as the applicable Material Contract.

9.4 Employee Matters.

(a) As of the Effective Time, Seller shall terminate all of its employees at the Hospital and Barboursville School, and, as of the Effective Time, Purchaser shall offer employment to all employees of Seller at the Hospital and Barboursville School at positions, salaries and wages consistent with the position, salaries and wages of each such employee while in the employ of Seller prior to the Effective Time. The term "Hired Employee" as used in this Agreement shall mean all employees of Seller who accept employment with Purchaser as of the Effective Time. Nothing herein shall be deemed to affect or limit in any way normal management prerogatives of Purchaser with respect to employees or to create or grant to any such employees third party beneficiary rights or claims of any kind or nature. In respect of the Hired Employees employed by Purchaser, Purchaser shall provide such Hired Employees with employee benefits consistent with the benefits generally offered to similarly situated employees of Purchaser' s parent corporation, Horizon Health Corporation, and, to the extent such benefits are based, in whole or in part, on service with such employer, the Purchaser shall recognize the existing seniority and service with Seller of all such employees for benefits purposes and shall provide credit under such plans for purposes of determining eligibility and vesting and the rate of benefit accrual (but not actual benefit accrual); *provided, however*, that no such credit need be given in respect of any new plan commenced or participated in by the employer in which no prior service credit is given or recognized to or for other plan beneficiaries. Notwithstanding the foregoing, the employee benefit plans of the Purchaser shall include waiver of preexisting condition exclusions for Hired Employees and their dependents and recognize or provide credit for all deductibles paid by such Hired Employees during the current period while in the employ of Seller or the Hospital. Moreover, Purchaser shall honor and assume the liabilities with respect to each Hired Employee' s rights in respect of accrued paid time off and ESL. Any current or future plans created by Purchaser that provide for benefit and vesting service to Purchaser employees from their original date of hire shall include all vesting and benefit service credit as would be included by recognizing such Hired Employees original date of hire as recognized by Seller. The service credited under Purchaser' s welfare and other benefit plans will include all service credited under the welfare and other benefit plans of Seller and its Affiliates, respectively.

(b) Purchaser shall employee and retain for a period of ninety (90) days following the Closing Date such number of Hired Employees as shall be necessary to avoid any potential liability by Seller for a violation of the "WARN Act" attendant to Seller' s failure to notify such Hired Employees of a "mass layoff" or "plant closing" (as such terms are defined in the WARN Act) at the Hospital. Purchaser shall be liable and responsible for any notification required under the WARN Act (or under any similar state of local laws) and Purchaser shall indemnify and hold Seller harmless from and against any liability asserted against Seller under the WARN Act as a result of Purchaser' s failure to comply with the provisions of the WARN Act as of or after the Closing Date or Purchaser' s failure to comply with the provisions of this Section 9.4(b).

9.5 Misdirected Payments, Etc. Seller and Purchaser covenant and agree to remit, with reasonable promptness, to the other any payments received, which payments are on or in respect of accounts or notes receivable owned by (or are otherwise payable to) the other. In addition, and without limitation, in the event of a determination by any governmental or third-party payor that payments to Seller or the Hospital resulted in an overpayment or other determination that funds previously paid by any program or plan to Seller or the Hospital must be repaid, Seller shall be responsible for repayment of said monies (or defense of such actions) if such overpayment or other repayment determination was for services rendered prior to the Effective Time and Purchaser shall be responsible for repayment of said monies (or defense of such actions) if such overpayment or other repayment determination was for services rendered after the Effective Time. In the event that, following the Effective Time, Purchaser suffers any offsets against reimbursement under any third-party payor or reimbursement programs due to Purchaser, relating to amounts owing under any such programs by Seller or any of its Affiliates, Seller shall promptly upon demand from Purchaser pay to Purchaser the amounts so billed or offset. In the event that, following the Effective Time, Seller suffers any offsets against reimbursement under any third-party payor or reimbursement programs due to Seller, relating to amounts owing under any such programs by Purchaser or any of its Affiliates, Purchaser shall promptly upon demand from Seller pay to Seller the amounts so billed or offset.

9.6 Termination Cost Reports. Seller shall file with Government Programs and third-party payors any cost reports relating to periods ending on or before the Effective Time or required to be filed as a result of the consummation of (a) the transfer of the Assets to Purchaser and (b) the transactions contemplated by this Agreement (the "Seller Cost Reports"). All such Seller Cost Reports shall be filed by Seller in a manner that is consistent with current laws, rules and regulations. Seller shall provide Purchaser with a reasonable opportunity to review such reports before filing.

9.7 Certain Employee Matters. Seller shall be responsible to provide continuation coverage pursuant to the requirements of Code Section 4980B and Treasury regulations thereunder and Part 6 of Title I of ERISA ("COBRA Coverage") to any qualified beneficiaries under any Plan required to provide COBRA Coverage. Purchaser shall be responsible in accordance with the requirements of Code Section 4980B and Treasury regulations thereunder and Article 6 of Title I of ERISA to provide COBRA Coverage with respect to each of the Hired Employees (and their dependents) whose qualifying event occurs on or after the date on which the Hospital' s employees become Hired Employees and who become qualified beneficiaries of a Purchaser health plan subject to COBRA Coverage.

9.8 Post-Closing Operations of the Hospital. Purchaser agrees to maintain its separate corporate existence until the Second Variable Payment Date. From the Closing Date through the Second Variable Payment Date, Purchaser shall not operate the Hospital in a manner inconsistent with commercially reasonable practices nor do anything in bad faith with the intent to decrease the EBITDA of the Hospital. Purchaser shall maintain working capital at a level sufficient to conduct the operations of the Hospital in a manner consistent with such operation as conducted on the Execution Date. Such covenant of Purchaser shall not prohibit Purchaser from ceasing

operations at any facility constituting part of the Hospital if it would not be commercially reasonable to continue such operations. Purchaser shall also comply with those certain covenants set forth in Schedule 1.13 hereto.

ARTICLE 10
SURVIVAL AND INDEMNIFICATION

10.1 Survival. Except as expressly set forth in this Agreement to the contrary, all representations, warranties, covenants, agreements and indemnifications of Purchaser and Seller, respectively, contained in this Agreement or in any document delivered pursuant hereto shall be deemed to be material and to have been relied upon by Purchaser and Seller, respectively. All representations and warranties of Purchaser and Seller shall continue to be fully effective and enforceable following the Effective Time for two (2) years and shall thereafter be of no further force and effect; provided, however, that, if there is at the end of such two (2) year period an outstanding notice of a claim made in compliance with the terms of Section 10.4, such applicable period shall not end in respect of such claim until such claim is resolved. Notwithstanding the above, the representations and warranties contained in Sections 2.5, 2.7, 2.20 and 2.22 and the rights to indemnity set forth in Section 10.2 hereof with respect to such representations and warranties shall continue to be fully effective and enforceable for the respective statute of limitations applicable to any such claim .

10.2 Indemnification of Purchaser by Seller.

(a) Indemnification. Seller shall keep and save Purchaser and Purchaser' s officers, directors, employees, agents and other representatives forever harmless from and shall indemnify and defend Purchaser against any and all obligations, judgments, liabilities, penalties, violations, fees, fines, claims, losses, costs, demands, damages, liens, encumbrances and expenses including reasonable attorneys' fees (collectively, "Damages"), to the extent arising or resulting from (i) any breach of any representation or warranty of Seller under this Agreement or any documents delivered pursuant hereto, (ii) any breach or default by Seller of any covenant or agreement of Seller under this Agreement or any documents delivered pursuant hereto, (iii) the Excluded Liabilities, (iv) the Excluded Assets, (v) all Taxes of Seller and its Subsidiaries incurred in or attributable to the period ending or deemed to end on or prior to the Closing Date (referred to herein as "Seller Tax Claims"), (vi) any professional liability claim arising out of the business operations of the Hospital prior to the Effective Time, (vii) Seller' s failure to comply with any applicable bulk sales law, (viii) any claim by a third party with respect to any act or omission of Seller in the operations of the Hospital, which claim has accrued, arisen, or come into existence at any time prior to the Effective Time, and (ix) any matter disclosed in Schedule 10.2(a). No provision in this Agreement shall prevent Seller from pursuing any of its legal rights or remedies that may be granted to Seller by law against any person or legal entity other than Purchaser.

(b) Indemnification Limitations. Notwithstanding any provision to the contrary contained in this Agreement, Seller shall be under no liability to indemnify Purchaser under Section 10.2(a) and no claim under Section 10.2(a) shall be made:

(i) unless notice thereof shall have been given by or on behalf of Purchaser to Seller in the manner provided in Section 10.4, unless failure to provide such notice in a timely manner does not materially impair Seller' s ability to defend its rights, mitigate damages, seek indemnification from a third party or otherwise protect its interests within the Survival Period;

(ii) to the extent that any Damages may be recovered under a policy of insurance in force on the date of loss; provided, however, that this Section 10.2(b)(ii) shall not apply to the extent that coverage under the applicable policy of insurance is denied by the applicable insurance carrier;

(iii) to the extent such claim relates to an obligation or liability for which Purchaser has agreed to indemnify Seller pursuant to Section 10.3;

(iv) for any Assumed Liabilities;

(v) to the extent related to a claim under Section 10.2(a)(i) or a claim under Section 10.2(a)(ii) for Seller' s breach of any covenant required to be performed or satisfied at or prior to Closing, accrue to Purchaser unless the liability of Seller in respect of any single claim or multiple claims in the aggregate exceeds One Hundred Fifty Thousand Dollars ($150,000) (a "Relevant Claim"), in which event Purchaser shall be entitled to seek indemnification for the total amount of the Relevant Claim(s); or

(vi) to the extent that Purchaser had actual knowledge at or prior to the Effective Time of (A) the respective breach of a representation or warranty by Seller or (B) the breach of a covenant required to be performed or satisfied at or prior to the Effective Time.

(c) Damages Cap. Notwithstanding any provision to the contrary contained in this Agreement, the maximum aggregate liability of Seller to Purchaser under this Agreement shall not exceed the aggregate Purchase Price paid by Purchaser to Seller.

10.3 Indemnification of Seller by Purchaser.

(a) Indemnification. Purchaser shall keep and save Seller and Seller' s officers, directors, managers, employees, agents and other representatives forever harmless from and shall indemnify and defend Seller against any and all Damages, to the extent arising or resulting from (i) any breach of any representation or warranty of Purchaser under this Agreement, (ii) any breach or default by Purchaser under any covenant or agreement of Purchaser under this Agreement, (iii) the Assumed Obligations, (iv) any professional liability claim arising out of the business operations of the Hospital on and after the Effective Time, and (v) any claim by a third party with respect to any act or omission of Purchaser in connection with the operation of the Hospital, which claim has accrued, arisen or come into existence at any time after the Effective Time. No provision in this Agreement shall prevent Purchaser from pursuing any of its legal rights or remedies that may be granted to Purchaser by law against any person or legal entity other than Seller or any Affiliate of Seller.

(b) Indemnification Limitations. Notwithstanding any provision to the contrary contained in this Agreement, Purchaser shall be under no liability to indemnify Seller under Section 10.3(a) and no claim under Section 10.3(a) shall be made:

(i) unless notice thereof shall have been given by or on behalf of Seller to Purchaser in the manner provided in Section 10.4, unless failure to provide such notice in a timely manner does not materially impair Purchaser' s ability to defend its rights, mitigate damages, seek indemnification from a third party or otherwise protect its interests;

(ii) to the extent that any Damages may be recovered under a policy of insurance in force on the date of loss; provided, however, that this Section 10.3(b)(ii) shall not apply to the extent that coverage under the applicable policy of insurance is denied by the applicable insurance carrier;

(iii) to the extent related to a claim under Section 10.3(a)(i) or a claim under Section 10.3(a)(ii) for Purchaser' s breach of any covenant required to be performed or satisfied at or prior to Closing, but expressly not with respect to any payment due under Section 1.13 of this Agreement, accrue to Seller unless and only to the extent that the actual liability of Purchaser in respect of any single claim or multiple claims in the aggregate exceeds the Relevant Claim amount in which event Seller shall be entitled to seek indemnification for the total amount of the Relevant Claim(s);

(iv) for any Excluded Liabilities; or

(v) to the extent that Seller had actual knowledge at or prior to the Effective Time of (A) the respective breach of a representation or warranty by Purchaser or (B) the breach of a covenant required to be performed or satisfied at or prior to the Effective Time.

10.4 Method of Asserting Claims. All claims for indemnification under this Article 10 by any person entitled to indemnification (an "Indemnified Party") under this Article 10 will be asserted and resolved as follows:

(a) In the event any claim or demand, for which a Party hereto (an "Indemnifying Party") would be liable for the Damages to an Indemnified Party, is asserted against or sought to be collected from an Indemnified Party by a person other than Seller, Purchaser or their Affiliates (a "Third Party Claim"), the Indemnified Party shall give a notice of its claim (a "Claim Notice") to the Indemnifying Party within thirty (30) calendar days after the Indemnified Party receives written notice of such Third Party Claim; provided, however, that notice shall be given by the Indemnified Party to the Indemnifying Party within fifteen (15) calendar days after receipt of a complaint, petition or institution of other formal legal action against the Indemnified Party. If the Indemnified Party fails to provide the Claim Notice within such applicable time period after the Indemnified Party receives written notice of such Third Party Claim and thereby materially impairs the Indemnifying Party' s ability to protect its interests, the Indemnifying Party will not be obligated to indemnify the Indemnified Party with respect to such Third Party Claim. The Indemnifying Party will notify the Indemnified Party within thirty (30) calendar days after receipt of the Claim Notice (the "Notice Period") whether the Indemnifying Party desires, at the sole cost and expense of the Indemnifying Party, to defend the Indemnified Party against such Third Party Claim.

(i) If the Indemnifying Party notifies the Indemnified Party within the Notice Period that the Indemnifying Party desires to defend the Indemnified Party with respect to the Third Party Claim pursuant to this Section 10.4(a), then the Indemnifying Party will have the right to defend, at its sole cost and expense, such Third Party Claim by all appropriate proceedings, which proceedings will be prosecuted by the Indemnifying Party to a final conclusion or will be settled at the discretion of the Indemnifying Party. The Indemnifying Party will have full control of such defense and proceedings, including any compromise or settlement thereof. Notwithstanding the foregoing, the Indemnified Party may, at its sole cost and expense, file during the Notice Period any motion, answer or other pleadings that the Indemnified Party may deem necessary or appropriate to protect its interests or those of the Indemnifying Party and which is not prejudicial, in the reasonable judgment of the Indemnifying Party, to the Indemnifying Party. Except as provided in Section 10.4(a)(ii) hereof, if an Indemnified Party takes any such action that is prejudicial and causes a final adjudication that is adverse to the Indemnifying Party, the Indemnifying Party will be relieved of its obligations hereunder with respect to the portion of such Third Party Claim prejudiced by the Indemnified Party' s action. If requested by the Indemnifying Party, the Indemnified Party agrees, at the sole cost and expense of the Indemnifying Party, to cooperate with the Indemnifying Party and its counsel in contesting any Third Party Claim that the Indemnifying Party elects to contest, or, if appropriate and related to the Third Party Claim in question, in making any counterclaim against the person asserting the Third Party Claim, or any cross-complaint against any person (other than the Indemnified Party or any of its Affiliates). The Indemnified Party may participate in, but not control, any defense or settlement of any Third Party Claim controlled by the Indemnifying Party pursuant to this Section 10.4(a)(i), and except as specifically provided in this Section 10.4(a)(i), the Indemnified Party will bear its own costs and expenses with respect to such participation.

(ii) If the Indemnifying Party fails to notify the Indemnified Party within the Notice Period that the Indemnifying Party desires to defend the Indemnified Party pursuant to this Section 10.4(a), or if the Indemnifying Party gives such notice but fails to prosecute diligently or settle the Third Party Claim, or if the Indemnifying Party fails to give any notice whatsoever within the Notice Period, then the Indemnified Party will have the right to defend, at the sole cost and expense of the Indemnifying Party, the Third Party Claim by all appropriate proceedings, which proceedings will be promptly and reasonably prosecuted by the Indemnified Party to a final conclusion or will be settled at the discretion of the Indemnified Party. The Indemnified Party will have full control of such defense and proceedings, including any compromise or settlement thereof; provided, however, that if requested by the Indemnified Party, the Indemnifying Party agrees, at the sole cost and expense of the Indemnifying Party, to cooperate with the Indemnified Party and its counsel in contesting any Third Party Claim which the Indemnified Party is contesting, or, if appropriate and related to the Third Party Claim in question, in making any counterclaim against the person asserting the Third Party Claim, or any cross-complaint against any person (other than the Indemnifying Party or any of its Affiliates). Notwithstanding the foregoing provisions of this Section 10.4(a)(ii), if the Indemnifying Party has notified the Indemnified Party with reasonable promptness that the Indemnifying Party disputes its liability to the Indemnified Party with respect to such Third Party Claim and if such dispute is resolved in favor of the Indemnifying Party, the Indemnifying Party will not be required to bear the costs and expenses of the Indemnified Party' s defense pursuant to this Section 10.4(a)(ii). Subject to the above terms of this Section 10.4(a)(ii), the Indemnifying Party may participate in, but not control, any defense or settlement controlled by the Indemnified Party

pursuant to this Section 10.4(a)(ii), and the Indemnifying Party will bear its own costs and expenses with respect to such participation. The Indemnified Party shall give sufficient prior notice to the Indemnifying Party of the initiation of any discussions relating to the settlement of a Third Party Claim to allow the Indemnifying Party to participate therein.

(b) In the event any Indemnified Party should have a claim against any Indemnifying Party hereunder that does not involve a Third Party Claim being asserted against or sought to be collected from the Indemnified Party, the Indemnified Party shall deliver an Indemnity Notice to the Indemnifying Party. (The term "Indemnity Notice" shall mean written notification of a claim for indemnity under Article 10 hereof (which claim does not involve a Third Party Claim or is a Seller Tax Claim) by an Indemnified Party to an Indemnifying Party pursuant to this Section 10.4, specifying the nature of and specific basis for such claim and the amount or the estimated amount of such claim.) The failure by any Indemnified Party to give the Indemnity Notice shall not impair such party' s rights hereunder except to the extent that an Indemnifying Party demonstrates that it has been prejudiced thereby.

(c) If the Indemnifying Party does not notify the Indemnified Party within thirty (30) calendar days following its receipt of a Claim Notice or an Indemnity Notice that the Indemnifying Party disputes its liability to the Indemnified Party hereunder, such claim specified by the Indemnified Party will be conclusively deemed a liability of the Indemnifying Party hereunder and the Indemnifying Party shall pay the amount of such liability to the Indemnified Party on demand, or on such later date (i) in the case of a Third Party Claim, as the Indemnified Party suffers the Damages in respect of such Third Party Claim, or (ii) in the case of an Indemnity Notice in which the amount of the claim is estimated, when the amount of such claim becomes finally determined. If the Indemnifying Party has timely disputed its liability with respect to such claim, as provided above, the Indemnifying Party and the Indemnified Party agree to proceed in good faith to negotiate a resolution of such dispute, and if not resolved through negotiations, such dispute will be resolved by adjudication by a court or similar tribunal.

(d) The Indemnified Party agrees to give the Indemnifying Party reasonable access to the books and records and employees of the Indemnified Party in connection with the matters for which indemnification is sought hereunder, to the extent the Indemnifying Party reasonably deems necessary in connection with its rights and obligations hereunder.

(e) The Indemnified Party shall assist and cooperate with the Indemnifying Party in the conduct of litigation, the making of settlements and the enforcement of any right of contribution to which the Indemnified Party may be entitled from any person or entity in connection with the subject matter of any litigation subject to indemnification hereunder. In addition, the Indemnified Party shall, upon request by the Indemnifying Party or counsel selected by the Indemnifying Party (without payment of any fees or expenses to the Indemnified Party or an employee thereof), attend hearings and trials, assist in the securing and giving of evidence, assist in obtaining the presence or cooperation of witnesses, and make available its own personnel; and shall do whatever else is reasonably necessary and appropriate in connection with such litigation. The Indemnified Party shall not make any demand upon the Indemnifying Party or counsel for the Indemnifying Party in connection with any litigation subject to indemnification hereunder, except a general demand for indemnification as provided hereunder. If the Indemnified Party shall fail to perform such obligations as Indemnified Party hereunder or

to cooperate fully with the Indemnifying Party in Indemnifying Party' s defense of any suit or proceeding, such cooperation to include, without limitation, attendance at all depositions and the provision of all documents relevant to the defense of any claim, then, except where such failure does not have an adverse effect on the Indemnifying Party' s defense of such claims, the Indemnifying Party shall be released from all of its obligations under this Agreement with respect to that suit or proceeding and any other claims which had been raised in such suit or proceeding.

(f) Following indemnification as provided for hereunder, the Indemnifying Party shall be subrogated to all rights of the Indemnified Party with respect to all persons or entities relating to the matter for which indemnification has been made.

10.5 Right of Offset. In addition to any other rights provided under this Agreement, Purchaser shall be entitled to offset the amount of any indemnification claims against Seller that have been resolved on or before the First Variable Payment Date against Variable Payment A. Any claims that have been asserted on or before the First Variable Payment Date but are not resolved prior to the First Variable Payment Date may be offset against Variable Payment A if Purchaser shall deposit such withheld funds in an escrow account with a national bank to be held until receipt of joint disbursement directions signed by Seller and Purchaser or upon the resolution of such unresolved claims. Purchaser shall be entitled to offset the amount of any indemnification claims against Seller that have been resolved on or before the Second Variable Payment Date against Variable Payment B. Any claims that have been asserted on or before the Second Variable Payment Date but are not resolved prior to the Second Variable Payment Date may be offset against Variable Payment B if Purchaser shall deposit such withheld funds in an escrow account with a national bank to be held until receipt of joint disbursement directions signed by Seller and Purchaser or upon the resolution of such unresolved claims. The rights of offset described in this Section 10.5 shall not be the sole and exclusive remedy of Purchaser.

10.6 Exclusive Remedy. Other than claims for fraud or equitable relief (which claims are nevertheless subject to the time limitation set forth in Section 10.1), any claim for indemnification arising under this Agreement shall, unless otherwise specifically stated in this Agreement, be governed solely and exclusively by the provisions of this Article 10. If Seller and Purchaser cannot resolve such claim by mutual agreement, such claim shall be determined by adjudication by a court or similar tribunal in accordance with the provisions of this Article 10.

ARTICLE 11
TAX AND COST REPORT MATTERS

11.1 Tax Matters; Allocation of Purchase Price.

(a) After the Closing Date, the Parties shall cooperate fully with each other and shall make available to each other, as reasonably requested, all information, records or documents relating to Tax liabilities or potential Tax liabilities attributable to Seller with respect to the operation of the Hospital or ownership of the Assets for all periods prior to the Effective Time and shall preserve all such information, records and documents at least until the expiration of any applicable statute of limitations or extensions thereof. The Parties shall also make available to each other as reasonably required, and at the reasonable cost of the requesting Party

(for out-of-pocket costs and expenses only), personnel responsible for preparing or maintaining information, records and documents in connection with Tax matters.

(b) The Purchase Price (and the elements thereof) shall be allocated among the Assets in accordance with Schedule 11.1(b). Seller and Purchaser hereby agree to allocate the Purchase Price in accordance with Schedule 11.1(b), to be bound by such allocations, to account for and report the purchase and sale of the Assets contemplated hereby for federal and state Tax purposes in accordance with such allocations, and not to take any position (whether in Tax returns, Tax audits, or other Tax proceedings), which is inconsistent with such allocations without the prior written consent of the other Party.

11.2 Cost Report Matters.

(a) Purchaser shall forward to Seller any and all correspondence relating to the Seller Cost Reports or rights to settlements and retroactive adjustments on Seller Cost Reports ("Agency Settlements") within five (5) business days of receipt by Purchaser. Purchaser shall not reply to any such correspondence without Seller' s written approval. Purchaser shall remit any receipts relating to the Seller Cost Reports or the Agency Settlements within five (5) business days after receipt by Purchaser and will forward any demand for payments within five (5) business days. Purchaser (and its successors-in-interest, assigns and Affiliates) shall have neither the right to offset amounts payable to Seller under this Section 11.2 against, nor the right to contest its obligation to transfer, assign and convey to Seller because of, outstanding claims, liabilities or obligations asserted by Purchaser against Seller including pursuant to the indemnification provisions of Section 10.2. Seller shall retain all rights to Seller Cost Reports including, without limitation, any payables resulting therefrom or receivables relating thereto and the right to appeal any Medicare determinations relating to the Agency Settlements and Seller Cost Reports.

(b) Upon reasonable notice and during normal business office hours, Purchaser will cooperate with Seller in regard to the preparation, filing, handling, and appeals of Seller Cost Reports. Upon reasonable notice and during normal business office hours, Purchaser will cooperate with Seller in connection with any cost report disputes and/or other claim adjudication matters relative to governmental program reimbursement. Such cooperation shall include the providing of statistics and obtaining files at the Hospital and the coordination with Seller pursuant to adequate notice of Medicare and Medicaid exit conferences or meetings.

ARTICLE 12
MISCELLANEOUS PROVISIONS

12.1 Entire Agreement. This Agreement, the Disclosure Schedules, the Exhibits and the documents referred to in this Agreement contain the entire understanding between the Parties with respect to the transactions contemplated hereby and supersede all prior or contemporaneous agreements, understandings, representations and statements, oral or written, between the Parties on the subject matter hereof (the "Superseded Agreements"), which Superseded Agreements shall be of no further force or effect.

12.2 Further Assurances and Cooperation. Each Party shall execute, acknowledge and deliver to the other Party any and all other assignments, consents, approvals, conveyances,

assurances, documents and instruments reasonably requested by the other Party at any time and shall take any and all other actions reasonably requested by the other Party at any time for the purpose of more effectively assigning, transferring, granting, conveying and conferring to Purchaser, the Assets. After consummation of the transactions contemplated in this Agreement, the Parties agree to cooperate with each other and take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of the terms of this Agreement, the documents referred to in this Agreement and the transactions contemplated hereby.

12.3 Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the respective successors and assigns of the Parties hereto; provided, however, that no Party hereto may assign any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other Party, except that Purchaser may assign any of its rights or delegate any of its duties under this Agreement to any subsidiary or other entity that is wholly-owned, directly or indirectly, by Purchaser, provided, however, that Horizon Health Corporation provides a replacement Guaranty in form and substance substantially similar to the Parent Guaranty provided herewith.

12.4 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of West Virginia as applied to contracts made and to be performed entirely within the State of West Virginia. The Parties hereby waive their right to assert in any proceeding involving this Agreement that the law of any other jurisdiction shall apply to such dispute; and the Parties hereby covenant that they shall assert no such claim in any dispute arising under this Agreement.

12.5 Amendments. This Agreement may not be amended other than by a written instrument signed by the Parties hereto.

12.6 Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by facsimile or overnight courier, or five (5) calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to Seller:

Mountain State Behavioral Health Services, LLC
c/o River Park Hospital
1230 6th Avenue
P.O. Box 1875
Huntington, West Virginia 25315-1835
Attention: Scott C. Stamm and Patrick D. Burrows
Facsimile No.: (304) 526-9140

With a copy to:

Giordano, Halleran & Ciesla, P.C.
U.S. Postal Service Address:
P.O. Box 190
Middletown, New Jersey 07748

or:

Hand Delivery and Overnight Service Address:
125 Half Mile Road
Red Bank, New Jersey 07701
Attention: Paul T. Colella and Patrick S. Convery
Facsimile No.: (732) 224-6599

If to Purchaser:	HHC River Park, Inc. c/o Horizon Health Corporation 1500 Waters Ridge Drive Lewisville, Texas 75057 Attention: President Facsimile No.: (972) 420-4060
With copies to:	Horizon Health Corporation 1500 Waters Ridge Drive Lewisville, Texas 75057 Attention: General Counsel Facsimile No.: (972) 420-7789
	Strasburger & Price, L.L.P. 901 Main Street, Suite 4300 Dallas, Texas 75202 Attention: Patrick Owens, Esq. Facsimile No.: (214) 651-4330

or at such other address for a Party as such Party may designate by notice hereunder to the other parties.

12.7 Headings. The section and other headings contained in this Agreement, the Disclosure Schedules, and the Exhibits to this Agreement are included for the purpose of convenient reference only and shall not restrict, amplify, modify or otherwise affect in any way the meaning or interpretation of this Agreement, the Disclosure Schedules and Exhibits hereto.

12.8 Confidentiality and Publicity. The Parties hereto shall hold in confidence the information contained in this Agreement, and all information related to this Agreement, which is not otherwise known to the public, shall be held by each Party hereto as confidential and proprietary information and shall not be disclosed without the prior written consent of the other Parties; provided, however, each Party shall be permitted to provide a copy of this Agreement to any applicable governmental or administrative authorities as reasonably required or necessary. Accordingly, Purchaser and Seller shall not discuss with, or provide nonpublic information to, any third party (except for such Party' s attorneys, accountants, directors, officers and employees, the directors, officers and employees of any Affiliate of any Party hereto who agree to be bound by the confidentiality provisions of this Agreement, and other consultants and professional advisors) concerning this transaction prior to the Effective Time, except: (a) as required in governmental filings or judicial, administrative or arbitration proceedings; (b) pursuant to public announcements made with the prior written approval of Seller and Purchaser; or (c) as otherwise required by applicable law. The rights of Seller under this Section 12.8 shall be in addition and not in substitution for the rights of Seller and Seller' s Affiliates under the Confidentiality Agreement between Seller and Purchaser dated December 7, 2004, which shall survive the Closing as provided therein.

12.9 Third Party Beneficiary. None of the provisions contained in this Agreement are intended by the Parties, nor shall they be deemed, to confer any benefit on any person not a Party to this Agreement.

12.10 Expenses and Attorneys' Fees. Except as otherwise provided in this Agreement, each Party shall bear and pay its own costs and expenses relating to the preparation of this Agreement and to the transactions contemplated by, or the performance of or compliance with any condition or covenant set forth in, this Agreement, including without limitation, the disbursements and fees of their respective attorneys, accountants, advisors, agents and other representatives, incidental to the preparation and carrying out of this Agreement, whether or not the transactions contemplated hereby are consummated. The Parties expressly agree that the following shall be borne by Purchaser and Purchaser shall indemnify Seller against and hold Seller harmless from: (a) all costs of the Title Commitment and the Title Policy; (b) all costs of the Survey; and (c) all costs of the Environmental Survey. Seller and Purchaser shall each pay 50% of any sales or transfer Taxes and recording charges in connection with the conveyance of the Assets to Purchaser. If any action is brought by any Party to enforce any provision of this Agreement, the prevailing Party shall be entitled to recover its court costs and reasonable attorneys' fees.

12.11 No Waiver. Any term, covenant or condition of this Agreement may be waived at any time by the Party which is entitled to the benefit thereof but only by a written notice signed by the Party expressly waiving such term, covenant or condition. The subsequent acceptance of performance hereunder by a Party shall not be deemed to be a waiver of any preceding breach by any other Party of any term, covenant or condition of this Agreement, other than the failure of such other Party to perform the particular duties so accepted, regardless of the accepting Party' s knowledge of such preceding breach at the time of acceptance of such performance. The waiver of any term, covenant or condition shall not be construed as a waiver of any other term, covenant or condition of this Agreement.

12.12 Severability. If any term, provision, condition or covenant of this Agreement or the application thereof to any Party or circumstance shall be held to be invalid or unenforceable to any extent in any jurisdiction, then the remainder of this Agreement and the application of such term, provision, condition or covenant in any other jurisdiction or to persons or circumstances other than those as to whom or which it is held to be invalid or unenforceable, shall not be affected thereby, and each term, provision, condition and covenant of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

12.13 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement, binding on all of the Parties hereto.

(Remainder of Page Intentionally Left Blank)

IN WITNESS WHEREOF, this Asset Purchase Agreement has been executed and delivered as of the day and year first above written.

SELLER:

MOUNTAIN STATE BEHAVIORAL HEALTH SERVICES, LLC,
a West Virginia limited liability company

By: /s/ Scott C. Stamm

Name: Scott C. Stamm

Title: Manager

PURCHASER:

HHC RIVER PARK, INC.,
a West Virginia corporation

By: /s/ David K. White

Name: David K. White

Title: Sr. Vice President

Exhibit 10.4

EXECUTION COPY

STOCK PURCHASE AGREEMENT

by and among

HHC RIVER PARK, INC.

as Purchaser,

SCOTT C. STAMM AND PATRICK D. BURROWS

as the Shareholders

and

PSYCHMANAGEMENT GROUP, INC.

Dated as of June 9, 2005

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (this "Agreement") is made and entered into as of the 9th day of June, 2005 (the "Execution Date") by and between **SCOTT C. STAMM AND PATRICK D. BURROWS** (each a "Shareholder" and collectively, the "Shareholders"), **HHC RIVER PARK, INC.**, a West Virginia corporation ("Purchaser") and **PSYCHMANAGEMENT GROUP, INC.**, a West Virginia corporation (the "Company"). The Shareholders, the Company and Purchaser are sometimes collectively referred to herein as the "Parties" and individually referred to herein as a "Party."

RECITALS:

A. The Shareholders collectively own One Thousand (1,000) shares of Common Stock, $1.00 par value, of the Company (collectively, the "Shares"), and the Shares constitute all the issued and outstanding capital stock of the Company; and

B. Purchaser desires to purchase the Shares from the Shareholders, and the Shareholders desire to sell the Shares to Purchaser, for the consideration and upon the terms and conditions contained in this Agreement.

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants contained in this Agreement, the Parties hereto agree as follows:

ARTICLE 1
DEFINITIONS; SALE AND TRANSFER OF SHARES;
CONSIDERATION; CLOSING

1.1 Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires,

(a) The defined terms used in this Agreement shall include the plural as well as the singular.

(b) All accounting terms not otherwise defined herein have the meanings assigned under GAAP.

(c) All references in this Agreement to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of the body of this Agreement.

(d) Pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms.

(e) The words "including" and "include" shall be deemed to mean in each instance "including, without limitation," except as stated otherwise herein.

(f) The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole, including the Exhibits and Schedules attached hereto, and not to any particular Article, Section or other subdivision.

(g) "Disclosure Schedules" shall mean the schedules attached to and constituting a part of this Agreement.

(h) "Knowledge of Purchaser," and similar variations thereof, shall mean the actual knowledge, as of the relevant date, of Donald Thayer, Peter Kavanaugh, Dave White, Tony Vadella, David Meyercord or Matt Lisagor after reasonable inquiry of employees or agents of Purchaser that were involved in its due diligence review of the Shareholders and the Company.

(i) "Knowledge of the Shareholders," and similar variations thereof, shall mean the actual knowledge, as of the relevant date, of Scott C. Stamm or Patrick D. Burrows after reasonable inquiry of all employees of the Company responsible for the relevant matters.

(j) "Material Adverse Change" or "Material Adverse Effect," when used with respect to the Company, shall mean any material adverse change in or effect on the Company taken as a whole, other than changes or effects that are or result from occurrences relating to the United States economy generally or the United States health care industry generally.

(k) Any reference in this Agreement to an "Affiliate" shall mean any Person directly or indirectly controlling, controlled by or under common control with a second Person. The term "Control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. A "Person" shall mean any natural person, partnership, corporation, limited liability company, association, trust or other legal entity.

Capitalized terms used in this Agreement shall have the definitions assigned to such terms elsewhere in this Agreement. For ease of reference, the section containing the definition of each such capitalized term is set forth in the table of defined terms included elsewhere as a part of this Agreement.

1.2 Agreement to Sell and Purchase. Subject to the terms and conditions of this Agreement and in reliance on the representations, warranties and covenants herein set forth, at the Closing the Shareholders shall sell to Purchaser, and Purchaser shall purchase from the Shareholders, the Shares, free and clear of any and all liens, claims, options, charges, pledges, security interests, voting agreements or trusts, proxies, preemptive rights, rights of first refusal, encumbrances or other restrictions or interests of any kind or nature whatsoever (collectively, "Encumbrances").

1.3 Purchase Price. Subject to the terms and conditions of this Agreement, the aggregate purchase price to be paid by Purchaser to the Shareholders for the purchase of the Shares (the "Purchase Price") shall consist of:

(a) Three Million Three Hundred Sixty-five Thousand and 00/100 Dollars ($3,365,000.00) (the "Closing Purchase Price Payment") which shall be payable in cash at the Closing;

(b) The Net Assets Payment, which shall be the payment delivered as set forth in Section 1.10 and shall, as applicable, be added to or be deducted from the Closing Purchase Price Payment at Closing, as set forth in Section 1.10;

(c) Variable Payment A described in Section 1.8(a);

(d) Variable Payment B described in Section 1.8(b);

(e) Variable Payment C described in Section 1.9(a); and

(f) Variable Payment D described in Section 1.9(b).

1.4 Closing Date. The consummation of the transactions contemplated by this Agreement (the "Closing") shall take place at 10:00 a.m. at the offices of Strasburger & Price, L.L.P., located at 901 Main Street, Suite 4300, Dallas, Texas, on or before five (5) business days after all conditions precedent and other matters required to be completed as of the Closing Date have been or will be completed on such date or such other date, time and place as the Parties shall mutually agree (the "Closing Date"). The Closing with respect to the transfer of the Shares, shall be deemed to have occurred and to be effective as between the Parties as of 12:01 a.m., Eastern Daylight Time, on the Closing Date (the "Effective Time").

1.5 Items to be Delivered by Shareholders at Closing. At or before the Closing, the Shareholders shall deliver to Purchaser the following, duly executed by the Shareholders (and/or the Company) where appropriate and in the form attached hereto as an Exhibit:

(a) The original certificates representing the Shares, duly endorsed for immediate transfer, or with appropriate stock powers with respect thereto, duly endorsed in blank by the Shareholders;

(b) Post-Closing Escrow Agreement in the form of Exhibit A attached hereto (the "Escrow Agreement");

(c) original certificates of good standing, or comparable status, of the Company, issued by the State of West Virginia, dated no earlier than a date which is fourteen (14) calendar days prior to the Closing Date;

(d) a certificate executed by each Shareholder certifying to Purchaser (i) that all the representations and warranties of the Shareholders and the Company contained herein are true as of the Closing Date with the same effect as though made at such time, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true on and as of such earlier date, (ii) that the Shareholders and the Company have in all material respects performed or complied with the covenants and agreements required of the Shareholders and the Company set forth in this Agreement to be

satisfied by the Closing Date, and (iii) that all of the conditions contained in Article 6 have been satisfied except those, if any, waived in writing by the Shareholders;

(e) a certificate of the corporate Secretary of the Company certifying to Purchaser (i) the incumbency of the officers of the Company on the Execution Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement, and (ii) the due adoption and text of the resolutions of the directors of the Company, authorizing the execution, delivery and performance of this Agreement and all ancillary documents and instruments by the Company, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

(f) releases of liens and mortgages and UCC termination statements for any and all liens, mortgages, security interests, restrictions and financing statements with respect to any of the assets of the Company (other than those exclusively relating to any of the Contracts and any Permitted Encumbrances) by the holders of such liens or mortgages or the secured parties named in such financing statements or written understandings to provide same to Purchaser upon payment of the amounts secured thereby;

(g) all consents to the change in control of the Company from the third parties listed in Schedule 1.5(g) required to approve the change in control of the Company (the "Contract Consents");

(h) all governmental approvals and authorizations that are required for the consummation of the transactions contemplated by this Agreement (the "Governmental Approvals");

(i) the Asset Purchase Agreement by and between Purchaser and Mountain State Behavioral Health Services, LLC, a West Virginia limited liability company (the "Asset Purchase Agreement"), and all items and documents required to be delivered therewith; and

(j) such other instruments, certificates, consents or other documents which are reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

1.6 Items to be Delivered by Purchaser at Closing. At or before the Closing, Purchaser shall execute and deliver or cause to be delivered to the Shareholders the following, duly executed by Purchaser where appropriate:

(a) payment of the Closing Purchase Price Payment on the Closing Date by wire transfer of immediately available funds to the Shareholders to the accounts specified by the Shareholders, which accounts the Shareholders shall specify to Purchaser not less than three (3) business days prior to the Closing Date in writing;

(b) a certificate of Purchaser, executed by the President or any Vice President of Purchaser, certifying to the Shareholders (i) that all the representations and warranties of Purchaser contained herein are true as of the Closing Date with the same effect as though made at such time, except to the extent such representations and warranties expressly relate to an

earlier date, in which case such representations and warranties are true on and as of such earlier date, (ii) that Purchaser has in all material respects performed or complied with the covenants and agreements required of Purchaser set forth in this Agreement required to be satisfied by the Closing Date and (iii) that all of the conditions contained in Article 7 have been satisfied except those, if any, waived in writing by Purchaser;

(c) a certificate of the corporate Secretary of Purchaser certifying to the Shareholders (i) the incumbency of the officers of Purchaser on the Execution Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement and (ii) the due adoption and text of the resolutions of the directors of Purchaser authorizing the execution, delivery and performance of this Agreement and all ancillary documents and instruments by Purchaser, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

(d) original certificate of good standing, or comparable status, of Purchaser, issued by the West Virginia Secretary of State dated no earlier than a date which is fourteen (14) calendar days prior to the Closing Date;

(e) the Escrow Agreement;

(f) the Asset Purchase Agreement and all items and documents required to be delivered therewith;

(g) such other instruments, certificates, consents or other documents which are reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof; and

(h) the Guaranty and Suretyship Agreement of Horizon Health Corporation attached to this Agreement as Exhibit B (the "Parent Guaranty").

1.7 Termination of Mountain State Management Agreement. Notwithstanding any provision to the contrary contained in this Agreement, the Parties agree that, as of the Effective Time, that certain Management Agreement dated October 31, 2000 (the "Mountain State Management Agreement") by and between the Company and Mountain State Behavioral Health Services, LLC ("Mountain State") shall terminate; *provided, however*, that all amounts owed by Mountain State to the Company as of the Effective Time under the Mountain State Management Agreement shall remain payable by Mountain State.

1.8 Variable Payments A and B.

(a) On or before ninety (90) days after the end of the twelve month period described below (the "First Variable Payment Date"), Purchaser shall make an additional payment to the Shareholders ("Variable Payment A") pro rata in accordance with the percentage of the total Shares held by each Shareholder in an amount equal to $498,778.00 subject, however, to the following adjustments:

(i) In the event that the Contribution to EBITDA for the 12-month period commencing as of the first day of the month after the month in which the Closing occurs is less than $600,000.00 (the "Year 1 Existing Contract EBITDA Target") then Variable Payment A shall be decreased by six times (6x) the amount that the Contribution to EBITDA for such 12-month period is less than the Year 1 Existing Contract EBITDA Target; or

(ii) In the event that the Contribution to EBITDA for such 12-month period is more than the Year 1 Existing Contract EBITDA Target, then, subject to the provisions of subsection 1.8(f) below, Variable Payment A shall be increased by six times (6x) the amount that the actual Contribution to EBITDA for such 12-month period is in excess of the Year 1 Existing Contract EBITDA Target.

(b) On or before ninety (90) days after the end of the twelve month period described below (the "Second Variable Payment Date"), Purchaser shall make an additional payment to the Shareholders ("Variable Payment B") pro rata in accordance with the percentage of the total Shares held by each Shareholder in an amount equal to $335,300.00 subject, however, to the following adjustments:

(i) In the event that the Contribution to EBITDA for the second 12-month period commencing after the first twelve month period referenced in Section 1.8(a) above is less than $937,500.00 (the "Year 2 Existing Contract EBITDA Target") then Variable Payment B shall be decreased by six times (6x) the amount that the actual Contribution to EBITDA for such 12-month period is less than the Year 2 Existing Contract EBITDA Target; or

(ii) In the event that the Contribution to EBITDA for such 12-month period is more than the Year 2 Existing Contract EBITDA Target, then, subject to the provisions of subsection 1.8(f) below, Variable Payment B shall be increased by six times (6x) the amount that the actual Contribution to EBITDA for such 12-month period is in excess of the Year 2 Existing Contract EBITDA Target.

(c) For the purposes of this Section 1.8, the term "Contribution to EBITDA" shall mean the operating margin earned by the Company on that certain Management Agreement dated November 1, 2003, by and between St. Mary' s Medical Center, Inc. and the Company for the applicable period, all as determined by Purchaser in accordance with generally accepted accounting principles consistently applied ("GAAP"), including the methods and practices as historically applied by the Company prior to the Closing and as are reflected in the unaudited balance sheet of the Company as of April 30, 2005 ("Company Historical GAAP"). As specified in Section 9.4, Purchaser shall maintain its separate corporate existence until the Second Variable Payment Date. The principles and methodologies for determining the Contribution to EBITDA and other terms and conditions relating to the payment of Variable Payment A and Variable Payment B hereunder shall be as specified in Schedule 1.8.

(d) Purchaser shall deliver to the Shareholders its determination of the applicable Contribution to EBITDA with each of Variable Payment A and B. The Shareholders may dispute such determination and have such determination finally resolved in accordance with the procedures provided in Section 1.8(e).

(e) Should the Shareholders disagree with Purchaser' s determination of Contribution to EBITDA, the Shareholders shall notify Purchaser within fifteen (15) days after Purchaser' s delivery of its determination of Contribution to EBITDA and the applicable Variable Payment to the Shareholders. In the event that the Shareholders and Purchaser are not able to agree on the actual Contribution to EBITDA within thirty (30) days after the Shareholders' delivery of notice of disagreement, the Shareholders and Purchaser shall each have the right to require that such disputed determination be submitted to Arnett & Foster, PLLC, or if Arnett & Foster, PLLC is not available for any reason or does not maintain its independent status, such other independent certified public accounting firm as the Shareholders and Purchaser may then promptly mutually agree upon in writing (the "Accounting Firm") for computation or verification in accordance with the provisions of this Agreement. The Accounting Firm shall review the matters in dispute and, acting as arbitrators, shall promptly decide the proper amounts of such disputed entries (which decision shall also include a final calculation of Contribution to EBITDA). The submission of the disputed matter to the Accounting Firm shall be the exclusive remedy for resolving disputes relative to the determination of Contribution to EBITDA. The Accounting Firm' s determination shall be binding upon the Shareholders and Purchaser. The Accounting Firm' s fees and expenses shall be borne equally by the Shareholders and Purchaser.

(f) Notwithstanding any provision of this Agreement to the contrary, the cumulative total amount of Variable Payment A, Variable Payment B, Variable Payment C and Variable Payment D shall be capped and not exceed Four Million Two Hundred Fifteen Thousand Dollars ($4,215,000) in the aggregate.

1.9 Variable Payments C and D.

(a) Subject to the satisfaction of the contingency described in Section 1.9(c), on or before the First Variable Payment Date, Purchaser shall make an additional payment to the Shareholders ("Variable Payment C") pro rata in accordance with the percentage of the total Shares held by each Shareholder in an amount equal to $800,000.00 subject, however, to the following adjustments:

(i) In the event that the Contribution to EBITDA for the 12-month period commencing as of the first day of the month after the month of the effective date of the Additional Contract is less than $403,000.00 (the "Year 1 Additional Contract Contribution Target") then Variable Payment C shall be decreased by six times (6x) the amount that the actual Contribution to EBITDA for such 12-month period is less than the Year 1 Additional Contract Contribution Target; or

(ii) In the event that the Contribution to EBITDA for such 12-month period is more than the Year 1 Additional Contract Contribution Target, then, subject to the provisions of subsection 1.8(f) above, Variable Payment C shall be increased by six times (6x) the amount that the actual Contribution to EBITDA for such 12-month period is in excess of the Year 1 Additional Contract Contribution Target.

(b) Subject to the satisfaction of the contingency described in Section 1.9(c), on or before the Second Variable Payment Date, Purchaser shall make an additional payment to the Shareholders ("Variable Payment D") pro rata in accordance with the percentage of the total

Shares held by each Shareholder in an amount equal to $800,000.00 subject, however, to the following adjustments:

(i) In the event that the Contribution to EBITDA for the 12-month period commencing after the first 12-month period referenced in Section 1.9(a) above is less than $390,000.00 (the "Year 2 Additional Contract Contribution Target") then Variable Payment D shall be decreased by six times (6x) the amount that the actual Contribution to EBITDA for such 12-month period is less than the Year 2 Additional Contract Contribution Target; or

(ii) In the event that the Contribution to EBITDA for such second 12-month period is more than the Year 2 Additional Contract Contribution Target, then, subject to the provisions of subsection 1.8(f) above, Variable Payment D shall be increased by six times (6x) the amount that the actual Contribution to EBITDA for such 12-month period is in excess of the Year 2 Additional Contract Contribution Target.

(c) Neither Variable Payment C nor Variable Payment D will be due or be paid by Purchaser to the Shareholders unless the Company shall have executed and commenced services under either the Camden Clark Memorial Hospital Management Agreement or some other management agreement of similar form and structure and having a term of not less than five (5) years (the "Additional Contract") on or prior to March 31, 2006, in a form reasonable and acceptable to Purchaser. No Variable Payment C or Variable Payment D shall be due if the Additional Contract is not signed and commenced on or before March 31, 2006.

(d) For the purposes of this Section 1.9, the term "Contribution to EBITDA" shall mean the operating margin earned by the Company on the Additional Contract for the applicable period, all as determined by Purchaser in accordance with Company Historical GAAP. The principles and methodologies for determining the Contribution to EBITDA and other terms and conditions relating to the payment of Variable Payments hereunder shall be as specified in Schedule 1.8.

(e) Purchaser shall deliver to the Shareholders its determination of the applicable Contribution to EBITDA with each Variable Payment. The Shareholders may dispute such determination and have such determination finally resolved in the same manner and within the same time periods as are applicable under Section 1.8(e).

1.10 Net Assets Settlement.

(a) As used herein, the term "Net Assets," as determined in accordance with Company Historical GAAP, shall mean the current assets of the Company, less (i) the outstanding liabilities of the Company (including the amount of accrued paid time off liability for the employees listed in Schedule 2.5(a) as described below), and (ii) 16% of the amount of accrued ESL of all employees of the Company. Except as set forth below, in the event an accounting principle, including the methods and practices as historically applied by the Company is not in accordance with GAAP, it shall not constitute Company Historical GAAP for any purpose under this Agreement and shall not be followed in the determination of Net Assets under this Section 1.10 or the determination of EBITDA of the Company under Sections 1.8 or 1.9 hereof. Notwithstanding the provisions set forth above, the Parties understand and agree that the Company' s historical practice of not recording accrued employee paid time off liability,

including the accrued paid time off liability listed in Schedule 2.5(a) relating to certain of the Company' s employees, is not in accordance with GAAP, and that such accrued paid time off liability shall nevertheless be taken into account for all purposes under this Agreement, including in connection with the determination of the Net Assets of the Company under this Section 1.10.

(b) At least ten (10) business days prior to the Closing, the Shareholders shall in good faith deliver to Purchaser a reasonable estimate of Net Assets as of the end of the most recently ended calendar month prior to the Closing Date for which financial statements are available ("Estimated Net Assets") and containing reasonable detail and supporting documents showing the derivation of such estimate. The "Net Assets Payment" shall equal the difference between the Estimated Net Assets and $0.00. If Estimated Net Assets exceeds $0.00, the Net Assets Payment shall be added to the Closing Purchase Price Payment. If Estimated Net Assets is less than $0.00, the Closing Purchase Price Payment shall be reduced by the amount of the Net Assets Payment. Within ninety (90) days after the Closing, Purchaser shall deliver to the Shareholders its determination of the Net Assets as of the Effective Time. Each Party shall have full access to the financial books and records pertaining to the Company to confirm or audit Net Assets computations. Should the Shareholders disagree with Purchaser' s determination of Net Assets, the Shareholders shall notify Purchaser in writing within fifteen (15) days after Purchaser' s delivery of its determination of Net Assets and state the basis for their disagreement. If the Shareholders and Purchaser fail to agree within thirty (30) days after the Shareholders' delivery of notice of disagreement on the amount of Net Assets, such disagreement shall be resolved in accordance with the procedures set forth in Section 1.10(c), which shall be the sole and exclusive remedy for resolving disputes relative to the determination of Net Assets. The Purchase Price shall be increased or decreased based on the difference between the actual Net Assets as of the Effective Time and the Estimated Net Assets calculated at the Closing and, within five (5) business days after determination thereof, any excess of actual Net Assets over Estimated Net Assets shall be paid in cash to the Shareholders, and any deficiency in actual Net Assets versus Estimated Net Assets shall be paid in cash to Purchaser pursuant to the Escrow Agreement, in either case without interest on such amount.

(c) Dispute of Adjustments. In the event that the Shareholders and Purchaser are not able to agree on the actual Net Assets within thirty (30) days after the Shareholders' delivery of notice of disagreement in accordance with Section 1.10(b) hereof, the Shareholders and Purchaser shall each have the right to require that such disputed determination be submitted to the Accounting Firm for computation or verification in accordance with the provisions of this Agreement. The Accounting Firm shall review the matters in dispute and, acting as arbitrators, shall promptly decide the proper amounts of such disputed entries (which decision shall also include a final calculation of Net Assets). The submission of the disputed matter to the Accounting Firm shall be the exclusive remedy for resolving disputes relative to the determination of Net Assets. The Accounting Firm' s determination shall be binding upon the Shareholders and Purchaser. The Accounting Firm' s fees and expenses shall be borne equally by the Shareholders and Purchaser.

ARTICLE 2
REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS

Except as otherwise indicated on the applicable Disclosure Schedules expressly related to the particular representation or warranty stated below in this Article 2, the Shareholders hereby jointly and severally represent and warrant to Purchaser as to the following matters as of the Execution Date. Except as otherwise provided herein, the Shareholders shall be deemed to remake all of the following representations and warranties jointly and severally as of the Closing Date and the Effective Time:

2.1 Authority. The Company has full corporate power and authority to enter into this Agreement and all documents required to be delivered hereunder and full corporate power and authority to carry out and perform the transactions contemplated herein.

2.2 Authorization/Execution. All corporate and other actions required to be taken by the Shareholders and the Company to authorize the execution, delivery and performance of this Agreement, all documents executed by the Shareholders and the Company which are necessary to give effect to this Agreement, and all transactions contemplated hereby have been duly and properly taken or obtained by the Shareholders and the Company. No other corporate or other action on the part of the Shareholders or the Company is necessary to authorize the execution, delivery and performance of this Agreement, all documents necessary to give effect to this Agreement and all transactions contemplated herein. This Agreement and all documents delivered hereunder have been duly and validly executed and delivered by the Shareholders and the Company and, assuming due and valid execution by, and enforceability against, Purchaser, this Agreement and all documents delivered hereunder constitute valid and binding obligations of the Shareholders and the Company enforceable in accordance with their respective terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and (b) limitations on the enforcement of equitable remedies.

2.3 Organization and Good Standing; No Subsidiaries; No Conflicts.

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of West Virginia. The Company has full power and authority to own, operate and lease its properties and to carry on its business as now conducted.

(b) The Company has no subsidiaries, whether direct or indirect. The Company has no equity interest or investment in, and does not have any other right or obligation to purchase any equity interest or other investment in, and is not a partner of or joint venturer with, any other person or entity.

(c) Except as provided in Schedule 2.3(c), the execution and delivery of this Agreement and the performance of the transactions contemplated by this Agreement and all other instruments, agreements, and certificates referenced herein to which the Shareholders and the Company are or will be a Party do not (i) violate any decree or judgment of any court or governmental authority which is applicable to or binding upon the Shareholders or the Company; (ii) violate any law, rule or regulation applicable to the Shareholders or the Company; (iii) violate or conflict with, or result in a breach of, or constitute a default (or an event which,

with or without notice or lapse of time or both, would constitute a default) under, or permit cancellation of, or result in the creation of any encumbrance upon any of the assets of the Company or the Shares under, any Material Contract, lease, sales order, purchase order, indenture, mortgage, note, bond or license to which the Company is a Party, or by which the Company is bound; (iv) permit the acceleration of the maturity of any indebtedness of the Company; or (v) violate or conflict with any provision of the Articles of Incorporation or Bylaws of the Company.

2.4 Title to Shares. The Shareholders are the unconditional sole legal, beneficial, record and equitable owner of the Shares, free and clear of any and all Encumbrances. The Shareholders have not granted and are not a party to any agreement granting preemptive rights, rights of first refusal or any similar or comparable rights with respect to the Shares. At the Closing, the Shareholders will convey to Purchaser good and valid title to the Shares, free and clear of any and all Encumbrances.

2.5 Financial Statements; Changes.

(a) The Shareholders have delivered to Purchaser the unaudited balance sheets for the Company at December 31, 2004, 2003 and 2002, and the related statements of operations for the periods then ended. All such financial statements have been prepared in conformity with Company Historical GAAP applied on a consistent basis throughout such periods. Such statements of operations present fairly in all material respects the results of operations of the Company for the respective periods covered, and the balance sheets present fairly in all material respects the financial condition of the Company as of their respective dates. Except as set forth in Schedule 2.5(a), since December 31, 2004, there has been no change in any of the significant accounting policies, practices or procedures of the Company.

(b) The Shareholders have delivered to Purchaser an unaudited balance sheet for the Company at April 30, 2005 (the "Interim Balance Sheet Date") and the related statement of operations for the four-month period then ended. Such interim financial statements have been prepared in conformity with Company Historical GAAP. The interim statement of operations presents fairly in all material respects the results of the operations of the Company for the period covered, and the interim balance sheet presents fairly in all material respects the financial condition of the Company at the Interim Balance Sheet Date. Such interim financial statements reflect all adjustments necessary for a fair presentation of the financial information contained therein other than normal year-end adjustments which are not material in amount in the aggregate. At the Interim Balance Sheet Date, the Company had no material liability (actual, contingent or accrued) that, in accordance with Company Historical GAAP applied on a consistent basis, should have been shown or reflected on the interim balance sheet but was not.

(c) Except as set forth in Schedule 2.5, since the Interim Balance Sheet Date, whether or not in the ordinary course of business, there has not been, occurred or arisen:

(i) any change in or event affecting the Company or the Shareholders, that has had or would reasonably be expected to have a Material Adverse Effect; or

(ii) any strike or other labor dispute; or

(iii) any casualty, loss, damage or destruction (whether or not covered by insurance) of any property of the Company that is material or that has involved or may involve a material loss to the Company in excess of applicable insurance coverage.

2.6 Tax and Other Returns and Reports. Except as set forth in Schedule 2.6:

(a) For purposes of this Agreement, "Tax" or "Taxes" shall be defined as set forth below in Section 2.6(c) and shall include (i) any obligations under any agreements or arrangements with any other Person with respect to such amounts and including any liability for Taxes of any predecessor or previously owned entity and (ii) any liability for any Taxes as a result of being a member of an affiliated, consolidated, combined or unitary group. For purposes of this Section 2.6 and Schedule 2.6, with respect to matters pertaining to this Section 2.6, the terms "Company," "Subsidiary" and "Subsidiaries" shall include all entities currently or previously owned, directly or indirectly, by the Company.

(b) Tax Returns and Audits.

(i) The Company has timely filed (taking into account valid extensions of the time for filing) all Tax returns required to have been filed and all such Tax returns were true, correct and complete in all material respects. All Taxes owed by the Company (whether or not shown on any Tax return) (A) for all tax years of periods that ended on or before December 31, 2004 will have been timely paid in full on or prior to the Closing Date and (B) for all tax years or periods that began prior to, on or after December 31, 2004 and end on or before the Closing Date and, with respect to any tax year or period beginning prior to, on or after December 31, 2004 and ending after the Closing Date, the portion of such taxable year or period ending on and including the Closing Date if due and payable prior to the Closing Date, will have been timely paid in full on or prior to the Closing Date, or in the case of either (A) or (B) above, will have been accrued and adequately disclosed and fully provided for on the books and records of the Company in accordance with GAAP. The Company is not currently the beneficiary of any extension of time within which to file any Tax return. No claim has ever been made by an authority in a jurisdiction where the Company does not file Tax returns that it is or may be subject to taxation by that jurisdiction.

(ii) The Company has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, member, or other third party.

(iii) The Company and the Shareholders have made available (or will make available through the date of Closing) to Purchaser (i) correct and complete copies of all Tax returns of the Company and (ii) any examination reports, statements of deficiencies and assessments by any governmental authority against or agreed to by the Company since the Company' s formation. The Company does not expect any authority to assess additional Taxes for any period for which Tax returns have been filed. There is no dispute or claim concerning any Tax liability of the Company claimed, threatened or otherwise raised by any authority. The Company has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(iv) All material liabilities of the Company for any unpaid Taxes (whether or not shown to be due on any Tax return) have either (A) been accrued for or reserved on the Company financial statements in accordance with GAAP or (B) with respect to material unpaid Taxes that may have accrued since the Interim Balance Sheet Date in connection with the operation of the business of the Company have been recorded on the books of the Company in the ordinary course.

(v) There are no liens or security interests on any of the assets of the Company or the Shares that arose in connection with any failure (or alleged failure) to pay any Tax.

(vi) The Company has not filed any consent agreement under Section 341(f) of the Internal Revenue Code of 1986 (the "Code") or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as defined in Section 341(f)(2) of the Code) owned by the Company. No property owned by the Company is "tax-exempt use property" within the meaning of Section 168(h) of the Code. The Company is not a party to any lease made pursuant to former Section 168(f)(8) of the Internal Revenue Code of 1954.

(vii) The Company is not under any obligation to make a payment that will not be deductible because of the application of Sections 280G, 404, 162(m) and/or 4999 of the Code. The Company has disclosed on its Tax returns all positions taken therein that could give rise to a substantial understatement (i) of federal income tax under Code Section 6662 or (ii) of any Tax under a similar provision of state, local or foreign Tax law. The Company has not engaged in any transaction which would be treated as a "reportable transaction" within the meaning of Treasury Regulations Section 1.6011-4 or otherwise been involved in a transaction which would require it to disclose a "reportable transaction." The Company has not been a member of an affiliated group filing a consolidated federal income Tax return and does not have any liability for the Taxes of any Person (other than the Company) under Treasury Regulations Section 1.1502-6, or any similar provision of state, local or foreign law, as a transferee or successor, by contract, or otherwise. The Company has not been a party to any Tax allocation or sharing agreement. Neither the Company nor its Subsidiaries is currently or has been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code.

(viii) The Company is and has been in full compliance with all terms and conditions of any Tax exemptions, Tax holidays or other Tax reduction agreements. The consummation of the transactions contemplated herein will not have any material adverse effect on the continued validity and effectiveness of any such Tax exemption, Tax holiday or other Tax reduction agreement or order.

(ix) Neither the Company nor any of its Subsidiaries has constituted either a "distribution corporation" or a "controlled corporation" in a distribution of stock qualifying for tax-free treatment under Code Section 355 (a) in the two year prior to the date of this Agreement or (b) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Code Section 355(c)).

(x) The Company has not, with respect to any open taxable period, applied for and been granted permission to adopt a change in its method of accounting requiring adjustments under Section 481 of the Code or comparable state or foreign law.

(xi) The Company is not a partner in any entity classified as a partnership for federal income tax purposes.

(xii) The Company has not made an election under Treasury Regulations Section 301.7701-3 with respect to any entity.

(xiii) The Company will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending prior to, on, or after the Closing Date as a result of any deferred intercompany gain or any excess loss account described in Treasury Regulations under Code Section 1502 (or any corresponding or similar provision of federal state, local or foreign income Tax law).

(xiv) During the time it has been in existence, the Company has been a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code. Schedule 2.6 identifies each Subsidiary of the Company that is a "qualified subchapter S subsidiary" within the meaning of Section 1361(b)(3)(B) of the Code. Each Subsidiary so identified has been a qualified subchapter S subsidiary at all times from the date shown on Schedule 2.6 through the Closing Date.

(c) "Tax" and "Taxes" means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

(d) The Company shall not be liable for any Tax under Code Section 1374 in connection with the deemed sale of the Company' s assets (including the assets of any qualified subchapter S subsidiary) caused by the Code Section 338(h)(10) election. Neither the Company nor any qualified subchapter S subsidiary of the Company has, in the past 10 years, (A) acquired assets from another corporation in a transaction in which the Company' s tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor or (B) acquired the stock of any corporation that is a qualified subchapter S subsidiary.

2.7 Contracts. Schedule 2.7 lists each contract or agreement to which the Company is a party or to which any of its properties are subject or by which any thereof is bound. Unless otherwise so noted in Schedule 2.7, each such Contract was entered into in the ordinary course of business. As used herein, "Contract" means any contract that (a) after the Interim Balance Sheet Date obligates the Company to pay any amount, requires the Company to perform any services or otherwise obligates the Company in any manner, (b) has an unexpired term as of the Interim Balance Sheet Date in excess of twelve (12) months that is not terminable upon ninety (90) days or less notice by the Company at any time during the term, without penalty, (c) contains a

covenant not to compete or otherwise significantly restricts business activities, (d) limits the ability of the Company to conduct its business, including as to manner or place, (e) grants a power of attorney, agency or similar authority to another person or entity, (f) contains a right of first refusal, (g) constitutes a collective bargaining agreement including any collective bargaining agreement with physicians or any other referral source, (h) constitutes an employment or severance agreement with any director, officer or employee of the Company or the Shareholders, (i) represents a contract upon which the business of the Company is substantially dependent or a contract which is otherwise material to the business of the Company, (j) represents a contract with a physician or an immediate family member of a physician (as that term is defined in 42 C.F.R. § 411.351) or any other referral source, including any contract with a pharmacy or any other supplier of medical products, (k) represents a contract with an entity in which a referring physician (as that term is defined in 42 U.S.C. § 1395m(h)(7)) or a referring physician' s immediate family member has an ownership or investment interest, (l) represents a third party payor, managed care or preferred provider organization contract, or (m) was not made in the ordinary course of business. True, correct and complete copies of the Contracts and any other contracts of the Company, including all amendments and supplements, have been made available to Purchaser. Each Contract is valid and subsisting; except as set forth in Schedule 2.7, the Company has duly performed in all material respects all its obligations thereunder to the extent that such obligations to perform have accrued; and, except as set forth in Schedule 2.7, no breach or default, alleged breach or default, or event which would (with the passage of time, notice or both) constitute a material breach or default thereunder by the Company (or any other party or obligor with respect thereto), has occurred or as a result of the execution of this Agreement or its performance will occur.

2.8 Real and Personal Property; Title to Property; Leases. The Company does not own or lease any real property. The Company does not lease any personal property. All assets of the Company are listed in Schedule 2.8.

2.9 Capitalization of the Company. The authorized capital stock of the Company consists of One Thousand (1,000) shares of Common Stock, $1.00 par value, of which One Thousand (1,000) shares are validly issued and outstanding. All such outstanding shares of capital stock of the Company are fully paid and nonassessable. All of the issued and outstanding shares of capital stock of the Company are owned of record and beneficially by the Shareholders. As of the Execution Date and immediately prior to Closing, Scott C. Stamm owns 667 shares of the Company' s Common Stock and Patrick D. Burrows owns 333 shares of the Company' s Common Stock. The Company has provided to Purchaser a correct and complete copy of the stock registry and stock transfer records of the Company listing all Shareholders of the Company and the outstanding share certificates and total number of shares issued to each stockholder of the Company since its inception. The Company has no other capital stock authorized for issuance and has no treasury shares. The Company has not purchased any shares of its capital stock from Shareholders within the three (3) year period prior to the Execution Date. There are no outstanding options, warrants, convertible instruments, or other rights, agreements, or commitments to issue or acquire any shares of common stock of the Company or any other security constituting, or convertible or exchangeable into, capital stock of the Company. The Company has not granted and is not a party to any agreement granting preemptive rights, rights of first refusal, or registration rights with respect to its outstanding or authorized capital stock or any capital stock of the Company to be issued in the future. The Company is not bound by any

exclusive agency or indemnity agreement applicable to the issuance of shares of its capital stock after the Execution Date or the Closing Date.

2.10 Intangible Property. Schedule 2.10 lists any and all marks and other material items of intangible property in which the Company has an interest and the nature of such interest (the "Intangible Property"). Except as shown in Schedule 2.10, the Intangible Property includes all permits or other rights with respect to any of the foregoing. The Company has complete rights to use or ownership of all Intangible Property required for use in connection with the business of the Company. Except as disclosed in Schedule 2.10, the Company does not use any Intangible Property by consent of any other person and is not required to and does not make any payments to others with respect thereto. Except as shown in Schedule 2.10, and except for any lien for Taxes not yet due and payable (collectively, "Permitted Encumbrances"), the Intangible Property of the Company is fully assignable free and clear of any encumbrances. The Company has in all material respects performed all obligations required to be performed by, and the Company is not in default in any material respect under, any contract relating to any of the foregoing. The Company has not received any notice to the effect (or otherwise has Knowledge) that such intangible property or any use thereof by the Company conflicts with or infringes (or allegedly conflicts with or infringes upon) the rights of any Person.

2.11 Legal Proceedings. Except as set forth in Schedule 2.11, there is no order or action pending, or, to the Knowledge of the Shareholders threatened, against or affecting the Company, or any of its respective properties or assets that involves a claim of aggregate liability in excess of $25,000 against the Company. Schedule 2.11 lists each order and each action that involves claim of aggregate liability in excess of $25,000 against, or that enjoins or seeks to enjoin or excludes or seeks to exclude the conduct of any activity by, the Company.

2.12 Accounting Records; Internal Controls.

(a) Accounting Records. The Company has records that accurately and validly reflect its respective transactions, and accounting controls sufficient to insure that such transactions are (i) executed in accordance with management' s general or specific authorization and (ii) recorded in conformity with Company Historical GAAP so as to maintain accountability for assets.

(b) Data Processing; Access. Such records, to the extent they contain important information that is not easily and readily available elsewhere, have been duplicated, and such duplicates are stored safely and securely pursuant to procedures and techniques utilized by companies of comparable size in similar lines of business.

2.13 Insurance. Schedule 2.13 lists all insurance policies and bonds that are maintained by the Company and indicates the type of insurance, policy number, term, identity of insurer, premiums and coverage amounts for the previous five (5) years and basic coverages (including applicable deductibles) for each such insurance policy and bond. The Company is not in default under any insurance policy or bond. The Company has timely filed claims with its respective insurers with respect to all matters and occurrences for which it believes it has coverage. Schedule 2.13 lists all claims in excess of $20,000 which have been made by the Company in the last two (2) years under any insurance policy or bond. Except as set forth in

Schedule 2.13, all insurance policies and bonds are in full force and effect. Except as shown in Schedule 2.13, the Company has not received notice from any insurer or agent of any intent to cancel or not to renew any of such insurance policies and bonds. There are no outstanding requirements or recommendations by any insurance company that issued a policy with respect to any of the properties and assets of the Company or by any Board of Fire Underwriters or other body exercising similar functions or by any governmental entity requiring or recommending any action which has not been taken.

2.14 Employees.

(a) Schedule 2.14 sets forth a complete list (as of the date set forth therein) of names, positions and current annual salaries or wage rates, bonus and other compensation and/or benefit arrangements, accrued paid time off and extended sick leave ("ESL"), the paid time off pay and period of service credited for vesting as of the date thereof of all full-time and part-time employees of the Company and indicating whether such employee is a part-time or full-time employee. The maximum accrual for ESL for employees of the Company is 160 hours and no employee currently has an amount of accrued ESL in excess of such maximum. Except as shown in Schedule 2.14, there are no employment agreements or severance agreements with employees of the Company. Notwithstanding any amounts listed in Schedule 2.14 for accrued paid time off for the Shareholders, the Shareholders hereby waive and forfeit all such amounts and agree that the Company is not liable for these amounts after the Effective Time.

(b) There are no labor union or collective bargaining agreements in effect with respect to the employees of the Company. There is no unfair labor practice complaint against the Company pending, or to the Knowledge of the Shareholders threatened, before the National Labor Relations Board. There is no labor strike, arbitration, dispute, slowdown or stoppage, and no union organizing campaign, pending, or to the Knowledge of the Shareholders threatened by or involving the employees of the Company.

2.15 Employee Benefits.

(a) Except as set forth in Schedule 2.15, neither the Company nor any Subsidiary has or has ever had any pension, retirement, savings, deferred compensation, or profit-sharing plan, bonus, nor other incentive plan, severance plan, health, group insurance or other welfare plan, or any other similar plan, and any "employee plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), under which any employee, former employee or independent contractor (or beneficiary of any employee, former employee or independent contractor) of the Company have or may have any current or future right to benefits (the term "plan" shall include any written contract, agreement, policy or understanding, each such plan being hereinafter referred to in this Agreement individually as a "Plan"). Each Plan is in material compliance with all requirements of ERISA and the Code.

(b) Except as set forth in Schedule 2.15, neither the Company nor any Commonly Controlled Entity contributes to or has an obligation to contribute to, nor has the Company or any Commonly Controlled Entity at any time within six (6) years prior to the Closing contributed to or had an obligation to contribute to, either (i) a multiemployer plan

within the meaning of Section 3(37) of ERISA, or (ii) any plan subject to Title IV of ERISA. The Company has performed timely and shall timely perform all obligations of the Company and each Commonly Controlled Entity, whether arising by operation of law or by contract, required to be performed under Section 4980B of the Code (or similar state law), including, but not limited to, such obligations that may arise by virtue of the transactions contemplated by this Agreement. For the purposes of this Section 2.15, "Commonly Controlled Entity") means any corporation, trade, business, or entity under common control with the Company within the meaning of Section 414(b), (c), (m), or (o) of the Code or Section 4001 of ERISA.

(c) Each employee, former employee and independent contractor of the Company has been properly classified as such for all purposes under the Code and ERISA.

2.16 Certain Interests. Except as shown in Schedule 2.16, no Affiliate of the Company, nor any officer or director of any thereof, nor any associate of any such individual, has any material interest in any property used in or pertaining to the business of the Company; no such Person is indebted or otherwise obligated to the Company; and the Company is not indebted or otherwise obligated to any such Person, except for amounts due under normal arrangements applicable to all employees generally as to salary, or reimbursement of ordinary business expenses not unusual in amount or significance. The consummation of the transactions contemplated by this Agreement will not (either alone, or upon the occurrence of any act or event, or with the lapse of time, or both) result in any benefit or payment (severance or other) arising or becoming due from the Company or the successor or assign of any thereof to any Person.

2.17 Intercompany Transactions. Except as shown in Schedule 2.17, the Company has not engaged in any transaction with any Affiliate of the Company. Except as shown in Schedule 2.17, the Company has no liabilities or obligations to any Affiliate of the Company, and no Affiliate of the Company has any liabilities or obligations to the Company.

2.18 Inventory. The Company does not have and has never had any inventory.

2.19 Receivables. The accounts receivable reflected on the books and records of the Company arose from bona fide commercial transactions, and the financial statements referred to in Section 2.5 include all material refunds, discounts or setoffs payable or assessable with respect to such accounts receivable, taken as a whole.

2.20 Third Party Payors and Suppliers. Schedule 2.20 lists the names of and describes all Contracts with and the respective percentage of the revenues of the business of the Company for the year ended December 31, 2004, attributable to the ten largest third party payors and any sole-source suppliers of significant goods or services (other than electricity, gas, telephone or water) to the business of the Company with respect to which alternative sources of supply are not readily available on comparable terms and conditions.

2.21 Worker Adjustment and Retraining Notification (WARN). The Shareholders and the Company have complied with the Worker Adjustment and Retraining Notification Act, 29 U.S.C.A. §2102, et seq., as amended (the "WARN Act"), insofar as applicable to any acts or transactions with respect to the operation of the Company prior to the Closing.

2.22 Environmental Compliance.

(a) The Company is in material compliance with all applicable Environmental Laws. As used herein, "Environmental Laws" shall mean all applicable federal, state or local laws relating to pollution or protection of the environment (including, without limitation, ambient air, surface water, ground water, land or surface or subsurface strata), including all federal, state or local laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes into the environment and all federal, state or local laws relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any of the foregoing, including the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. § 6901, et. seq., and the rules and regulations promulgated thereunder.

(b) The Company has obtained all material permits required under applicable Environmental Laws for the use, operation or ownership of the business of the Company. The Company is in material compliance with each such applicable material permit. No federal, state or local governmental entity has notified the Company that any such material permits may or will be suspended, cancelled, revoked or materially modified, or cannot be renewed in the ordinary course of business.

(c) The Company has not received from any federal, state or local governmental entity or other person any written order, directive, information request, notice of violation, notice of alleged violation, notice of noncompliance, notice of liability or potential liability, regarding compliance with, or liability or potential liability under, applicable Environmental Laws concerning the business of the Company.

(d) No judicial proceeding, action, claim, suit, or governmental or administrative action is pending or, to the Knowledge of the Shareholders, threatened, under any applicable Environmental Law pursuant to which the Company is or to the Knowledge of the Shareholders could be reasonably expected to be named as a party with respect to the business operations of the Company.

(e) The Company has not entered into any agreement with any federal, state or local governmental entity or any other person pursuant to which the Company assumed responsibility for the investigation or remediation of any condition resulting from the release, treatment, storage or disposal of hazardous substances.

2.23 Powers of Attorney. Except as set forth in Schedule 2.23, the Company has not given any power of attorney (irrevocable or otherwise) to any person for any purpose, other than powers of attorney given to regulatory authorities in connection with routine qualifications to do business.

2.24 Medicare and Medicaid; Third-Party Payors; Compliance with Health Care Laws.

(a) The Company has the lawful authority and all federal, state or local governmental authorizations, certificates of authority, certificates of need, licenses or permits necessary for or required to conduct its business as such are being conducted. In order to

conduct its business operations as presently conducted, the Company is not required to hold any licenses, permits and other governmental approvals or authorizations except for the licenses currently held by the Company as set forth in Schedule 2.24. The licenses listed in Schedule 2.24 are in full force and effect, and the Company is in full compliance in all material respects with all requirements of each license that it holds. The Company has made all material filings with governmental agencies required for the conduct of its business operations. There are no judgments, consent decrees or injunctions of any court or any governmental department, commission, agency or instrumentality by which the Company is bound or to which the Company is subject. The Company has not received nor, to the Knowledge of the Shareholders, is the Company subject to any notice, subpoena, demand letter, administrative inquiry or formal or informal complaint or claim from any governmental department, commission, agency or instrumentality.

(b) The Company is not and has never been a provider under Medicare or Medicaid and does not bill and has never billed Medicare or Medicaid for any services it has provided.

(c) In the five (5) year period immediately preceding the Execution Date and since the Execution Date, to the Knowledge of the Company, neither the Shareholders nor any of the Company' s employees have committed a violation of federal or state laws regulating health care fraud, including the Anti-Kickback Laws, the Stark Laws and the False Claims Act which violation relates in any material respect to the business operations of the Company.

2.25 HIPAA. The Company is in compliance with the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996, and the rules and regulations promulgated thereunder ("HIPAA"), as of the applicable effective dates for such requirements.

2.26 Solvency. The Company is not insolvent and will not be rendered insolvent as a result of any of the transactions contemplated by this Agreement. For purposes hereof, the term "solvency" means that: (a) the fair salable value of the Company' s tangible assets is in excess of the total amount of its liabilities (including for purposes of this definition all liabilities, whether or not reflected on a balance sheet prepared in accordance with GAAP, and whether direct or indirect, fixed or contingent, secured or unsecured, and disputed or undisputed); (b) the Company is able to pay its debts or obligations in the ordinary course as they mature; and (c) the Company has capital sufficient to carry on its businesses and all businesses which it is about to engage.

2.27 No Brokers or Finders. No agent, broker, finder, or investment or commercial banker, or other Person or firm engaged by or acting on behalf of the Shareholders or the Company, or any of their respective Affiliates in connection with the negotiation, execution or performance of this Agreement or the transactions contemplated by this Agreement, is or will be entitled to any brokerage or finder' s or similar fee or other commission as a result of this Agreement or such transactions; except for such fees or other commissions as to which the Shareholders shall have full responsibility and, with respect to such fees or commissions, Purchaser shall not have any liability.

2.28 No Misrepresentations. The representations, warranties and statements made by the Company and the Shareholders in this Agreement (including any Disclosure Schedule, Exhibit or certificate furnished by the Shareholders or the Company in accordance with the terms of this Agreement) are true, complete and correct in all material respects and do not contain any untrue statement of a material fact or omit to state any material fact necessary to make any such representation, warranty or statement, under the circumstances in which it is made, not misleading.

2.29 Improper Payments. None of the Company, the Shareholders or any director, officer, employee or agent of the Company has made any bribes, kickbacks or other illegal payments to, or received any such illegal payments from, customers, vendors, suppliers or other persons contracting with the Company and has not proposed or offered to make or receive any such illegal payments.

2.30 No Undisclosed Liabilities. True and correct copies of all notes, agreements or other documents evidencing outstanding liabilities of the Company as of May 31, 2005, have been delivered or made available to Purchaser by the Company. Except as reflected in Schedule 2.30, as of May 31, 2005, the Company has no indebtedness or other liabilities, whether accrued, absolute, contingent or otherwise, and whether due or to become due. Schedule 2.30 hereto sets forth each liability of the Company as of May 31, 2005. At the Closing, Schedule 2.30 shall set forth each liability of the Company as of the Effective Time. As of the Effective Time, the Company has no indebtedness or other liabilities, whether accrued, absolute, contingent or otherwise, and whether due or to become due, other than those liabilities included in the calculation of Net Assets under Section 1.10 hereof.

2.31 No Other Representations or Warranties. Except to the extent set forth in this Article 2, the Company and the Shareholders have not made, nor make, and expressly disclaim, any representation or warranty of any kind or character, express or implied, oral or written, past present or future, with respect to the Shares, the transactions contemplated hereby or the matters set forth herein.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF PURCHASER

As an inducement to the Shareholders to enter into this Agreement and to consummate the transactions contemplated by this Agreement, Purchaser hereby represents, warrants and covenants to the Shareholders as to the following matters as of the Execution Date and, except as otherwise provided herein, shall be deemed to remake all of the following representations, warranties and covenants as of the Closing Date and the Effective Time:

3.1 Authority. Purchaser has full corporate power and authority to enter into this Agreement and to carry out the transactions contemplated hereby.

3.2 Authorization/Execution. All corporate and other actions required to be taken by Purchaser to authorize the execution, delivery and performance of this Agreement, all documents executed by Purchaser which are necessary to give effect to this Agreement, and all transactions contemplated hereby, have been duly and properly taken or obtained by Purchaser. No other corporate or other action on the part of Purchaser is necessary to authorize the execution,

delivery and performance of this Agreement, all documents necessary to give effect to this Agreement and all transactions contemplated hereby. This Agreement and all documents delivered hereunder have been duly and validly executed and delivered by Purchaser and, assuming due and valid execution by, and enforceability against, the Company and the Shareholders, this Agreement and all documents delivered hereunder constitute the valid and binding obligations of Purchaser enforceable in accordance with their respective terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and (b) limitations on the enforcement of equitable remedies.

3.3 Organization and Good Standing; No Violation.

(a) Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of West Virginia, and has full power and authority to own, operate and lease its properties and to carry on its business as now conducted.

(b) The execution and delivery of this Agreement and the performance of the transactions contemplated by this Agreement and all other instruments, agreements, certificates and documents contemplated hereby to which Purchaser is or will be a party do not (i) violate any decree or judgment of any court or governmental authority which may be applicable to or bind Purchaser; (ii) violate any law, rule or regulation applicable to Purchaser which would have a material adverse effect on Purchaser; (iii) violate or conflict with, or result in a breach of, or constitute a default (or an event which, with or without notice or lapse of time or both, would constitute a default) under, or permit cancellation of, any material contract, lease, sales order, purchase order, indenture, mortgage, note, bond, instrument, license or other agreement to which Purchaser is a party, or by which Purchaser is bound; (iv) permit the acceleration of the maturity of any indebtedness of Purchaser; or (v) violate or conflict with any provision of the Articles of Incorporation or Bylaws of Purchaser.

3.4 Legal Proceedings. There is no order or action pending, or, to the Knowledge of Purchaser, threatened, against or affecting Purchaser, or any of its respective properties or assets.

3.5 Solvency. Purchaser is not insolvent and will not be rendered insolvent as a result of the consummation of any of the transactions contemplated by this Agreement. For purposes hereof, the term "solvency" means that: (a) the fair salable value of Purchaser' s tangible assets is in excess of the total amount of its liabilities; (b) Purchaser is able to pay its debts or obligations in the ordinary course as they mature; and (c) Purchaser has capital sufficient to carry on its business and all businesses which it is about to engage.

3.6 No Conflicts; Consents. Except as provided in Schedule 3.6, the execution and delivery of this Agreement and the performance of the transactions contemplated by this Agreement and all other instruments, agreements, and certificates referenced herein to which Purchaser is or will be a party do not (i) violate any decree or judgment of any court or governmental authority which is applicable to or binding upon Purchaser, (ii) violate any law, rule or regulation applicable to Purchaser which would have a material adverse effect on Purchaser; (iii) violate or conflict with, or result in a material breach of, or constitute a material default (or an event which, with or without notice or lapse of time or both, would constitute a

material default) under, any material contract, lease, sales order, purchase order, indenture, mortgage, note, bond, instrument, license or other agreement to which Purchaser is a party, or by which Purchaser is bound; (iv) permit the acceleration of the maturity of any indebtedness of Purchaser; or (v) violate or conflict with any provision of the Articles of Incorporation or Bylaws of Purchaser.

3.7 Availability of Funds; Performance of Obligations. Purchaser has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash which are sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement. Purchaser has the ability to perform and discharge all of its obligations under this Agreement.

3.8 Brokers and Finders. No agent, broker, finder, or investment or commercial banker, or other Person or firm engaged by or acting on behalf of Purchaser, or any of their respective Affiliates in connection with the negotiation, execution or performance of this Agreement or the transactions contemplated by this Agreement, is or will be entitled to any brokerage or finder' s or similar fee or other commission as a result of this Agreement or such transactions; except for such fees and other commissions as to which Purchaser shall have full responsibility and, with respect to such fees or commissions, the Shareholders shall not have any liability.

ARTICLE 4
COVENANTS OF THE SHAREHOLDERS

4.1 Access and Information; Inspection Period, Preparation of Exhibits and Disclosure Schedules. From the Execution Date through the Closing, the Shareholders shall afford to the officers and agents of Purchaser (which shall include accountants, attorneys, bankers and other consultants and agents of Purchaser) full and complete access during normal business hours to and the right to inspect the plants, properties, books, accounts, records and all other relevant documents and information with respect to the assets, liabilities and business of the Company. From the Execution Date through the Closing, the Shareholders shall furnish Purchaser with such additional financial and operating data and other information as to businesses and properties of the Company as Purchaser or its representatives may from time to time reasonably request, without regard to where such information may be located. Purchaser agrees that Purchaser' s right of access and inspection shall be exercised in such a manner as not to interfere unreasonably with the operations of the Company. Such access may include consultations with the personnel of the Company.

4.2 Conduct of Business. On and after the Execution Date and prior to the Closing, and except as otherwise consented to or approved by an authorized officer of Purchaser or required by this Agreement, the Shareholders and the Company shall, with respect to the operation of the Company:

(a) carry on the Company' s businesses in substantially the same manner as presently conducted and not make any material change in personnel, operations, finance,

accounting policies (unless the Company is required to adopt such changes under GAAP), Tax elections or Tax returns or real or personal property;

(b) maintain the assets of the Company in operating condition in a manner consistent with past practices, ordinary wear and tear excepted;

(c) perform all of its material obligations under agreements relating to or affecting the Company, its operations or its assets;

(d) keep in full force and effect present insurance policies or other comparable self-insurance; and

(e) use commercially reasonable efforts to maintain and preserve the Company' s business organization intact, retain its present employees and maintain its relationships with suppliers, customers and others having business relationships with the Company.

4.3 Negative Covenants. From the Execution Date until the Closing, with respect to the operation of the Company, the Shareholders and the Company shall not, without the prior written consent of Purchaser or except as may be required by law:

(a) amend or terminate any of the Contracts, enter into any new contract or commitment, or incur or agree to incur any liability;

(b) increase compensation payable or to become payable or make any bonus payment to or otherwise enter into one or more bonus agreements with any employee, except in the ordinary course of business in accordance with the Company' s customary personnel policies;

(c) create, assume or permit to exist any new debt, mortgage, deed of trust, pledge or other lien or encumbrance upon any of the assets of the Company;

(d) acquire (whether by purchase or lease) or sell, assign, lease, or otherwise transfer or dispose of any property, plant or equipment, except in the ordinary course of business;

(e) except with respect to previously budgeted expenditures, purchase capital assets or incur costs in respect of construction in progress; or

(f) take any action outside the ordinary course of business.

For purposes of this Section 4.3, the Company and the Shareholders shall be deemed to have obtained Purchaser' s prior written consent to undertake the actions otherwise prohibited by this Section 4.3 if the Company and the Shareholders give Purchaser written notice of a proposed action and the Company and the Shareholders do not receive from Purchaser a written notice of objection to such action within five (5) business days after Purchaser receives the written notice.

4.4 Consents. The Shareholders and the Company shall use commercially reasonable efforts to obtain all Contract Consents and shall cooperate with Purchaser and its representatives and attorneys: (a) in Purchaser' s efforts to obtain all other consents, approvals, authorizations,

clearances, certificates of need and licenses required to carry out the transactions contemplated by this Agreement (including, without limitation, those of governmental and regulatory authorities) or which Purchaser reasonably deems necessary or appropriate, and (b) in the preparation of any document or other material which may be required by any governmental agency as a predicate to or result of the transactions contemplated in this Agreement.

4.5 Additional Financial Information. Within fifteen (15) calendar days following the end of each calendar month after the Execution Date and prior to Closing, the Shareholders shall deliver to Purchaser complete copies of the unaudited balance sheet and related unaudited statements of income prepared in accordance with Company Historical GAAP with respect to the operation of the Company for each month then ended, together with corresponding year-to-date amounts.

4.6 No-Shop. From and after the Execution Date until the earlier of the Closing Date or the termination of this Agreement, the Shareholders shall not, without the prior written consent of Purchaser: (a) offer for sale or lease the assets of the Company or the Shares (or any material portion thereof); (b) solicit offers to buy all or any material portion of the assets of the Company or the Shares; (c) hold discussions with any Party (other than Purchaser) relating to such an offer or solicitation; or (d) enter into any agreement with any Party (other than Purchaser) with respect to the sale or other disposition of the assets of the Company or the Shares.

4.7 Shareholders' Efforts to Close. The Shareholders shall use their commercially reasonable efforts to satisfy all of the conditions precedent set forth in Articles 6 and 7 to its or Purchaser' s obligations under this Agreement to the extent that the Shareholders' actions or inaction can control or influence the satisfaction of such conditions.

4.8 Updating of Disclosure Schedules.

(a) The Shareholders shall notify Purchaser of any changes, additions, or events which may cause any change in or addition to the Disclosure Schedules delivered by the Shareholders under this Agreement promptly after the occurrence of the same and again at the Closing by delivery of appropriate updates to all such Disclosure Schedules. No notification of a change or addition to a Disclosure Schedule made pursuant to this Section 4.8 shall be deemed to cure any breach of any representation or warranty resulting from such change or addition unless in any such case Purchaser specifically agrees thereto in writing, nor shall any such notification be considered to constitute or give rise to a waiver by Purchaser of any condition set forth in this Agreement, unless in any such case Purchaser specifically agrees thereto in writing; *provided, however*, that in the event the Shareholders have so notified Purchaser by the delivery of appropriate updates to the Disclosure Schedules, and Purchaser proceeds with the Closing and does not terminate this Agreement, then Purchaser shall be deemed to have agreed to such revised Disclosure Schedules or to have waived such condition, as the case may be. In the event Purchaser does so agree in writing or is deemed to have so agreed by proceeding with the Closing, then the applicable Disclosure Schedule shall be deemed changed or modified or the condition waived, as the case may be, as set forth in the notification from the Shareholders for all purposes of this Agreement. Nothing contained herein shall be deemed to create or impose on

Purchaser any duty to examine or investigate any matter or thing for the purposes of verifying the representations and warranties made by the Shareholders or the Company herein.

(b) Certain Disclosure Schedules to the Agreement set forth exceptions to the representations, warranties and other agreements made by Shareholders in the Agreement and are intended to qualify such representations, warranties and agreements. The information expressly set forth in a Disclosure Schedule with respect to any section of the Agreement shall also be deemed to qualify each other section of the Agreement to which such information is applicable (regardless of whether or not such other section is qualified by reference to a Disclosure Schedule), so long as application to such section is reasonably discernible from such disclosure. Notwithstanding the foregoing, the representations, warranties and other agreements of a Party set forth in the Agreement shall not be affected, modified, waived or limited in any respect by the information contained in any agreement or document listed or referenced in a Disclosure Schedule unless the reference on the face of the Disclosure Schedule expressly indicates how such agreement or document limits the scope of a representation, warranty or other agreement of the Party set forth in the Agreement.

4.9 Code Section 338(h)(10) Election. The Company and each of the Shareholders shall join with Purchaser in making an election under Code Section 338(h)(10) (and any corresponding election under state, local, and foreign Tax law) with respect to the purchase and sale of Company stock hereunder (collectively the "Code Section 338(h)(10) Election"). The Shareholders shall include any income, gain, loss, deduction or other Tax item resulting from the Code Section 338(h)(10) Election on their Tax returns to the extent required by applicable law. The Shareholders shall also pay any Tax imposed on the Company attributable to the making of the Code Section 338(h)(10) Election, including, without limitation, (i) any Tax imposed under Code Section 1374 or (ii) any state, local or foreign Tax imposed on the Company' s gain, and the Shareholders shall indemnify the Purchaser and the Company against any adverse consequences arising out of any failure to pay any such Taxes.

4.10 S Corporation Status. The Company and the Shareholders shall not revoke the Company' s election to be taxed as an S corporation within the meaning of Code Sections 1361 and 1362. The Company and the Shareholders shall not take or allow any action (other than the sale of the Company stock pursuant to this Agreement) that would result in the termination of the Company' s status as a validly electing S corporation within the meaning of Code Sections 1361 and 1362.

ARTICLE 5
COVENANTS OF PURCHASER

5.1 Purchaser' s Efforts to Close. Purchaser shall use its commercially reasonable efforts to satisfy all of the conditions precedent set forth in Articles 6 and 7 to its or the Shareholders' obligations under this Agreement to the extent that Purchaser' s actions or inaction can control or influence the satisfaction of such conditions.

5.2 Required Governmental Approvals. Purchaser (a) shall use commercially reasonable efforts to secure, as promptly as practicable before the Closing Date, all consents, approvals, authorizations, clearances, certificates of need, licenses and permits required to be

obtained from governmental and regulatory authorities necessary for Purchaser to perform its obligations under this Agreement, cause all of its covenants and agreements to be performed, satisfied and fulfilled and operate the Company after the Closing; and (b) will provide such other information and communications to governmental and regulatory authorities as the Shareholders or such authorities may reasonably request.

5.3 Confidentiality. Until Closing, Purchaser shall, and shall cause its employees, representatives and agents to, hold in strict confidence, unless specifically compelled to disclose by judicial or administrative process, all Confidential Information, and Purchaser shall not disclose the Confidential Information to any person, except as otherwise may be reasonably necessary to carry out the transactions contemplated by this Agreement, including any business or diligence review by or on behalf of Purchaser. Purchaser' s obligations set forth in the immediately preceding sentence shall apply (a) between the Execution Date and the Effective Time with respect to Confidential Information which is among the assets of the Company and (b) after the Effective Time for all Confidential Information which is not described in subsection (a) above. For the purposes hereof, "Confidential Information" shall mean (x) all information of any kind concerning the Company or the business of the Company, in connection with the transactions contemplated by this Agreement except information (i) ascertainable or obtained from public or published information, (ii) received from a third party not known by Purchaser to be under an obligation to the Company or any Affiliate of the Company to keep such information confidential, (iii) which is or becomes known to the public (other than through a breach of this Agreement), or (iv) which was in Purchaser' s possession prior to disclosure thereof to Purchaser in connection herewith, and (y) all "Individually Identifiable Health Information," as such term is defined in 45 CFR §160.102 of patients and others receiving services from the Company. In the event of any termination, expiration or removal of this Agreement, Purchaser shall, in addition to complying with the covenant of nondisclosure set forth in this Section 5.4, return to the Company any and all Individually Identifiable Health Information in Purchaser' s possession without retaining copies thereof.

5.4 Enforceability. Purchaser hereby acknowledges that the restrictions contained in Section 5.3 above are reasonable and necessary to protect the legitimate interests of the Company and the Shareholders. The Parties also hereby acknowledge and agree that any breach of Section 5.3 would result in irreparable injury to the Company and the Shareholders and that any remedy at law for any breach of Section 5.3 would be inadequate. Notwithstanding any provision to the contrary contained in this Agreement, the Parties hereto agree, and Purchaser hereby specifically consents that, without necessity of proof of actual damage, (a) the Company and the Shareholders may be granted temporary or permanent injunctive relief, (b) the Company and the Shareholders shall be entitled to an equitable accounting of all earnings, profits and other benefits arising from such breach, and (c) the Company and the Shareholders shall be entitled to recover its reasonable fees and expenses, including attorneys' fees, incurred by the Company and the Shareholders in enforcing the restrictions contained in Section 5.3.

5.5 Waiver of Bulk Sales Law Compliance. Purchaser hereby waives compliance by the Shareholders or the Company with the requirements, if any, of Article 6 of the Uniform Commercial Code as in force in any state in which the assets of the Company are located and all other similar laws applicable to bulk sales and transfers.

ARTICLE 6
CONDITIONS PRECEDENT TO OBLIGATIONS OF SHAREHOLDERS

The Shareholders' obligations to sell the Shares and to close the transactions as contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by the Shareholders in whole or in part at or prior to the Closing:

6.1 Accuracy of Representations and Warranties and Compliance with Obligations. The representations and warranties of Purchaser contained in this Agreement shall have been true and correct at the date of this Agreement, and they shall be true and correct in all respects as of the Closing with the same force and effect as though made at and as of the Closing. Purchaser shall have performed and complied with all of its obligations required by this Agreement to be performed or complied with at or prior to the Closing.

6.2 Signing and Delivery of Instruments. Purchaser shall have executed and delivered all documents, instruments and certificates required to be executed and delivered by it pursuant to the provisions of this Agreement, and Horizon Health Corporation shall have executed and delivered the Parent Guaranty. Purchaser acknowledges that Purchaser shall not satisfy the condition precedent set forth in this Section 6.2, as it relates to the delivery of the Purchase Price, unless Purchaser initiates the wire transfer of the amount set forth in Section 1.3 to the Shareholders, and provides to the Shareholders a Federal Reserve wire reference number with respect thereto, on or before 3:00 p.m. (Central time) on the Closing Date.

6.3 Unfavorable Action or Proceeding. On the Closing Date, no orders, decrees, judgments or injunctions of any court or governmental body shall be in effect, and no claims, actions, suits, proceedings, arbitrations or investigations shall be pending or threatened, which challenge or seek to challenge, or which could reasonably be expected to prevent or cause the rescission of, the consummation of the transactions contemplated in this Agreement.

6.4 Governmental Authorizations. The Shareholders and the Company shall have obtained all material licenses, permits, approvals and authorizations from governmental agencies or governmental bodies that are necessary or required for the Shareholders and the Company to complete the transactions contemplated by this Agreement. Purchaser shall have obtained all material licenses, permits, approvals and authorizations from governmental agencies or governmental bodies that are necessary or required for Purchaser to complete the transactions contemplated by this Agreement and the operation of the Company by Purchaser after the Closing. All consents, waivers, and estoppels of third parties which are reasonably necessary, in the opinion of the Shareholders, to complete effectively the transactions herein contemplated shall have been obtained in form and substance reasonably satisfactory to the Shareholders.

ARTICLE 7
CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER

Purchaser' s obligation to purchase the Shares and to close the transactions contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by Purchaser in whole or in part at or prior to the Closing.

7.1 Accuracy of Representations and Warranties and Compliance with Obligations. The representations and warranties of the Shareholders and the Company in this Agreement shall have been true and correct on the date of this Agreement, and they shall be true and correct in all respects as of the Closing with the same force and effect as though made at and as of the Closing. The Shareholders and the Company shall have performed and complied with all of their respective obligations required by this Agreement to be performed or complied with at or prior to the Closing.

7.2 Governmental Authorizations. Purchaser shall have obtained all material licenses, permits, approvals and authorizations from governmental agencies or governmental bodies that are necessary or required for Purchaser to complete the transactions contemplated by this Agreement and the operation of the Company by Purchaser after the Closing. The Shareholders and the Company shall have obtained all material licenses, permits, approvals and authorizations from governmental agencies or governmental bodies that are necessary or required for the Shareholders and the Company to complete the transaction contemplated by this Agreement. All consents, waivers and estoppels of third parties which are reasonably necessary, in the opinion of Purchaser, to complete effectively the transactions herein contemplated shall have been obtained in form and substance reasonably satisfactory to Purchaser.

7.3 Signing and Delivery of Instruments. The Shareholders and the Company shall have executed and delivered all documents, instruments and certificates required to be executed and delivered pursuant to all of the provisions of this Agreement.

7.4 Unfavorable Action or Proceeding. On the Closing Date, no orders, decrees, judgments or injunctions of any court or governmental body shall be in effect, and no claims, actions, suits, proceedings, arbitrations or investigations shall be pending or threatened, which challenge or seek to challenge, or which could reasonably be expected to prevent or cause the rescission of, the consummation of the transactions contemplated in this Agreement.

7.5 No Material Adverse Change. There shall not have been any Material Adverse Change in or affecting the Shares or the business of the Company between the Execution Date and the Closing Date.

7.6 Required Consents. The Contract Consents shall have been received or obtained on or prior to the Closing Date without the imposition of any burdens or conditions materially adverse to the Party or Parties entitled to the benefit thereof.

7.7 Disclosure Schedules. The Shareholders and the Company shall have promptly and fully updated the Disclosure Schedules hereto.

7.8 Asset Purchase Agreement. The transactions contemplated by the Asset Purchase Agreement shall be simultaneously consummated with the closing under this Agreement.

7.9 Termination of Plans. The Shareholders and the Company shall have caused the termination of all Plans of the Company, including the PsychManagement Group, Inc. Supplemental Employment Retirement Plan dated as of October 1, 2001 (“SERP”), without any liability on the part of the Company and with the written binding consent of all of the Plans’ participants.

7.10 Amendment of Split-Dollar Agreements. The Company' s Split-Dollar Agreements for James P. Terry and Karen B. Yost (the "Split-Dollar Agreements") shall be amended so that neither Mr. Terry nor Ms. Yost will have any interest in the cash values of the life insurance policies covered by the Split-Dollar Agreements until he or she has 10 years of service with the Company as is currently required under the SERP.

ARTICLE 8
TERMINATION

8.1 Termination. This Agreement may be terminated at any time prior to Closing:

(a) by the mutual written consent of the Parties;

(b) by the Shareholders if a material breach of this Agreement has been committed by Purchaser and such breach has not been (i) waived in writing by the Shareholders or (ii) cured by Purchaser to the reasonable satisfaction of the Shareholders within fifteen (15) business days after notice from the Shareholders to Purchaser which describes the nature of such breach;

(c) by Purchaser if a material breach of this Agreement has been committed by the Shareholders or the Company and such breach has not been (i) waived in writing by Purchaser or (ii) cured by the Shareholders and the Company to the reasonable satisfaction of Purchaser within fifteen (15) business days after notice from Purchaser to the Shareholders of a written notice which describes the nature of such breach;

(d) by Purchaser if any of the conditions in Article 7 have not been satisfied as of the Closing Date or if satisfaction of any condition in Article 7 is or becomes impossible and Purchaser has not waived such condition in writing on or before the Closing Date (provided that the failure to satisfy the applicable condition or conditions has occurred by reason other than (i) through the failure of Purchaser to comply with its obligations under this Agreement or (ii) the Shareholders' and/or the Company' s failure to provide their respective closing deliveries on the Closing Date as a result of Purchaser not being ready, willing and able to close the transaction on the Closing Date);

(e) by the Shareholders if any of the conditions in Article 6 have not been satisfied as of the Closing Date or if satisfaction of any such condition in Article 6 is or becomes impossible and the Shareholders have not waived such condition in writing on or before the Closing Date (provided that the failure to satisfy the applicable condition or conditions has occurred by reason other than (i) through the failure of the Shareholders or the Company to comply with their respective obligations under this Agreement or (ii) Purchaser' s failure to provide its closing deliveries on the Closing Date as a result of the Shareholders or the Company not being ready, willing and able to close the transaction on the Closing Date); or

(f) by either Purchaser or the Shareholders if the Closing has not occurred (other than through the breach by the Party seeking to terminate this Agreement of its obligations under this Agreement) by August 31, 2005.

8.2 Termination Consequences. If this Agreement is terminated pursuant to Section 8.1, (a) all further obligations of the Parties under this Agreement shall terminate, except that the obligations in Sections 5.3 (Confidentiality), 12.4 (Governing Law), 12.8 (Confidentiality and Publicity), and 12.10 (Expenses and Attorneys' Fees) shall survive, (b) each Party shall pay the costs and expenses incurred by it in connection with this Agreement, except as provided in Section 12.10, and (c) nothing shall prevent any Party hereto from pursuing any of its legal rights or remedies that may be granted to any such Party by law against any other Party to this Agreement.

ARTICLE 9
POST-CLOSING MATTERS

9.1 Preservation and Access to Records After the Closing.

(a) From the Closing Date until seven (7) years after the Closing Date or such longer period as required by law (the "Document Retention Period"), Purchaser shall keep and preserve all books and records which are among the assets of the Company as of the Effective Time. Purchaser will afford to the representatives of the Shareholders, including their counsel and accountants, full and complete access to, and copies (including, without limitation, color laser copies) of, such records with respect to time periods prior to the Effective Time during normal business hours after the Effective Time, to the extent reasonably needed by the Shareholders for business purposes. Purchaser acknowledges that, as a result of entering into this Agreement and operating the Company, it will gain access to patient records and other information which are subject to rules and regulations concerning confidentiality. Purchaser shall abide by any such rules and regulations relating to the confidential information it acquires. After the expiration of the Document Retention Period, if Purchaser intends to destroy or otherwise dispose of any of the documents described in this Section 9.1(a), Purchaser shall provide written notice to the Shareholders of Purchaser' s intention no later than ninety (90) calendar days prior to the date of such intended destruction or disposal. The Shareholders shall have the right, at their sole cost, to take possession of such documents during such ninety (90) calendar day period. If the Shareholders do not take possession of such documents during such ninety (90) calendar day period, Purchaser shall be free to destroy or otherwise dispose of such documentation upon the expiration of such ninety (90) calendar day period.

(b) Purchaser and its representatives shall be given access by the Shareholders during normal business hours to the extent reasonably needed by Purchaser for business purposes to all documents, records, correspondence, work papers and other documents retained by the Shareholders pertaining to any of the Shares or with respect to the operation of the Company prior to the Effective Time.

9.2 Provision of Benefits of Certain Contracts. If, as of the Effective Time, the Shareholders have not obtained a required consent to the assignment or transfer of a Contract to Purchaser or Purchaser is unable to enter into a new third party contract with respect to such Contract, until such consent is obtained or a new third party contract is obtained, the Shareholders shall use reasonable commercial efforts to provide Purchaser the benefits of such Contract and cooperate in any reasonable and lawful arrangement designed to provide such benefits to Purchaser. Purchaser shall use reasonable commercial efforts to perform, on behalf of

the Company, the obligations of the Company under such Contract or in connection therewith, limited to those obligations of the Company thereunder, but only to the extent that such action would not result in a material default under the applicable Contract and such obligation would have been an obligation of Purchaser had it received consent to the assignment of such Contract or had entered into a new third party contract on substantially similar terms as the applicable Contract.

9.3 Employee Matters. As of the Effective Time, the Company shall terminate all of its employees, and, as of the Effective Time, Purchaser shall cause the Company to offer employment to certain employees of the Company on mutually agreeable terms. The term "Hired Employee" as used in this Agreement shall mean all employees of the Company who accept employment with the Company as of the Effective Time. Nothing herein shall be deemed to affect or limit in any way normal management prerogatives of Purchaser with respect to employees or to create or grant to any such employees third party beneficiary rights or claims of any kind or nature. In respect of the Hired Employees employed by the Company after the Effective Time, Purchaser shall provide such Hired Employees with employee benefits consistent with the benefits generally offered to similarly situated employees of Purchaser' s parent corporation, Horizon Health Corporation, and, to the extent such benefits are based, in whole or in part, on service with such employer, the Purchaser shall recognize the existing seniority and service with Seller of all such employees for benefits purposes and shall provide credit under such plans for purposes of determining eligibility and vesting and the rate of benefit accrual (but not actual benefit accrual); *provided, however*, that no such credit need be given in respect of any new plan commenced or participated in by the employer in which no prior service credit is given or recognized to or for other plan beneficiaries. Notwithstanding the foregoing, the employee benefit plans of the Purchaser shall include waiver of preexisting condition exclusions for Hired Employees and their dependents and recognize or provide credit for all deductibles paid by such Hired Employees during the current period while in the employ of the Company before the Effective Time. Moreover, Purchaser shall honor and assume the liabilities with respect to each Hired Employee' s rights in respect of accrued paid time off and ESL. Any current or future plans created by Purchaser that provide for benefit and vesting service to the Company employees from their original date of hire shall include all vesting and benefit service credit as would be included by recognizing such Hired Employees original date of hire as recognized by the Company before the Effective Time. The service credited under Purchaser' s welfare and other benefit plans will include all service credited under the welfare and other benefit plans of the Company and its Affiliates, respectively.

9.4 Post-Closing Operations of the Company. Purchaser agrees to maintain the separate corporate existence of the Company until the Second Variable Payment Date. From the Closing Date through the Second Variable Payment Date, Purchaser shall not operate the Company in a manner inconsistent with commercially reasonable practices nor do anything in bad faith with the intent to decrease the Contribution to EBITDA. Such covenant of Purchaser shall not prohibit Purchaser from ceasing any operations if it would not be commercially reasonable to continue such operations. Purchaser shall also comply with those certain covenants set forth in Schedule 1.8 hereto.

9.5 Certain Employee Matters. The Shareholders shall be responsible to provide continuation coverage pursuant to the requirements of Code Section 4980B and Treasury

regulations thereunder and Part 6 of Title I of ERISA ("COBRA Coverage") to any qualified beneficiaries under any Plan required to provide COBRA Coverage. Purchaser shall be responsible in accordance with the requirements of Code Section 4980B and Treasury regulations thereunder and Article 6 of Title I of ERISA to provide COBRA Coverage with respect to each of the Hired Employees (and their dependents) whose qualifying event occurs on or after the date on which such employees become Hired Employees and who become qualified beneficiaries of the Company health plan subject to COBRA Coverage.

9.6 Payment of Premiums. The Parties agree that the premiums, costs and expenses under the Split-Dollar Agreement between the Company and Mr. Terry will be paid by the Shareholders for the first and second years after the Closing of this Agreement and that any premiums, costs, expenses and other obligations arising thereafter under the Split-Dollar Agreement between the Company and Mr. Terry shall be assumed and paid by the Company. The Parties further agree that all premiums, costs, expenses and obligations due under the Split-Dollar Agreement between the Company and Ms. Yost will continue to be paid by the Company after the Closing of this Agreement.

ARTICLE 10
SURVIVAL AND INDEMNIFICATION

10.1 Survival. Except as expressly set forth in this Agreement to the contrary, all representations, warranties, covenants, agreements and indemnifications of Purchaser, the Shareholders and the Company, respectively, contained in this Agreement or in any document delivered pursuant hereto shall be deemed to be material and to have been relied upon by Purchaser and the Shareholders, respectively. All representations and warranties of Purchaser, the Shareholders and the Company shall continue to be fully effective and enforceable following the Effective Time for two (2) years and shall thereafter be of no further force and effect; *provided, however*, that, if there is at the end of such two (2) year period an outstanding notice of a claim made in compliance with the terms of Section 10.4, such applicable period shall not end in respect of such claim until such claim is resolved. Notwithstanding the above, the representations and warranties contained in Sections 2.6, 2.8, 2.22 and 2.24 and the rights to indemnity set forth in Section 10.2 hereof with respect to such representations and warranties and also with respect to indemnification under Section 10.2(a)(iii), (iv) and (vi) shall continue to be fully effective and enforceable for the respective statute of limitations applicable to any such claim.

10.2 Indemnification of Purchaser by Shareholders.

(a) Indemnification. The Shareholders, jointly and severally, shall keep and save Purchaser and Purchaser' s officers, directors, employees, agents and other representatives and the Company and the Company' s officers, directors, employees, agents and other representatives forever harmless from and shall indemnify and defend Purchaser and the Company against any and all obligations, judgments, liabilities, penalties, violations, fees, fines, claims, losses, costs, demands, damages, liens, encumbrances and expenses including reasonable attorneys' fees (collectively, "Damages"), to the extent arising or resulting from (i) any breach of any representation or warranty of the Shareholders or the Company under this Agreement or any documents delivered pursuant hereto, (ii) any breach or default by the Shareholders or the

Company of any covenant or agreement of the Shareholders or the Company under this Agreement or any documents delivered pursuant hereto, (iii) all Taxes of the Company and its Subsidiaries incurred in or attributable to the period ending or deemed to end on or prior to the Closing Date (referred to herein as "Tax Claims"), (iv) any professional liability claim arising out of the business operations of the Company prior to the Effective Time, (v) the Company's or the Shareholders' failure to comply with any applicable bulk sales law, (vi) any claim by a third party with respect to any act or omission, which claim has accrued, arisen, or come into existence at any time prior to the Effective Time, (vii) the existence of any liability or obligation of the Company which is not included in the calculation of Net Assets as of the Effective Time under Section 1.10 hereof, and (viii) any matter disclosed in Schedule 10.2(a). No provision in this Agreement shall prevent the Shareholders from pursuing any of their respective legal rights or remedies that may be granted to the Shareholders by law against any person or legal entity other than Purchaser.

(b) Indemnification Limitations. Notwithstanding any provision to the contrary contained in this Agreement, the Shareholders shall be under no liability to indemnify Purchaser or the Company under Section 10.2(a) and no claim under Section 10.2(a) shall be made:

(i) unless notice thereof shall have been given by or on behalf of Purchaser to the Shareholders in the manner provided in Section 10.4, unless failure to provide such notice in a timely manner does not materially impair the Shareholders' ability to defend their respective rights, mitigate damages, seek indemnification from a third party or otherwise protect their respective interests within the Survival Period;

(ii) to the extent that any Damages may be recovered under a policy of insurance in force on the date of loss; *provided, however*, that this Section 10.2(b)(ii) shall not apply to the extent that coverage under the applicable policy of insurance is denied by the applicable insurance carrier;

(iii) to the extent such claim relates to an obligation or liability for which Purchaser has agreed to indemnify the Shareholders pursuant to Section 10.3;

(iv) to the extent related to a claim under Section 10.2(a)(i) or a claim under Section 10.2(a)(ii) for the Shareholders' or the Company's breach of any covenant required to be performed or satisfied at or prior to Closing, accrue to Purchaser unless the liability of the Shareholders or the Company in respect of any single claim or multiple claims in the aggregate exceeds Fifty Thousand Dollars ($50,000) (a "Relevant Claim") in which event Purchaser shall be entitled to seek indemnification for the total amount of the Relevant Claim(s); or

(v) to the extent that Purchaser had actual knowledge at or prior to the Effective Time of (A) the respective breach of a representation or warranty by the Shareholders or (B) the breach of a covenant required to be performed or satisfied at or prior to the Effective Time.

(c) Damages Cap. Notwithstanding any provision to the contrary contained in this Agreement, the maximum aggregate liability of the Shareholders to Purchaser under this Agreement shall not exceed the aggregate Purchase Price paid by Purchaser to the Shareholders.

10.3 Indemnification of Shareholders by Purchaser.

(a) Indemnification. Purchaser shall keep and save the Shareholders forever harmless from and shall indemnify and defend the Shareholders against any and all Damages, to the extent arising or resulting from (i) any breach of any representation or warranty of Purchaser under this Agreement, (ii) any breach or default by Purchaser under any covenant or agreement of Purchaser under this Agreement, (iii) any professional liability claim arising out of the business operations of the Company on and after the Effective Time, and (iv) any claim by a third party with respect to any act or omission of Purchaser in connection with the operation of the Company, which claim has accrued, arisen or come into existence at any time after the Effective Time. No provision in this Agreement shall prevent Purchaser from pursuing any of its legal rights or remedies that may be granted to Purchaser by law against any person or legal entity other than the Shareholders.

(b) Indemnification Limitations. Notwithstanding any provision to the contrary contained in this Agreement, Purchaser shall be under no liability to indemnify the Shareholders under Section 10.3(a) and no claim under Section 10.3(a) shall be made:

(i) unless notice thereof shall have been given by or on behalf of the Shareholders to Purchaser in the manner provided in Section 10.4, unless failure to provide such notice in a timely manner does not materially impair Purchaser' s ability to defend its rights, mitigate damages, seek indemnification from a third party or otherwise protect its interests;

(ii) to the extent that any Damages may be recovered under a policy of insurance in force on the date of loss; *provided, however*, that this Section 10.3(b)(ii) shall not apply to the extent that coverage under the applicable policy of insurance is denied by the applicable insurance carrier;

(iii) to the extent related to a claim under Section 10.3(a)(i) or a claim under Section 10.3(a)(ii) for Purchaser' s breach of any covenant required to be performed or satisfied at or prior to Closing, but expressly not with respect to any payment due under Section 1.8 or Section 1.9 of this Agreement, accrue to the Shareholders unless and only to the extent that the actual liability of Purchaser in respect of any single claim or multiple claims in the aggregate exceeds the Relevant Claim amount in which event the Shareholders shall be entitled to seek indemnification for the total amount of the Relevant Claim(s); or

(iv) to the extent that either of the Shareholders had actual knowledge at or prior to the Effective Time of (A) the respective breach of a representation or warranty by Purchaser or (B) the breach of a covenant required to be performed or satisfied at or prior to the Effective Time.

10.4 Method of Asserting Claims. All claims for indemnification under this Article 10 by any person entitled to indemnification (an "Indemnified Party") under this Article 10 will be asserted and resolved as follows:

(a) In the event any claim or demand, for which a Party hereto (an "Indemnifying Party") would be liable for the Damages to an Indemnified Party, is asserted against or sought to be collected from an Indemnified Party by a person other than the Shareholders, Purchaser or their Affiliates (a "Third Party Claim"), the Indemnified Party shall give a notice of its claim (a "Claim Notice") to the Indemnifying Party within thirty (30) calendar days after the Indemnified Party receives written notice of such Third Party Claim; *provided, however*, that notice shall be given by the Indemnified Party to the Indemnifying Party within fifteen (15) calendar days after receipt of a complaint, petition or institution of other formal legal action against the Indemnified Party. If the Indemnified Party fails to provide the Claim Notice within such applicable time period after the Indemnified Party receives written notice of such Third Party Claim and thereby materially impairs the Indemnifying Party' s ability to protect its interests, the Indemnifying Party will not be obligated to indemnify the Indemnified Party with respect to such Third Party Claim. The Indemnifying Party will notify the Indemnified Party within thirty (30) calendar days after receipt of the Claim Notice (the "Notice Period") whether the Indemnifying Party desires, at the sole cost and expense of the Indemnifying Party, to defend the Indemnified Party against such Third Party Claim.

(i) If the Indemnifying Party notifies the Indemnified Party within the Notice Period that the Indemnifying Party desires to defend the Indemnified Party with respect to the Third Party Claim pursuant to this Section 10.4(a), then the Indemnifying Party will have the right to defend, at its sole cost and expense, such Third Party Claim by all appropriate proceedings, which proceedings will be prosecuted by the Indemnifying Party to a final conclusion or will be settled at the discretion of the Indemnifying Party. The Indemnifying Party will have full control of such defense and proceedings, including any compromise or settlement thereof. Notwithstanding the foregoing, the Indemnified Party may, at its sole cost and expense, file during the Notice Period any motion, answer or other pleadings that the Indemnified Party may deem necessary or appropriate to protect its interests or those of the Indemnifying Party and which is not prejudicial, in the reasonable judgment of the Indemnifying Party, to the Indemnifying Party. Except as provided in Section 10.4(a)(ii) hereof, if an Indemnified Party takes any such action that is prejudicial and causes a final adjudication that is adverse to the Indemnifying Party, the Indemnifying Party will be relieved of its obligations hereunder with respect to the portion of such Third Party Claim prejudiced by the Indemnified Party' s action. If requested by the Indemnifying Party, the Indemnified Party agrees, at the sole cost and expense of the Indemnifying Party, to cooperate with the Indemnifying Party and its counsel in contesting any Third Party Claim that the Indemnifying Party elects to contest, or, if appropriate and related to the Third Party Claim in question, in making any counterclaim against the person asserting the Third Party Claim, or any cross-complaint against any person (other than the Indemnified Party or any of its Affiliates). The Indemnified Party may participate in, but not control, any defense or settlement of any Third Party Claim controlled by the Indemnifying Party pursuant to this Section 10.4(a)(i), and except as specifically provided in this Section 10.4(a)(i), the Indemnified Party will bear its own costs and expenses with respect to such participation. Notwithstanding the above provisions of this Section 10.4(a)(i), in the event of a Tax Claim, any compromise or settlement of proceedings shall be subject to the approval of the Indemnified Party (which approval shall not be unreasonably withheld).

(ii) If the Indemnifying Party fails to notify the Indemnified Party within the Notice Period that the Indemnifying Party desires to defend the Indemnified Party

pursuant to this Section 10.4(a), or if the Indemnifying Party gives such notice but fails to prosecute diligently or settle the Third Party Claim, or if the Indemnifying Party fails to give any notice whatsoever within the Notice Period, then the Indemnified Party will have the right to defend, at the sole cost and expense of the Indemnifying Party, the Third Party Claim by all appropriate proceedings, which proceedings will be promptly and reasonably prosecuted by the Indemnified Party to a final conclusion or will be settled at the discretion of the Indemnified Party. The Indemnified Party will have full control of such defense and proceedings, including any compromise or settlement thereof; *provided, however*, that if requested by the Indemnified Party, the Indemnifying Party agrees, at the sole cost and expense of the Indemnifying Party, to cooperate with the Indemnified Party and its counsel in contesting any Third Party Claim which the Indemnified Party is contesting, or, if appropriate and related to the Third Party Claim in question, in making any counterclaim against the person asserting the Third Party Claim, or any cross-complaint against any person (other than the Indemnifying Party or any of its Affiliates). Notwithstanding the foregoing provisions of this Section 10.4(a)(ii), if the Indemnifying Party has notified the Indemnified Party with reasonable promptness that the Indemnifying Party disputes its liability to the Indemnified Party with respect to such Third Party Claim and if such dispute is resolved in favor of the Indemnifying Party, the Indemnifying Party will not be required to bear the costs and expenses of the Indemnified Party' s defense pursuant to this Section 10.4(a)(ii). Subject to the above terms of this Section 10.4(a)(ii), the Indemnifying Party may participate in, but not control, any defense or settlement controlled by the Indemnified Party pursuant to this Section 10.4(a)(ii), and the Indemnifying Party will bear its own costs and expenses with respect to such participation. The Indemnified Party shall give sufficient prior notice to the Indemnifying Party of the initiation of any discussions relating to the settlement of a Third Party Claim to allow the Indemnifying Party to participate therein.

(b) In the event any Indemnified Party should have a claim against any Indemnifying Party hereunder that does not involve a Third Party Claim being asserted against or sought to be collected from the Indemnified Party, the Indemnified Party shall deliver an Indemnity Notice to the Indemnifying Party. (The term "Indemnity Notice" shall mean written notification of a claim for indemnity under Article 10 hereof (which claim does not involve a Third Party Claim) by an Indemnified Party to an Indemnifying Party pursuant to this Section 10.4, specifying the nature of and specific basis for such claim and the amount or the estimated amount of such claim.) The failure by any Indemnified Party to give the Indemnity Notice shall not impair such Party' s rights hereunder except to the extent that an Indemnifying Party demonstrates that it has been prejudiced thereby.

(c) If the Indemnifying Party does not notify the Indemnified Party within thirty (30) calendar days following its receipt of a Claim Notice or an Indemnity Notice that the Indemnifying Party disputes its liability to the Indemnified Party hereunder, such claim specified by the Indemnified Party will be conclusively deemed a liability of the Indemnifying Party hereunder and the Indemnifying Party shall pay the amount of such liability to the Indemnified Party on demand, or on such later date (i) in the case of a Third Party Claim, as the Indemnified Party suffers the Damages in respect of such Third Party Claim, or (ii) in the case of an Indemnity Notice in which the amount of the claim is estimated, when the amount of such claim becomes finally determined. If the Indemnifying Party has timely disputed its liability with respect to such claim, as provided above, the Indemnifying Party and the Indemnified Party

agree to proceed in good faith to negotiate a resolution of such dispute, and if not resolved through negotiations, such dispute will be resolved by adjudication by a court or similar tribunal.

(d) The Indemnified Party agrees to give the Indemnifying Party reasonable access to the books and records and employees of the Indemnified Party in connection with the matters for which indemnification is sought hereunder, to the extent the Indemnifying Party reasonably deems necessary in connection with its rights and obligations hereunder.

(e) The Indemnified Party shall assist and cooperate with the Indemnifying Party in the conduct of litigation, the making of settlements and the enforcement of any right of contribution to which the Indemnified Party may be entitled from any person or entity in connection with the subject matter of any litigation subject to indemnification hereunder. In addition, the Indemnified Party shall, upon request by the Indemnifying Party or counsel selected by the Indemnifying Party (without payment of any fees or expenses to the Indemnified Party or an employee thereof), attend hearings and trials, assist in the securing and giving of evidence, assist in obtaining the presence or cooperation of witnesses, and make available its own personnel; and shall do whatever else is reasonably necessary and appropriate in connection with such litigation. The Indemnified Party shall not make any demand upon the Indemnifying Party or counsel for the Indemnifying Party in connection with any litigation subject to indemnification hereunder, except a general demand for indemnification as provided hereunder. If the Indemnified Party shall fail to perform such obligations as Indemnified Party hereunder or to cooperate fully with the Indemnifying Party in Indemnifying Party' s defense of any suit or proceeding, such cooperation to include, without limitation, attendance at all depositions and the provision of all documents relevant to the defense of any claim, then, except where such failure does not have an adverse effect on the Indemnifying Party' s defense of such claims, the Indemnifying Party shall be released from all of its obligations under this Agreement with respect to that suit or proceeding and any other claims which had been raised in such suit or proceeding.

(f) Following indemnification as provided for hereunder, the Indemnifying Party shall be subrogated to all rights of the Indemnified Party with respect to all persons or entities relating to the matter for which indemnification has been made.

10.5 Right of Offset. In addition to any other rights provided under this Agreement, Purchaser shall be entitled to offset the amount of any indemnification claims against the Shareholders that have been resolved on or before the First Variable Payment Date against Variable Payment A and/or Variable Payment C. Any claims that have been asserted on or before the First Variable Payment Date but are not resolved prior to the First Variable Payment Date may be offset against Variable Payment A and/or Variable Payment C if Purchaser shall deposit such withheld funds in an escrow account with a national bank to be held until receipt of joint disbursement directions signed by the Shareholders and Purchaser or upon the resolution of such unresolved claims. Purchaser shall be entitled to offset the amount of any indemnification claims against the Shareholders that have been resolved on or before the Second Variable Payment Date against Variable Payment B and/or Variable Payment D. Any claims that have been asserted on or before the Second Variable Payment Date but are not resolved prior to the Second Variable Payment Date may be offset against Variable Payment B and/or Variable Payment D if Purchaser shall deposit such withheld funds in an escrow account with a national

bank to be held until receipt of joint disbursement directions signed by the Shareholders and Purchaser or upon the resolution of such unresolved claims. The rights of offset described in this Section 10.5 shall not be the sole and exclusive remedy of Purchaser.

10.6 Exclusive Remedy. Other than claims for fraud or equitable relief (which claims are nevertheless subject to the time limitation set forth in Section 10.1), any claim for indemnification arising under this Agreement shall, unless otherwise specifically stated in this Agreement, be governed solely and exclusively by the provisions of this Article 10. If the Shareholders and Purchaser cannot resolve such claim by mutual agreement, such claim shall be determined by adjudication by a court or similar tribunal in accordance with the provisions of this Article 10.

ARTICLE 11
TAX AND COST REPORT MATTERS

11.1 Tax Matters.

(a) After the Closing Date, the Parties shall cooperate fully with each other and shall make available to each other, as reasonably requested, all information, records or documents relating to Tax liabilities or potential Tax liabilities attributable to the Company for all periods prior to the Effective Time and shall preserve all such information, records and documents at least until the expiration of any applicable statute of limitations (including extensions thereof). The Parties shall also make available to each other as reasonably required, and at the reasonable cost of the requesting Party (for out-of-pocket costs and expenses only), personnel responsible for preparing or maintaining information, records and documents in connection with Tax matters.

(b) The Purchase Price (and the elements thereof) shall be allocated among the assets of the Company in accordance with Schedule 11.1(b). The Shareholders and the Purchaser hereby agree to allocate the Purchase Price in accordance with Schedule 11.1(b), to be bound by such allocations, to account for and report the deemed purchase and sale of the assets of the Company contemplated by the Code Section 338(h)(10) Election for federal and state Tax purposes in accordance with such allocations, and not to take any position (whether in Tax returns, Tax audits, or other Tax proceedings), which is inconsistent with such allocations without the prior written consent of the other Parties.

(c) Purchaser shall prepare or cause to be prepared and file or cause to be filed all Tax returns for the Company for all periods ending on or prior to the Closing Date that are filed after the Closing Date. Purchaser shall permit the Shareholder to review and comment on each such Tax return described in the preceding sentence prior to filing. To the extent permitted by applicable law, the Shareholders shall include any income, gain, loss, deduction or other tax items for such periods on their Tax returns in a manner consistent with the Schedule K-1' s furnished by the Company to the Shareholders for such periods.

(d) The Parties agree that (A) all Taxes attributable to or payable with respect to a period ending, or deemed to end, on or prior to the Closing Date with respect to the Company shall be borne by, shall be the responsibility of and shall be paid by the Company and the Shareholders and (B) all other Taxes with respect to the Company shall be borne by, shall be

the responsibility of and shall be paid by the Purchaser, its shareholders and Affiliates as required by applicable law.

ARTICLE 12
MISCELLANEOUS PROVISIONS

12.1 Entire Agreement. This Agreement, the Disclosure Schedules, the Exhibits and the documents referred to in this Agreement contain the entire understanding between the Parties with respect to the transactions contemplated hereby and supersede all prior or contemporaneous agreements, understandings, representations and statements, oral or written, between the Parties on the subject matter hereof (the "Superseded Agreements"), which Superseded Agreements shall be of no further force or effect.

12.2 Further Assurances and Cooperation. Each Party shall execute, acknowledge and deliver to the other Parties any and all other assignments, consents, approvals, conveyances, assurances, documents and instruments reasonably requested by the other Parties at any time and shall take any and all other actions reasonably requested by the other Parties at any time for the purpose of more effectively assigning, transferring, granting, conveying and conferring to Purchaser, the assets of the Company. After consummation of the transactions contemplated in this Agreement, the Parties agree to cooperate with each other and take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of the terms of this Agreement, the documents referred to in this Agreement and the transactions contemplated hereby.

12.3 Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the respective successors and assigns of the Parties hereto; *provided, however*, that no Party hereto may assign any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other Parties, except that Purchaser may assign any of its rights or delegate any of its duties under this Agreement to any subsidiary or other entity that is wholly-owned, directly or indirectly, by Purchaser; *provided, however* that Horizon Health Corporation provides a replacement Guaranty in form and substance substantially similar to the Parent Guaranty provided herewith.

12.4 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of West Virginia as applied to contracts made and to be performed entirely within the State of West Virginia. The Parties hereby waive their right to assert in any proceeding involving this Agreement that the law of any other jurisdiction shall apply to such dispute; and the Parties hereby covenant that they shall assert no such claim in any dispute arising under this Agreement.

12.5 Amendments. This Agreement may not be amended other than by a written instrument signed by the Parties hereto.

12.6 Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by facsimile or overnight courier, or five (5) calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to the Shareholders:	Scott C. Stamm and Patrick D. Burrows 1230 6th Avenue Post Office Box 1875 Huntington, West Virginia 25315-1835 Facsimile No.: (304) 526-9140
With a copy to:	Giordano, Halleran & Ciesla, P.C. U.S. Postal Service Address: P.O. Box 190 Middletown, New Jersey 07748 or: Hand Delivery and Overnight Service Address: 125 Half Mile Road Red Bank, New Jersey 07701 Attention: Paul T. Colella and Patrick S. Convery Facsimile No.: (732) 224-6599
If to Purchaser or the Company:	HHC River Park, Inc. c/o Horizon Health Corporation 1500 Waters Ridge Drive Lewisville, Texas 75057 Attention: President Facsimile No.: (972) 420-4060
With copies to:	Horizon Health Corporation 1500 Waters Ridge Drive Lewisville, Texas 75057 Attention: General Counsel Facsimile No.: (972) 420-7789 Strasburger & Price, L.L.P. 901 Main Street, Suite 4300 Dallas, Texas 75202 Attention: Patrick Owens, Esq. Facsimile No.: (214) 651-4330

or at such other address for a Party as such Party may designate by notice hereunder to the other Parties.

12.7 Headings. The section and other headings contained in this Agreement, the Disclosure Schedules, and the Exhibits to this Agreement are included for the purpose of convenient reference only and shall not restrict, amplify, modify or otherwise affect in any way the meaning or interpretation of this Agreement, the Disclosure Schedules and Exhibits hereto.

12.8 Confidentiality and Publicity. The Parties hereto shall hold in confidence the information contained in this Agreement, and all information related to this Agreement, which is not otherwise known to the public, shall be held by each Party hereto as confidential and proprietary information and shall not be disclosed without the prior written consent of the other Parties; *provided, however*, each Party shall be permitted to provide a copy of this Agreement to any applicable governmental or administrative authorities as reasonably required or necessary. Accordingly, Purchaser and the Shareholders shall not discuss with, or provide nonpublic information to, any third party (except for such Party' s attorneys, accountants, directors, officers and employees, the directors, officers and employees of any Affiliate of any Party hereto who agree to be bound by the confidentiality provisions of this Agreement, and other consultants and professional advisors) concerning this transaction prior to the Effective Time, except: (a) as required in governmental filings or judicial, administrative or arbitration proceedings; (b) pursuant to public announcements made with the prior written approval of the Shareholders and Purchaser; or (c) as otherwise required by applicable law.

12.9 Third Party Beneficiary. None of the provisions contained in this Agreement are intended by the Parties, nor shall they be deemed, to confer any benefit on any person not a Party to this Agreement.

12.10 Expenses and Attorneys' Fees. Except as otherwise provided in this Agreement, each Party shall bear and pay its own costs and expenses relating to the preparation of this Agreement and to the transactions contemplated by, or the performance of or compliance with any condition or covenant set forth in, this Agreement, including without limitation, the disbursements and fees of their respective attorneys, accountants, advisors, agents and other representatives, incidental to the preparation and carrying out of this Agreement, whether or not the transactions contemplated hereby are consummated. If any action is brought by any Party to enforce any provision of this Agreement, the prevailing Party shall be entitled to recover its court costs and reasonable attorneys' fees.

12.11 No Waiver. Any term, covenant or condition of this Agreement may be waived at any time by the Party which is entitled to the benefit thereof but only by a written notice signed by the Party expressly waiving such term, covenant or condition. The subsequent acceptance of performance hereunder by a Party shall not be deemed to be a waiver of any preceding breach by any other Party of any term, covenant or condition of this Agreement, other than the failure of such other Party to perform the particular duties so accepted, regardless of the accepting Party' s knowledge of such preceding breach at the time of acceptance of such performance. The waiver of any term, covenant or condition shall not be construed as a waiver of any other term, covenant or condition of this Agreement.

12.12 Severability. If any term, provision, condition or covenant of this Agreement or the application thereof to any Party or circumstance shall be held to be invalid or unenforceable to any extent in any jurisdiction, then the remainder of this Agreement and the application of such term, provision, condition or covenant in any other jurisdiction or to persons or circumstances other than those as to whom or which it is held to be invalid or unenforceable, shall not be affected thereby, and each term, provision, condition and covenant of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

12.13 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement, binding on all of the Parties hereto.

(Remainder of Page Intentionally Left Blank)

IN WITNESS WHEREOF, this Stock Purchase Agreement has been executed and delivered as of the day and year first above written.

PURCHASER:

HHC RIVER PARK, INC.,
a West Virginia corporation

By: /s/ David K. White

Name: David K. White

Title: Sr. Vice President

THE SHAREHOLDERS:

/s/ Scott C. Stamm

SCOTT C. STAMM

/s/ Patrick D. Burrows

PATRICK D. BURROWS

COMPANY:

PSYCHMANAGEMENT GROUP, INC.,
a West Virginia corporation

By: /s/ Scott C. Stamm

Name: Scott C. Stamm

Title: President

Exhibit 10.5

EXECUTION VERSION

SINGLE TENANT
OFFICE LEASE AGREEMENT

OPUS WEST, LP
Landlord

and

HORIZON HEALTH CORPORATION
Tenant

Effective Date: May 6, 2005

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OFFICE LEASE AGREEMENT

This Office Lease Agreement is made and entered into as of the Effective Date by and between **OPUS WEST LP,** a Delaware limited partnership, as Landlord, and **HORIZON HEALTH CORPORATION,** a Delaware corporation, as Tenant.

DEFINITIONS

Capitalized terms used in this Lease have the meanings ascribed to them on the attached **EXHIBIT A.**

BASIC TERMS

The following Basic Terms are applied under and governed by the particular section(s) in this Lease pertaining to the following information:

1. **Premises:** All of the rentable square feet contained in the Building currently contemplated to be 80,000 rentable square feet.

2. **Lease Term:** Ten (10) Lease Years (120 months) (See Section 1.2)

Renewal Options: Two periods of five-years each (See Section 1.2.5)

3. **Delivery Date:** April 1, 2006 (See Section 1.2)

4. **Basic Rent:**

Months	Annual Basic Rent per rentable square foot of the Premises (RSF)	Monthly Installments
1 through 12	$14.50	$72,500.00 [based on 60,000 RSF]
13 through 24	$14.50	$84,583.00 [based on 70,000 RSF]
25 through 60	$14.50	$96,666.67 [based on 80,000 RSF]
61 through 120	$15.95	$106,333.33 [based on 80,000 RSF]

Renewal Term: Market rent determined in accordance with Section 1.2.5

Security Deposit:

5.

None required

6.	**Rentable Area of the Building**	80,000 square feet of rentable area
7.	**Estimated Operating Expenses** for first year of operation (but not including electricity):	$7.00 RSF
8.	**Improvement Allowance:**	$3,208,000
90.	**Rent Payment Address:**	Opus West Management Corporation 2555 East Camelback Road, #840 Phoenix, Arizona 85016 Attn: Accounts Receivable – Horizon Health Telephone: (602) 912-8880 Facsimile: (602) 912-8881
10.	**Address of Landlord for Notices:**	Opus West Corporation 15455 Dallas Parkway, Suite 450 Dallas, Texas 75001 Attn: Real Estate Director Telephone: (972) 448-0615 Facsimile: (972) 669-2216 Opus West Corporation 2555 East Camelback Road, #800 Phoenix, Arizona 85016 Attn: Legal Department Telephone: (602) 912-8880 Facsimile: (602) 912-8881
11.	**Address of Tenant for Notices:**	Horizon Health Corporation 1500 Waters Ridge Drive Lewisville, Texas 75057 Attn: Chief Financial Officer Telephone: (972) 420-8222 Facsimile: (972) 219-1710 Horizon Health Corporation 1500 Waters Ridge Drive Lewisville, Texas 75057 Attn: General Counsel Telephone: (972) 420-8220 Facsimile: (972) 222-4367 ‘
12.	**Initial Property Manager:**	FACServices, Inc.

13. **Broker(s):** Paul Whitman
The Staubach Company-Southwest, Inc.
(See Section 18.11)

ARTICLE 1
LEASE OF PREMISES AND LEASE TERM

1.1 Premises. Subject to the satisfaction of Landlord' s Condition (as defined in Section 1.4 below), in consideration of the mutual covenants this Lease describes and other good and valuable consideration, Landlord leases the Premises to Tenant and Tenant leases the Premises from Landlord, upon and subject to the terms, covenants and conditions set forth in this Lease. The rentable area of the Premises is the rentable area specified in the Basic Terms. Upon completion of construction of the Building, BOKA Powell Architects will determine the rentable area of the Premises substantially in accordance with BOMA Standards. If BOKA Powell Architects determines, in accordance with BOMA Standards, that the rentable area of the Premises differs from the rentable area specified in the Basic Terms, Landlord and Tenant will amend this Lease accordingly.

1.2 Term, Delivery Commencement Extension.

1.2.1 Commencement and Expiration of Term. The Term of this Lease is the period stated in the Basic Terms. The Term commences on the Commencement Date and expires on the last day of the last calendar month of the Term.

1.2.2 Tender of Possession. Landlord will use commercially reasonable efforts to tender possession of the Premises to Tenant on or before the Delivery Date, subject to the terms of the Work Letter attached hereto as Exhibit C (the "**Work Letter**").

1.2.3 Commencement Date Memorandum. Within a reasonable time after the Commencement Date, Landlord will deliver to Tenant the Commencement Date Memorandum with all blanks relating to dates completed with dates Landlord derives in accordance with this Lease. Tenant, within 10 days after receipt from Landlord, will execute and deliver to Landlord the Commencement Date Memorandum. Tenant' s failure to execute and deliver to Landlord the Commencement Date Memorandum does not affect any obligation of Tenant under this Lease. If Tenant does not timely execute and deliver to Landlord the Commencement Date Memorandum, Landlord and any prospective purchaser or encumbrancer may conclusively rely on the information contained in the unexecuted Commencement Date Memorandum Landlord delivered to Tenant.

1.2.4 Early Occupancy. Tenant will not occupy the Premises before Substantial Completion without Landlord' s prior written consent, which consent Landlord may grant, withhold or condition in its good faith business judgment. If Landlord consents, Tenant, during the early occupancy period, may only install Tenant' s furniture, fixtures and equipment in the Premises and must comply with and observe all terms and conditions of this Lease (other than Tenant' s obligation to pay Basic Rent), including those provisions applicable thereto in Section 4 of the Work Letter.

1.2.5 Extension Option. Provided that no Event of Default exists at the time of exercise, Tenant may extend the term of this Lease for up to two (2) consecutive periods of five (5) years each. Tenant must exercise each such right of extension within thirty (30) days after receiving written notice of Landlord setting forth the Fair Market Basic Rent (as defined below) for the applicable extension. Landlord will reasonably determine such Fair Market Basic Rent and, subject to Section 1.2.6 below, deliver Landlord' s determination to Tenant at least nine (9) months prior to the expiration of the then-current term. "**Fair Market Basic Rent**" means the fair market base rental rate for the Premises for the applicable extension period in relation to comparable (in quality, location and size) space located in the Building and/or the Lewisville, Texas submarket, with due consideration given to the following factors regarding the Premises and Tenant, on the one hand, and the comparable space(s) and tenant(s), on the other hand: (a) the financial condition of the tenant; (b) the location, quality and age of the building(s); (c) the extent and quality of leasehold improvements (existing or to be provided) in the premises; (d) rent abatements, if any; (e) the location of the premises within the building; (f) the length of the term; (g) the nature and extent of services provided by the landlord; (h) expense stops, if any; (i) any other concessions given; and (j) other pertinent factors. The Basic Rent for the extension term shall be equal to 95% of the Fair Market Basic Rent. In no event will the Basic Rent for an extension of the Lease term be less than the Basic Rent (exclusive of temporary abatements) payable by Tenant for the Lease Year immediately prior to commencement of the applicable extension period. If Tenant elects to exercise its right of extension, all of the terms of this Lease shall apply except that the Basic Rent shall be adjusted as provided in this Section 1.2. These extension rights may not be assigned or transferred in any manner except in connection with an approved or otherwise permitted assignment of this Lease under Article 13.

1.2.6 Selection of Fair Market Basic Rent. If Tenant disputes Landlord' s determination of Fair Market Basic Rent for an extension of the Term, Tenant will deliver notice of such dispute, together with Tenant' s proposed Fair Market Basic Rent, to Landlord within thirty (30) days of Tenant' s receipt of Landlord' s determination. The parties will then attempt in good faith to agree upon the Fair Market Basic Rent. If the parties fail to agree within 15 days, then either party shall be entitled to give notice to the other electing to have the Fair Market Basic Rent selected by an appraiser as provided in this section. Upon delivery and receipt of such notice, the parties will within seven days thereafter mutually appoint an appraiser who will select (in the manner set forth below) the Fair Market Basic Rent (the "**Deciding Appraiser**"**)**. The Deciding Appraiser must have at least five years of full-time commercial appraisal experience with projects comparable to the Property and be a member of the American Institute of Real Estate Appraisers or a similar appraisal association. The Deciding Appraiser may not have any material financial or business interest in common with either of the parties. If Landlord and Tenant are not able to agree upon a Deciding Appraiser within such seven days, each party will within five days thereafter separately select an appraiser meeting the criteria set forth above, which two appraisers will, within seven days of their selection, mutually appoint a third appraiser meeting the criteria set forth above (and who also does not have any material financial or business interest in common with either of the two selecting appraisers) to be the Deciding Appraiser. Within seven days of the appointment (by either method) of the Deciding Appraiser, Landlord and Tenant will submit to the Deciding Appraiser their respective determinations of Fair Market Basic Rent and any related information. Within 21 days of such appointment of the Deciding Appraiser, the Deciding Appraiser will review each party' s submittal (and such other information as the Deciding Appraiser deems necessary) and will select, in total and without modification, the submittal presented by either Landlord or Tenant as the Fair Market Basic Rent; provided, however, that in no event will Fair

Market Basic Rent for an extension of the Term be less than the Basic Rent (exclusive of temporary abatements) payable by Tenant immediately prior to commencement of the applicable extension period. Subject to the previous sentence, if the Deciding Appraiser timely receives one party' s submittal, but not both, the Deciding Appraiser must designate the submitted proposal as the Fair Market Basic Rent for the applicable extension of the Term. Any determination of Fair Market Basic Rent made by the Deciding Appraiser in violation of the provisions of this section shall be beyond the scope of authority of the Deciding Appraiser and shall be null and void. If the determination of Fair Market Basic Rent is made by a Deciding Appraiser, Landlord and Tenant will each pay, directly to the Deciding Appraiser, one-half (1/2) of all fees, costs and expenses of the Deciding Appraiser. Landlord and Tenant will each separately pay all costs, fees and expenses of their respective additional appraiser (if any) used to determine the Deciding Appraiser.

1.3 Effect of Occupancy. Subject to the Warranty Terms, Tenant' s occupancy of the Premises conclusively establishes that Landlord completed the Improvements as required by this Lease in a manner satisfactory to Tenant. Tenant' s failure to strictly comply with the Warranty Terms with respect to any item included as part of the Improvements constitutes Tenant' s waiver and release of any and all rights, benefits, claims or warranties available to Tenant under this Lease, at law or in equity in connection with each such item.

ARTICLE 2
RENTAL AND OTHER PAYMENTS

2.1 Basic Rent. Tenant will pay Basic Rent in monthly installments to Landlord, in advance, without offset or deduction, commencing on the Rent Commencement Date and continuing on the first day of each and every calendar month after the Rent Commencement Date during the Term. Tenant will make all Basic Rent payments to Landlord at the address specified in the Basic Terms or at such other place or in such other manner as Landlord may from time to time designate in writing. Tenant will make all Basic Rent payments without Landlord' s previous demand, invoice or notice for payment. Landlord and Tenant will prorate, on a per diem basis, Basic Rent for any partial month within the Term.

2.2 Additional Rent. Article 3 of this Lease requires Tenant to pay certain Additional Rent pursuant to estimates Landlord delivers to Tenant. Tenant will make all payments of estimated Additional Rent in accordance with Sections 3.3 and 3.4 without deduction or offset and without Landlord' s previous demand, invoice or notice for payment. Tenant will pay all other Additional Rent described in this Lease that is not estimated under Sections 3.3 and 3.4 within 10 days after receiving Landlord' s invoice for such Additional Rent. Tenant will make all Additional Rent payments to the same location and, except as described in the previous sentence, in the same manner as Tenant' s Basic Rent payments.

2.3 Delinquent Rental Payments. If Tenant does not pay any installment of Basic Rent or any Additional Rent within three Business Days after the date the payment is due, Tenant will pay Landlord an additional amount equal to the greater of (a) interest on the delinquent payment calculated at the Maximum Rate from the date when the payment is due through the date the payment is made, or (b) a late payment charge equal to 5% of the amount of the delinquent payment. Landlord' s right to such compensation for the delinquency is in addition to all of Landlord' s rights and remedies under this Lease, at law or in equity.

2.4 Independent Obligations. Notwithstanding any contrary term or provision of this Lease, Tenant' s covenant and obligation to pay Rent is independent from any of Landlord' s covenants, obligations, warranties or representations in this Lease. Tenant will pay Rent without any right of offset or deduction.

ARTICLE 3
PROPERTY TAXES AND OPERATING EXPENSES

3.1 Utilities. Tenant shall pay the cost of all separately metered utilities used by the Premises directly to the applicable utility companies furnishing such utilities.

3.2 Payment of Property Expenses. Tenant will pay, as Additional Rent and in the manner this Article 3 describes, Property Expenses due and payable during any calendar year of the Term. Landlord will prorate Property Expenses due and payable during the calendar year in which the Lease commences or terminates as of the Commencement Date or termination date, as applicable, on a per diem basis based on the number of days of the Term within such calendar year.

3.3 Estimation of Property Expenses. Landlord will deliver to Tenant a written estimate of the following for each calendar year of the Term: (a) Property Taxes, (b) Operating Expenses and (d) the annual and monthly Additional Rent attributable to Property Expenses.

3.4 Payment of Estimated Property Expenses. Tenant will pay the amount Landlord estimates as Property Expenses under Section 3.2 for each calendar year of the Term in equal monthly installments, in advance, on the first day of each month during such calendar year. If Landlord has not delivered the estimates to Tenant by the first day of January of the applicable calendar year, Tenant will continue paying Property Expenses based on Landlord' s estimates for the previous calendar year. When Tenant receives Landlord' s estimates for the current calendar year, Tenant will pay the estimated amount (less amounts Tenant paid to Landlord in accordance with the immediately preceding sentence) in equal monthly installments over the balance of such calendar year, with the number of installments being equal to the number of full calendar months remaining in such calendar year.

3.5 Re-Estimation of Property Expenses. Landlord may re-estimate Property Expenses from time to time during the Term. In such event, Landlord will re-estimate the monthly Additional Rent attributable to Property Expenses to an amount sufficient for Tenant to pay the re-estimated monthly amount over the balance of the calendar year. Landlord will notify Tenant of the re-estimate and Tenant will pay the re-estimated amount in the manner provided in the last sentence of Section 3.3.

3.6 Confirmation of Property Expenses. After the end of each calendar year within the Term, Landlord will determine the actual amount of Property Expenses for the expired calendar year and deliver to Tenant a written statement of such amounts. If Tenant paid less than the actual amount of Property Expenses specified in the statement, Tenant will pay the difference to Landlord as Additional Rent in the manner Section 2.2 describes. If Tenant paid more than the actual amount of Property Expenses specified in the statement, Landlord, at Landlord' s option, will either (a) refund the excess amount to Tenant, or (b) credit the excess amount against Tenant' s next due monthly installment or installments of estimated Additional Rent. If Landlord is delayed in delivering such statement to Tenant, such delay does not constitute Landlord' s waiver of Landlord' s rights under this section.

3.7 Tenant' s Inspection and Audit Rights. If Tenant is not in default in the performance of any of its obligations under this Lease, Tenant disputes Landlord' s determination of the actual amount of Property Expenses for any calendar year and Tenant delivers to Landlord written notice of the dispute within 30 days after Landlord' s delivery of the statement of such amount under Section 3.5, then Tenant (but not any subtenant or assignee), at its sole cost and expense, upon prior written notice and during regular business hours at a time and place reasonably acceptable to Landlord (which may be the location where Landlord maintains the applicable records), may audit Landlord' s records relating to the disputed amounts; provided, however, if the audit is to be performed by a third party, such third party (i) shall be a certified public accountant reasonably acceptable to Landlord and (ii) shall not be compensated by Tenant on a contingency fee basis, and (iii) shall have agreed with Landlord in writing to keep the results of such audit confidential. Tenant' s objection to Landlord' s determination of Property Expenses is deemed withdrawn unless Tenant completes and delivers the audit to Landlord within 60 days after the date Tenant delivers its dispute notice to Landlord under this section. If the audit shows that the amount Landlord charged Tenant for Property Expenses was greater than the amount this Article 3 obligates Tenant to pay, then, unless Landlord reasonably contests the audit, Landlord will refund the excess amount to Tenant, together with interest on the excess amount at the Maximum Rate (computed from the date Tenant delivers its dispute notice to Landlord) within 10 days after Landlord receives a copy of the audit report. If the audit shows that the amount Landlord charged Tenant for Property Expenses was less than the amount this Article 3 obligates Tenant to pay, Tenant will pay to Landlord, as Additional Rent, the difference between the amount Tenant paid and the amount determined in the audit. Pending resolution of any audit under this section, Tenant will continue to pay to Landlord the estimated amounts of Property Expenses in accordance with Sections 3.3 and 3.4. Tenant must keep all information it obtains in any audit strictly confidential and may only use such information for the limited purpose this section describes and for Tenant' s own account.

3.8 Personal Property Taxes. Tenant, prior to delinquency, will pay all taxes charged against Tenant' s trade fixtures and other personal property. Tenant will use all reasonable efforts to have such trade fixtures and other

personal property taxed separately from the Property. If any of Tenant' s trade fixtures and other personal property are taxed with the Property, Tenant will pay the taxes attributable to Tenant' s trade fixtures and other personal property to Landlord as Additional Rent.

3.9 Landlord' s Right to Contest Property Taxes. Landlord is not obligated to but may contest the amount or validity, in whole or in part, of any Property Taxes. Landlord' s contest will be at Landlord' s sole cost and expense, except that if Property Taxes are reduced (or if a proposed increase is avoided or reduced) because of Landlord' s contest, Landlord may include in its computation of Property Taxes the costs and expenses Landlord incurred in connection with the contest, including, but not limited to, reasonable attorneys fees, up to the amount of any Property Tax reduction Landlord realized from the contest or any Property Tax increase avoided or reduced in connection with the contest, as the case may be. Tenant may not contest Property Taxes but may request that Landlord contest Property Taxes on the condition that Tenant pay all Landlord' s out-of-pocket costs and expenses incurred in connection therewith. Landlord will not be obligated to contest Property Taxes following Tenant' s request at any time there is less than two full years remaining on the Term.

3.10 Waiver. Landlord and Tenant are knowledgeable and experienced in commercial transactions and agree that the provisions of this Lease for determining charges, amounts and rent payable by Tenant (including without limitation, payments under this Article 3) are commercially reasonable and valid even though such methods may not state a precise mathematical formula for determining such charges. **ACCORDINGLY, TENANT VOLUNTARILY AND KNOWINGLY WAIVES ALL RIGHTS AND BENEFITS OF TENANT UNDER SECTION 93.004 OF THE TEXAS PROPERTY CODE, AS AMENDED FROM TIME TO TIME.**

ARTICLE 4
USE

4.1 Permitted Use. Tenant will not vacate the Premises prior to the expiration of the Term without Landlord' s prior written consent, which consent Landlord may grant or withhold in its sole and absolute discretion. Tenant will not use the Premises for any purpose other than general office purposes. Tenant will not use the Property or knowingly permit the Premises to be used in violation of any Laws or in any manner that would (a) violate any certificate of occupancy affecting the Property; (b) make void or voidable any insurance now or after the Effective Date in force with respect to the Property; (c) cause injury or damage to the Property; (d) cause substantial diminution in the value or usefulness of all or any part of the Property (reasonable wear and tear excepted); or (e) constitute a public or private nuisance or waste. Tenant will obtain and maintain, at Tenant' s sole cost and expense, all permits and approvals required under the Laws for Tenant' s use of the Premises.

4.2 Acceptance of Premises. Except for the Warranty Terms, Tenant acknowledges that neither Landlord nor any agent, contractor or employee of Landlord has made any representation or warranty of any kind with respect to the Building or the Property, specifically including, but not limited to, any

representation or warranty of suitability or fitness of the Building or the Property for any particular purpose. Subject to the Warranty Terms, Tenant accepts the Building and the Property in an "**AS IS - WHERE IS**" condition.

4.3 Increased Insurance. Tenant will not do on the Property or permit to be done on the Premises anything that will (a) increase the premium of any insurance policy Landlord carries covering the Premises or the Property; (b) cause a cancellation of or be in conflict with any such insurance policy; (c) result in any insurance company' s refusal to issue or continue any such insurance in amounts satisfactory to Landlord; or (d) subject Landlord to any liability or responsibility for injury to any person or property by reason of Tenant' s operations in the Premises or use of the Property. Tenant, at Tenant' s sole cost and expense, will comply with all rules, orders, regulations and requirements of insurers and of the American Insurance Association or any other organization performing a similar function. Tenant will reimburse Landlord, as Additional Rent, for any additional premium charges for such policy or policies resulting from Tenant' s failure to comply with the provisions of this section.

4.4 Laws/Building Rules. This Lease is subject and subordinate to all Laws. A copy of the current Building Rules is attached to this Lease as **EXHIBIT E.** Landlord may amend the Building Rules from time to time in Landlord' s sole and absolute discretion.

4.5 Signs. Tenant may erect signs on the exterior of the Building or on the landscaped area adjacent thereto, provided that such sign or signs (a) do not cause any structural damage or other damage to the Building; (b) do not violate applicable governmental laws, ordinances, rules or regulations; (c) do not violate any existing covenants, conditions or restrictions affecting the Demised Premises; and (d) are compatible with the architecture of the Building and the landscaped area adjacent thereto. Tenant may not install any exterior sign until it has obtained all necessary governmental and quasi-governmental approvals therefor, all third party approvals, and Landlord' s reasonable approval as to the size, location, design and all other aspects thereof. When Tenant requests Landlord' s approval of any such sign, Tenant will concurrently submit to Landlord the proposed fabrication drawings thereof. Landlord' s consent to such sign shall be granted or withheld within five (5) business days following Tenant' s written request therefor accompanied by the documentation required above. If Landlord has failed to respond within said five business-day period, Tenant may give Landlord a second notice of Landlord' s failure to respond, and if Landlord does not grant or reasonably withhold its approval of such sign within ten (10) days after receipt of such second notice, Landlord' s approval shall be deemed granted. Tenant must remove such signage prior to the expiration or earlier termination of this Lease, and must repair and restore any damage to the Demised Premises caused by such installation and/or removal.

ARTICLE 5
HAZARDOUS MATERIALS

5.1 Compliance with Hazardous Materials Laws. Tenant will not cause any Hazardous Material to be brought upon, kept or used on the Property in a manner or for a purpose prohibited by or that could result in liability under any Hazardous Materials Law. Tenant, at its sole cost and expense, will comply with all Hazardous Materials Laws and prudent industry practice relating to the presence, treatment, storage, transportation, disposal, release or management of Hazardous Materials in, on, under or about the Property required for Tenant' s use of the Premises and will notify Landlord of any and all Hazardous Materials Tenant brings upon, keeps or uses on the Property (other than small quantities of office cleaning or other office supplies as are customarily used by a tenant in the ordinary course in a general office facility). On or before the expiration or earlier termination of this Lease, Tenant, at its sole cost and expense, will completely remove from the Property (regardless whether any Hazardous Materials Law requires removal), in compliance with all Hazardous Materials Laws, all Hazardous Materials Tenant causes to be present in, on, under or about the Property. Tenant will not take any remedial action in response to the presence of any Hazardous Materials in on, under or about the Property, nor enter into any settlement agreement, consent decree or other compromise with respect to any Claims relating to or in any way connected with Hazardous Materials in, on, under or about the Property, without first notifying Landlord of Tenant' s intention to do so and affording Landlord reasonable opportunity to investigate, appear, intervene and otherwise assert and protect Landlord' s interest in the Property.

5.2 Notice of Actions. Tenant will notify Landlord of any of the following actions affecting Landlord, Tenant or the Property that result from or in any way relate to Tenant' s use of the Property immediately after receiving notice of the same: (a) any enforcement, clean-up, removal or other governmental or regulatory action instituted, completed or threatened under any Hazardous Materials Law; (b) any Claim made or threatened by any person relating to damage, contribution, liability, cost recovery, compensation, loss or injury resulting from or claimed to result from any Hazardous Material; and (c) any reports made by any person, including Tenant, to any environmental agency relating to any Hazardous Material, including any complaints, notices, warnings or asserted violations. Tenant will also deliver to Landlord, as promptly as possible and in any event within five Business Days after Tenant first receives or sends the same, copies of all Claims, reports, complaints, notices, warnings or asserted violations relating in any way to the Premises or Tenant' s use of the Premises. Upon Landlord' s written request, Tenant will promptly deliver to Landlord documentation acceptable to Landlord reflecting the legal and proper disposal of all Hazardous Materials removed or to be removed from the Premises. All such documentation will list Tenant or its agent as a responsible party and will not attribute responsibility for any such Hazardous Materials to Landlord or Property Manager.

5.3 Disclosure and Warning Obligations. Tenant acknowledges and agrees that all reporting and warning obligations required under Hazardous Materials Laws resulting from or in any way relating to Tenant' s use of the Premises or Property are Tenant' s sole responsibility, regardless whether the Hazardous Materials Laws permit or require Landlord to report or warn.

5.4 Indemnification. Tenant will release, indemnify, defend (with counsel reasonably acceptable to Landlord), protect and hold harmless the Landlord Parties from and against any and all Claims whatsoever arising or resulting, in whole or in part, directly or indirectly, from the presence, treatment, storage,

transportation, disposal, release or management of Hazardous Materials in, on, under, upon or from the Property (including water tables and atmosphere) resulting from or in any way related to Tenant' s use of the Premises or Property. Tenant' s obligations under this section include, without limitation and whether foreseeable or unforeseeable, (a) the costs of any required or necessary repair, clean-up, detoxification or decontamination of the Property; (b) the costs of implementing any closure, remediation or other required action in connection therewith as stated above; (c) the value of any loss of use and any diminution in value of the Property; and (d) consultants fees, experts fees and response costs. The obligations of Tenant under this section survive the expiration or earlier termination of this Lease.

ARTICLE 6
SERVICES

6.1 Landlord' s Obligations. Landlord will provide electrical energy to the Premises for lighting and for operating office machines for general office use. Electrical energy will be sufficient for Tenant to operate personal computers and other equipment of similar low electrical consumption, but will not be sufficient for lighting in excess of six (6) watts per square foot installed or for electrical convenience outlets in excess of six (6) watts per square foot installed. Tenant will not use any equipment requiring electrical energy in excess of the above standards without receiving Landlord' s prior written consent, which consent Landlord will not unreasonably withhold but may condition on Tenant paying all costs of installing the equipment and facilities necessary to furnish such excess energy. Tenant will be responsible for replacing all lighting bulbs, tubes, ballasts and starters within the Premises at Tenant' s sole cost and expense.

6.2 Tenant' s Obligations. Tenant is solely responsible for paying directly to the applicable utility companies, prior to delinquency, all costs of electricity and all other separately metered or separately charged utilities, if any, to the Premises or to Tenant. Such electricity and other separately metered or charged amounts are not Operating Expenses. Except as provided in Sections 6.1, 17.1 and the Work Letter, Tenant will also obtain and pay for all other utilities and services Tenant requires with respect to the Premises (including, but not limited to, hook-up and connection charges).

6.3 Other Provisions Relating to Services. No interruption in, or temporary stoppage of, any of the services this Article 6 describes is to be deemed an eviction or disturbance of Tenant' s use and possession of the Premises, nor does any interruption or stoppage relieve Tenant from any obligation this Lease describes, render Landlord liable for damages or entitle Tenant to any Rent abatement. Landlord is not required to provide any heat, air conditioning, electricity or other service in excess of that permitted by voluntary or involuntary governmental guidelines or other Laws. Landlord reserves the right, from time to time, to make reasonable and non-discriminatory modifications to the above standards for utilities and services.

6.4 Tenant Devices. 0Tenant will not, without Landlord' s prior written consent, use any apparatus or device in or about the Premises that causes substantial noise, odor or vibration. Tenant will not connect any apparatus or device to electrical current or water except through the electrical and water outlets Landlord installs in the Premises.

ARTICLE 7
MAINTENANCE AND REPAIR

7.1 Landlord' s Obligations. Except as otherwise provided in this Lease, Landlord will repair and maintain the following in good order, condition and repair: (a) the foundations, exterior walls and roof of the Building; (b) the electrical, mechanical, plumbing, heating and air conditioning systems, facilities and components located in the Building; and (c) all driveways, pathways, roadways, sidewalks, curbs, parking areas, loading areas, landscaped areas, entrances and passageways. Landlord' s repair and maintenance costs under this Section 7.1 are Operating Expenses. Neither Basic Rent nor Additional Rent will be reduced, nor will Landlord be liable, for loss or injury to or interference with Tenant' s property, profits or business arising from or in connection with Landlord' s performance of its obligations under this section.

7.2 Tenant' s Obligations. Except as otherwise specifically provided in this Lease, Landlord is not required to furnish any services or facilities, or to make any repairs or Alterations, in, about or to the Premises or the Property. Except as specifically described in Section 7.1, Tenant assumes the full and sole responsibility for the condition, operation, repair, replacement, maintenance and management of the Premises. Except as specifically described in Section 7.1, Tenant, at Tenant' s sole cost and expense, will keep and maintain the Premises (including, but not limited to, all non-structural interior portions, systems and equipment; interior surfaces of exterior walls; interior moldings, partitions and ceilings; and interior electrical, lighting and plumbing fixtures) in good order, condition and repair, reasonable wear and tear and damage from insured casualties excepted. Tenant will keep the Premises in a neat and sanitary condition and will not commit any nuisance or waste in, on or about the Premises or the Property. If Tenant damages or injures any part of the Property other than the Premises, Landlord will repair the damage and Tenant will pay Landlord for all uninsured costs and expenses of Landlord in connection with the repair as Additional Rent. Tenant is solely responsible for and, to the fullest extent allowable under the Laws, will release, indemnify, protect and defend Landlord against (with counsel reasonably acceptable to Landlord) and hold Landlord harmless from, the cost of repairing, and any Claims resulting from, any penetrations or perforations of the roof or exterior walls of the Building Tenant causes; provided, however, the foregoing indemnity shall not extend to penetrations or perforations made during the construction of the Tenant Improvements pursuant to the Work Letter. Tenant will maintain the Premises in a first-class and fully operative condition. Tenant' s repairs will be at least equal in quality and workmanship to the original work and Tenant will make the repairs in accordance with all Laws.

7.3 Alterations Required by Laws. If any governmental authority requires any Alteration to the Building or the Premises as a result of Tenant' s particular use of the Premises or as a result of any Alteration to the Premises made by or on behalf of Tenant, or if Tenant' s particular use of the Premises subjects Landlord or the Property to any obligation under any Laws, Tenant will pay the cost of all such Alterations or the cost of compliance, as the case may be; provided, however, the foregoing requirement is not intended and will not be construed to apply to any Alterations or cost of compliance that is attributable solely to the use of the Premises for general office uses. If any Alterations required

to be performed by Tenant pursuant to this Section 7.3 are Structural Alterations, Landlord will make the Structural Alterations; provided, however, that Landlord may require Tenant to deposit with Landlord an amount sufficient to pay the cost of the Structural Alterations (including, without limitation, reasonable overhead and administrative costs). If the Alterations to be performed by Tenant pursuant to this Section 7.3 are not Structural Alterations, Tenant will make the Alterations at Tenant' s sole cost and expense in accordance with Article 8. The term "Alterations" when used in this Section 7.3 does not mean or refer to the Tenant Improvements to be constructed by Landlord pursuant to the Work Letter.

ARTICLE 8
CHANGES AND ALTERATIONS

8.1 Landlord Approval. Tenant will not make any Structural Alterations to the Building without Landlord' s consent, which consent may given or withheld in Landlord' s sole and absolute discretion. Tenant will not make any other Alterations costing in excess of $25,000 without Landlord' s prior written consent, which consent Landlord will not unreasonably withhold or delay; provided, however, that Landlord may impose conditions in its reasonable discretion. Along with any request for Landlord' s consent, Tenant will deliver to Landlord plans and specifications for the Alterations and names and addresses of all prospective contractors for the Alterations. If Landlord approves the proposed Alterations, Tenant, before commencing the Alterations or delivering (or accepting delivery of) any materials to be used in connection with the Alterations, will deliver to Landlord for Landlord' s reasonable approval copies of all contracts, proof of insurance required by Section 8.2, copies of any contractor safety programs, copies of all necessary permits and licenses and such other information relating to the Alterations as Landlord reasonably requests. Tenant will not commence the Alterations before Landlord, in Landlord' s reasonable discretion, approves the foregoing deliveries. Tenant will construct all approved Alterations or cause all approved Alterations to be constructed (a) promptly by a contractor Landlord approves in writing in Landlord' s good faith business judgment, (b) in a good and workmanlike manner, (c) in compliance with all Laws, (d) in accordance with all orders, rules and regulations of the Board of Fire Underwriters having jurisdiction over the Premises and any other body exercising similar functions, and (e) in full compliance with all of Landlord' s rules and regulations applicable to third party contractors, subcontractors and suppliers performing work at the Property.

8.2 Tenant' s Responsibility for Cost and Insurance. Tenant will pay the cost and expense of all Alterations, including, without limitation, a reasonable charge for Landlord' s review, inspection and engineering time, and for any painting, restoring or repairing of the Building the Alterations occasion. Prior to commencing the Alterations, Tenant will deliver the following to Landlord in form and amount reasonably satisfactory to Landlord: (a) builder' s all risk insurance in an amount at least equal to the replacement value of the Building (excluding the Land, foundation, grading costs and excavation costs), (b) evidence that Tenant and each of Tenant' s contractors have in force liability insurance insuring against construction related risks, in at least the form, amounts and coverages required of Tenant under Article 10 and (c) copies of all applicable contracts and of all necessary permits and licenses. The insurance policies described in clauses (a) and (b) of this section must name Landlord and Landlord' s lender (if any) and Property Manager as additional insureds.

8.3 Construction Obligations and Ownership. Landlord may inspect construction of the Alterations. Immediately after completing the Alterations, Tenant will furnish Landlord with contractor affidavits, full and final lien waivers and receipted bills covering all labor and materials expended and used in connection with the Alterations. Tenant will remove any Alterations Tenant constructs in violation of this Article 8 within 10 days after Landlord' s written request and in any event prior to the expiration or earlier termination of this Lease. All Alterations Tenant makes or installs (including all telephone, computer and other wiring and cabling located within the walls of and outside the Premises, but excluding Tenant' s movable trade fixtures, furniture and equipment) become the property of Landlord upon installation and, unless Landlord requires Tenant to remove the Alterations, Tenant will surrender the Alterations to Landlord upon the expiration or earlier termination of this Lease at no cost to Landlord. Landlord will advise Tenant within ten (10) days of any written request from Tenant (which request may be made prior to or after the construction or installation) as to whether Landlord will require the removal of any particular Alterations as aforesaid.

8.4 Liens. Tenant will keep the Property free from any mechanics' , materialmens' , designers' or other liens arising out of any work performed, materials furnished or obligations incurred by or for Tenant or any person or entity claiming by, through or under Tenant. Tenant will notify Landlord in writing 30 days prior to commencing any Alterations in order to provide Landlord the opportunity to record and post notices of non-responsibility or such other protective notices available to Landlord under the Laws. If any such liens are filed and Tenant, within 15 days after such filing, does not release the same of record or provide Landlord with a bond or other surety satisfactory to Landlord protecting Landlord and the Property against such liens, Landlord may, without waiving its rights and remedies based upon such breach by Tenant and without releasing Tenant from any obligation under this Lease, cause such liens to be released by any means Landlord deems proper, including, but not limited to, paying the claim giving rise to the lien or posting security to cause the discharge of the lien. In such event, Tenant will reimburse Landlord, as Additional Rent, for all amounts Landlord pays (including, without limitation, reasonable attorneys fees and costs).

8.5 Indemnification. To the fullest extent allowable under the Laws, Tenant will release, indemnify, protect, defend (with counsel reasonably acceptable to Landlord) and hold harmless the Landlord Parties and the Property from and against any Claims in any manner relating to or arising out of any Alterations or any other work performed, materials furnished or obligations incurred by or for Tenant or any person or entity claiming by, through or under Tenant.

ARTICLE 9
RIGHTS RESERVED BY LANDLORD

9.1 Landlord' s Entry. Landlord and its authorized representatives may at all reasonable times and upon reasonable notice to Tenant enter the Premises to: (a) inspect the Premises; (b) show the Premises to prospective purchasers, mortgagees and tenants; (c) post notices of non-responsibility or other protective notices available under the Laws; or (d) exercise and perform Landlord' s rights and obligations under this Lease. Landlord, in the event of any emergency, may enter the Premises without notice to Tenant. Landlord' s entry into the Premises is not to be construed as a forcible or unlawful entry into, or detainer of, the Premises or as an eviction of Tenant from all or any

part of the Premises. Tenant will also permit Landlord (or its designees) to erect, install, use, maintain, replace and repair pipes, cables, conduits, plumbing and vents, and telephone, electric and other wires or other items, in, to and through the Premises if Landlord determines that such activities are necessary or appropriate for properly operating and maintaining the Building.

9.2 Control of Property. Landlord reserves all rights respecting the Property not specifically granted to Tenant under this Lease, including, without limitation, the right to: (a) change the name of the Building; (b) designate and approve all types of signs, window coverings, internal lighting and other aspects of the Premises and its contents that may be visible from the exterior of the Premises; (c) prohibit Tenant from installing vending or dispensing machines of any kind in or about the Premises other than those Tenant installs in the Premises solely for use by Tenant' s employees; (d) close the Building after Business Hours, except that Tenant and its employees and invitees may access the Premises after Business Hours in accordance with such rules and regulations as Landlord may prescribe from time to time for security purposes; (e) install, operate and maintain security systems that monitor, by closed circuit television or otherwise, all persons entering or leaving the Building; and (f) retain and receive master keys or pass keys to the Premises and all doors in the Premises. Notwithstanding the foregoing, or the provision of any security-related services by Landlord, Landlord is not responsible for the security of persons or property on the Property and Landlord is not and will not be liable in any way whatsoever for any breach of security not solely and directly caused by the willful misconduct of Landlord, its agents or employees.

9.3 Lock Box Agent/Rent Collection Agent. Landlord, from time to time, may designate a lock box collection agent or other person to collect Rent. In such event, Tenant' s payment of Rent to the lock box collection agent or other person is deemed to have been made (a) as of the date the lock box collection agent or other person receives Tenant' s payment (if the payment is not dishonored for any reason); or (b) if Tenant' s payment is dishonored for any reason, the date Landlord or Landlord' s agent collects the payment. Neither Tenant' s payment of any amount of Rent to the lock box collection agent or other person nor Landlord' s or Landlord' s agent' s collection of such amount if the payment is dishonored constitutes Landlord' s waiver of any default by Tenant in the performance of Tenant' s obligations under this Lease or Landlord' s waiver of any of Landlord' s rights or remedies under this Lease. If Tenant pays any amount to the lock box collection agent or other person other than the actual amount due Landlord, then Landlord' s or Landlord' s agent' s receipt or collection of such amount does not constitute an accord and satisfaction, Landlord is not prejudiced in collecting the proper amount due Landlord and Landlord may retain the proceeds of any such payment, whether restrictively endorsed or otherwise, and apply the same toward amounts due and payable by Tenant under this Lease.

ARTICLE 10
INSURANCE

10.1 Tenant' s Insurance Obligations. Tenant, at all times during the Term and during any early occupancy period, at Tenant' s sole cost and expense, will maintain the insurance this Section 10.1 describes.

10.1.1 Liability Insurance. Commercial general liability insurance (providing coverage at least as broad as the current ISO form) with respect to the Premises and Tenant' s activities in the Premises and upon and about the Property, on an occurrence basis, with minimum limits of $1,000,000 each occurrence and $3,000,000 general aggregate. Such insurance must include specific coverage provisions or endorsements (a) for broad form contractual liability insurance insuring Tenant' s obligations under this Lease; (b) naming Landlord and Property Manager as additional insureds by an Additional Insured - Managers or Lessors of Premises endorsement (or equivalent coverage or endorsement); (c) waiving the insurers subrogation rights against all Landlord Parties; (d) providing Landlord with at least 30 days prior notice of modification, cancellation, non-renewal or expiration; and (e) expressly stating that Tenant' s insurance will be provided on a primary and non-contributory basis. If Tenant provides such liability insurance under a blanket policy, the insurance must be made specifically applicable to the Premises and this Lease on a per location basis.

10.1.2 Property Insurance. At Tenant' s option, property insurance providing coverage at least as broad as the current ISO Special Form (all-risks) policy in an amount not less than the full insurable replacement cost of all of Tenant' s trade fixtures and other personal property within the Premises and including business income insurance covering at least nine months loss of income from Tenant' s business in the Premises. If Tenant provides such property insurance under a blanket policy, the insurance must include agreed amount, no coinsurance provisions.

10.1.3 Other Insurance. Such other insurance as may be required by any Laws from time to time or may reasonably be required by Landlord from time to time. If insurance obligations generally required of tenants in similar space in similar office buildings in the area in which the Premises is located increase or otherwise change, Landlord may likewise increase or otherwise change Tenant' s insurance obligations under this Lease.

10.1.4 Miscellaneous Insurance Provisions. All of Tenant' s insurance will be written by companies rated at least Best A-VII and otherwise reasonably satisfactory to Landlord. Tenant will deliver a certified copy of each policy, or other evidence of insurance satisfactory to Landlord, (a) on or before the Commencement Date (and prior to any earlier occupancy by Tenant), (b) not later than 30 days prior to the expiration of any current policy or certificate, and (c) at such other times as Landlord may reasonably request. If Landlord allows Tenant to provide evidence of insurance by certificate, Tenant will deliver an ACORD Form 27 certificate and will attach or cause to be attached to the certificate copies of the endorsements this Section 10.1 requires (including specifically, but without limitation, the additional insured endorsement). Tenant' s insurance must permit releases of liability and provide for waiver of subrogation as provided in Section 10.1.5.

10.1.5 Tenant' s Waiver and Release of Claims and Subrogation. To the extent not prohibited by the Laws, Tenant, on behalf of Tenant and its insurers, waives, releases and discharges the Landlord Parties from all Claims arising out of personal injury or damage to or destruction of the Premises, Property or Tenant' s trade fixtures, other personal property or business, and any loss of use or business interruption, occasioned by any fire or other casualty or occurrence whatsoever (whether similar or dissimilar), regardless whether any such Claim results from the negligence or fault of any Landlord Party or otherwise, and Tenant

will look only to Tenant' s insurance coverage (regardless whether Tenant maintains any such coverage) in the event of any such Claim. Tenant' s trade fixtures, other personal property and all other property in Tenant' s care, custody or control, is located at the Property at Tenant' s sole risk. Landlord is not liable for any damage to such property or for any theft, misappropriation or loss of such property. Tenant is solely responsible for providing such insurance as may be required to protect Tenant, its employees and invitees against any injury, loss, or damage to persons or property occurring in the Premises or at the Property, including, without limitation, any loss of business or profits from any casualty or other occurrence at the Property.

10.1.6 No Limitation. Landlord' s establishment of minimum insurance requirements is not a representation by Landlord that such limits are sufficient and does not limit Tenant' s liability under this Lease in any manner.

10.2 Landlord' s Insurance Obligations. Landlord will (except for the optional coverages and endorsements Section 10.2.1 describes) at all times during the Term maintain the insurance this Section 10.2 describes. All premiums and other costs and expenses Landlord incurs in connection with maintaining such insurance are Operating Expenses.

10.2.1 Property Insurance. Property insurance on the Building in an amount not less than the full insurable replacement cost of the Building insuring against loss or damage by fire and such other risks as are covered by the current ISO Special Form policy. Landlord, at its option, may obtain such additional coverages or endorsements as Landlord deems appropriate or necessary, including, without limitation, insurance covering foundation, grading, excavation and debris removal costs; business income and rents insurance; earthquake insurance; flood insurance; and other coverages. Landlord may maintain such insurance in whole or in part under blanket policies. Such insurance will not cover or be applicable to any property of Tenant within the Premises or otherwise located at the Property.

10.2.2 Liability Insurance. Commercial general liability insurance against claims for bodily injury, personal injury, and property damage occurring at the Property in such amounts as Landlord deems necessary or appropriate. Such liability insurance will protect only Landlord and, at Landlord' s option, Landlord' s lender and some or all of the Landlord Parties, and does not replace or supplement the liability insurance this Lease obligates Tenant to carry.

10.2.3 Landlord' s Waiver and Release of Claims and Subrogation. To the extent not expressly prohibited by the Laws, Landlord, on behalf of Landlord and its insurers, waives, releases and discharges Tenant from all claims or demands whatsoever arising out of damage to or destruction of the Property, or loss of use of the Property, occasioned by fire or other casualty, regardless whether any such claim or demand results from the negligence or fault of Tenant, or otherwise, and Landlord will look only to Landlord' s insurance coverage (regardless whether Landlord maintains any such coverage) in the event of any such claim. Notwithstanding the foregoing, Tenant will continue paying Rent without any right of abatement, to the extent Landlord does not receive rent interruption insurance proceeds, if Tenant' s negligence or fault causes or contributes to any damage to the Premises or the Property. Landlord' s policy or policies of property insurance will permit releases of liability and will provide for waiver of subrogation as provided in this section.

10.3 Tenant' s Indemnification of Landlord. In addition to Tenant' s other indemnification obligations in this Lease but subject to Landlord' s agreements in Section 10.2, Tenant, to the fullest extent allowable under the Laws, will release, indemnify, protect, defend (with counsel reasonably acceptable to Landlord) and hold harmless the Landlord Parties from and against all Claims arising from (a) any breach or default by Tenant in the performance of any of Tenant' s covenants or agreements in this Lease, (b) any act, omission, negligence or misconduct of Tenant, (c) any accident, injury, occurrence or damage in, about or to the Premises, and (d) to the extent caused in whole or in part by Tenant, any accident, injury, occurrence or damage in, about or to the Property.

10.4 Tenant' s Waiver. In addition to the other waivers of Tenant described in this Lease and to the extent not expressly prohibited by the Laws, Landlord and the other Landlord Parties are not liable for, and Tenant waives, any and all Claims against Landlord and the other Landlord Parties for any damage to Tenant' s trade fixtures, other personal property or business, and any loss of use or business interruption, resulting directly or indirectly from (a) any existing or future condition, defect, matter or thing in the Premises or on the Property, (b) any equipment or appurtenance becoming out of repair, (c) any occurrence, act or omission of any Landlord Party or any other person. This section applies especially, but not exclusively, to damage caused by the flooding of basements or other subsurface areas and by refrigerators, sprinkling devices, air conditioning apparatus, water, snow, frost, steam, excessive heat or cold, falling plaster, broken glass, sewage, gas, odors, noise or the bursting or leaking of pipes or plumbing fixtures. The waiver this section describes applies regardless whether any such damage results from an act of God or an act or omission of any other person.

10.5 Tenant' s Failure to Insure. Notwithstanding any contrary language in this Lease and any notice and cure rights this Lease provides Tenant, if Tenant fails to provide Landlord with evidence of insurance as required under Section 10.1.4, Landlord may assume that Tenant is not maintaining the insurance Section 10.1 requires Tenant to maintain and Landlord may, but is not obligated to, without further demand upon Tenant or notice to Tenant and without giving Tenant any cure right or waiving or releasing Tenant from any obligation contained in this Lease, obtain such insurance for Landlord' s benefit. In such event, Tenant will pay to Landlord, as Additional Rent, all costs and expenses Landlord incurs obtaining such insurance. Landlord' s exercise of its rights under this section does not relieve Tenant from any default under this Lease.

ARTICLE 11
DAMAGE OR DESTRUCTION

11.1 Tenantable Within 180 Days. Except as provided in Section 11.3, if fire or other casualty renders the whole or any material part of the Premises untenantable and Landlord determines (in Landlord' s reasonable discretion) that it can make the Premises tenantable within 180 days after the date of the casualty, then Landlord will notify Tenant that Landlord will repair and restore the Building and the Premises to as near their condition prior to the casualty as is reasonably possible within the 180 day period (subject to delays caused by Tenant Delays or Force Majeure). Landlord will provide the notice within 30 days after the date of the casualty. In such case, this Lease remains in full force and effect, but, except as provided in Section 10.2.3, Basic Rent and

Property Expenses for the period during which the Premises are untenantable abate pro rata (based upon the rentable area of the untenantable portion of the Premises as compared with the rentable area of the entire Premises).

11.2 Not Tenantable Within 180 Days. If fire or other casualty renders the whole or any material part of the Premises untenantable and Landlord determines (in Landlord' s reasonable discretion) that it cannot make the Premises tenantable within 180 days after the date of the casualty, then Landlord will so notify Tenant within 30 days after the date of the casualty and may, in such notice, terminate this Lease effective on the date of Landlord' s notice. If Landlord does not terminate this Lease as provided in this section, Tenant may terminate this Lease by notifying Landlord within 30 days after the date of Landlord' s notice, which termination will be effective 30 days after the date of Tenant' s notice.

11.3 Insufficient Proceeds. Notwithstanding any contrary language in this Article 11, if this Article 11 obligates Landlord to repair damage to the Premises or building caused by fire or other casualty and Landlord does not receive sufficient insurance proceeds (excluding any deficiency caused by the amount of any policy deductible) to repair all of the damage, or if Landlord' s lender does not allow Landlord to use sufficient proceeds to repair all of the damage, then Landlord, at Landlord' s option, by notifying Tenant within 30 days after the casualty, may terminate this Lease effective on the date of Landlord' s notice.

11.4 Landlord' s Repair Obligations. If this Lease is not terminated under Sections 11.2 through 11.4 following a fire or other casualty, then Landlord will repair and restore the Premises and the Building to as near their condition prior to the fire or other casualty as is reasonably possible with all commercially reasonable diligence and speed (subject to delays caused by Tenant Delay or Force Majeure) and, except as provided in Section 10.2.3, Basic Rent and Property Expenses for the period during which the Premises are untenantable will abate pro rata (based upon the rentable area of the untenantable portion of the Premises as compared with the rentable area of the entire Premises). In no event is Landlord obligated to repair or restore any Alterations or Tenant Improvements that are not covered by Landlord' s insurance, any special equipment or improvements installed by Tenant, any personal property, or any other property of Tenant.

11.5 Rent Apportionment Upon Termination. If either Landlord or Tenant terminates this Lease under this Article 11, Landlord will apportion Basic Rent and Property Expenses on a per diem basis and Tenant will pay the Basic Rent and Property Expenses to (a) the date of the fire or other casualty if the event renders the Premises completely untenantable or (b) if the event does not render the Premises completely untenantable, the effective date of such termination (provided that if a portion of the Premises is rendered untenantable, but the remaining portion is tenantable, then, except as provided in Section 10.2.3, Tenant' s obligation to pay Basic Rent and Property Expenses abates pro rata [based upon the rentable area of the untenantable portion of the Premises divided by the rentable area of the entire Premises] from the date of the casualty and Tenant will pay the unabated portion of the Rent to the date of such termination).

11.6 Exclusive Casualty Remedy. The provisions of this Article 11 are Tenant' s sole and exclusive rights and remedies in the event of a casualty. To the extent permitted by the Laws, Tenant waives the benefits of any Law that provides Tenant any abatement or termination rights (by virtue of a casualty) not specifically described in this Article 11.

ARTICLE 12
EMINENT DOMAIN

12.1 Termination of Lease. If a Condemning Authority desires to effect a Taking of all or any material part of the Property, Landlord will notify Tenant and Landlord and Tenant will reasonably determine whether the Taking will render the Premises unsuitable for Tenant' s intended purposes. If Landlord and Tenant conclude that the Taking will render the Premises unsuitable for Tenant' s intended purposes, Landlord and Tenant will document such determination and this Lease will terminate as of the date the Condemning Authority takes possession of the portion of the Property taken. Tenant will pay Rent to the date of termination. If a Condemning Authority takes all or any material part of the Building or if a Taking reduces the value of the Property by 50% or more (as reasonably determined by Landlord), then Landlord, at Landlord' s option, by notifying Tenant prior to the date the Condemning Authority takes possession of the portion of the Property taken, may terminate this Lease effective on the date the Condemning Authority takes possession of the portion of the Property taken.

12.2 Landlord' s Repair Obligations. If this Lease does not terminate with respect to the entire Premises under Section 12.1 and the Taking includes a portion of the Premises, this Lease automatically terminates as to the portion of the Premises taken as of the date the Condemning Authority takes possession of the portion taken and Landlord will, at its sole cost and expense, restore the remaining portion of the Premises to a complete architectural unit with all commercially reasonable diligence and speed and will reduce the Basic Rent for the period after the date the Condemning Authority takes possession of the portion of the Premises taken to a sum equal to the product of the Basic Rent provided for in this Lease multiplied by a fraction, the numerator of which is the rentable area of the Premises after the Taking and after Landlord restores the Premises to a complete architectural unit, and the denominator of which is the rentable area of the Premises prior to the Taking. Tenant' s obligation to pay Basic Rent will abate on a proportionate basis with respect to that portion of the Premises remaining after the Taking that Tenant is unable to use during Landlord' s restoration for the period of time that Tenant is unable to use such portion of the Premises.

12.3 Tenant' s Participation. Landlord is entitled to receive and keep all damages, awards or payments resulting from or paid on account of a Taking. Accordingly, Tenant waives and assigns to Landlord any interest of Tenant in any such damages, awards or payments. Tenant may prove in any condemnation proceedings and may receive any separate award for damages to or condemnation of Tenant' s movable trade fixtures and equipment and for moving expenses; provided however, that Tenant has no right to receive any award for its interest in this Lease or for loss of leasehold.

12.4 Exclusive Taking Remedy. The provisions of this Article 12 are Tenant' s sole and exclusive rights and remedies in the event of a Taking. To the extent permitted by the Laws, Tenant waives the benefits of any Law

that provides Tenant any abatement or termination rights or any right to receive any payment or award (by virtue of a Taking) not specifically described in this Article 12.

ARTICLE 13
TRANSFERS

13.1 Restriction on Transfers.

13.1.1 General Prohibition. Except as set forth in Sections 13.1.2 and 13.1.3, Tenant will not cause or suffer a Transfer without obtaining Landlord' s prior written consent. Landlord may grant or withhold consent in Landlord' s sole and absolute discretion. Landlord may also, at Landlord' s option by notifying Tenant, recapture any portion of the Premises that would be affected by such Transfer. Tenant' s request for consent to a Transfer must describe in detail the parties, terms and portion of the Premises affected. Landlord will notify Tenant of Landlord' s election to consent, withhold consent and/or recapture within 30 days after receiving Tenant' s written request for consent to the Transfer. If Landlord consents to the Transfer, Landlord may impose on Tenant or the transferee such conditions as Landlord, in its sole discretion, deems appropriate. Tenant will, in connection with requesting Landlord' s consent, provide Landlord with a copy of any and all documents and information regarding the proposed Transfer and the proposed transferee as Landlord reasonably requests. No Transfer, including, without limitation, a Transfer under Section 13.1.2, releases Tenant from any liability or obligation under this Lease and Tenant remains liable to Landlord after such a Transfer as a principal and not as a surety. If Landlord consents to any Transfer, Tenant will pay to Landlord, as Additional Rent, 50% of any amount Tenant receives on account of the Transfer in excess of the amounts this Lease otherwise requires Tenant to pay. Any attempted Transfer in violation of this Lease is null and void and constitutes a breach of this Lease.

13.1.2 Transfers to Affiliates. Tenant, without Landlord' s consent (provided that Tenant is not in default in the performance of its obligations under this Lease), may cause a Transfer to an Affiliate if Tenant (a) notifies Landlord at least 30 days prior to such Transfer; (b) delivers to Landlord, at the time of Tenant' s notice, current financial statements of Tenant and the proposed transferee that are reasonably acceptable to Landlord; and (c) the transferee assumes and agrees in a writing reasonably acceptable to Landlord to perform Tenant' s obligations under this Lease and to observe all terms and conditions of this Lease. Landlord' s right described in Section 13.1.1 to share in any profit Tenant receives from a Transfer permitted under this Section 13.1.2 and Landlord' s recapture right under Section 13.1.1 does not apply to any Transfer this Section 13.1.2 permits.

13.1.3 Tenant' s Right to Mortgage. Notwithstanding the restrictions in Section 13.1.1 above, Tenant shall have the right, from time to time, without Landlord' s consent, to mortgage Tenant' s leasehold estate (but not Landlord' s interest in the Property) to a Permitted Mortgagee (as defined below) if (and only if) such Permitted Mortgagee executes and delivers to Landlord a written agreement providing that (i) such Permitted Mortgagee shall have no lien against Landlord' s fee simple title to the Demised Premises; (ii) such Permitted Mortgagee' s lien is subject in all respects to the rights of Landlord under this Lease, including its interest in the Building and the Tenant Improvements that will become the property of Landlord upon the expiration or earlier termination of this Lease; (iii) if a

default should occur under the agreements between Tenant and such Permitted Mortgagee, such Permitted Mortgagee will provide Landlord notice of its intent to foreclose its lien and notice that is has foreclosed such lien; (iv) upon a foreclosure or other acquisition of Tenant' s interest in this Lease, such Permitted Mortgagee shall acquire Tenant' s interest in this Lease subject to all of the obligations of Tenant (including all monetary obligations whether or not arising after such foreclosure) and all of the rights of Landlord under this Lease; and (v) any assignment or subletting of the Demised Premises by a purchaser at foreclosure or other assignee of a Permitted Mortgagee shall be subject to the terms of this Article 13. The term **"Permitted Mortgagee"** shall mean a third party institutional lender that is granted a mortgage to secure Tenant' s obligation to pay a commercial loan related to Tenant' s business operations.

13.2 Costs. Tenant will pay to Landlord, as Additional Rent, all costs and expenses Landlord incurs in connection with any Transfer, including, without limitation, reasonable attorneys fees and costs, regardless whether Landlord consents to the Transfer.

ARTICLE 14
DEFAULTS; REMEDIES

14.1 Events of Default. The occurrence of any of the following constitutes an **Event of Default** by Tenant under this Lease:

14.1.1 Failure to Pay Rent. Tenant fails to pay Basic Rent, any monthly installment of Property Expenses or any other Additional Rent amount as and when due and such failure continues for five days after Landlord notifies Tenant.

14.1.2 Failure to Perform. Tenant breaches or fails to perform any of Tenant' s nonmonetary obligations under this Lease and the breach or failure continues for a period of 30 days after Landlord notifies Tenant of Tenant' s breach or failure; provided that if Tenant cannot reasonably cure its breach or failure within a 30 day period, Tenant' s breach or failure is not an Event of Default if Tenant commences to cure its breach or failure within the 30 day period and thereafter diligently pursues the cure and effects the cure within a period of time that does not exceed 60 days after the expiration of the 30 day period. Notwithstanding any contrary language contained in this Section 14.1.2, Tenant is not entitled to any notice or cure period before an uncurable breach of this Lease (or failure) becomes an Event of Default.

14.1.3 Misrepresentation. The existence of any material misrepresentation or omission in any financial statements, correspondence or other information provided to Landlord by or on behalf of Tenant in connection with (a) Tenant' s negotiation or execution of this Lease; (b) Landlord' s evaluation of Tenant as a prospective tenant at the Property; (c) any proposed or attempted Transfer; or (d) any consent or approval Tenant requests under this Lease.

14.1.4 Other Defaults. (a) Tenant makes a general assignment or general arrangement for the benefit of creditors; (b) a petition for adjudication of bankruptcy or for reorganization or rearrangement is filed by Tenant; (c) a petition for adjudication of bankruptcy or for reorganization or rearrangement is filed against Tenant and is not dismissed within 60 days; (d) a trustee or receiver is appointed to take possession of substantially all of Tenant' s assets located at the Premises or of Tenant' s interest in this Lease and possession is not restored to Tenant within 30 days; or (e) substantially all of Tenant' s assets, substantially all of Tenant' s assets located at the Premises or Tenant' s interest in this Lease is subjected to attachment, execution or other judicial seizure not discharged within 30 days. If a court of competent jurisdiction determines that any act described in this section does not constitute an Event of Default, and the court appoints a trustee to take possession of the Premises (or if Tenant remains a debtor in possession of the Premises) and such trustee or Tenant Transfers Tenant' s interest hereunder, then Landlord is entitled to receive, as Additional Rent, the amount by which the Rent (or any other consideration) paid in connection with the Transfer exceeds the Rent otherwise payable by Tenant under this Lease.

14.1.5 Notice Requirements. The notices required by this Section 14.1 are intended to satisfy any and all notice requirements imposed by the Laws and are not in addition to any such requirements.

14.2 Remedies. Upon the occurrence of any Event of Default, Landlord, at any time and from time to time, and without preventing Landlord from exercising any other right or remedy, may exercise any one or more of the following remedies:

14.2.1 Termination of Tenant' s Possession; Re-entry and Reletting Right. Terminate Tenant' s right to possess the Premises by any lawful means with or without terminating this Lease, in which event Tenant will immediately surrender possession of the Premises to Landlord. Unless Landlord specifically states that it is terminating this Lease, Landlord' s termination of Tenant' s right to possess the Premises is not to be construed as an election by Landlord to terminate this Lease or Tenant' s obligations and liabilities under this Lease. In such event, this Lease continues in full force and effect (except for Tenant' s right to possess the Premises) and Tenant continues to be obligated for and must pay all Rent as and when due under this Lease. If Landlord terminates Tenant' s right to possess the Premises, Landlord is not obligated to but may re-enter the Premises and remove all persons and property from the Premises. Landlord may store any property Landlord removes from the Premises in a public warehouse or elsewhere at the cost and for the account of Tenant. Upon such re-entry, Landlord is not obligated to but may relet all or any part of the Premises to a third party or parties for Tenant' s account. Tenant is immediately liable to Landlord for all Re-entry Costs and must pay Landlord the same within five days after Landlord' s notice to Tenant. Landlord may relet the Premises for a period shorter or longer than the remaining Term. If Landlord relets all or any part of the Premises, Tenant will continue to pay Rent when due under this Lease and Landlord will refund to Tenant the Net Rent Landlord actually receives from the reletting up to a maximum amount equal to the Rent Tenant paid that came due after Landlord' s reletting. If the Net Rent Landlord actually receives from reletting exceeds such Rent, Landlord will apply the excess sum to future Rent due under this Lease. Landlord may retain any surplus Net Rent remaining at the expiration of the Term.

14.2.2 Termination of Lease. Terminate this Lease effective on the date Landlord specifies in its termination notice to Tenant. Upon termination, Tenant will immediately surrender possession of the Premises to Landlord. If Landlord terminates this Lease, Landlord may recover from Tenant and Tenant will pay to Landlord on demand all damages Landlord incurs by reason of Tenant' s default, including, without limitation, (a) all Rent due and payable under this Lease as of the effective date of the termination; (b) any amount necessary to compensate Landlord for any detriment proximately caused Landlord by Tenant' s failure to perform its obligations under this Lease or which in the ordinary course would likely result from Tenant' s failure to perform, including, but not limited to, any Re-entry Costs, (c) an amount equal to the difference between the present worth, as of the effective date of the termination, of the Basic Rent for the balance of the Term remaining after the effective date of the termination (assuming no termination) and the present worth, as of the effective date of the termination, of a fair market Rent for the Premises for the same period (as Landlord reasonably determines the fair market Rent) and (d) Property Expenses to the extent Landlord is not otherwise reimbursed for such Property Expenses. For purposes of this section, Landlord will compute present worth by utilizing a discount rate of 8% per annum. Nothing in this section limits or prejudices Landlord' s right to prove and obtain damages in an amount equal to the maximum amount allowed by the Laws, regardless whether such damages are greater than the amounts set forth in this section.

14.2.3 [Intentionally deleted].

14.2.4 Self Help. Perform the obligation on Tenant' s behalf without waiving Landlord' s rights under this Lease, at law or in equity and without releasing Tenant from any obligation under this Lease. Tenant will pay to Landlord, as Additional Rent, all sums Landlord pays and obligations Landlord incurs on Tenant' s behalf under this section.

14.2.5 Other Remedies. Any other right or remedy available to Landlord under this Lease, at law or in equity.

14.3 Costs. Tenant will reimburse and compensate Landlord on demand and as Additional Rent for any actual loss Landlord incurs in connection with, resulting from or related to any breach or default of Tenant under this Lease, regardless whether the breach or default constitutes an Event of Default, and regardless whether suit is commenced or judgment is entered. Such loss includes all reasonable legal fees, costs and expenses (including paralegal fees and other professional fees and expenses) Landlord incurs investigating, negotiating, settling or enforcing any of Landlord' s rights or remedies or otherwise protecting Landlord' s interests under this Lease. Tenant will also indemnify, defend (with counsel reasonably acceptable to Landlord), protect and hold harmless the Landlord Parties from and against all Claims Landlord or any of the other Landlord Parties incurs if Landlord or any of the other Landlord Parties becomes or is made a party to any claim or action (a) instituted by Tenant or by or against any person holding any interest in the Premises by, under or through Tenant; (b) for foreclosure of any lien for labor or material furnished to or for Tenant or such other person; or (c) otherwise arising out of or resulting from any act or omission of Tenant or such other person. In addition to the foregoing, Landlord is entitled to reimbursement of all of Landlord' s fees, expenses and damages, including, but not limited to, reasonable attorneys fees and paralegal and other professional

fees and expenses, Landlord incurs in connection with protecting its interests in any bankruptcy or insolvency proceeding involving Tenant, including, without limitation, any proceeding under any chapter of the Bankruptcy Code; by exercising and advocating rights under Section 365 of the Bankruptcy Code; by proposing a plan of reorganization and objecting to competing plans; and by filing motions for relief from stay. Such fees and expenses are payable on demand, or, in any event, upon assumption or rejection of this Lease in bankruptcy.

14.4 Waiver and Release by Tenant. Tenant waives and releases all Claims Tenant may have resulting from Landlord' s re-entry and taking possession of the Premises by any lawful means and removing and storing Tenant' s property as permitted under this Lease, regardless whether this Lease is terminated, and, to the fullest extent allowable under the Laws, Tenant will release, indemnify, defend (with counsel reasonably acceptable to Landlord), protect and hold harmless the Landlord Parties from and against any and all Claims occasioned thereby. No such reentry is to be considered or construed as a forcible entry by Landlord.

14.5 Landlord' s Default. If Landlord defaults in the performance of any of its obligations under this Lease, Tenant will notify Landlord of the default and Landlord will have 30 days after receiving such notice to cure the default. If Landlord is not reasonably able to cure the default within a 30 day period, Landlord will have an additional reasonable period of time to cure the default as long as Landlord commences the cure within the 30 day period and thereafter diligently pursues the cure. In no event is Landlord liable to Tenant or any other person for consequential, special or punitive damages, including, without limitation, lost profits.

14.6 No Waiver. Except as specifically set forth in this Lease, no failure by Landlord or Tenant to insist upon the other party' s performance of any of the terms of this Lease or to exercise any right or remedy upon a breach thereof, constitutes a waiver of any such breach or of any breach or default by the other party in its performance of its obligations under this Lease. No acceptance by Landlord of full or partial Rent from Tenant or any third party during the continuance of any breach or default by Tenant of Tenant' s performance of its obligations under this Lease constitutes Landlord' s waiver of any such breach or default. Except as specifically set forth in this Lease, none of the terms of this Lease to be kept, observed or performed by a party to this Lease, and no breach thereof, are waived, altered or modified except by a written instrument executed by the other party. One or more waivers by a party to this Lease is not to be construed as a waiver of a subsequent breach of the same covenant, term or condition. No statement on a payment check from a party to this Lease or in a letter accompanying a payment check is binding on the other party. The party receiving the check, with or without notice to the other party, may negotiate such check without being bound to the conditions of any such statement.

ARTICLE 15
CREDITORS; ESTOPPEL CERTIFICATES

15.1 Subordination. This Lease, all rights of Tenant in this Lease, and all interest or estate of Tenant in the Property, is subject and subordinate to the lien of any Mortgage. Tenant, on Landlord' s demand, will

execute and deliver to Landlord or to any other person Landlord designates any instruments, releases or other documents reasonably required to confirm the self-effectuating subordination of this Lease as provided in this section to the lien of any Mortgage. The subordination to any future Mortgage provided for in this section is expressly conditioned upon the mortgagees agreement that as long as Tenant is not in default in the payment of Rent or the performance and observance of any covenant, condition, provision, term or agreement to be performed and observed by Tenant under this Lease, beyond any applicable grace or cure period this Lease provides Tenant, the holder of the Mortgage will not disturb Tenant' s rights under this Lease. The lien of any existing or future Mortgage will not cover Tenant' s moveable trade fixtures or other personal property of Tenant located in or on the Premises.

15.2 Attornment. If any ground lessor, holder of any Mortgage at a foreclosure sale or any other transferee acquires Landlord' s interest in this Lease, the Premises or the Property, Tenant will attorn to the transferee of or successor to Landlord' s interest in this Lease, the Premises or the Property (as the case may be) and recognize such transferee or successor as landlord under this Lease.

Tenant waives the protection of any statute or rule of law that gives or purports to give Tenant any right to terminate this Lease or surrender possession of the Premises upon the transfer of Landlord' s interest.

15.3 Mortgagee Protection Clause. Tenant will give the holder of any Mortgage, by registered mail, a copy of any notice of default Tenant serves on Landlord, provided that Landlord or the holder of the Mortgage previously notified Tenant (by way of notice of assignment of rents and leases or otherwise) of the address of such holder. Tenant further agrees that if Landlord fails to cure such default within the time provided for in this Lease, then Tenant will provide written notice of such failure to such holder and such holder will have an additional 15 days within which to cure the default. If the default cannot be cured within the additional 15 day period, then the holder will have such additional time as may be necessary to effect the cure if, within the 15 day period, the holder has commenced and is diligently pursuing the cure (including without limitation commencing foreclosure proceedings if necessary to effect the cure).

15.4 Estoppel Certificates.

15.4.1 Contents. Upon Landlord' s written request, Tenant will execute, acknowledge and deliver to Landlord a written statement in form satisfactory to Landlord certifying: (a) that this Lease (and all guaranties, if any) is unmodified and in full force and effect (or, if there have been any modifications, that the Lease is in full force and effect, as modified, and stating the modifications); (b) that this Lease has not been canceled or terminated; (c) the last date of payment of Rent and the time period covered by such payment; (d) whether there are then existing any breaches or defaults by Landlord under this Lease known to Tenant, and, if so, specifying the same; (e) specifying any existing claims or defenses in favor of Tenant against the enforcement of this Lease (or of any guaranties); and (f) such other factual statements as Landlord, any lender, prospective lender, investor or purchaser may request. Tenant will deliver the statement to Landlord within 10 Business Days after Landlord' s request. Landlord may give any such statement by Tenant to any lender, prospective lender, investor or purchaser of all or any part of the Property and any such party may conclusively rely upon such statement as true and correct.

15.4.2 Failure to Deliver. If Tenant does not timely deliver the statement referenced in Section 15.4.1 to Landlord, (a) Landlord may execute and deliver the statement to any third party on behalf of Tenant and (b) such failure constitutes an Event of Default under this Lease. Further, if Tenant so fails to timely deliver the statement, Landlord and any lender, prospective lender, investor or purchaser may conclusively presume and rely, except as otherwise represented by Landlord, (i) that the terms and provisions of this Lease have not been changed; (ii) that this Lease has not been canceled or terminated; (iii) that not more than one month' s Rent has been paid in advance; and (iv) that Landlord is not in default in the performance of any of its obligations under this Lease. In such event, Tenant is estopped from denying the truth of such facts.

ARTICLE 16
TERMINATION OF LEASE

16.1 Surrender of Premises. Tenant will surrender the Premises to Landlord at the expiration or earlier termination of this Lease in good order, condition and repair, reasonable wear and tear, permitted Alterations and damage by casualty or condemnation excepted, and will surrender all keys to Landlord or Property Manager at the place then fixed for Tenant' s payment of Basic Rent or as Landlord may otherwise direct. Tenant will also inform Landlord of all combinations on locks, safes and vaults, if any, in the Premises or on the Property. Tenant will at such time remove all of its property from the Premises and, if Landlord so requests, all previously specified Alterations Tenant placed on the Premises. Tenant will promptly repair any damage to the Premises caused by such removal. If Tenant does not surrender the Premises in accordance with this section, Tenant will release, indemnify, defend (with counsel reasonably acceptable to Landlord) protect and hold harmless Landlord from and against any Claim resulting from Tenant' s delay in so surrendering the Premises, including, without limitation, any Claim made by any succeeding occupant founded on such delay. All property of Tenant not removed on or before the last day of the Term is deemed abandoned. Tenant appoints Landlord as Tenant' s agent to remove, at Tenant' s sole cost and expense, all of Tenant' s property from the Premises upon termination of this Lease and to cause its transportation and storage for Tenant' s benefit, all at the sole cost and risk of Tenant, and Landlord will not be liable for damage, theft, misappropriation or loss thereof or in any manner in respect thereto.

16.2 Holding Over. If Tenant possesses the Premises after the Term expires or is otherwise terminated without executing a new lease but with Landlord' s written consent, Tenant is deemed to be occupying the Premises as a tenant from month-to-month, subject to all provisions, conditions and obligations of this Lease applicable to a month-to-month tenancy, except that (a) Basic Rent will equal the greater of Basic Rent payable by Tenant in the last Lease Year of the Term or Landlord' s then current basic rent for the Premises according to Landlord' s rental rate schedule for prospective tenants, and (b) either Landlord or Tenant may terminate the month-to-month tenancy at any time upon 30 days prior written notice to the other party. If Tenant possesses the Premises after the Term expires or is otherwise terminated without executing a new lease and without Landlord' s written consent, Tenant is deemed to be occupying the Premises without

claim of right (but subject to all terms and conditions of this Lease) and, in addition to Tenant' s liability for failing to surrender possession of the Premises as provided in Section 16.1, Tenant will pay Landlord a charge for each day of occupancy after expiration of the Term in an amount equal to 150% of Tenant' s then-existing Rent (on a daily basis).

ARTICLE 17
ADDITIONAL PROVISIONS

17.1 Initial Improvements.

17.1.1 Building Improvements. Landlord will provide, at no cost to Tenant, the Building Improvements in accordance with the Work Letter.

17.1.2 Tenant Improvements. Landlord will cause to be constructed, at Tenant' s sole cost and expense, all Tenant Improvements in accordance with the Work Letter.

17.2 Parking. There will be no monthly parking charge for parking at the Property. Parking at the Property by Tenant is subject to the other provisions of this Lease, including without limitation, the Building Rules. In no event will Landlord be liable for any loss, damage or theft of, to or from any vehicle at the Property.

ARTICLE 18
MISCELLANEOUS PROVISIONS

18.1 Notices. All Notices must be in writing and must be sent by personal delivery, United States registered or certified mail (postage prepaid) or by an independent overnight courier service, addressed to the addresses specified in the Basic Terms or at such other place as either party may designate to the other party by written notice given in accordance with this section. Notices given by mail are deemed delivered within three Business Days after the party sending the Notice deposits the Notice with the United States Post Office. Notices delivered by courier are deemed delivered on the next Business Day after the day the party delivering the Notice timely deposits the Notice with the courier for overnight (next day) delivery.

18.2 Transfer of Landlord' s Interest. If Landlord Transfers any interest in the Premises for any reason other than collateral security purposes, the transferor is automatically relieved of all obligations on the part of Landlord accruing under this Lease from and after the date of the Transfer, provided that the transferor will deliver to the transferee any funds the transferor holds in which Tenant has an interest (such as a security deposit). Landlord' s covenants and obligations in this Lease bind each successive Landlord only during and with respect to its respective period of ownership. However, notwithstanding any such Transfer, the transferor remains entitled to the benefits of Tenant' s indemnity and insurance obligations (and similar obligations) under this Lease with respect to matters arising or accruing during the transferors period of ownership.

18.3 Successors. The covenants and agreements contained in this Lease bind and inure to the benefit of Landlord, its successors and assigns, bind Tenant and its successors and assigns and inure to the benefit of Tenant and its permitted successors and assigns.

18.4 Captions and Interpretation. The captions of the articles and sections of this Lease are to assist the parties in reading this Lease and are not a part of the terms or provisions of this Lease. Whenever required by the context of this Lease, the singular includes the plural and the plural includes the singular.

18.5 Relationship of Parties. This Lease does not create the relationship of principal and agent, or of partnership, joint venture, or of any association or relationship between Landlord and Tenant other than that of landlord and tenant.

18.6 Entire Agreement; Amendment. The Basic Terms and all exhibits, addenda and schedules attached to this Lease are incorporated into this Lease as though fully set forth in this Lease and together with this Lease contain the entire agreement between the parties with respect to the improvement and leasing of the Premises. All preliminary and contemporaneous negotiations, including, without limitation, any letters of intent or other proposals and any drafts and related correspondence, are merged into and superseded by this Lease. No subsequent alteration, amendment, change or addition to this Lease (other than to the Building Rules) is binding on Landlord or Tenant unless it is in writing and signed by the party to be charged with performance.

18.7 Severability. If any covenant, condition, provision, term or agreement of this Lease is, to any extent, held invalid or unenforceable, the remaining portion thereof and all other covenants, conditions, provisions, terms and agreements of this Lease, will not be affected by such holding, and will remain valid and in force to the fullest extent permitted by law.

18.8 Landlord' s Limited Liability. Tenant will look solely to Landlord' s interest in the Property for recovering any judgment or collecting any obligation from Landlord or any other Landlord Party. Tenant agrees that neither Landlord nor any other Landlord Party will be personally liable for any judgment or deficiency decree.

18.9 Survival. All of Tenant' s obligations under this Lease (together with interest on payment obligations at the Maximum Rate) accruing prior to expiration or other termination of this Lease survive the expiration or other termination of this Lease. Further, all of Tenant' s release, indemnification, defense and hold harmless obligations under this Lease survive the expiration or other termination of this Lease, without limitation.

18.10 Attorneys Fees. If either Landlord or Tenant commences any litigation or judicial action to determine or enforce any of the provisions of this Lease, the prevailing party in any such litigation or judicial action is entitled to recover all of its costs and expenses (including, but not limited to, reasonable attorneys fees, costs and expenditures) from the nonprevailing party.

18.11 Brokers. Landlord and Tenant each represents and warrants to the other that it has not had any dealings with any realtors, brokers, finders or agents in connection with this Lease (except as may be specifically set forth in the Basic Terms) and agrees to release, indemnify, defend and hold the other harmless from and against any Claim based on the failure or alleged failure to pay any realtors, brokers, finders or agents (other than any brokers specified in the Basic Terms) and from any cost, expense or liability for any compensation, commission or changes claimed by any realtors, brokers, finders or agents (other than any brokers specified in the Basic Terms) claiming by, through or on behalf of it with respect to this Lease or the negotiation of this Lease. Landlord will pay any brokers named in the Basic Terms in accordance with the applicable listing agreement for the Property.

18.12 Governing Law. This Lease is governed by, and must be interpreted under, the internal laws of the State. Any suit arising from or relating to this Lease must be brought in the County; Landlord and Tenant waive the right to bring suit elsewhere.

18.13 Time is of the Essence. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

18.14 Joint and Several Liability. All parties signing this Lease as Tenant of this Lease are jointly and severally liable for performing all of Tenant' s obligations under this Lease.

18.15 Tenant' s Waiver. Any claim Tenant may have against Landlord for default in performance of any of Landlord' s obligations under this Lease is deemed waived unless Tenant notifies Landlord of the default within 30 days after Tenant obtained actual knowledge of the default.

18.16 Tenant' s Organization Documents; Authority. If Tenant is an entity, Tenant, within 10 days after Landlord' s written request, will deliver to Landlord (a) Certificate(s) of Good Standing from the state of formation of Tenant and, if different, the State, confirming that Tenant is in good standing under the laws governing formation and qualification to transact business in such state(s); and (b) a copy of Tenant' s organizational documents and any amendments or modifications thereof, certified as true and correct by an appropriate official of Tenant. Tenant and each individual signing this Lease on behalf of Tenant represents and warrants that they are duly authorized to sign on behalf of and to bind Tenant and that this Lease is a duly authorized obligation of Tenant.

18.17 Provisions are Covenants and Conditions. All provisions of this Lease, whether covenants or conditions, are deemed both covenants and conditions.

18.18 Force Majeure. If Landlord is delayed or prevented from performing any act required in this Lease (excluding, however, the payment of money) by reason of Tenant Delay or Force Majeure, Landlord' s performance of such act is excused for the longer of the period of the delay or the period of delay caused by such Tenant Delay or Force Majeure and the period of the performance of any such act will be extended for a period equivalent to such longer period.

18.19 Management. Property Manager is authorized to manage the Property. Tenant has selected and approved Property Manager. Promptly after the effective date of this Lease, Landlord will enter into negotiations with Property Manager over the terms of a management agreement but will not enter into the management agreement unless the terms thereof are acceptable to Landlord and Tenant. The Management Agreement shall expressly recognize the right of Landlord or Tenant to terminate the Management Agreement if the Property Manager fails to properly perform its obligations thereunder. The Property Manager shall act as Landlord' s agent for managing and operating the Property. If Property Manager is terminated for any reason, Tenant shall have the right to approve the replacement Property Manager which approval shall not be unreasonably withheld or delayed.

18.20 Quiet Enjoyment. Landlord covenants that Tenant will quietly hold, occupy and enjoy the Premises during the Term, subject to the terms and conditions of this Lease, free from molestation or hindrance by Landlord or any person claiming by, through or under Landlord, if Tenant pays all Rent as and when due and keeps, observes and fully satisfies all other covenants, obligations and agreements of Tenant under this Lease.

18.21 No Recording. Tenant will not record this Lease or a Memorandum of this Lease without Landlord' s prior written consent, which consent Landlord may grant or withhold in its sole and absolute discretion.

18.22 Nondisclosure of Lease Terms. The terms and conditions of this Lease constitute proprietary information of Landlord that Tenant will keep confidential. Tenant, without Landlord' s consent (which consent Landlord may grant or withhold in its sole and absolute discretion), will not directly or indirectly disclose the terms and conditions of this Lease to any other person or entity other than Tenant' s employees and agents who have a legitimate need to know such information (and who will also keep the same in confidence).

18.23 Construction of Lease and Terms. The terms and provisions of this Lease represent the results of negotiations between Landlord and Tenant, each of which are sophisticated parties and each of which has been represented or been given the opportunity to be represented by counsel of its own choosing, and neither of which has acted under any duress or compulsion, whether legal, economic or otherwise. Consequently, the terms and provisions of this Lease must be interpreted and construed in accordance with their usual and customary meanings, and Landlord and Tenant each waive the application of any rule of law that ambiguous or conflicting terms or provisions contained in this Lease are to be interpreted or construed against the party who prepared the executed Lease or any earlier draft of the same. Landlord' s submission of this instrument to Tenant for examination or signature by Tenant does not constitute a reservation of or an option to lease and is not effective as a lease or otherwise until Landlord and Tenant both execute and deliver this Lease. The parties agree that, regardless of which party provided the initial form of this Lease, drafted or modified one or more provisions of this Lease, or compiled, printed or copied this Lease, this Lease is to be construed solely as an offer from Tenant to lease the Premises, executed by Tenant and provided to Landlord for acceptance on the terms set forth in this Lease, which acceptance and the existence of a binding agreement between Tenant and Landlord may then be evidenced only by Landlord' s execution of this Lease. In the event that any provision of this Lease conflicts with any provision of the Work Letter, the provisions of the Work Letter will control.

Landlord and Tenant each caused this Lease to be executed and delivered by its duly authorized representative to be effective as of the Effective Date.

LANDLORD:

OPUS WEST LP,

a Delaware limited partnership

By: Opus West Corporation,
a Minnesota corporation,
its general partner

By: _____

Name: _____

Title: _____

TENANT:

HORIZON HEALTH CORPORATION,

a Delaware corporation

By: _____

Name: _____

Title: _____

EXHIBIT "A"

DEFINITIONS

Additional Rent means any charge, fee or expense (other than Basic Rent) payable by Tenant under this Lease, however denoted.

Affiliate means any person or corporation that, directly or indirectly, controls, is controlled by or is under common control with Tenant. For purposes of this definition, control means possessing the power to direct or cause the direction of the management and policies of the entity by the ownership of a majority of the voting securities of the entity.

Alteration means any change, alteration, addition or improvement to the Premises or Property.

Bankruptcy Code means the United States Bankruptcy Code as the same now exists and as the same may be amended, including any and all rules and regulations issued pursuant to or in connection with the United States Bankruptcy Code now in force or in effect after the Effective Date.

Basic Rent means the basic rent amounts specified in the Basic Terms.

Basic Terms means the terms of this Lease identified as the Basic Terms before Article 1 of the Lease.

BOMA Standards means the Standard Method for Measuring Floor Area in Office Buildings approved June 7, 1996, by the American National Standards Institute, Inc. and the Building Owners and Managers Association International (ANSI/BOMA Z65.1-1996).

Building means that certain office building to be constructed on the Land in accordance with the Work Letter attached to this Lease as **EXHIBIT C.**

Building Improvements means the base building improvements to the Premises.

Building Rules means those certain rules attached to this Lease as **EXHIBIT E,** as Landlord may amend the same from time to time.

Business Days means any day other than Saturday, Sunday or a legal holiday in the State.

Business Hours means Monday through Friday from 7:00 a.m. to 6:00 p.m. and on Saturdays from 8:00 a.m. to 1:00 p.m., excluding holidays.

City means Lewisville, Texas.

Claims means all claims, actions, demands, liabilities, damages, costs, penalties, forfeitures, losses or expenses, including, without limitation, reasonable attorneys fees and the costs and expenses of enforcing any indemnification, defense or hold harmless obligation under the Lease.

Commencement Date means the Delivery Conditions (as set forth in Section 7 of the Work Letter) are satisfied.

Commencement Date Memorandum means the form of memorandum attached to the Lease as **EXHIBIT D.**

Condemning Authority means any person or entity with a statutory or other power of eminent domain.

"**Contractor**" means Opus West Construction Corporation.

County means Denton County, Texas.

Delivery Date means the target date for Landlord' s delivery of the Premises to Tenant, which is the delivery date specified in the Basic Terms.

Effective Date means the date set forth on the first page of this Lease.

Event of Default means the occurrence of any of the events specified in Section 14.1 of the Lease.

Force Majeure means acts of God; strikes; lockouts; labor troubles; inability to procure materials; governmental laws or regulations; casualty, orders or directives of any legislative, administrative, or judicial body or any governmental department; inability to obtain any governmental licenses, permissions or authorities (despite commercially reasonable pursuit of such licenses, permissions or authorities); acts of war, terrorism and/or bioterrorism; and other similar or dissimilar causes beyond Landlord' s reasonable control.

Hazardous Materials means any of the following, in any amount: (a) any petroleum or petroleum product, asbestos in any form, urea formaldehyde and polychlorinated biphenyls; (b) any radioactive substance; (c) any toxic, infectious, reactive, corrosive, ignitable or flammable chemical or chemical compound; and (d) any chemicals, materials or substances, whether solid, liquid or gas, defined as or included in the definitions of hazardous substances, hazardous wastes, hazardous materials, extremely hazardous wastes, restricted hazardous wastes, toxic substances, toxic pollutants, solid waste, or words of similar import in any federal, state or local statute, law, ordinance or regulation now existing or existing on or after the Effective Date as the same may be interpreted by government offices and agencies.

Hazardous Materials Laws means any federal, state or local statutes, laws, ordinances or regulations now existing or existing after the Effective Date that control, classify, regulate, list or define Hazardous Materials.

Improvement Allowance means the amount (per rentable square foot of the Premises) specified in the Basic Terms for the cost of designing and installing the Tenant Improvements.

Improvements means, collectively, the Building Improvements and the Tenant Improvements.

Land means that certain parcel of land legally described on the attached **EXHIBIT B.**

Landlord means only the owner or owners of the Property at the time in question.

Landlord Parties means Landlord and Property Manager and their respective officers, directors, partners, shareholders, members and employees.

Landlord' s Management Fee means a management fee payable by Tenant to Landlord equal to three percent (3%) of Operating Expenses; provided that no Landlord' s Management Fee shall be charged on the management fee payable to the Property Manager.

Laws means any law, regulation, rule, order, statute or ordinance of any governmental or private entity in effect on or after the Effective Date and applicable to the Property or the use or occupancy of the Property, including, without limitation, Hazardous Materials Laws, Building Rules and Permitted Encumbrances.

Lease means this Office Lease Agreement, as the same may be amended or modified after the Effective Date.

Lease Year means each consecutive 12 month period during the Term, commencing on the Commencement Date, except that if the Commencement Date is not the first day of a calendar month, then the first Lease Year is a period beginning on the Commencement Date and ending on the last day of the calendar month in which the Commencement Date occurs plus the following 12 consecutive calendar months.

Management Agreement means a management agreement between Landlord and Property Manager, the terms of which have been approved by Tenant.

Maximum Rate means interest at a rate equal to the lesser of (a) 18% per annum or (b) the maximum interest rate permitted by law.

Mortgage means any mortgage, deed of trust, security interest or other security document of like nature that at any time may encumber all or any part of the Property and any replacements, renewals, amendments, modifications, extensions or refinancings thereof, and each advance (including future advances) made under any such instrument.

Net Rent means all rental Landlord actually receives from any reletting of all or any part of the Premises, less any indebtedness from Tenant to Landlord other than Rent (which indebtedness is paid first to Landlord) and less the Re-entry Costs (which costs are paid second to Landlord).

Notices means all notices, demands or requests that may be or are required to be given, demanded or requested by either party to the other as provided in the Lease.

Operating Expenses means all expenses Landlord incurs in connection with maintaining, repairing and operating the Property, as determined by Landlord' s accountant in accordance with generally accepted accounting principles consistently followed, including, but not limited to, the following: insurance premiums and deductible amounts under any insurance policy (to the extent paid by Landlord); maintenance and repair costs; steam, electricity, water, sewer, gas and other utility charges to the extent not separately metered; fuel; lighting; window washing; janitorial services; trash and rubbish removal; property association fees and dues and all payments under any Permitted Encumbrance (except Mortgages) affecting the Property; management fees and other expenses charged by Property Manager under the Management Agreement; Landlord' s Management Fee; wages payable to persons at the level of manager

and below whose duties are connected with maintaining and operating the Property (but only for the portion of such persons time allocable to the Property), together with all payroll taxes, unemployment insurance, vacation allowances and disability, pension, profit sharing, hospitalization, retirement and other so-called fringe benefits paid in connection with such persons (allocated in a manner consistent with such persons wages); amounts paid to contractors or subcontractors for work or services performed in connection with maintaining and operating the Property; all costs of uniforms, supplies and materials used in connection with maintaining, repairing and operating the Property; any expense imposed upon Landlord, its contractors or subcontractors pursuant to law or pursuant to any collective bargaining agreement covering such employees; all services, supplies, repairs, replacements or other expenses for maintaining and operating the Property; costs of complying with Laws; and such other expenses as may ordinarily be incurred in connection with maintaining and operating an office complex similar to the Property. The term Operating Expenses also includes expenses Landlord incurs in connection with public sidewalks adjacent to the Property, any pedestrian walkway system (either above or below ground) and any other public facility to which Landlord or the Property is from time to time subject in connection with operating the Property. The term "Operating Expenses" does not include the cost of any capital improvement to the Property other than replacements required for normal maintenance and repair; the cost of repairs, restoration or other work occasioned by fire, windstorm or other insured casualty other than the amount of any deductible under any insurance policy (regardless whether the deductible is payable by Landlord in connection with a capital expenditure); expenses Landlord incurs in connection with leasing or procuring tenants or renovating space for new or existing tenants; legal expenses incident to Landlord' s enforcement of any lease; interest or principal payments on any mortgage or other indebtedness of Landlord; or allowance or expense for depreciation or amortization. Notwithstanding the foregoing, if Landlord installs equipment in, or makes improvements or alterations to, the Property to reduce energy, maintenance or other costs, or to comply with any Laws, Landlord may include in Operating Expenses reasonable charges for reasonable charges for depreciation of the investment so as to amortize the investment over the reasonable life of the equipment, improvement or alteration on a straight line basis.

Permitted Encumbrances means all Mortgages, liens, easements, declarations, encumbrances, covenants, conditions, reservations, restrictions and other matters now or after the Effective Date affecting title to the Property.

Premises means that all of the floor area of the Building.

Property means, collectively, the Land, Building and all other improvements on the Land.

Property Expenses means the total amount of Property Taxes and Operating Expenses due and payable with respect to the Property during any calendar year of the Term.

Property Manager means the Property Manager specified in the Basic Terms or any other agent Landlord may appoint from time to time to manage the Property, subject to the terms of this Lease.

Property Taxes means any general real property tax, improvement tax, assessment, special assessment, reassessment, commercial rental tax, tax, in lieu tax, levy, charge, penalty or similar imposition imposed by any authority having the direct or indirect power to tax, including but not limited to, (a) any city, county, state or federal entity, (b) any school, agricultural, lighting,

drainage or other improvement or special assessment district, (c) any governmental agency, or (d) any private entity having the authority to assess the Property under any of the Permitted Encumbrances. The term Property Taxes includes all charges or burdens of every kind and nature Landlord incurs in connection with using, occupying, owning, operating, leasing or possessing the Property, without particularizing by any known name and whether any of the foregoing are general, special, ordinary, extraordinary, foreseen or unforeseen; any tax or charge for fire protection, street lighting, streets, sidewalks, road maintenance, refuse, sewer, water or other services provided to the Property. The term Property Taxes does not include Landlord' s state or federal income, franchise, estate or inheritance taxes or any taxes (such as, by way of example but not limitation, impact fees and permitting fees) that are required to be paid by Landlord pursuant to the Work Letter. If Landlord is entitled to pay any of the above listed assessments or charges in installments over a period of two or more calendar years, then only such installments of the assessments or charges (including interest thereon) as are actually due in a calendar year will be included within the term Property Taxes for such calendar year. Property Taxes for any calendar year shall be net of any tax abatements received by Landlord for such calendar year.

Punch List means a list of Tenant Improvements items that were either (a) not properly completed by Contractor or (b) in need of repair, which list is prepared in accordance with the Work Letter.

Re-entry Costs means all costs and expenses Landlord incurs re-entering or reletting all or any part of the Premises, including, without limitation, all costs and expenses Landlord incurs (a) maintaining or preserving the Premises after an Event of Default; (b) recovering possession of the Premises, removing persons and property from the Premises (including, without limitation, court costs and reasonable attorneys fees) and storing such property; (c) reletting, renovating or altering the Premises; and (d) real estate commissions, advertising expenses and similar expenses paid or payable in connection with reletting all or any part of the Premises. Re-entry Costs also includes the value of free rent and other concessions Landlord gives in connection with re-entering or reletting all or any part of the Premises.

Rent means, collectively, Basic Rent and Additional Rent.

Rent Commencement Date means the earlier of (a) the Commencement Date; or (b) the date Tenant commences business operations in the Premises.

State means the State of Texas.

Structural Alterations means any Alterations involving the structural, mechanical, electrical, plumbing, fire/life safety or heating, ventilating and air conditioning systems of the Building.

Substantial Completion means the date upon which the Delivery Conditions referred to in Sections 7.1., 7.3 and 7.4 of the Work Letter have been satisfied.

Taking means the exercise by a Condemning Authority of its power of eminent domain on all or any part of the Property, either by accepting a deed in lieu of condemnation or by any other manner.

Tenant means the tenant identified in the Lease and such tenants permitted successors and assigns. In any provision relating to the conduct, acts or omissions of Tenant, the term Tenant includes the tenant identified in the Lease and such tenants agents, employees, contractors, invitees, successors, assigns and others using the Premises or on the Property with Tenant' s expressed or implied permission.

Tenant Delays means any delays caused or contributed to by Tenant, including, without limitation, with respect to Tenant Improvements, Tenant' s failure to submit a space plan for Tenant Improvements, Tenant' s failure to timely approve the Final Plans and any delays caused by any revisions Tenant proposes to the Final Plans.

Tenant Improvements means all initial improvements to the Premises (other than Building Improvements) to be installed by Landlord and paid for by Tenant, subject to the Improvement Allowance, as more particularly set forth in the Work Letter.

Tenant Improvements Costs means all of Landlord' s direct and indirect costs of causing the Tenant Improvements to be designed and installed, plus five percent (5%) of the sum of all such direct and indirect costs for the general contractor' s overhead and profit, including without limitation, construction costs and all costs the general contractor incurs in connection with obtaining permits for the Tenant Improvements.

Term means the initial term of this Lease specified in the Basic Terms and, if applicable, any renewal term then in effect.

Transfer means an assignment, mortgage, pledge, transfer, sublease or other encumbrance or conveyance (voluntarily, by operation of law or otherwise) of this Lease or the Premises or any interest in this Lease or the Premises. The term Transfer also includes any assignment, mortgage, pledge, transfer or other encumbering or disposal (voluntarily, by operation of law or otherwise) of any ownership interest in Tenant that results or could result in a change of control of Tenant.

Warranty Terms means, collectively, the punch list and construction warranty provisions of Section 9 of the Work Letter.

Exhibit 31.1

CERTIFICATION

I, James K. Newman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Horizon Health Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: July 11, 2005

/s/ JAMES K. NEWMAN

James K. Newman

Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, John E. Pitts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Horizon Health Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: July 11, 2005

/s/ JOHN E. PITTS

John E. Pitts

Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Horizon Health Corporation (the "Company") on Form 10-Q for the period ending May 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES K. NEWMAN

James K. Newman

Chairman and Chief Executive Officer
July 11, 2005

/s/ JOHN E. PITTS

John E. Pitts

Chief Financial Officer
July 11, 2005