
ARCADIAN MANAGEMENT SERVICES, INC.
SERIES C PREFERRED STOCK PURCHASE AGREEMENT

August 17, 2005

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SCHEDULES AND EXHIBITS:

Schedule A – Investors

Schedule B – Schedule of Exceptions

Exhibit A – Amended and Restated Certificate of Incorporation

Exhibit B – Stock Ownership

Exhibit C – Second Amended and Restated Investors Rights Agreement

Exhibit D – Registration Rights Agreement

Exhibit E – Form of Opinion of Hogan & Hartson L.L.P.

Exhibit F – Form of Promissory Note

Exhibit G – Form of Warrant

SERIES C PREFERRED STOCK PURCHASE AGREEMENT

This Series C Preferred Stock Purchase Agreement (the "Agreement") is made as of the 17th day of August, 2005, by and among Arcadian Management Services, Inc., a Delaware corporation (the "Company"), and the investors listed on Schedule A attached hereto and incorporated herein by this reference (each, an "Investor" and collectively, the "Investors").

WHEREAS, the Company desires to issue and sell to the Investors, and the Investors desire to purchase from the Company, shares of the Series C Preferred Stock (as defined below) of the Company on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises hereinafter set forth, the parties hereto agree as follows:

1. PURCHASE AND SALE OF SERIES C PREFERRED STOCK.

1.1. Sale and Issuance of Series C Preferred Stock.

(a) On or prior to the Closing (as defined below), the Company shall adopt and file with the Delaware Secretary of State the Amended and Restated Certificate of Incorporation, substantially in the form attached hereto as Exhibit A and incorporated herein by this reference (the "Restated Certificate").

(b) Subject to the terms and conditions of this Agreement, each Investor agrees, severally, to purchase at the Closing and the Company agrees to sell and issue to each Investor at the Closing, that number of shares of the Series C Preferred Stock, par value \$.001 per share (the "Series C Preferred Stock") of the Company set forth opposite each Investor's name on Schedule A attached hereto for a purchase price per share of \$7.156.

1.2. Closing.

The purchase and sale of the Series C Preferred Stock shall take place at the offices of Hogan & Hartson L.L.P., 111 South Calvert Street, Suite 1600, Baltimore, Maryland 21202 at 10:00 a.m. on the date hereof, or at such other time and place as the Company and the Investors mutually agree upon orally or in writing (which time and place are designated as the "Closing"). At the Closing, the Company shall deliver to each Investor a certificate representing the Series C Preferred Stock that such Investor is purchasing, against payment of the purchase price therefor by check or wire transfer or any combination thereof.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company hereby represents and warrants to each Investor that, except as set forth on a Schedule of Exceptions (the "Schedule of Exceptions") attached hereto as Schedule B and incorporated herein by this reference, specifically identifying the relevant subsection hereof, which exceptions shall be deemed to be representations and warranties as if made hereunder:

2.1. Organization, Good Standing and Qualification.

The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted, and to execute and deliver this Agreement, the Investors Rights Agreement (as defined below) and the Registration Rights Agreement (as defined below). The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its business or properties.

2.2. Capitalization and Voting Rights.

The authorized capital of the Company consists, or will consist immediately prior to the Closing, of 10,000,000 shares of Common Stock, par value \$.001 per share (the "Common Stock"), of which 2,152,041 shares are issued and outstanding, and 5,645,800 shares of Preferred Stock, par value \$.001 per share (the "Preferred Stock"), of which: 850,000 shares have been designated as Series A Preferred Stock, par value \$.001 per share (the "Series A Preferred Stock"), 850,000 of which are issued and outstanding; 1,620,800 shares have been designated as Series B Preferred Stock, par value \$.001 per share (the "Series B Preferred Stock"), 1,620,778 of which are issued and outstanding; 450,000 shares have been designated as Series B-1 Preferred Stock, par value \$.001 per share (the "Series B-1 Preferred Stock"), all of which are issued and outstanding; and of which 2,725,000 shares have been designated as Series C Preferred Stock, none of which are issued and outstanding and up to 2,693,544 of which may be sold pursuant to this Agreement. The rights, privileges and preferences of the Series C Preferred Stock will be as set forth in the Restated Certificate. The outstanding shares of Common Stock, Series A Preferred Stock, Series B Preferred Stock and Series B-1 Preferred Stock, options to purchase shares of Common Stock and warrants to purchase Common Stock are owned by, or have been issued to, the individuals and in the numbers as set forth on Exhibit B attached hereto and incorporated herein by this reference. The outstanding shares of Common Stock, Series A Preferred Stock, Series B Preferred Stock and Series B-1 Preferred Stock are all duly and validly authorized and issued, fully paid and nonassessable, and were issued in accordance

with the registration or qualification provisions of the Securities Act of 1933, as amended (the "Act"), and any relevant state securities laws or pursuant to valid exemptions therefrom. Each share of Series A Preferred Stock, Series B Preferred Stock and Series B-1 Preferred Stock is convertible into one share of Common Stock and the consummation of the transactions contemplated hereunder will not result in any anti-dilution adjustment or other similar adjustment to the outstanding shares of Series A Preferred Stock, Series B Preferred Stock and Series B-1 Preferred Stock. Except for (i) the conversion privileges of the Series A Preferred Stock, the Series B Preferred Stock, the Series B-1 Preferred Stock and the Series C Preferred Stock to be issued under this Agreement, (ii) the rights provided in Sections 3 and 4 of the Second Amended and Restated Investors Rights Agreement, dated as of the date hereof, between the Company and the investors named therein, substantially in the form attached hereto as Exhibit C (the "Investors Rights Agreement"), (iii) the rights provided in the Registration Rights Agreement, dated as of the date hereof, by and among the Company and the Investors, substantially in the form attached hereto as Exhibit D (the "Registration Rights Agreement"), (iv) currently outstanding options to purchase 437,961 shares of Common Stock granted to certain directors, officers, employees and consultants pursuant to the 1997 Equity Incentive Plan of the Company (the "Equity Incentive Plan"), and (v) warrants to purchase 75,000 shares of Common Stock, there are not outstanding any options, warrants, rights (including conversion or preemptive rights) or agreements for the purchase or acquisition from the Company of any shares of its capital stock. The Equity Incentive Plan has been properly approved by the Board of Directors and Stockholders of the Company, and all options or Common Stock issued thereunder have been issued in compliance with applicable federal and state securities laws. In addition to the aforementioned options, the Company has reserved an additional 743,998 shares of its Common Stock for purchase upon exercise of options to be granted in the future under the Equity Incentive Plan. The Company is not a party or subject to any agreement or understanding, and, to the knowledge of the Company, there is no agreement or understanding between any persons and/or entities, which affects or relates to the voting or giving of written consents with respect to any security or by a director of the Company. Except as set forth on the Schedule of Exceptions, all options granted and Common Stock issued vest as follows: twenty-five percent (25%) of the shares vest one (1) year following the vesting commencement date, with the remaining seventy-five percent (75%) vesting in equal monthly installments over the next three (3) years. Except as set forth on the Schedule of Exceptions, no stock plan, stock purchase, stock option or other agreement or understanding between the Company and any holder of any equity securities or rights to purchase equity securities provides for acceleration or other changes in the vesting provisions or other terms of such agreement or understanding as the result of any merger, consolidated sale of stock or assets, change in control or other similar transaction by the Company. The Company has not made any representations regarding equity incentives to any officer, employee,

director or consultant that are inconsistent with the share amounts and terms set forth on Schedule B hereto. Except as set forth on the Schedule of Exceptions, all outstanding shares of Common Stock and Preferred Stock are subject to a market standoff or "lockup" agreement of not less than 180 days following the Company's initial public offering.

2.3. Subsidiaries.

The Company does not presently own or control, directly or indirectly, any interest in any other corporation, association or other business entity. The Company is not a participant in any joint venture, partnership or similar arrangement. Since its inception, the Company has not consolidated or merged with, acquired all or substantially all of the assets of, or acquired the stock of or any interest in any corporation, partnership, association, or other business entity.

2.4. Authorization.

All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement, the Investors Rights Agreement and the Registration Rights Agreement, the performance of all obligations of the Company hereunder and thereunder and the authorization, issuance (or reservation for issuance), sale and delivery of the Series C Preferred Stock being sold hereunder and the Common Stock issuable upon conversion of the Series C Preferred Stock has been taken, and this Agreement, the Investors Rights Agreement and the Registration Rights Agreement constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) to the extent the indemnification provisions contained in the Investors Rights Agreement or the Registration Rights Agreement may be limited by applicable federal or state securities laws.

2.5. Valid Issuance of Series C Preferred and Common Stock.

The Series C Preferred Stock that is being purchased by the Investors hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable, and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Investors Rights Agreement and under applicable state and federal securities laws. The Common Stock issuable upon conversion of the Series C Preferred Stock purchased under this Agreement has been duly and validly reserved for issuance and, upon issuance in accordance

with the terms of the Restated Certificate, will be duly and validly issued, fully paid and nonassessable and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Investors Rights Agreement and under applicable state and federal securities laws. Based in part upon the representations of the Investors in Section 3 of this Agreement, and subject to Section 2.6 below, the Common Stock issuable upon conversion of the Series C Preferred Stock will be issued in compliance with the Securities Act and all applicable federal and state securities laws.

2.6. Governmental Consents.

No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement, except for (i) the filing pursuant to Section 25102(f) of the California Corporate Securities Law of 1968, as amended, and the rules thereunder, which filing will be effected within fifteen (15) days of the sale of the Series C Preferred Stock hereunder, (ii) the filings (if any) pursuant to the securities laws of any state (other than California) in which any Investor is located and (iii) the filing of a Form D with the Securities and Exchange Commission.

2.7. Offering.

Subject in part to the truth and accuracy of representations and warranties of each Investor set forth in Section 3 below, the offer, sale and issuance of the Series C Preferred Stock as contemplated by this Agreement are exempt from the registration requirements of the Act, and neither the Company nor any authorized agent acting on its behalf will take any action hereafter that would cause the loss of such exemption.

2.8. Litigation.

There is no action, suit, proceeding or investigation pending or currently threatened against the Company that questions the validity of this Agreement, the Investors Rights Agreement or the Registration Rights Agreement, or the right of the Company to enter into such agreements, or to consummate the transactions contemplated hereby or thereby, or that might result, either individually or in the aggregate, in any material adverse changes in the assets, condition, affairs or prospects of the Company, financially or otherwise, or any change in the current equity ownership of the Company, nor is the Company aware that there is any basis for the foregoing. The foregoing includes, without limitation, actions, suits, proceedings or investigations pending or threatened involving current employees, officers, directors or consultants of the Company or the prior

employment of any of the employees, officers, directors or consultants of the Company, their use in connection with the business of the Company of any information or techniques allegedly proprietary to any of their former employers or their obligations under any agreements with prior employers. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or that the Company intends to initiate.

2.9. Patents; and Trademarks.

To the knowledge of the Company, the Company has sufficient title and ownership of all patents, trademarks, service marks, trade names, copyrights, trade secrets, information, proprietary rights and processes necessary for its business as now conducted and proposed to be conducted without any conflict with or infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information, proprietary rights and processes of any other person or entity. The Company has not received any communications alleging that the Company has violated or, by conducting its business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity. The Company is not aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of his or her best efforts to promote the interests of the Company or that would conflict with the business of the Company as proposed to be conducted. Neither the execution nor delivery of this Agreement, the Investors Rights Agreement or the Registration Rights Agreement, nor the carrying on of the business of the Company by the employees of the Company, nor the conduct of the business of the Company as proposed, will, to the knowledge of the Company, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees is now obligated. The Company does not believe it is or will be necessary to utilize any inventions of any of its employees (or people it currently intends to hire) made prior to their employment by the Company.

2.10. Compliance with Other Instruments.

The Company is not in violation or default in any material respect of any provision of its Restated Certificate or Bylaws, or in any material respect of any instrument, judgment, order, writ, decree or contract to which it is a party or by

which it is bound, or, to the knowledge of the Company, of any provision of any federal or state statute, rule or regulation applicable to the Company. The execution, delivery and performance of this Agreement, the Investors Rights Agreement and the Registration Rights Agreement, and the consummation of the transactions contemplated hereby and thereby will not result in any such violation or be in conflict with or constitute, with or without the passage of time and giving of notice, either a default under any such provision, instrument, judgment, order, writ, decree or contract or an event that results in the creation of any lien, charge or encumbrance upon any assets of the Company or the suspension, revocation, impairment, forfeiture or nonrenewal of any material permit, license, authorization or approval applicable to the Company, its business or operations or any of its assets or properties. The Company has avoided every condition, and has not performed any act, the occurrence of which would result in the loss by the Company of any right granted under any license, distribution or other agreement.

2.11. Agreements; Action.

Except for agreements explicitly contemplated hereby and by the Investors Rights Agreement and the Registration Rights Agreement, there are no agreements, understandings or proposed transactions between the Company and any of its officers, directors, affiliates or any affiliate thereof. There are no agreements, understandings, instruments, contracts, proposed transactions, judgments, orders, writs or decrees to which the Company is a party or by which it is bound that may involve (i) obligations (contingent or otherwise) of, or payments to the Company in excess of, \$50,000, (ii) the license of any patent, copyright, trade secret or other proprietary right to or from the Company or (iii) provisions restricting or affecting the development, manufacture or distribution of the Company's products or services. The Company has not (a) declared or paid any dividends or authorized or made any distribution upon or with respect to any class or series of its capital stock, (b) incurred any indebtedness for money borrowed or any other liabilities individually in excess of \$50,000 or, in the case of indebtedness and/or liabilities individually less than \$50,000, in excess of \$250,000 in the aggregate, (c) made any loans or advances to any person, other than ordinary advances for travel expenses or (d) sold, exchanged or otherwise disposed of any of its assets or rights, other than the sale of its inventory in the ordinary course of business. For the purposes of the foregoing sentences, all indebtedness, liabilities, agreements, understandings, instruments, contracts and proposed transactions involving the same person or entity (including persons or entities the Company has reason to believe are affiliated therewith) shall be aggregated for the purpose of meeting the individual minimum dollar amounts thereof. The Company is not a party to and is not bound by any contract, agreement or instrument, or subject to any restriction under its Restated Certificate or Bylaws that adversely affects its business as now conducted or as proposed to be conducted, its properties or its

financial condition. The Company has not engaged in the past three (3) months in any discussion (x) with any representative of any corporation or corporations regarding the consolidation or merger of the Company with or into any such corporation or corporations, (y) with any corporation, partnership, association or other business entity or any individual regarding the sale, conveyance or disposition of all or substantially all of the assets of the Company or a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of or (z) regarding any other form of acquisition, liquidation, dissolution or winding up of the Company.

2.12. Related-Party Transactions.

No employee, officer or director of the Company or member of his or her immediate family is indebted to the Company, nor is the Company indebted (or committed to make loans or extend or guarantee credit) to any of them. None of such persons have any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation that competes with the Company, except that such persons and members of their immediate families may own stock in (but not exceeding 2% of the outstanding capital stock of) publicly traded companies that may compete with the Company. No member of the immediate family of any officer or director of the Company is directly or indirectly interested in any material contract with the Company.

2.13. Permits.

The Company has all franchises, permits, licenses and any similar authority necessary for the conduct of its business as now being conducted by it, the lack of which could materially and adversely affect the business, properties, prospects or financial condition of the Company, and the Company believes it can obtain, without undue burden or expense, any similar authority for the conduct of its business as planned to be conducted. The Company is not in default in any material respect under any of such franchises, permits, licenses or other similar authority.

2.14. Environmental and Safety Laws.

To the knowledge of the Company, the Company is not in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and to the knowledge of the Company, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation.

2.15. Disclosure.

The Company has fully provided each Investor with all the information that such Investor has requested for deciding whether to purchase the Series C Preferred Stock and all information that the Company believes is reasonably necessary to enable such Investor to make such decision. To the knowledge of the Company, neither this Agreement, the Investors Rights Agreement, the Registration Rights Agreement nor any other statements or certificates made or delivered in connection herewith or therewith contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements herein or therein not misleading. To the knowledge of the Company, there are no facts which (individually or in the aggregate) materially adversely affect the business, assets, liabilities, financial condition, prospects or operations of the Company that have not been set forth in the Agreement, the exhibits hereto, the Investors Rights Agreement, the Registration Rights Agreement or in other documents delivered to the Investors or their attorneys or agents in connection herewith.

2.16. Registration Rights.

Except as provided in the Registration Rights Agreement, the Company has not granted or agreed to grant any registration rights, including piggyback rights, to any person or entity.

2.17. Corporate Documents.

Except for amendments necessary to satisfy representations and warranties or conditions contained herein (the form of which amendments has been approved by the Investors), the Restated Certificate and Bylaws of the Company are in the form previously provided to special counsel for the Investors.

2.18. Title to Property and Assets.

The Company owns its property and assets free and clear of all mortgages, liens, loans and encumbrances, except such encumbrances and liens that arise in the ordinary course of business and do not materially impair the ownership of the Company or its use of such property or assets. With respect to the property and assets it leases, the Company is in compliance with such leases and, to the knowledge of the Company, holds a valid leasehold interest free of any liens, claims or encumbrances.

2.19. Financial Statements.

The Company has delivered to each Investor its unaudited financial statements (balance sheet and profit and loss statement) for the year ended December 31, 2004 and for the quarters ended March 31, 2005 and June 30, 2005 (the "Financial Statements"). The Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated, except that the unaudited Financial Statements may not contain all footnotes required by generally accepted accounting principles. The Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject to normal year-end audit adjustments. Except as set forth in the Financial Statements, the Company has no material liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to June 30, 2005 and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under generally accepted accounting principles to be reflected in the Financial Statements, which, in both cases, individually or in the aggregate, are not material to the financial condition or operating results of the Company. Except as disclosed in the Financial Statements, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

2.20. Changes.

Since June 30, 2005, there has not been:

(a) any change in the assets, liabilities, financial condition or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business that have not been, in the aggregate, materially adverse;

(b) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, financial condition, operating results, prospects or business of the Company (as such business is presently conducted and as it is proposed to be conducted);

(c) any waiver by the Company of a valuable right or of a material debt owed to it;

(d) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by the Company, except in the ordinary course of business and that is not material to the assets, properties, financial condition, operating results or business of the Company (as such business is presently conducted and as it is proposed to be conducted);

(e) any material change or amendment to a material contract or arrangement by which the Company or any of its assets or properties is bound or subject;

(f) any material change in any compensation arrangement or agreement with any employee, officer, director or consultant;

(g) any sale, assignment or transfer of any patents, trademarks, copyrights, trade secrets or other intangible assets;

(h) any resignation or termination of employment of any key officer or employee of the Company, and the Company, to the knowledge of the Company, does not know of the impending resignation or termination of employment of any such officer or employee;

(i) receipt of notice that there has been a loss of, or material order cancellation by, any major customer of the Company;

(j) any mortgage, pledge, transfer of a security interest in, or lien, created by the Company, with respect to any of its material properties or assets, except liens for taxes not yet due or payable;

(k) any loans or guarantees made by the Company to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business;

(l) any declaration, setting aside or payment or other distribution in respect of any of the capital stock of the Company, or any direct or indirect redemption, purchase or other acquisition of any of such stock by the Company;

(m) to the knowledge of the Company, any other event or condition of any character that might materially and adversely affect the assets, properties, financial condition, operating results or business of the Company (as such business is presently conducted and as it is proposed to be conducted);

(n) any material change, except in the ordinary course of business, in a contingent obligation of the Company by way of guaranty, endorsement, indemnity, warranty or otherwise; or

(o) any agreement or commitment by the Company to do any of the things described in this Section 2.20.

2.21. Employee Benefit Plans.

The Company does not have any Employee Benefit Plan as defined in the Employee Retirement Income Security Act of 1974, as amended.

2.22. Tax Returns, Payments and Elections.

The Company has filed all tax returns and reports as required by law. These returns and reports are true and correct in all material respects. The Company has paid all taxes and other assessments due, except those contested by it in good faith that are listed in the Schedule of Exceptions. The provision for taxes of the Company as shown in the Financial Statements is adequate for taxes due or accrued as of the date thereof. The Company has not elected pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), to be treated as a subchapter "S" corporation or a collapsible corporation pursuant to Section 1362(a) or Section 341(f) of the Code, nor has it made any other elections pursuant to the Code (other than elections that relate solely to methods of accounting, depreciation or amortization) that would have a material effect on the Company, its financial condition, its business as presently conducted or proposed to be conducted or any of its properties or material assets. The Company has never had any tax deficiency proposed or assessed against it and has not executed any waiver of any statute of limitations on the assessment or collection of any tax or governmental charge. None of the federal income tax returns of the Company and none of its state income or franchise tax or sales or use tax returns has ever been audited by governmental authorities. Since the date of the Financial Statements, the Company has made adequate provisions on its books of account for all taxes, assessments and governmental charges with respect to its business, properties and operations for such period. The Company has withheld or collected from each payment made to each of its employees, the amount of all taxes (including, without limitation, federal income taxes, Federal Insurance Contribution Act taxes and Federal Unemployment Tax Act taxes) required to be withheld or collected therefrom, and has paid the same to the proper tax receiving officers or authorized depositaries.

2.23. Insurance.

The Company has in full force and effect fire and casualty insurance policies, with extended coverage, sufficient in amount (subject to reasonable deductibles) to allow it to replace any of its properties that might be damaged or destroyed. The Company has in full force and effect products liability and errors and omissions insurance in amounts customary for companies similarly situated.

2.24. Minute Books.

The minute books of the Company, copies of which have been made available to the Investors, contain a complete summary of all meetings of directors and stockholders since the time of incorporation and reflect all transactions referred to in such minutes accurately in all material respects.

2.25. Employees.

No employee has any agreement or contract, written or verbal, regarding his or her employment with the Company. To the knowledge of the Company, no employee of the Company, nor any consultant with whom the Company has contracted, is in violation of any term of any employment contract, proprietary information agreement or any other agreement relating to the right of any such individual to be employed by, or to contract with, the Company because of the nature of the business to be conducted by the Company; and, to the knowledge of the Company, the continued employment by the Company of its present employees, and the performance of the contracts of the Company with its independent contractors, will not result in any such violation. The Company has not received any notice alleging that any such violation has occurred. No employee of the Company has been granted the right to continued employment by the Company or to any material compensation (including accelerated vesting of options or early termination of the Company's right to repurchase shares of capital stock) following termination of employment with the Company. The Company is not aware that any officer or key employee, or that any group of key employees, intends to terminate their employment with the Company, nor does the Company have a present intention to terminate the employment of any officer, key employee or group of key employees.

2.26. Labor Agreements and Actions.

The Company is not bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or an arrangement with any labor union, and no labor union has requested or, to the knowledge of the Company, has sought to represent any of the employees, representatives or agents of the Company. There is no strike or other labor dispute involving the Company pending, or to the knowledge of the Company, threatened, that could have a material adverse effect on the assets, properties, financial condition, operating results, or business of the Company (as such business is presently conducted and as it is proposed to be conducted), nor is the Company aware of any labor organization activity involving its employees. The Company is not aware that any officer or key employee, or that any group of key employees, intends to terminate their employment with the Company, nor does the Company have a present intention to terminate the employment of any of the foregoing. The employment of each officer and employee of the Company is terminable at the will of the Company. To the knowledge of the Company, the Company has complied in all material respects with all applicable state and federal equal employment opportunity and other laws related to employment.

2.27. Section 83(b) Elections.

To the knowledge of the Company, all elections and notices permitted by Section 83(b) of the Code and any analogous provisions of applicable state tax laws have been timely filed by all employees who have purchased shares of the Common Stock of the Company under agreements that provide for the vesting of such shares.

2.28. Use of Proceeds.

The Company shall use the proceeds from the sale of Series C Preferred Stock for working capital and general corporate purposes. In addition, upon mutual agreement between the Company and the Investors, the Company may use up to five million two hundred eighty thousand sixty dollars (\$5,280,060) of the proceeds from the sale of Series C Preferred Stock for the repurchase of equity securities from certain stockholders of the Company.

2.29. Qualified Small Business Stock.

As of the Closing, (i) the Company will be an eligible corporation as defined in Section 1202(e)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) the Company will not have made any purchases of its own stock during the one-year period preceding the Closing having an aggregate value exceeding 5% of the aggregate value of all its stock as of the beginning of such period and (iii) the Company's aggregate gross assets, as defined by Code Section 1202(d)(2), at no time from the date of incorporation of the Company and through the Closing have exceeded or will exceed \$50 million, taking into account the assets of any corporations required to be aggregated with the Company in accordance with Code Section 1202(d)(3).

2.30. Illegal or Unauthorized Payments; Political Contributions.

Neither the Company nor, to the best of its knowledge, any of its officers, directors, employees, agents or other representatives of the Company or any other business entity or enterprise with which the Company is or has been affiliated or associated, has, directly or indirectly, made or authorized any payment, contribution or gift of money, property, or services, whether or not in contravention of applicable law, (a) as a kickback or bribe to any Person or (b) to any political organization, or the holder of or any aspirant to any elective or appointive public office except for personal political contributions not involving the direct or indirect use of funds of the Company. "Person" shall mean an individual, partnership, joint-stock company, corporation, limited liability company, trust or unincorporated organization, and a government or agency or political subdivision thereof.

2.31. Insurance.

The Company and its subsidiaries and their respective properties are insured with responsible and reputable insurance companies or associations in such amounts, against such losses and covering such risks as are usually carried by companies of similar size and credit standing engaged in similar business and owning similar properties and as are prudent when considered in light of the nature of the properties and businesses of the Company as now conducted and as presently contemplated to be conducted. Neither written notice nor, to the Company's knowledge, any non-written or oral notice of any termination or threatened termination of any of such policies has been received and such policies are in full force and effect.

2.32. Real Property Holding Corporation.

The Company is not a real property holding corporation within the meaning of Code Section 897(c)(2) or any regulations promulgated thereunder.

3. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS.

Each Investor hereby represents and warrants to the Company, severally and not jointly, that (provided that such representations and warranties do not lessen or obviate the representations and warranties of the Company set forth in this Agreement):

3.1. Organization and Standing.

If not an individual, the Investor is duly organized, validly existing and in good standing under the laws of the state or jurisdiction of its organization and has the full and unrestricted power and authority to carry on its business as currently conducted, to enter into this Agreement, the Investor Rights Agreement and the Registration Rights Agreement and to carry out the transactions contemplated hereby and thereby.

3.2. Authorization.

The execution, delivery and performance by each Investor of this Agreement, the Investor Rights Agreement, the Registration Rights Agreement and all other documents contemplated hereby and thereby, the fulfillment of and the compliance with the respective terms and provisions hereof and thereof, and the consummation by each Investor of the transactions contemplated hereby and thereby has been duly authorized, (which authorization has not been modified or rescinded and is in full force and effect), and will not: (a) conflict with, or violate any

provision of, any term or provision of each Investor's certificate or agreement of limited partnership or other governing documents or (b) conflict with, or result in any breach of, or constitute a default under, any agreement to which each Investor is a party or by which each Investor is bound. No other action is necessary for each Investor to enter into this Agreement, the Investor Rights Agreement, the Registration Rights Agreement and all other documents contemplated hereby and to consummate the transactions contemplated hereby and thereby.

3.3. Purchase Entirely for Own Account.

This Agreement is made with such Investor in reliance upon the representation of such Investor to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Series C Preferred Stock to be received by such Investor and the Common Stock issuable upon conversion thereof (collectively, the "Securities") will be acquired for investment for the own account of such Investor, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in or otherwise distributing the same. By executing this Agreement, such Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities.

3.4. Disclosure of Information.

Each Investor believes he, she or it has received all other information he, she or it considers necessary or appropriate for deciding whether to purchase the Series C Preferred Stock. Such Investor further represents that he, she or it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Series C Preferred Stock and the business, properties, prospects and financial condition of the Company. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 above or the right of the Investors to rely thereon.

3.5. Investment Experience.

Each Investor is an investor in securities of companies in the development stage and acknowledges that he, she or it is able to fend for himself, herself or itself, can bear the economic risk of his, her or its investment, and has such knowledge and experience in financial or business matters that he, she or it is capable of evaluating the merits and risks of the investment in the Series C Preferred Stock. If other than an individual, such Investor also represents it has not been organized for the purpose of acquiring the Series C Preferred Stock.

3.6. Accredited Investor.

Each Investor is an "accredited investor" within the meaning of Rule 501(a) under the Act.

3.7. Restricted Securities.

Each Investor understands that the Securities he, she or it is purchasing are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Act, only in certain limited circumstances. In this connection, each Investor represents that he, she or it is familiar with Rule 144 of the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

3.8. Further Limitations on Disposition.

Without in any way limiting the representations set forth above, each Investor further agrees not to make any disposition of all or any portion of the Securities unless and until the transferee has agreed in writing for the benefit of the Company to be bound by this Section 3, the Investors Rights Agreement and the Registration Rights Agreement, provided and to the extent this section and such agreement are then applicable, and: (i) there is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or (ii) such Investor shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and, if reasonably requested by the Company, such Investor shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company that such disposition will not require registration of such shares under the Act. It is agreed that the requirements of (ii) above shall not apply to transactions made pursuant to Rule 144 except in unusual circumstances. Notwithstanding the provisions set forth above in this Section 3.8, no such registration statement or opinion of counsel shall be necessary for a transfer by an Investor that is (i) a partnership to a partner of such partnership or a retired partner of such partnership who retires after the date hereof, or to the estate of any such partner or retired partner or the transfer by gift, will or intestate succession of any partner to his or her spouse or to the siblings, lineal descendants or ancestors of such partner or his or her spouse, (ii) a corporation to its stockholders in accordance with their interests in the corporation, (iii) a limited liability company to its members or former members in accordance with their interests in the limited liability company or (iv) for individual Investors, to a family member of the Investor

or a trust for the benefit of the Investor, if the transferee agrees in writing to be subject to the terms hereof to the same extent as if he or she were an original Investor hereunder.

3.9. Legends.

It is understood that the certificates evidencing the Securities shall bear the following legend, along with any legend required by the laws of the State of California, including any legend required by the California Department of Corporations and Sections 417 and 418 of the California Corporations Code:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF SUCH ACT.

4. CALIFORNIA COMMISSIONER OF CORPORATIONS.

The sale of the Securities that are the subject of this Agreement has not been qualified with the Commissioner of Corporations of the State of California and the issuance of such Securities or the payment or receipt of any part of the consideration for such Securities prior to the qualification is unlawful, unless the sale of such Securities is exempt from qualification by Section 25100, Section 25102 or Section 25105 of the California Corporations Code. Prior to the acceptance of such consideration by the Company, the rights of all parties to this Agreement are expressly conditioned upon such qualification being obtained, unless the sale is so exempt.

5. CONDITIONS OF THE OBLIGATIONS OF THE INVESTORS AT CLOSING.

The obligations of each Investor to the Company under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions by the Company:

5.1. Representations and Warranties.

The representations and warranties of the Company contained in Section 2 above shall be true on and as of the Closing with the same effect as

though such representations and warranties had been made on and as of the date of such Closing.

5.2. Performance.

The Company shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

5.3. Consents, Permits and Waivers.

The Company shall have obtained any and all consents, permits and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement, the Investors Rights Agreement and the Registration Rights Agreement.

5.4. Reservation of Conversion Shares.

The Common Stock issuable upon conversion of the Series C Preferred Stock shall have been duly authorized and reserved for issuance upon such conversion.

5.5. Compliance Certificate.

The President of the Company shall deliver to each Investor at the Closing a certificate stating that the conditions specified in Sections 5.1, 5.2, 5.3 and 5.4 above have been fulfilled and stating that there shall have been no adverse change in the business, affairs, operations, properties, assets or condition of the Company since the date of the Financial Statements.

5.6. Qualifications.

All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Securities pursuant to this Agreement shall be duly obtained and effective as of the Closing.

5.7. Proceedings and Documents.

All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to the Investors, and they shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

5.8. Board of Directors.

The directors of the Company, immediately after the Closing, shall consist of John H. Austin, M.D., Lawrence Kugelman, Wilfred Jaeger, Scott Halsted and Terry Hartshorn.

5.9. Second Amended and Restated Investors Rights Agreement.

The Company and each Investor shall have entered into the Investors Rights Agreement.

5.10. Registration Rights Agreement.

The Company and each Investor shall have entered into the Registration Rights Agreement.

5.11. Amended and Restated Certificate of Incorporation.

The Restated Certificate required to authorize the issuance of the Series C Preferred Stock, as set forth in Exhibit A, shall have been accepted for filing by the Secretary of State of the State of Delaware.

5.12. Management Rights Letter.

The Company shall have delivered to each Investor at Closing a management rights letter in a form satisfactory to such Investors.

5.13. Proprietary Information and Inventions Agreement.

The Company shall have entered into a proprietary information and inventions agreement, in a form acceptable to the Investors, with each current officer, employee and consultant of the Company.

5.14. Secretary's Certificate.

The Secretary of the Company shall deliver to the Investors at the Closing a certificate certifying (i) the Restated Certificate, (ii) the Bylaws of the Company, (iii) resolutions of the Board of Directors of the Company approving the Agreements and the transactions contemplated hereby and thereby, and (iv) resolutions of the stockholders of the Company approving the Restated Certificate.

5.15. Opinion of Counsel.

The Investors shall have received an opinion of Hogan & Hartson L.L.P., counsel to the Company, dated as of the Closing Date, to the effect and substantially in the form of Exhibit E.

5.16. Loan Restructuring.

John H. Austin, M.D. and Kenneth B. Zimmerman shall each have exchanged a secured promissory note, dated June 9, 2004, in principal amount of \$2,200,000 and \$800,000, respectively, for a new note for principal \$1,070,000 and \$430,000, respectively, such replacement notes to be substantially in the form of Exhibit F, and warrants exercisable for 53,500 and 21,500 shares of Common Stock, respectively, such warrants to be substantially in the form of Exhibit G.

6. CONDITIONS OF THE OBLIGATIONS OF THE COMPANY AT CLOSING.

The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions by that Investor:

6.1. Representations and Warranties.

The representations and warranties of the Investor contained in Section 3 above shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the Closing.

6.2. Payment of Purchase Price.

The Investor shall have delivered the purchase price specified in Section 1.1 above.

6.3. Qualifications.

All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Securities pursuant to this Agreement shall be duly obtained and effective as of the Closing.

6.4. Amended and Restated Certificate of Incorporation.

The Restated Certificate required to authorize the issuance of the Series C Preferred Stock, as set forth in Exhibit A, shall have been accepted for filing by the Secretary of State of the State of Delaware.

7. GENERAL PROVISIONS.

7.1. Survival of Representations, Warranties and Covenants.

The representations, warranties and covenants of the Company and the Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Company or the Investors.

7.2. Successors and Assigns.

Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any of the Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

7.3. Governing Law.

This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of Delaware (excluding the choice of law rules thereof).

7.4. Counterparts; Facsimile.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. To the maximum extent permitted by applicable law, this Agreement may be executed by facsimile, with original signature pages to immediately follow by overnight courier.

7.5. Titles and Subtitles.

The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

7.6. Notices.

All notices, demands, requests, or other communications which may be or are required to be given, served, or sent by any party to any other party pursuant to this Agreement shall be in writing and shall be hand delivered, faxed, sent by overnight courier or mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

- (i) If to the Company:
Arcadian Management Services, Inc.
825 Washington Street, Suite 300
Oakland, California 94607
Attention: Chief Financial Officer
Facsimile: (510) 832-0170

with a copy (which shall not constitute notice) to:

Hogan & Hartson L.L.P.
111 South Calvert Street, Suite 1600
Baltimore, Maryland 21202
Attention: Thene M. Martin
Facsimile: (410) 539-6981

- (ii) If to the Investors:
To the address indicated for such party on the signature page hereto.

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be so given, served or sent. Each notice, demand, request, or communication which shall be hand delivered, sent, mailed, in the manner described above, shall be deemed sufficiently given, served, sent, received or delivered for all purposes at such time as it is delivered to the addressee (with the return receipt or the delivery receipt being deemed conclusive, but not exclusive, evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

7.7. Finder's Fee.

Each party hereto represents that it neither is nor will be obligated for any finder's fee or commission in connection with this transaction. Each Investor agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which such Investor or any of its officers, partners, employees, agents or representatives is responsible. The Company agrees to indemnify and hold harmless each Investor from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees, agents or representatives is responsible.

7.8. Expenses.

The Company and the Investors shall each bear all of their own costs and expenses with respect to the negotiation, execution, delivery and performance of this Agreement, except that the Company agrees to pay the reasonable out-of-pocket expenses of the Investors. In addition, the Company agrees to reimburse the Investors for the reasonable legal fees and expenses of (i) Heller Ehrman LLP, provided, such legal fees and expenses shall not exceed \$35,000 and (ii) Cooley Godward LLP, special counsel to Morgan Stanley Venture Partners ("MSVP"), and certain other consultants to MSVP, provided, such legal fees and expenses shall not exceed \$35,000. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the Investors Rights Agreement, the Registration Rights Agreement or the Restated Certificate, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

7.9. Amendments and Waivers.

Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of at least two-thirds of the Common Stock issued or issuable upon conversion of the Series C Preferred Stock. Any amendment or waiver effected in accordance with this section shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities are convertible), each future holder of all such securities and the Company.

7.10. Severability.

If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.11. Aggregation of Stock.

All shares of Series A Preferred Stock, Series B Preferred Stock, Series B-1 Preferred Stock and Series C Preferred Stock held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

7.12. Entire Agreement.

This Agreement and the documents referred to herein constitute the entire agreement among the parties and no party shall be liable or bound to any other party in any manner by any representations, warranties or covenants except as specifically set forth herein or therein.

[Remainder of Page Intentionally Left Blank]

WITNESS WHEREOF, the parties have executed this Series C Preferred Stock Purchase Agreement as of the date first above written

Company

ARCADIAN MANAGEMENT SERVICES, INC.

By: [Signature]
Name: John H. Austin, M.D.
Title: President

Investors

Morgan Stanley Dean Witter Venture Partners IV, L.P.
Morgan Stanley Dean Witter Venture Investors IV, L.P.
Morgan Stanley Dean Witter Venture Offshore Investors IV, L.P.

By MSDW Venture Partners IV, L.L.C.
as General Partner of each of the limited partnerships named above

By: MSDW Venture Partners IV, Inc.
as Member

By: _____
Name: _____
Title: _____

Morgan Stanley Venture Partners 2002 Fund, L.P.
Morgan Stanley Venture Investors 2002 Fund, L.P.

By: Morgan Stanley Venture Partners 2002 Fund, L.L.C.
as General Partner of each of the limited partnerships named above

By: Morgan Stanley Venture Partners 2002, Inc.
as Member

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, the parties have executed this Series C Preferred Stock Purchase Agreement as of the date first above written.

Company **ARCADIAN MANAGEMENT SERVICES, INC.**

By: _____
Name: John H. Austin, M.D.
Title: President

Investors

Morgan Stanley Dean Witter Venture Partners IV, L.P.
Morgan Stanley Dean Witter Venture Investors IV, L.P.
Morgan Stanley Dean Witter Venture Offshore Investors IV, L.P.

By: MSDW Venture Partners IV, L.L.C.
 as General Partner of each of the limited
 partnerships named above

By: MSDW Venture Partners IV, Inc.
 as Member

By: _____
Name: Scott Harsted
Title: _____

Morgan Stanley Venture Partners 2002 Fund, L.P.
Morgan Stanley Venture Investors 2002 Fund, L.P.

By: Morgan Stanley Venture Partners 2002 Fund,
 L.L.C.
 as General Partner of each of the limited
 partnerships named above

By: Morgan Stanley Venture Partners 2002, Inc.
 as Member

By: _____
Name: Scott Harsted
Title: _____

[Signature Page to Series C Preferred Stock Purchase Agreement]

IN WITNESS WHEREOF, the parties have executed this Series C Preferred Stock Purchase Agreement as of the date first above written.

Company **ARCADIAN MANAGEMENT SERVICES, INC.**

By: _____
Name: John H. Austin, M.D.
Title: President

Investors

Three Arch Partners IV, L.P.
By Three Arch Management IV, L.L.C., Its General Partner

By: _____
_____, Managing Member

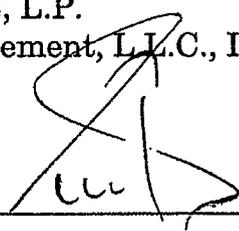
Three Arch Associates IV, L.P.
By Three Arch Management IV, L.L.C., Its General Partner

By: _____
_____, Managing Member

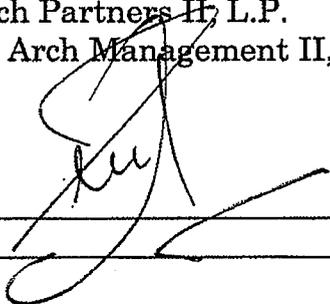
Three Arch Capital, L.P.
By TAC Management, L.L.C., Its General Partner

By: _____
_____, Managing Member

TAC Associates, L.P.
By TAC Management, L.L.C., Its General Partner

By: 
_____, Managing Member

Three Arch Partners II, L.P.
By Three Arch Management II, L.L.C., Its General Partner

By: 
_____, Managing Member

[Signature Page to Series C Preferred Stock Purchase Agreement]

SCHEDULE A

SERIES C PREFERRED STOCK INVESTORS

<u>Investor</u>	<u>No. of Shares of Series C Preferred Stock Purchased</u>
Morgan Stanley Dean Witter Venture Partners IV, L.P.	483,945
Morgan Stanley Dean Witter Venture Investors IV, L.P.	56,146
Morgan Stanley Dean Witter Venture Offshore Investors IV, L.P.	18,881
Morgan Stanley Venture Partners 2002 Fund, L.P.	430,078
Morgan Stanley Venture Investors 2002 Fund, L.P.	128,893
Three Arch Capital, L.P.	520,396
TAC Associates, L.P.	24,602
Three Arch Partners II, L.P.	558,971
Three Arch Partners IV, L.P.	355,483
Three Arch Associates IV, L.P.	7,849
Trellis Health Ventures II, L.P.	69,871
Lawrence Kugelman	31,442
Max Roytenberg	6,987
Total	<u>2,693,544</u>

SCHEDULE B

SCHEDULE OF EXCEPTIONS

SCHEDULE B

SCHEDULE OF EXCEPTIONS

This Schedule of Exceptions, dated as of August 17, 2005, is made and given by Arcadian Management Services, Inc., a Delaware corporation (the "Company"), pursuant to Section 2 of that certain Series C Preferred Stock Purchase Agreement of even date herewith (the "Stock Purchase Agreement") by and between the Company and certain investors.

The section numbers in this Schedule of Exceptions correspond to the section numbers in the Stock Purchase Agreement; however, any information disclosed herein under any section number shall be deemed to be disclosed and incorporated into any other section number under the Stock Purchase Agreement where such disclosure would be appropriate. Any terms defined in the Stock Purchase Agreement shall have the same meaning when used in this Schedule of Exceptions as when used in the Stock Purchase Agreement unless the context otherwise requires.

2.2 CAPITALIZATION AND VOTING RIGHTS

The following Common Stock options have been approved for issuance by the Board of Directors but have not yet been granted. When granted, the vesting will be calculated based on the "vesting start date" indicated in the table below, rather than the grant date. In addition, where applicable, the earn out portion of the options will be scheduled to vest in accordance with the notes below. The remainder of the options will vest in accordance with the normal vesting schedule of the Company's stock options.

Name	Total Options	Vesting Start Date	Exercise Price	Earn Out Options*	
Sharon Alvis	10,000	4/18/2005	\$ 1.00	5,000	**
Kenneth Bryan	10,000	9/27/2004	\$ 0.50	5,000	**
Roy Dickerson	10,000	5/23/2005	\$ 1.00	5,000	**
Nancy Freeman	150,000	6/23/2005	\$ 1.00	50,000	***
Steven Klaus	5,000	11/15/2004	\$ 0.50	3,000	***
Kris Lattimore	10,000	1/10/2005	\$ 1.00	5,000	**
David Lontok	25,000	6/1/2004	\$ 0.50	12,500	***
Brad Luke	5,000	3/29/2005	\$ 1.00	2,000	***
Garrison Rios	125,000	11/1/2004	\$ 0.50	25,000	***
Lizatte Taylor	2,000	5/16/2005	\$ 1.00		
Tri Phung	1,500	6/1/2004	\$ 0.50		
Joel Franklin	3,000	6/1/2004	\$ 0.50		
Janelle Kidolis Johnson	1,000	6/1/2004	\$ 0.50		
Charro Knight-Lilly	5,000	1/3/2005	\$ 1.00	2,000	***
Gary Intersimone	3,000	6/1/2004	\$ 0.50		
Jim Carmichael	1,000	6/1/2004	\$ 0.50		
Gary Herzberg, M.D.	15,000	9/10/2004	\$ 0.50	7,500	***
Cristina Lopez-Pollard	2,000	6/23/2005	\$ 1.00	1,000	***
Kenneth B. Zimmerman	100,000	6/23/2005	\$ 1.00	25,000	***
Cheryl Perkins	50,000	6/23/2005	\$ 1.00	25,000	***
Steve Box	10,000	6/15/2005	\$ 1.00	5,000	**
Totals	534,500			178,500	

* Vesting date for earn out options will be July 1, 2006.

** Fifty percent (50%) of individual's earn out shares will cliff vest upon individual's achievement of goal in their market. Remaining fifty percent (50%) of individual's earn out shares will cliff vest upon Company's achieving 13,000 members for June 1, 2006 effective date.

*** All of individual's earn out shares will cliff vest upon Company's achieving 13,000 members for June 1, 2006 effective date.

Lockup Agreements

All of the holders of the Company's Common and Preferred Stock are subject to a market standoff or "lockup" agreement of 180 days following the Company's initial public offering, provided that the Company's officers, directors and 1% holders are

similarly locked up. Notwithstanding the foregoing, the following individuals are subject to a lockup agreement regardless of the status of the 1% holders:

Third Amended Austin/Smalley Living Trust dated March 30, 2004
Cheryl Perkins
Kenneth B. Zimmerman
Lawrence Kugelman

2.3 **SUBSIDIARIES**

The following entities are wholly-owned subsidiaries of the Company:
Arcadian Provider Organization of Puyallup, Washington, Inc.
Integrated Health Management, LLC
Arcadian Health Plan, Inc.

The following entity is a wholly-owned subsidiary of Arcadian Health
Plan, Inc.:

Arkansas Community Care, Inc.

Integrated Health Management, LLC was acquired through merger,
completed in October 2000.

2.11 AGREEMENTS; ACTION

(a) The Company is a party to the following contracts with its officers and directors:

(1) Indemnification Agreement dated as of September 30, 1997 by and between the Company and John H. Austin, M.D.

(2) Indemnification Agreement dated as of September 30, 1997 by and between the Company and Donald E. Steen.

(3) Indemnification Agreement dated as of September 30, 1997 by and between the Company and David L. Steffy.

(4) Stock Purchase Agreement dated as of December 5, 1997 by and between the Company and John H. Austin, M.D.

(5) Restricted Stock Purchase Agreement dated as of December 31, 1997 by and between the Company and Cheryl L. Perkins.

(6) Restricted Stock Purchase Agreement dated as of November 1, 1998 by and between the Company and Kenneth B. Zimmerman.

(7) Amended and Restated Loan Agreement dated as of August 17, 2005 by and between the Company and John H. Austin, M.D.

(8) Amended and Restated Loan Agreement dated as of August 17, 2005 by and between the Company and Kenneth B. Zimmerman.

(b) The Company, directly or through one of its subsidiaries, is a party to the following material contracts:

(1) Office Lease dated as of February 4, 1998 by and between the Company and Martin Durante, as amended by that Certain First Amendment to Lease and Second Amendment extending the lease until April 2009.

(2) Lease dated as of September 25, 2003 by and between the Company and Walther Brothers Construction Company.

(3) Office Lease dated as of September 20, 2004 by and between Arcadian Health Plan, Inc. and W & K Investments.

(4) Office Lease Agreement dated as of April 4, 2005 by and between Arcadian Health Plan, Inc. d/b/a Desert Canyon Community Care and Kunco, LLC.

(5) Lease Agreement dated April 6, 2005 by and between Arcadian Health Plan d/b/a Columbia Community Care and Sunshine Properties, Inc.

(6) Office Lease Agreement dated April 26, 2005 by and between Arcadian Health Plan and 6070 Gateway East, L.P.

(7) Office Lease dated April 28, 2005 by and between Arcadian Health Plan, Inc. dba Texas Community Care and Austin Oakpointe, Ltd.

(8) Office Lease dated September 20, 2004 by and between Arcadian Health Plan and Walter B. Worthy and Karen L. Worthy.

(9) Month-to-Month Sublease Agreement dated December 2, 2003 by and between the Company and Palm Drive Health Care District, dba, Palm Drive Hospital.

(10) Equipment Lease Agreement dated April 20, 2005 by and between the Company and Bank of the West.

(11) Equipment Lease Agreement dated July 11, 2005 by and between Arcadian Health Plan, Inc. and Bank of the West.

(12) Management Services Agreement dated July 1, 2004 by and between the Company and Downey Regional Medical Center, Inc..

(13) Management Services Agreement dated July 1, 2004 by and between the Company and Gardena Hospital, L.P. dba Memorial Hospital of Gardena.

(14) Management Services Agreement dated April 1, 2002 by and between the Company and Glendale Physicians Alliance, Inc.

(15) Management Services Agreement dated February 1, 2004 by and between the Company and Ojai Valley Community Medical Group, Inc.

(16) Management Services Agreement dated February 10, 2003 by and between the Company and Palomar Pomerado Health.

(17) Management Services Agreement dated February 1, 2005 by and between the Company and Premier Care of Northern California Medical Group, Inc.

(18) Management Services Agreement dated April 14, 2003 by and between the Company and Robert Kennedy Medical Center.

(19) Management Services Agreement dated November 7, 2003 by and between the Company and Robert F. Kennedy IPA.

(20) Management Services Agreement dated July 18, 2003 by and between the Company and San Luis Obispo Select IPA.

(21) Management Services Agreement dated January 1, 2002 by and between the Company and Santa Barbara Select IPA and amended as of October 1, 2003.

(22) Management Services Agreement dated December 1, 2003 by and between the Company and Sonoma County Primary Care Physicians IPA, Inc.

(23) Management Services Agreement dated July 1, 2002 by and between the Company and St. Francis Medical Center.

(24) Management Services Agreement dated July 1, 2002 by and between the Company and St. Vincent Medical Center.

(25) Management Services Agreement dated March 5, 2002 by and between the Company and Family Care Specialists IPA, A Medical Group, Inc.

(26) Health Services Agreement dated January 1, 2004 by and between Arcadian Provider Organization of Puyallup, Washington, Inc., dba Arcadian of Washington, and Pacificare of Washington, Inc.

(27) Various leases for copiers by and between the Company and Performance Group Finance.

2.12 RELATED-PARTY TRANSACTIONS

(a) The following individuals are the holders of the listed instruments of indebtedness in connection with the prior lending of money to the Company:

(1) Kenneth B. Zimmerman holds a Secured Promissory Note dated as of August 17, 2005 in the principal amount of \$430,000, of which \$430,000 remains outstanding.

(2) John H. Austin, M.D. holds a Secured Promissory Note dated as of August 17, 2005 in the principal amount of \$1,070,000, of which \$1,070,000 remains outstanding.

(3) Kenneth B. Zimmerman holds a Warrant dated as of August 17, 2005 exercisable for 21,500 shares of the Company's common stock.

(4) John H. Austin, M.D. holds a Warrant dated as of August 17, 2005 exercisable for 53,500 shares of the Company's common stock.

2.22 **EMPLOYEE BENEFIT PLANS**

Arcadian Management Services, Inc. 401K Plan