

SETTLEMENT AGREEMENT

I. PARTIES

This Settlement Agreement (Agreement), is entered into among the United States of America, acting through the United States Department of Justice, and on behalf of the Office of Inspector General of the Department of Health and Human Services (OIG-HHS), the Office of Personnel Management (OPM), which administers the Federal Employees Health Benefits Program (FEHBP), and the TRICARE Management Activity (TMA), through its General Counsel (collectively, the United States); Orthoscript, Inc. (Orthoscript); and Sheryl B. Ghrist (Relator) (hereafter referred to as "the Parties") through their authorized representatives.

II. PREAMBLE

As a preamble to this Agreement, the Parties agree to the following:

A. Orthoscript is a Georgia corporation with its principal place of business located at 1225 Old Alpharetta Road, Alpharetta, Georgia, 30005. Orthoscript is a Durable Medical Equipment (DME) supplier and has participated in the Medicare, FEHBP, and TRICARE programs since January 1999.

B. On June 20, 2003, Relator filed a complaint pursuant to the qui tam provisions of the False Claims Act, 31 U.S.C. 3730(b), in the United States District Court for the Northern District of Georgia, captioned U.S. ex rel. Ghrist v. Orthoscript, et al., Civil Action No. 1:03-CV-1726-JOF (hereinafter the "Civil Action"). The United States intervened in the action and thereafter filed the United States' Complaint on April 19, 2005.

C. The United States contends that Orthoscript submitted or caused to be submitted false claims for payment to the Medicare program, Title XVIII of the Social Security Act, 42 U.S.C. §§ 1395-1395ggg, to the FEHBP, 5 U.S.C. §§ 8901-8914, and to the TRICARE program, 10 U.S.C. §§ 1071-1110.

D. The United States contends that it has certain civil claims, as specified in paragraph 5 below, against Orthoscript for engaging in the following conduct: from January 1, 1999 through December 31, 2003 (for Medicare claims), and through December 31, 2004 (for FEHBP and TRICARE claims), Orthoscript billed the Medicare, FEHBP and TRICARE programs under the wrong, higher paying Healthcare Common Procedure Coding System (HCPCS) codes, and as a result received monies to which it was not entitled (upcoding) as follows: 1) Orthoscript submitted false claims for payment for walking boots under HCPCS codes L2114, L2116, and L1960, instead of billing the walking boots under the applicable HCPCS codes, L2999, L4360, and L4386; 2) Orthoscript submitted false claims for payment for prefabricated wrist splints under HCPCS codes for custom-made wrist splints, L3800 and L3907, instead of billing the wrist splints under the applicable code for prefabricated wrist splints, L3908; and 3) Orthoscript submitted false claims for non-covered arm splints under HCPCS code L3670, when the appropriate code was A4565. The alleged conduct described in this paragraph shall hereinafter be referred to as the "Covered Conduct."

E. The United States also contends that it has certain administrative claims, as specified in Paragraphs 5, 7, and 8 below, against Orthoscript for engaging in the Covered Conduct.

F. Orthoscript denies the allegations included in the Civil Action, and denies it has any liability relating to the contentions of the United States set forth in Paragraphs D and E above. This Agreement is not a concession by the United States that its claims are not well founded.

G. To avoid the delay, uncertainty, inconvenience, and expense of protracted litigation of the above claims, the Parties reach a full and final settlement pursuant to the Terms and Conditions below.

III. TERMS AND CONDITIONS

Settlement Amount and Payment Terms

1. Orthoscript agrees to pay to the United States the sum of \$832,962.90, plus interest (the Settlement Amount) in accordance with the Payment Schedule (attached as Exhibit A) that is incorporated by reference into this Agreement. The Settlement Amount is immediately due and owing, to be discharged under the following terms: (a) a payment in the amount of \$65,000 shall be made by Orthoscript within three (3) business days after accumulation of said amount in an account to be maintained separately by Orthoscript (the "Separate Account"), and Orthoscript agrees that beginning on the Effective Date of this Agreement, it shall accumulate in the Separate Account all payments made by Palmetto Government Benefits Administrator (Palmetto) to Orthoscript on behalf of the Medicare Program until the Separate Account reaches \$65,000; and (b) monthly payments, beginning in July, 2005, according to the attached Payment Schedule. Orthoscript shall provide an account statement of the Separate Account to the United States on a monthly basis until the \$65,000 is paid. Orthoscript shall make all payments to the United States by electronic funds transfer pursuant to instructions to be provided by the U.S. Attorney's Office for the Northern District of Georgia. Orthoscript agrees that the Settlement Amount is not a full satisfaction of the amount claimed to be owed to the United States as a result of the Covered Conduct.

2. In the event Orthoscript is sold at any time before all payments pursuant to this Agreement have been made, Orthoscript agrees that the remaining amount due on the Settlement Amount shall be paid on or before the date of the closing of the sale.

Relator's Share and Attorney's Fees

3. Contingent upon the United States receiving the Settlement Amount from Orthoscript, the United States agrees to pay 18% of the Settlement Amount to the Relator. The Relator shall be paid her share of each payment the United States receives within a reasonable period of time after the United States receives each payment from

Orthoscript. The United States shall have no liability to the Relator and shall have no obligation to pay a relator share unless and until it receives the Settlement Amount or any portion thereof, and then only for the Relator's pro rata share of the amount received.

4. Orthoscript agrees to pay the Relator \$10,000 for attorneys' fees, payable within ninety (90) days of the Effective Date of this Agreement. However, the payment provided in this paragraph shall not constitute a full satisfaction of the attorneys' fees and costs incurred by Relator in connection with the Civil Action.

Releases

5. Subject to the exceptions in Paragraph 14 below, in consideration of the obligations of Orthoscript in this Agreement, conditioned upon Orthoscript's full payment of the Settlement Amount, and subject to Paragraph 26 below (concerning bankruptcy proceedings commenced within 91 days of the Effective Date of this Agreement or any payment under this Agreement), the United States (on behalf of itself, its officers, agents, agencies, and departments) agrees to release Orthoscript and its successors and assigns (subject to compliance with paragraph 2) from any civil or administrative monetary claim the United States has or may have for the Covered Conduct under the False Claims Act, 31 U.S.C. §§ 3729-3733; the Civil Monetary Penalties Law, 42 U.S.C. § 1320a-7a; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801-3812, or under the common law theories of payment by mistake, unjust enrichment, and fraud. No individuals are released by this Agreement. This release does not constitute full satisfaction of amounts claimed to be owed to the United States as a result of the Covered Conduct.

6. OIG-HHS expressly reserves its rights to institute, direct, or to maintain any administrative action seeking exclusion of Orthoscript, and/or its officers, directors, and employees from Medicare, Medicaid, or other Federal health care programs (as defined in 42 U.S.C. § 1320a-7b(f)) under 42 U.S.C. § 1320a-7(a) (mandatory exclusion), or 42 U.S.C. § 1320a-7(b) (permissive exclusion).

7. In consideration of the obligations of Orthoscript set forth in this Agreement, conditioned upon Orthoscript's payment in full of the Settlement Amount, and subject to Paragraph 26 below (concerning bankruptcy proceedings commenced within 91 days of the effective date of this Agreement), TMA agrees to release and refrain from instituting, directing, or maintaining any administrative claim or any action seeking exclusion from the TRICARE Program against Orthoscript under 32 C.F.R. § 199.9 for the Covered Conduct, except as reserved in Paragraph 14 below, and as reserved in this Paragraph. TMA expressly reserves authority to exclude Orthoscript from the TRICARE program under 32 C.F.R. §§ 199.9 (f)(1)(i)(A), (f)(1)(i)(B), (f)(1)(i)(D), and (f)(1)(iii), based upon the Covered Conduct. Nothing in this Paragraph precludes TMA from taking action against entities or persons, or for conduct and practices, for which civil claims have been reserved in Paragraph 14 below.

8. In consideration of the obligations of Orthoscript set forth in this Agreement, conditioned upon Orthoscript's compliance with this Agreement and subject to Paragraph 26 below (concerning bankruptcy proceedings commenced within 91 days of the effective date of this Agreement), OPM agrees to release and refrain from instituting, directing, or maintaining any administrative claim or any action seeking exclusion from the FEHB Program against Orthoscript under 5 U.S.C. § 8902a or 5 C.F.R. § 970 for the Covered Conduct, except if excluded by OIG-HHS pursuant to 42 U.S.C. § 1320a-7(a). Nothing in this paragraph precludes OPM from taking action against entities or persons, or for conduct and practices, for which civil claims have been reserved in Paragraph 14 below.

9. Conditioned upon receipt of her Relator's share, Relator, for herself individually, and for her heirs, successors, agents and assigns, fully and finally releases, waives, and forever discharges the United States, its officers, agents, and employees, from any claims arising from or relating to 31 U.S.C. § 3730, including 31 U.S.C. §§ 3730(b), (c), (c)(5), (d), and (d)(1), from any claims arising from the filing of the Civil

Action, and from any other claims for a share of the Settlement Amount, and in full settlement of any claims Relator may have under this Agreement. This Agreement does not resolve or in any manner affect any claims the United States has or may have against the Relator arising under Title 26, U.S. Code (Internal Revenue Code), or any claims arising under this Agreement.

10. Subject to the exceptions in Paragraph 14 below, in consideration of the obligations of Orthoscript in this Agreement, conditioned upon Orthoscript's full payment of the Settlement Amount, and subject to Paragraph 26 below (concerning bankruptcy proceedings commenced within 91 days of the Effective Date of this Agreement or any payment under this Agreement), Relator, for herself and for her heirs, successors, attorneys, agents, and assigns, agrees to release Orthoscript and its successors and assigns only from any civil monetary claim the United States has or may have for the Covered Conduct under the False Claims Act, 31 U.S.C. §§ 3729-3733.

11. Conditioned upon receipt of the payments described in Paragraphs 1 and 4 above, Relator, for herself, and for her heirs, successors, attorneys, agents, and assigns, agrees to release Orthoscript and its successors and assigns from any claims, causes of action, or liability that were or could have been asserted in the Civil Action, or under 31 U.S.C. § 3730(d) for expenses or attorney's fees and costs.

12. Orthoscript fully and finally releases the United States, its agencies, employees, servants, and agents from any claims (including attorney's fees, costs, and expenses of every kind and however denominated) which Orthoscript has asserted, could have asserted, or may assert in the future against the United States, its agencies, employees, servants, and agents, related to the Covered Conduct and the United States' investigation and prosecution thereof.

13. In consideration of the obligations of the Relator and Relator's counsel in this Agreement, Orthoscript agrees to release and forever discharge Relator, for herself and for her heirs, successors, attorneys, agents, and assigns, and Relator's Counsel from any

and all rights, claims, expenses, debts, liabilities, demands, obligations, costs, damages, injuries, actions, and causes of action in law or in equity, arising from, or related to, any transactions or occurrences involving Orthoscript, Relator and/or Relator's Counsel.

Reservations

14. Notwithstanding any term of this Agreement, specifically reserved and excluded from the scope and terms of this Agreement as to any entity or person (including Orthoscript and Relator) are the following claims of the United States:

- a. Any civil, criminal, or administrative liability arising under Title 26, U.S. Code (Internal Revenue Code);
- b. Any criminal liability;
- c. Except as explicitly stated in this Agreement, any administrative liability, including mandatory exclusion from Federal health care programs;
- d. Any liability to the United States (or its agencies) for any conduct other than the Covered Conduct;
- e. Any liability based upon such obligations as are created by this Agreement;
- f. Any liability for express or implied warranty claims or other claims for defective or deficient products or services, including quality of goods and services;
- g. Any liability for failure to deliver goods or services due;
- h. Any liability for personal injury or property damage or for other consequential damages arising from the Covered Conduct; and
- i. Any liability of individuals, including officers and employees.

Failure to Pay

15. In the event that Orthoscript fails to pay any or all of the Settlement Amount pursuant to Paragraph 1 above within thirty days of the due date, any dismissals as to Orthoscript shall, at the United States' option, be null and void, the Settlement Amount referenced in Paragraph 1 above (minus any payments made to date) shall become immediately due and payable, and shall bear interest at the rate of 12% compounded annually as of the date of default until payment of the Settlement Amount is made in full, and the United States may, at its option, 1) rescind its releases (without tendering to Orthoscript any portion of the Settlement Amount, if any, already paid by Orthoscript), 2) file a Stipulated Judgment against Orthoscript, in the amount of \$2,500,000 less the amount of payments made by Orthoscript under the Settlement Agreement, in the United States District Court for the Northern District of Georgia in the form attached hereto as Exhibit B, 3) offset the remaining unpaid balance of the Settlement Amount from any amounts due and owing to Orthoscript by any department, agency, or agent of the United States at the time of default, or 4) re-institute an action or actions against Orthoscript in this Court. Orthoscript agrees not to contest any draw, offset, or collection action undertaken by the United States pursuant to this Paragraph, either administratively or in any state or federal court. Orthoscript agrees to pay the United States all reasonable costs of collection and enforcement of this Agreement, including attorneys' fees and expenses. Orthoscript expressly agrees to waive and not to plead, argue, or otherwise raise any defense under the theories of statute of limitations, laches, estoppel, or similar theories, to any civil or administrative claims which (a) are filed by the United States within 180 calendar days of written notification to Orthoscript that this Agreement has been made a nullity, and (b) relates to the Covered Conduct, except to the extent these defenses were available on the Effective Date of this Agreement.

Security

16. Orthoscript has entered into a Security Agreement with the United States, attached as Exhibit C, which is incorporated into this Agreement by reference.

United States' Reliance on Financial Disclosures

17. Orthoscript has provided sworn financial disclosure statements (Financial Statements) to the United States and the United States has relied on the accuracy and completeness of those Financial Statements in reaching this Agreement. Orthoscript warrants that the Financial Statements are complete, accurate, and current. If the United States learns of asset(s) in which Orthoscript had an interest at the time of this Agreement which were not disclosed in the Financial Statements, or if the United States learns of any misrepresentation by Orthoscript on, or in connection with, the Financial Statements, and if such nondisclosure or misrepresentation changes the estimated net worth set forth in the Financial Statements by \$90,000 or more, the United States may at its option: (a) rescind this Agreement and reinstate a lawsuit based on the Covered Conduct or (b) let the Agreement stand and collect the full Settlement Amount plus one hundred percent (100%) of the value of the net worth of Orthoscript previously undisclosed. Orthoscript agrees not to contest any collection action undertaken by the United States pursuant to this provision.

18. In the event that the United States, pursuant to Paragraph 17 above, opts to rescind this Agreement, Orthoscript waives and agrees not to plead, argue, or otherwise raise any defenses under the theories of statute of limitations, laches, estoppel or similar theories, to any civil or administrative claims which (a) are filed by the United States within 180 calendar days of written notification to Orthoscript that this Agreement has been rescinded, and (b) relate to the Covered Conduct, except to the extent these defenses were available on the Effective Date.

Double Jeopardy, Excessive Fines, and Characterization of Settlement Amount

19. Orthoscript waives and will not assert any defenses it may have to any criminal prosecution or administrative action relating to the Covered Conduct that may be based in whole or in part on a contention that, under the Double Jeopardy Clause in the Fifth Amendment of the Constitution, or under the Excessive Fines Clause in the Eighth Amendment of the Constitution, this Agreement bars a remedy sought in such criminal prosecution or administrative action. Nothing in this Paragraph or any other provision of this Agreement constitutes an agreement by the United States concerning the characterization of the Settlement Amount for purposes of the Internal Revenue laws, Title 26 of the United States Code.

Denial by Medicare Carrier or Intermediary, TRICARE Contractor, or State Payer

20. The Settlement Amount will not be decreased as a result of the denial of claims for payment now being withheld from payment by any Medicare carrier or intermediary, FEHB contractor, TRICARE contractor, or any State payer, related to the Covered Conduct; and Orthoscript shall not resubmit to any Medicare carrier or intermediary or any State payer any previously denied claims related to the Covered Conduct, and shall not appeal any such denials of claims.

Unallowable Costs

21. Orthoscript agrees to the following:

a. Unallowable Costs Defined: that all costs (as defined in the Federal Acquisition Regulation, 48 C.F.R. § 31.205-47, and in Titles XVIII and XIX of the Social Security Act, 42 U.S.C. §§ 1395-1395ggg and 1396-1396v, and the regulations and official program directives promulgated thereunder) incurred by or on behalf of Orthoscript, its present or former officers, directors, employees, shareholders, and agents in connection with the following shall be "unallowable costs" on government contracts and under the Medicare Program, Medicaid Program, TRICARE Program, and FEHBP:

(1) the matters covered by this Agreement,

- (2) the United States' audit(s) and civil investigation(s) of the matters covered by this Agreement,
- (3) Orthoscript's investigation, defense, and corrective actions undertaken in response to the United States' audit(s) and civil investigation(s) in connection with the matters covered by this Agreement (including attorney's fees),
- (4) the negotiation and performance of this Agreement, and
- (5) the payments Orthoscript makes to the United States pursuant to this Agreement and any payments that Orthoscript may make to Relator, including costs and attorneys fees.

All costs described or set forth in this Paragraph 21 are hereafter, "unallowable costs".

- b. Future Treatment of Unallowable Costs: If applicable, these unallowable costs shall be separately determined and accounted for by Orthoscript, and Orthoscript shall not charge such unallowable costs directly or indirectly to any contracts with the United States or any state Medicaid program, or seek payment for such unallowable costs through any cost report, cost statement, information statement, or payment request submitted by Orthoscript or any of their subsidiaries or affiliates to the Medicare, Medicaid, TRICARE, or FEHBP Programs.
- c. Treatment of Unallowable Costs Previously Submitted for Payment: If applicable, Orthoscript further agrees that within 90 days of the Effective Date of this Agreement it shall identify to applicable Medicare and TRICARE fiscal intermediaries, carriers, and/or contractors, and Medicaid, VA and FEHBP fiscal agents, any unallowable costs (as defined in this Paragraph) included in payments previously sought from the United States, or any State Medicaid Program, including, but not limited to, payments sought in any cost reports, cost statements,

information reports, or payment requests already submitted by Orthoscript or any of its subsidiaries or affiliates, and shall request, and agree, that such cost reports, cost statements, information reports, or payment requests, even if already settled, be adjusted to account for the effect of the inclusion of the unallowable costs. Orthoscript agrees that the United States, at a minimum, shall be entitled to recoup from Orthoscript any overpayment plus applicable interest and penalties as a result of the inclusion of such unallowable costs on previously-submitted cost reports, information reports, cost statements, or requests for payment. Any payments due after the adjustments have been made shall be paid to the United States pursuant to the direction of the Department of Justice, and/or the affected agencies. The United States reserves its rights to disagree with any calculations submitted by Orthoscript or any of its subsidiaries or affiliates on the effect of inclusion of unallowable costs (as defined in this Paragraph) on Orthoscript or any of its subsidiaries or affiliates' cost reports, cost statements, or information reports.

d. Nothing in this Agreement shall constitute a waiver of the rights of the United States to audit, examine, or re-examine Orthoscript's books and records to determine that no unallowable costs have been claimed in accordance with the provisions of this Paragraph.

Orthoscript's Cooperation

22. Orthoscript agrees to cooperate fully and truthfully with the United States' investigation of individuals not released in this Agreement, for the conduct alleged in the Civil Action. Orthoscript has also entered into a no-prosecution/cooperation agreement with the United States, attached as Exhibit D and incorporated by reference herein. Upon reasonable notice, Orthoscript shall encourage, and agree not to impair, the cooperation of its directors, officers, and employees, and shall use its best efforts to make available its directors, officers, and employees, whether currently or formerly employed, for

interviews and testimony, consistent with the rights and privileges of such individuals. Orthoscript shall also furnish to the United States, upon reasonable request, all non-privileged documents and records in its possession, custody, or control relating to the conduct alleged in the Civil Action.

Benefit of the Parties

23. This Agreement is intended to be for the benefit of the Parties only. The Parties do not release any claims against any other person or entity, except to the extent provided for in Paragraph 24 below.

Waiver of Payment from Beneficiaries

24. Orthoscript waives and shall not seek payment for any of the health care billings covered by this Agreement from any health care beneficiaries or their parents, sponsors, legally responsible individuals, or third party payors based upon the claims defined as Covered Conduct.

Solvency

25. The Parties warrant that, in evaluating whether to execute this Agreement, they (a) have intended that the mutual promises, covenants, and obligations set forth constitute a contemporaneous exchange for new value given to Orthoscript, within the meaning of 11 U.S.C. § 547(c)(1); and (b) conclude that these mutual promises, covenants, and obligations do, in fact, constitute such a contemporaneous exchange. Further, the Parties warrant that the mutual promises, covenants, and obligations set forth herein are intended and do, in fact, represent a reasonably equivalent exchange of value which is not intended to hinder, delay, or defraud any entity to which Orthoscript were or became indebted to on or after the date of this transfer, within the meaning of 11 U.S.C. § 548(a)(1).

Bankruptcy Protections

26. If within 91 days of the Effective Date of this Agreement or of any payment made hereunder Orthoscript commences, or a third party commences, any case,

proceeding, or other action under any law relating to bankruptcy, insolvency, reorganization, or relief of debtors, (a) seeking to have any order for relief of Orthoscript's debts, or seeking to adjudicate Orthoscript as bankrupt or insolvent; or (b) seeking appointment of a receiver, trustee, custodian, or other similar official for Orthoscript or for all or any substantial part of Orthoscript's assets, Orthoscript agrees as follows:

- a. Orthoscript's obligations under this Agreement may not be avoided pursuant to 11 U.S.C. § 547, and Orthoscript will not argue or otherwise take the position in any such case, proceeding, or action that: (i) Orthoscript's obligations under this Agreement may be avoided under 11 U.S.C. § 547; (ii) Orthoscript was insolvent at the time this Agreement was entered into, or became insolvent as a result of the payment made to the United States; or (iii) the mutual promises, covenants, and obligations set forth in this Agreement do not constitute a contemporaneous exchange for new value given to Orthoscript.
- b. If Orthoscript's obligations under this Agreement are avoided for any reason, including, but not limited to, through the exercise of a trustee's avoidance powers under the Bankruptcy Code, the United States, at its sole option, may rescind the releases in this Agreement, and bring any civil and/or administrative claim, action, or proceeding against Orthoscript for the claims that would otherwise be covered by the releases provided in Paragraphs 5, 7, and 8 above. Orthoscript agrees that (i) any such claims, actions, or proceedings brought by the United States (including any proceedings to exclude Orthoscript from participation in Medicare, Medicaid, or other Federal health care programs) are not subject to an "automatic stay" pursuant to 11 U.S.C. § 362(a) as a result of the action, case, or proceeding described in the first clause of this Paragraph, and that

Orthoscript will not argue or otherwise contend that the United States' claims, actions, or proceedings are subject to an automatic stay; (ii) Orthoscript waives and will not plead, argue, or otherwise raise any defenses under the theories of statute of limitations, laches, estoppel, or similar theories, to any such civil or administrative claims, actions, or proceeding which are brought by the United States within 180 calendar days of written notification to Orthoscript that the releases have been rescinded pursuant to this Paragraph, except to the extent such defenses were available on the Effective Date of this Agreement; and (iii) the United States has a valid claim against Orthoscript in the amount of \$2,500,000, and the United States may pursue its claim in the case, action, or proceeding referenced in the first clause of this Paragraph, as well as in any other case, action, or proceeding.

- c. Orthoscript acknowledges that the agreements in this Paragraph are provided in exchange for valuable consideration provided in this Agreement.

Other

27. Except as expressly provided to the contrary in this Agreement, each Party shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.

28. Orthoscript represents that this Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.

29. Relator represents that this Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.

30. This Agreement is governed by the laws of the United States. The Parties agree that the exclusive jurisdiction and venue for any dispute arising between and

among the Parties under this Agreement will be the United States District Court for the Northern District of Georgia.

31. This Agreement, including Exhibits A, B, C, and D, which are incorporated by reference into this Agreement, constitutes the complete agreement between the Parties. This Agreement may not be amended except by written consent of the Parties.

32. Within five (5) days of receipt of the \$65,000 payment described in Paragraph 1 and the payment described in Paragraph 4, the United States and Relator shall promptly sign and file in the Civil Action a Joint Stipulation of Dismissal with prejudice. The Joint Stipulation of Dismissal shall provide that (1) the Court shall retain jurisdiction to enforce the terms of this Agreement, and (2) the dismissal shall be subject to the right of the United States to rescind its release, to rescind its stipulation of dismissal, to file a Stipulated Judgment, or to reinstate the Civil Action as described in Paragraphs 15 and 17 above. The Joint Stipulation of Dismissal will not apply to the individual defendants.

33. The individuals signing this Agreement on behalf of Orthoscript represent and warrant that they are authorized by Orthoscript to execute this Agreement. The individual(s) signing this Agreement on behalf of the Relator represent and warrant that they are authorized by Relator to execute this Agreement. The United States signatories represent that they are signing this Agreement in their official capacities and that they are authorized to execute this Agreement.

34. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement.

35. This Agreement is binding on Orthoscript's successors, transferees, heirs, and assigns.

36. All Parties consent to the United States' disclosure of this Agreement, and information about this Agreement, to the public.

37. This Agreement is effective on the date of signature of the last signatory to the Agreement (Effective Date). Facsimiles of signatures shall constitute acceptable, binding signatures for purposes of this Agreement.

THE UNITED STATES OF AMERICA

DATED: 6/21/2005 BY: Mina Rhee
MINA RHEE
Assistant United States Attorney
Northern District of Georgia

DATED: June 17, 2005 BY: Robert McAuliffe
ROBERT J. MCAULIFFE
Trial Attorney
Commercial Litigation Branch
Civil Division
United States Department of Justice

DATED: _____ BY: _____
FRANK D. TITUS
Assistant Director for Insurance Services Programs
Office of Personnel Management

DATED: _____ BY: _____
E. JEREMY HUTTON
Assistant Inspector General for Legal Affairs
Office of Personnel Management

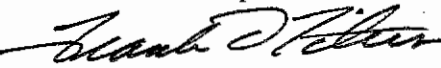
DATED: _____ BY: _____
LAUREL C. GILLESPIE
Deputy General Counsel
TRICARE Management Activity
United States Department of Defense

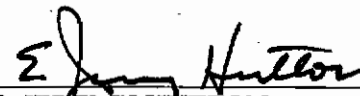
37. This Agreement is effective on the date of signature of the last signatory to the Agreement (Effective Date). Facsimiles of signatures shall constitute acceptable, binding signatures for purposes of this Agreement.

THE UNITED STATES OF AMERICA

DATED: _____ BY: _____
MINA RHEE
Assistant United States Attorney
Northern District of Georgia

DATED: _____ BY: _____
ROBERT J. MCAULIFFE
Trial Attorney
Commercial Litigation Branch
Civil Division
United States Department of Justice

DATED: 6/16/05 BY: 
FRANK D. TITUS
Assistant Director for Insurance Services Programs
Office of Personnel Management

DATED: June 16, 2005 BY: 
E. JEREMY HUTTON
Assistant Inspector General for Legal Affairs
Office of Personnel Management

DATED: _____ BY: _____
LAUREL C. GILLESPIE
Deputy General Counsel
TRICARE Management Activity
United States Department of Defense

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THE UNITED STATES OF AMERICA

DATED: _____ BY: _____
MINA RHEE
Assistant United States Attorney
Northern District of Georgia


DATED: _____ BY: _____
ROBERT J. MCAULIFFE
Trial Attorney
Commercial Litigation Branch
Civil Division
United States Department of Justice


DATED: _____ BY: _____
FRANK D. TITUS
Assistant Director for Insurance Services Programs
Office of Personnel Management

DATED: _____ BY: _____
E. JEREMY HUTTON
Assistant Inspector General for Legal Affairs
Office of Personnel Management

DATED: 20 July 05 BY: 
LAUREL C. GILLESPIE
Deputy General Counsel
TRICARE Management Activity
United States Department of Defense

ORTHOSCRIPT, INC.

DATED: June 22, 2005 BY: 
TODD ROUNSAVILLE
Vice President

DATED: June 22, 2005 BY: 
WILLIAM P. EISELSTEIN, Esq.
Miller & Martin, PLLC
Counsel for Orthoscript

RELATOR

DATED: 6-20-05 BY: *Sheryl B. Ghrist*
SHERYL B. GHRIST

DATED: 6-21-05 BY: *J. D. Dalbey*
J.D. DALBEY, Esq.
CHILIVIS, COCHRAN,
LARKINS & BEVER, LLP
Counsel for Relator

EXHIBIT A

PAYMENT SCHEDULE

The Settlement Amount of \$832,962.90, plus 4.375% interest, shall be paid by Orthoscript as follows:

1. \$65,000 shall be paid by Orthoscript within three (3) business days after accumulation of said amount in an account to be maintained separately by Orthoscript (the "Separate Account"), and Orthoscript agrees that beginning on the Effective Date of this Agreement, it shall accumulate in the Separate Account all payments made by Palmetto Government Benefits Administrator (Palmetto) to Orthoscript on behalf of the Medicare Program until the Separate Account reaches \$65,000. Orthoscript shall provide an account statement of the Separate Account to the United States on a monthly basis until the \$65,000 is paid.

2. \$15,000 shall be paid no later than the 5th of each month, beginning in July, 2005, until February, 2006.

3. \$18,000 shall be paid no later than the 5th of each month, beginning in March, 2006, until February, 2007.

4. \$22,000 shall be paid no later than the 5th of each month, beginning in March, 2007, through February, 2008.

5. \$25,000 shall be paid by no later than the 5th of each month, beginning in March, 2008, through November 2008, with a final payment of \$10,000 due by December 2008.

Provided, that if Orthoscript defaults in payment of the Settlement Amount, the interest shall then accrue at a rate of 12 % compounded annually. Any late payments shall also be subject to the rate of 12 % compounded annually. Should Orthoscript choose to prepay any of the above amounts, Orthoscript understands that the Settlement Amount shall total \$900,000.

EXHIBIT B

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

UNITED STATES OF AMERICA (
ex. rel. SHERYL B. GHRIST, (
 (
Plaintiff, (CIVIL ACTION
 (FILE NO. 1:03-cv-1726-JOF
v. (
 (
ORTHOSCRIPT, INC., (
JAMES A. NELSON, and (
ANGELA ISLEY, (
 (
Defendants. (

STIPULATED JUDGMENT

The United States of America, Relator Sheryl B. Ghrist ("Relator"), and Orthoscript, Inc. ("Orthoscript"), by and through undersigned counsel, consent to entry of this judgment based upon the following uncontested allegations:

1. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C. §§ 1331, 1345, and 1367(a).
2. On June 22, 2005, Orthoscript entered into a settlement agreement with the United States and Relator for purposes of resolving a dispute under the federal False Claims Act, 31 U.S.C. §§ 3729-3733, as amended, and common law causes of action (the "Settlement Agreement"). A copy of the Settlement

Agreement is attached hereto as Exhibit 1 and incorporated by reference herein.

3. At Orthoscript's request, on June 22, 2005, Orthoscript entered into a no-prosecution/cooperation agreement with the United States for the purpose of resolving a criminal investigation. A copy of the agreement is attached hereto as Exhibit 2 and incorporated by reference herein.

4. The Settlement Agreement resolved the qui tam action involving Orthoscript, initially filed by Relator on June 20, 2003, and in which the United States intervened and filed a complaint on April 19, 2005.

5. Under the terms of the Settlement Agreement, Orthoscript agreed to pay the United States \$832,962.90, plus 4.375 percent interest (totalling \$900,000), in periodic payments set forth in Exhibit A to the Settlement Agreement (the "Settlement Amount"), with payment in full of the Settlement Amount due no later than December 5, 2008.

6. Also under the terms of the Settlement Agreement, the United States and Relator agreed, within five (5) days after receipt of the initial payment described in paragraph 1 of the Agreement and the payment described in paragraph 4 of the Agreement, to file a Joint Stipulation of Dismissal in the qui tam action.

7. Also under the terms of the Settlement Agreement, Orthoscript agreed that in the event that Orthoscript defaulted in any obligations under Settlement Agreement or the Security Agreement, the United States may file a Stipulated Judgment against Orthoscript in the amount of \$2.5 million less the amount of any payments made by Orthoscript under the Settlement Agreement. Orthoscript hereby agrees that in order to implement the Stipulated Judgment, any dismissals as to Orthoscript shall at the United States' option, be null and void. The United States shall execute this option by filing the Stipulated Judgment.

8. Orthoscript has failed to make payments in accordance with the Settlement Agreement, and therefore is in default under the terms of the Settlement Agreement, or has otherwise defaulted in its obligations under the Settlement Agreement.

9. The United States has given Orthoscript written notice of its default, and demanded that Orthoscript cure that default by tendering Payment in Full of the cure amount under the terms of the Settlement Agreement. The United States has given Orthoscript fifteen days to cure the default, but Orthoscript has failed to reasonably respond or to make arrangements to comply with the terms of the Settlement Agreement.

10. Within a reasonable time after the filing of this Stipulated Judgment, the United States will file a statement of debt showing the amount due and owing under the Settlement Agreement as of the date of default.

11. Accordingly, this Court hereby voids the dismissal against Orthoscript and enters judgment for the United States and against Orthoscript, in the amount of \$2,500,000, less any portion of the Settlement Amount that has been paid to date, plus interest on the balance at the postjudgment rate of interest from the date this Stipulated Judgment is entered until it is satisfied.

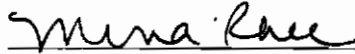
SO ORDERED THIS ____ day of _____, 200_.

United States District Judge

The parties hereby stipulate and agree to the entry of this Stipulated Judgment.

Counsel for the United States:

DAVID E. NAHMIAS
United States Attorney
Northern District of Georgia



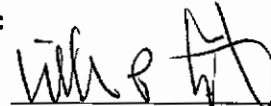
AMY BERNE
Assistant United States Attorney
Georgia Bar No. 006670
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MICHAEL F. HERTZ
POLLY A. DAMMANN
ROBERT McAULIFFE
Attorneys, Department of Justice
Civil Division
Post Office Box 261
Ben Franklin Station
Washington, DC 20044
Tel: (202) 514-6832

Counsel for Relator Sheryl B. Ghrist:

J.D. Dalbey, Esquire
Georgia Bar No. 003150
CHILIVIS, COCHRAN, LARKINS
& BEVER, L.L.P.
3127 Maple Drive, N.E.
Atlanta, Georgia 30305

Counsel for Orthoscript, Inc.:

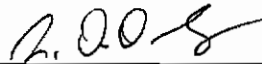


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Counsel for Relator Sheryl B. Ghrist:



J.D. Dalbey, Esquire
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CHILIVIS, COCHRAN, LARKINS
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3127 Maple Drive, N.E.
Atlanta, Georgia 30305

Counsel for Orthoscript, Inc.:

William P. Eiselstein, Esq.
Georgia Bar No. 242798
Miller & Martin, PLLC
1170 Peachtree St., NE
Suite 800
Atlanta, GA 30309-7649

EXHIBIT C

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement") is made as of the ^{22nd} day of June, 2005, by and between Orthoscript, Inc. (the "Debtor"), and the United States of America (the "Secured Party").

WITNESSETH

WHEREAS, Debtor is a party to a Settlement Agreement executed contemporaneously herewith in the original amount of Eight Hundred Thirty Two Thousand Nine Hundred Sixty Two Dollars and Ninety cents (\$832,962.90), plus 4.375 percent interest, totaling Nine Hundred Thousand Dollars (\$900,000) (the "Settlement Amount"), plus interest, if any, in favor of Secured Party, the terms of which are incorporated herein by reference;

WHEREAS, Debtor and Secured Party are parties to the Settlement Agreement in the lawsuit styled United States of America ex rel. Ghrist v. Orthoscript, Inc. et al., No. 1:03-CV-1726-JOF (N.D. Ga.) (the "Settlement Agreement") by and among the United States of America, Relator Sheryl B. Ghrist, and Debtor, which is incorporated by reference including the terminology used therein, pursuant to which Debtor agreed to grant a security interest in certain assets of Debtor to Secured Party pursuant to the terms hereof;

WHEREAS, in order to provide for the granting of the security interests as required under the Settlement Agreement, the parties have entered into this Security Agreement.

NOW THEREFORE, in consideration of the foregoing premises, and intending to be legally bound hereby, Debtor and Secured Party agree as follows:

1. Definitions. For purposes of this Agreement:
 - (a) The term "Liabilities" shall include any and all indebtedness, obligations and liabilities of any kind arising in any way of Debtor to Secured Party, now existing or hereafter created, under the Settlement Agreement.
 - (b) The term "Collateral" shall mean all of the Debtor's assets, including but not limited to (1) any monies that any department, agency or agent of the United States owes to Debtor; (2) the right of Debtor to payments from the federal Medicare, Medicaid and TRICARE programs, (3) accounts, accounts receivable, other receivables, contract rights, chattel paper, general intangibles, notes, drafts, acceptances, and other forms of receivables now owned or hereafter acquired by Debtor whether now existing or hereafter arising, and whether or not specifically assigned to Secured Party, and 4) inventory.

(c) The term "Interest" shall mean the compounded annual rate of 12%, which accrues on the outstanding balance of the Settlement Amount should Debtor default in payment of the Settlement Amount, or should Debtor make any late payments.

2. Grant of Security Interest. As security for the payment of all Liabilities, Debtor hereby grants to Secured Party a lien on, and a security interest in, all the Collateral, as collateral security for the prompt and complete payment when due of all amounts due in respect of the Settlement Amount. Said security interest shall be second in time only to the security interest on the Collateral held by lenders or other lien holders existing prior to the execution of this Agreement. This paragraph does not affect, and Debtor agrees that it does not affect, the United States' right to recoup or withhold monies from the Debtor to repay any Federal health care program overpayment in accordance with applicable Federal law.

3. Exercise of Security Interest. Upon the failure of Debtor to meet any of its payment obligations in connection with the Liabilities or under this Agreement, Secured Party may take whatever steps are warranted, upon three (3) business days' written notice to Debtor, to use Collateral to satisfy Debtor's outstanding obligations under the Settlement Agreement.

4. Grant of Power of Attorney. Debtor hereby irrevocably designates, makes, constitutes, and appoints Secured Party (and all persons or entities designated by the Secured Party) as such Debtor's attorney (and agent-in-fact), to the extent permitted by law, to exercise any of the following powers with respect to any Collateral: (i) demand, sue for, collect, and give receipts for any payments due on receivables or by virtue thereof; (ii) receive, take, endorse, assign and deliver chattle paper, documents, instruments, and all other property taken or received by Secured Party in connection therewith; (iii) settle, compromise, prosecute or defend any action or proceeding with respect thereto; (iv) upon an Event of Default, sell, transfer, assign or otherwise deal therein or therewith as fully and effectually as if Secured Party were the absolute owner thereof; and (v) upon an Event of Default, extend the time of payment thereof and make allowances and other adjustments with reference thereof. This power, being coupled with an interest, is irrevocable by Debtor until all Liabilities are finally paid in full. Debtor agrees that a carbon, photographic, photostatic, or other production of this Security Agreement or a financing statement is sufficient as a financing statement.

5. Collection of Receivables. Unless and until Secured Party expressly agrees to another course of action:

(a) Debtor shall endeavor to collect all amounts due and owing on receivables, including the taking of such action to enforce payments as Secured Party may deem proper.

(b) Debtor may in the ordinary course of business grant to its customer's account any credits, rebates, refunds, or allowances to which any customer is entitled, and with respect to the credits, rebates, refunds, or allowances described in this paragraph, Debtor shall upon request make a full accounting thereof to Secured Party.

(c) Upon Secured Party's request, Debtor shall send Secured Party copies of its receivables identifying the name and address of each customer, account debtor, and obligor, and provide a list of all customers, account debtors, and obligors.

6. Representations and Warranties. Debtor represents and warrants that:

(a) all of its Collateral is free and clear from any prior or superior lien, encumbrances, assignment, or security interest, except as otherwise noted in Paragraph 2 of this Security Agreement and the security interest granted hereby.

(b) it conducts business under and through the following business names and entities: Orthoscript, Inc., located at 1225 Old Alpharetta Road, Alpharetta, Georgia 30005.

(c) this Security Agreement creates a valid and enforceable lien as noted in Paragraph 2 of this Security Agreement, on and a security interest in the Collateral securing the payment of the Liabilities, and upon the filing of the necessary financing statements, such security interest will be a perfected security interest, to the extent that such may be perfected by the filing of financing statements under the Uniform Commercial Code.

7. Covenants. Debtor covenants with Secured Party that:

(a) Debtor will promptly notify and provide Secured Party with a complete description of the opening of any new places of business, and the closing of any existing places of business. If at anytime Debtor conducts business under any names or through any entities or businesses other than Orthoscript, Inc., Debtor will promptly notify and provide Secured Party with the names and addresses of such entities and businesses.

(b) unless Secured Party sends written instructions to Debtor to the contrary, and except as to superior liens, Debtor will defend Secured Party's right, title, and security interest in and to the Collateral against the claims and demands of all persons whomsoever, and the Collateral shall remain free of all liens, security interests and other encumbrances except for those encumbrances in favor of Secured Party.

(c) within 20 days of the execution of this Security Agreement, Debtor will give, execute, deliver and file or record in the proper governmental offices, any instrument, paper or document, including but not limited to one or more financing statements under the Uniform Commercial Code, satisfactory to Secured Party, which are required to perfect the Secured Party's security interest in the Collateral, and Debtor will send proof of filing of such documents, including the financing statements, to Secured Party within 10 calendar days of filing. Debtor will pay the costs of, or incidental to, any recording or filing of such financing statements or other documents.

(d) at any time and from time to time, Debtor will, at its own expense:

(1) upon the request of Secured Party, deliver and pledge to Secured Party, endorsed or accompanied by instruments of assignment or transfer satisfactory to Secured Party, any instruments, documents and chattel paper related to the Collateral which Secured Party may specify, and that are reasonably necessary to evidence the security interest granted hereunder.

(2) take any action which Secured Party may deem reasonably necessary or desirable in order to create, preserve, perfect, extend, modify, terminate or otherwise affect any security interest granted pursuant hereto, or to enable Secured Party to exercise or enforce any of its rights hereunder.

(3) upon the request of Secured Party, keep, and stamp or otherwise mark, any of its documents, instruments and chattel paper and its individual books and records relating to any of the Collateral in such manner as Secured Party may reasonably require.

(e) Without the prior written consent of Secured Party, Debtor shall not (i) transfer, sell or assign any of the Collateral; (ii) allow or permit any other security interest, option, lien, or any other encumbrance to attach thereto; (iii) file, or authorize or permit to be filed, in any jurisdiction any financing statement relating to any of the Collateral unless Secured Party is named as sole secured party; or (iv) except as to encumbrances noted in Paragraph 2 of this Security Agreement, permit any of the Collateral to be levied upon under any legal process.

(f) Debtor shall quarterly provide the Secured Party with its financial statements, including any audited statements, and an aging of receivables. Unless otherwise notified in writing by the Secured Party, this information shall be sent to the following address: United States Attorney's Office

Northern District of Georgia, Attention: Financial Litigation Unit, 75 Spring St., S.W., Suite 600, Atlanta, GA, 30303.

8. Debtors to Remain Liable. Anything herein to the contrary notwithstanding, (a) Debtors shall remain liable under any contracts and agreements included in the Collateral to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by Secured Party of any of the rights hereunder shall not release Debtor from any of its duties or obligations under any contracts and agreements included in the Collateral, and (c) Secured Party shall not have any obligation or liability under any contracts and agreements included in the Collateral by reason of this Agreement, nor shall Secured Party be obligated to perform any of the obligations or duties of Debtor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

9. Transfer to Secured Party. Secured Party may at any time transfer to, or register in the name of itself or any of its nominees, any of the Collateral which may come into the possession, custody or control of Secured Party or any of its agents.

10. Events of Default.

(a) The occurrence of any one or more of the following shall be an event(s) of default ("Event(s) of Default") under this Agreement:

1. Breach. A failure to comply by Debtor with any term, provision, obligation, covenant, representation, or warranty arising under: (i) this Agreement or (ii) the Settlement Agreement, including, without limitation, failure to provide the Settlement Amount as specified in the Settlement Agreement by the date required under the Settlement Agreement; or
2. Voluntary and Involuntary Bankruptcy. Debtor commences, or a creditor of a Debtor commences on Debtor's behalf, any bankruptcy, reorganization, debt arrangement, or other case or proceeding under the United States Bankruptcy Code or under any similar foreign, federal, state, or local statute, or any dissolution or liquidation proceeding, or makes a general assignment for the benefit of creditors, or seeks appointment of a receiver, trustee, or other similar official, or takes any action for the purpose of effecting any of the foregoing. This Section 10(a)(2) shall apply only if Secured Party so elects.

(b) Upon an Event of Default, Secured Party shall have with respect to the Collateral all of the rights and remedies of a secured party under the Uniform Commercial Code, the Federal Debt Collection Procedure Act or any other applicable law and all rights provided herein or in the Settlement Agreement, all of which rights and remedies shall, to the full extent

permitted by law, be cumulative. Secured Party may exercise any of the following rights and remedies with or without notice to Debtor:

1. Secured Party may sell, assign, or transfer the Collateral free from any equity of redemption and without appraisal or valuation, notice and right to redeem being waived and to apply all the proceeds of such sale or collection to satisfaction of the Liabilities subject to applicable law.
2. Secured Party may exercise the right to foreclose the liens and security interests created under this Security Agreement by any available judicial procedure or, to the extent permitted by law, without judicial process.
3. Secured Party may take whatever steps are warranted, upon three (3) business days written notice to Debtor, to take possession of Collateral and, to the extent permitted by applicable law, and to use Collateral, including any monies that any department, agency, or agent of the United States owes the Debtor or any of its businesses and entities to satisfy Debtor's outstanding obligations under the Settlement Agreement.
4. Secured Party may notify any account debtor or other obligor with respect to any accounts included as Collateral that such accounts have been assigned to Secured Party as security and payments with respect thereto shall be paid directly to Secured Party. At Secured Party's request, Debtor will so notify such account debtors or other obligors and will indicate on all invoices to such account debtors, or other obligors that the amount due is payable directly to Secured Party. Secured Party may, but need not, in its own name or Debtor's name, demand, sue for, collect, or receive any money or property at any time payable on account of any such account or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations of any such account debtor or other obligor without incurring any liability to Debtor. If, after such notice to any account debtor or other obligor, Debtor receives any payments from any such account debtor or other obligor, Debtor shall immediately deliver such payments to Secured Party in the form received with Debtor's endorsement if necessary, and until so delivered Debtor will hold such payments in trust for Secured Party and will not commingle such payments with any funds of Debtors.

Nothing in this paragraph is intended to waive or diminish the Secured Party's right to use Collateral, including any monies that any department, agency, or agent of the United States owes the Debtor or any of its businesses and entities, to

satisfy Debtor's outstanding obligations under the Settlement Agreement. Secured Party may sell, assign or transfer the Collateral or any part thereof, free from any equity of redemption and without appraisal or valuation, notice and right to redeem being waived and to apply all the proceeds of such sale or collection to satisfaction of the Liabilities.

11. Duties of Secured Party. The powers conferred on Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for monies actually received by it hereunder, Secured Party shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve any right of or against other parties pertaining to any Collateral.

12. Recourse. The obligation of Debtor to pay the Liabilities shall be a full recourse obligation of Debtor. In the event that liquidation of the Collateral is inadequate to satisfy the Liabilities, Secured Party shall have the right to pursue such other rights of recovery against Debtor which may be available under applicable law.

13. Further Assurances. The Debtor agrees that at any time and from time to time upon written request of the Secured Party, the Debtor will execute and deliver such further documents and do such further acts and things as the Secured Party may reasonably request in order to effect the purposes of this Agreement.

14. Notices. Notices and communications under the Settlement Agreement and this Agreement shall be in writing and shall be given by either: (i) hand-delivery, (ii) first class mail (postage prepaid), (iii) reliable overnight commercial courier (charges prepaid), or (iv) telecopy, to the following addresses and telecopy numbers:

If to Debtor:

WILLIAM P. EISELSTEIN
Miller & Martin, PLLC
1170 Peachtree St., N.E.
Suite 800
Atlanta, GA 30309-7649
Fax: (404) 962-6346

If to Secured Party:

MINA RHEE
U.S. Attorney's Office
for the Northern District of Georgia
75 Spring St., S.W.
Suite 600
Atlanta, GA 30303
Fax: (404) 581-6181

Notice given by telecopy shall be deemed to have been given and received when sent. Notice by overnight courier shall be deemed to have been given and received on the date scheduled for delivery. Notice by mail shall be deemed to have been given and received three (3) calendar days after the date first deposited in the United States Mail. Notice by hand delivery shall be deemed to have been given and received upon delivery. A party may change its address and/or telecopier number by giving written notice to the other party as specified herein.

Debtor hereby appoints William P. Eiselstein as its agent for service of process or, in the event that Debtor shall designate another agent, Debtor shall send notification in writing to Secured Party.

15. Entire Agreement. This Security Agreement and the Settlement Agreement constitute and express the entire understanding between the parties hereto with respect to the subject matter hereof and thereof, and supersede all prior agreements, commitments and understandings, inducements or conditions, express or implied, oral or written, except as herein contained. The express terms hereof control and supersede any course of performance or usage of the trade inconsistent with any of the terms hereof. Neither this Security Agreement nor any portion or provision hereof may be changed, altered, waived, modified, supplemented, discharged, canceled, terminated, or amended orally or in any manner other than by a prior written agreement signed by the parties hereto.

16. Severability. The provisions of this Security Agreement are independent of and separable from each other. The illegality or unenforceability of any provision of this Security Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder. In lieu of any illegal or unenforceable provision in this Security Agreement, a legal and enforceable provision as similar in terms to such illegal or unenforceable provision as may be possible, so long as such legal and enforceable provision is acceptable to both parties.

17. Consent to Jurisdiction and Service of Process. Debtor hereby consents that any action or proceeding against it may be commenced and maintained in the United States District Court for the Northern District of Georgia by service of process. Debtor

further agrees that such District Court shall have jurisdiction with respect to the subject matter hereof and the person of Debtor and all Collateral for the Liabilities.

18. Headings. The headings of sections and paragraphs have been included herein for convenience only and shall not be considered in interpreting this Agreement.

19. Modifications. No provision hereof shall be modified except by a writing signed by Secured Party and Debtor expressly referring to the provision hereof so modified.

20. Successors and Assigns. This Agreement shall be binding upon the assigns and successors of Debtor and shall inure to the benefit of the assigns or successors of Secured Party.

21. No Waiver. No delay, failure to enforce, or single or partial exercise on the part of Secured Party in connection with any of its rights hereunder shall constitute an estoppel or waiver thereof, or preclude other or further exercise or enforcement thereof and no waiver of any default hereunder shall be a waiver of any subsequent default. No waiver shall be valid unless in writing, signed by the Secured Party, and then only to the extent therein set forth. A waiver by the Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right of remedy which the Secured Party would otherwise have on any future occasion.

22. Choice of Law. This Agreement shall be governed as to its validity, interpretation and effect in accordance with the laws of the State of Georgia, without reference to choice-of-laws or conflict-of-laws provisions except as required by mandatory provisions of law and except if the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than Georgia. Unless the context otherwise requires, all terms used herein which are defined in the Uniform Commercial Code as enacted in Georgia shall have the meanings therein stated.

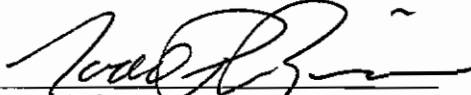
23. Term of Agreement. This Security Agreement shall continue in full force and effect until all the Liabilities of the Debtor have been finally performed and paid in full to the Secured Party.

24. Representations by Signor. The undersigned individual signing this Agreement on behalf of Debtor represents and warrants that he or she is authorized by the Debtor to execute this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first set forth above.

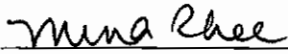
DEBTOR:

DATED: June 27, 2005 By:


TODD ROUNSAVILLE
Orthoscript, Inc.
1225 Old Alpharetta Road
Alpharetta, Georgia 30005

THE UNITED STATES OF AMERICA:

DATED: 6/22/2005 By:


MINA RHEE
Assistant U.S. Attorney
75 Spring St., S.W.
Suite 600
Atlanta, GA 30303
Tel: (404) 562-6261
Fax: (404) 562-6181



U.S. Department of Justice
United States Attorney
Northern District of Georgia

600 Richard Russell Building
75 Spring Street, S.W.
Atlanta, Georgia 30303

Telephone (404)581-6057
Fax (404)581-6181

June 21, 2005

Via Facsimile & First Class Mail

William P. Eiselstein
Miller & Martin PLLC
1170 Peachtree Street, NE
Suite 800
Atlanta, Georgia 30309

Re: Orthoscript, Inc.

Dear Mr. Eiselstein:

This letter sets forth the Agreement between the United States Attorney's Office for the Northern District of Georgia ("the Government") and Orthoscript, Inc. ("the Company").

1. Background. The Government is conducting a criminal and civil investigation into the Company's submission of claims to federal healthcare programs. The Company has requested a global resolution of criminal, civil, and administrative allegations of misconduct by the Company. The parties will settle civil claims in a separate agreement ("Civil Settlement"). In accordance with the terms stated below, the Government agrees not to criminally prosecute the Company in exchange for the Company's complete cooperation with the ongoing investigation, acceptance of responsibility, and adoption of certain remedial measures.
2. False Claims. The Government has notified the Company that two of its shareholders are suspected of violating federal criminal and civil laws. In particular, the Government is investigating whether [REDACTED] and [REDACTED] violated federal laws by causing Company employees to submit false claims to federal healthcare programs related to wrist splints, arm slings, and walking boots. The Company submitted the claims in question under HCPCS codes L3800, L3907, L3670, L2114, L2116, and L1960 between January 1, 1999 and December 31, 2003.
3. Acceptance of Responsibility. The Company accepts responsibility for the conduct of its employees giving rise to any violation in connection with the foregoing HCPCS codes. The Company does not endorse, ratify or condone criminal conduct or civil violations of law and, as set forth below, has taken steps to prevent such conduct from occurring in the future.
4. Cooperation. The Company agrees to cooperate fully with the Government in its ongoing investigation. It is agreed that the Government will determine what forms of cooperation to request from the Company. At a minimum, the Company agrees to take the following steps in furtherance of its promise to cooperate:

William P. Eiselstein
June 21, 2005

- (a) Disclosure. The Company agrees to truthfully disclose all information related to its billing under the HCPCS codes identified above, including all relevant documents and records and factual information developed through the Company's internal investigation. The Company agrees that such factual information is not within the scope of the attorney-client privilege or work-product doctrine. It is understood that the Company must at all times provide complete, truthful, and accurate information.
- (b) Access. At the Government's request, the Company agrees to grant the Government free and complete access to its facilities, computers, documents, records, and employees. At the Government's request, the Company further agrees to designate a knowledgeable employee, agent, or attorney to provide information and/or materials to the Government on behalf of the Company.
- (c) Consent. With respect to any information, evidence or materials that the Company may provide to the Government or the grand jury, the Company consents to any further disclosure to other Government entities or third parties that the Government may deem appropriate in connection with its investigation.
- (d) Evidence. The Company will not object to the Government's introduction in any criminal, civil, or administrative proceeding of evidence, information, or materials that the Company has provided under this Agreement.

5. Remedial Measures.

- (a) The Company agrees to adopt remedial measures to protect the integrity of its healthcare billing. Those measures include an obligation to terminate both the employment of [REDACTED] and his service on the Company's Board of Directors no later than July 1, 2005. The Company further promises that, during the term of this Agreement, it will neither employ nor enter into any consulting contract or like arrangement with [REDACTED] or [REDACTED], and it will not permit either of them to serve on the Company's Board of Directors or in any other management capacity.
- (b) The Company agrees to make payments to the Government as set forth in and in accordance with the Civil Settlement.

William P. Eiselstein
June 21, 2005

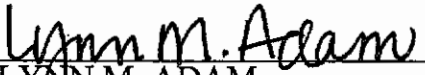
6. Agreement. In reliance on the foregoing promises, the Government agrees that it will not criminally prosecute the Company for any conduct related to the submission of false claims to federal healthcare programs under HCPCS codes L3800, L3907, L3670, L2114, L2116, and L1960 between January 1, 1999 and December 31, 2003. The Company understands and agrees that if it violates any term of this Agreement, the Government can criminally prosecute the Company. However, if the Company complies with this Agreement until its expiration, the Government may not criminally prosecute the Company for any conduct described in this paragraph.
7. Scope. This Agreement does not provide any protection to any individual or entity other than the Company. This Agreement is binding only on the Government and the Company, as defined above.
8. Breach. It is further understood that the Government will determine, in its sole discretion, whether the Company has complied with its obligations under this Agreement. If the Company breaches this Agreement:
 - (a) It may be prosecuted for any criminal, civil, or administrative violations and the Government would be free to use any evidence against the Company, including information, evidence and materials from the Company, as well as this Agreement, and the stipulated judgment addressed below. The Company also understands and agrees that any such statements made by or on behalf of the Company would be admissible against it. Additionally, the Company agrees that it would not assert any constitutional, statutory, or evidentiary objection or claim to bar the admission of such statements or other information, evidence, or materials obtained from the Company into evidence in any criminal, civil, or administrative proceeding; and
 - (b) The Government may, upon fifteen (15) days written notice to the Company, enter a stipulated judgment against the Company as provided in this paragraph. The Company agrees to execute a stipulated judgment in substantially the form attached hereto as Exhibit A. The Government agrees that such stipulated judgment will not be entered or used for any purpose as long as Orthoscript complies with this Agreement and the Civil Settlement.
9. Expiration. This Agreement expires on July 1, 2007.
10. Tolling. The Company hereby expressly waives any defense that would bar prosecution for the above-described offenses by reason of the running of the statute of limitations except to the extent that such a defense exists when the parties execute this Agreement. The statute of limitations thus is tolled until this Agreement expires.

William P. Eiselstein
June 21, 2005

11. Merger. No promises, agreements or conditions have been entered into other than those set forth in this Agreement, and none will be entered into unless memorialized in writing and signed by all parties. This Agreement supersedes any prior promises, agreements or conditions between the parties.
12. Authority. The individuals signing this Agreement on the Company's behalf represent and warrant that the Company has authorized them to execute this Agreement.

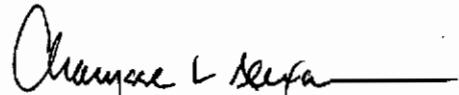
Sincerely,

DAVID E. NAHMIAS
UNITED STATES ATTORNEY


LYNN M. ADAM
ASSISTANT U.S. ATTORNEY

So Agreed, this 22nd day of June, 2005.

United States Attorney's Office (N.D. Ga.)


CHARYSSE L. ALEXANDER
Chief, Public Corruption
& Government Fraud

(continued)

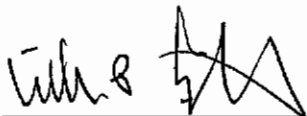
William P. Eiselstein
June 20, 2005
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Orthoscript, Inc.



6/20/05

TODD ROUNSAVILLE
Title: Vice President



WILLIAM P. EISELSTEIN
Counsel to Orthoscript, Inc.