MAGELLAN HEALTH SERVICES INC
Form S-4/A
August 26, 2002

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As filed with the Securities and Exchange Commission on August 26, 2002

Registration No. 333-66480

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 2 to FORM S-4

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

Magellan Health Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**8060**	**58-1076937**
(State or other jurisdiction of incorporation organization)	(Primary standard industrial classification code number)	(I.R.S. employer identification number)

6950 Columbia Gateway Drive
Columbia, MD 21046
(410) 953-1000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Mark S. Demilio
Executive Vice President,
Chief Financial Officer
Magellan Health Services, Inc.
6950 Columbia Gateway Drive
Columbia, MD 21046
(410) 953-1000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of correspondence to:
Michael L. Ryan
Cleary, Gottlieb, Steen & Hamilton
One Liberty Plaza
New York, New York 10006

Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement from the same offering. / / __________________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / __________________

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information contained in this Prospectus is not complete and may be amended. These securities may not be sold until the related registration statement filed with the Securities and Exchange Commission or any applicable State securities commission becomes effective. This Prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED AUGUST 26, 2002

Prospectus

Magellan Health Services, Inc.

Offer to Exchange

$250,000,000

$9^3/_8$% Senior Notes due 2007

Terms of the Exchange Offer

We are offering to exchange the notes that we sold in private and offshore offerings for new registered exchange notes.

The exchange offer expires at 5:00 p.m., New York City time on [ ] unless extended.

Tenders of outstanding notes may be withdrawn at any time prior to the expiration of the exchange offer.

All outstanding notes that are validly tendered and not validly withdrawn will be exchanged.

We believe that the exchange of notes will not be a taxable exchange for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The terms of the notes to be issued are identical to the outstanding notes, except for the transfer restrictions and registration rights relating to the outstanding notes.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of the lesser of 180 days after the Expiration Date (as defined herein) and the date on which all exchanging dealers have sold all exchange notes held by them, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

Investing in the notes issued in the exchange offer involves risks. See "Risk Factors" beginning on page 9.

We are not making an offer to exchange notes in any jurisdiction where the offer is not permitted. Neither the Securities and Exchange Commission nor any State securities commission has approved the notes to be distributed in the exchange offer, nor have any of these organizations determined that this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2002.

TABLE OF CONTENTS

Magellan Health Services, Inc. is a Delaware corporation incorporated in 1969. Our principal executive offices are located at 6950 Columbia Gateway Drive, Columbia, Maryland 21046 and our telephone number at that address is (410) 953-1000. Our website is located at www.magellanhealth.com. The information on our website is not part of this prospectus.

In this prospectus, the "Company" refers to Magellan Health Services, Inc. and not to any of its subsidiaries; "we", "us" and "our" refer to Magellan Health Services, Inc. and its subsidiaries.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State that any document filed under Chapter 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements include, in particular, statements about our plans, strategies and prospects under the heading "Summary." You can identify certain forward looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that such plans, intentions or expectations will be achieved. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this prospectus are set forth in this prospectus, including under the heading "Risk Factors." All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this prospectus.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission (the "Commission") a registration statement under the Securities Act covering the Exchange Notes. This prospectus does not contain all of the information included in the registration statement. Any statement made in this prospectus concerning the contents of any contract, agreement or other document is not necessarily complete. If we have filed any such contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We are subject to the informational requirements of the Exchange Act and, in accordance therewith, file reports, proxy statements and other information with the Commission. The reports, proxy statements and other information we file with the Commission can be inspected and copied at the public reference room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Please call the Commission at 1-800-SEC-0330 for further information on the public reference room. In addition, the Commission maintains a Web site (www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

The Commission allows us to "incorporate by reference" the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file with the Commission later will automatically update and supersede this information. The following documents filed by us and any future filings made by us with the Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering are incorporated by reference in this prospectus:

- Our Annual Report on Form 10-K for the fiscal year ended September 30, 2001,
- Our Annual Report on Form 10-K/A for the fiscal year ended September 30, 2001,
- Our Quarterly Reports on Form 10-Q for the fiscal quarters ended December 31, 2001, March 31, 2002 and June 30, 2002,
- Our Quarterly Report on Form 10-Q/A for the fiscal quarter ended June 30, 2002; and
- Our Current Reports on Form 8-K filed on December 13, 2001, May 24, 2002 and August 14, 2002.

You may request a copy of these filings, at no cost, by writing or telephoning us at:

Magellan Health Services, Inc.
6950 Columbia Gateway Drive
Columbia, Maryland 21046
Attention: Investor Relations
Telephone: (410) 953-1000

Our common stock is traded on the New York Stock Exchange under the symbol "MGL." Our reports, proxy statements and other information concerning us may be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York.

You should rely only on the information provided in this prospectus. No person has been authorized to provide you with different information.

We are not making the Exchange Offer anywhere that it is not permitted.

The information in this prospectus is accurate as of the date on the cover page. You should not assume that the information contained in this prospectus is accurate as of any other date.

SUMMARY

We are the nation's largest provider of managed behavioral healthcare services according to enrollment data reported in "Open Minds Yearbook of Managed Behavioral Health Market Share in the United States, 2000-2001" published by Open Minds, Gettysburg, Pennsylvania ("Open Minds Yearbook"). As of June 30, 2002, we had approximately 68.7 million covered lives under managed behavioral healthcare contracts and managed behavioral healthcare programs for approximately 2,300 customers. Through our current network of approximately 47,800 credentialed providers and 7,900 treatment facilities, we manage behavioral healthcare programs for health maintenance organizations ("HMOs"), Blue Cross/Blue Shield organizations and other insurance companies, corporations, federal, state and local governmental agencies, labor unions and various state Medicaid programs. We believe we have the largest and most comprehensive behavioral healthcare provider network in the United States. Our common stock is publicly traded on the New York Stock Exchange under the symbol "MGL."

Our professional care managers coordinate and manage the delivery of behavioral healthcare treatment services through our network of providers, which includes psychiatrists, psychologists, licensed clinical social workers, marriage and family therapists and licensed clinical professional counselors. The treatment services provided by our behavioral provider network include outpatient programs (such as counseling and therapy), intermediate care programs (such as sub-acute emergency care, intensive outpatient programs and partial hospitalization services), inpatient treatment services and crisis intervention services. We provide these services under the following products: (i) risk-based products; (ii) employee assistance programs ("EAPs"); (iii) administrative services-only products ("ASO products"); and (iv) products that combine features of some or all of these products.

- Under risk-based products, we arrange for the provision of a full range of behavioral healthcare services for beneficiaries of our customers' healthcare benefit plans through fee arrangements under which we assume all or a portion of the responsibility for the cost of providing such services (excluding at present the cost of medication) in exchange for a fixed per member per month fee.

- Under EAPs, we provide assessment services to employees and dependents of our customers and, if required, referral services to the appropriate behavioral healthcare service provider. For many EAP customers, we provide limited outpatient therapy (usually limited to eight or fewer sessions) to patients requiring such services.

- Under ASO products, we provide services such as utilization review, claims administration and provider network management. We do not assume the responsibility for the cost of providing behavioral healthcare services pursuant to our ASO products.

We believe, based on data reported in the Open Minds Yearbook, that we are the industry leader with respect to risk-based, ASO, EAP and integrated products. For our fiscal year ended September 30, 2001, risk-related products, which are products in which we are responsible for at least some of the cost of providing behavioral healthcare services and include risk-based, EAP and integrated products, accounted for 87.8% of our net revenues, and ASO products accounted for 12.2% of our net revenues. For the nine-month period ended June 30, 2002, risk-related products and ASO products accounted for 87.4% and 12.6%, respectively, of our net revenues.

Within the managed behavorial healthcare business, we operate in the following four segments, based on the services we provide and the customers that we serve: (i) Health Plan Solutions Group ("Health Plans"); (ii) Workplace Group ("Workplace"); (iii) Public Solutions Group ("Public"); and (iv) Corporate and Other. The Health Plans segment provides risk-based and ASO products to health plan beneficiaries through contracts with managed care companies, health insurance companies, including Blue Cross/Blue Shield organizations, and other health plans. The Workplace segment

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provides, primarily to employers including large corporations, EAP assessment and referral services and integrated products that combine EAP with risk-based or ASO managed behavioral healthcare services. The Public segment provides risk-based and ASO products to Medicaid beneficiaries through contracts with state or local government agencies. The Corporate and Other segment mainly provides operational support (such as claims adjudication and payments and network and clinical services) and administrative support (such as information systems and corporate functions) to the other segments.

Over the past three years, we have undertaken a strategy to reduce debt, improve our financial flexibility and, most recently, to focus on our core managed behavioral healthcare business. To implement this strategy, we have successfully sold non-core assets and exited non-core businesses. Since April 1999, we have:

substantially completed our exit from the healthcare provider and franchising business (which included the operation of psychiatric hospitals and our joint venture, Charter Behavioral Health Systems, LLC), our specialty managed healthcare business and our human services business (home-based behavioral healthcare services and alternative care services such as residential treatment, home and community-based programs and rehabilitative and support services);

generated net cash proceeds of approximately $173.5 million from asset sales, including the sale of our European psychiatric hospitals and National Mentor, Inc., our human services business;

received an investment of $59.1 million from affiliates of the investment firm Texas Pacific Group in December 1999;

repaid approximately $208.6 million in debt; and

issued $250 million in senior notes in May 2001 to improve our liquidity position and financial flexibility.

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The Exchange Offer

On May 31, 2001, we issued to J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and UBS Warburg LLC (the "Initial Purchasers") in a private offering $250,000,000 aggregate principal amount of $9^3/_8$% Senior Notes due 2007 (the "Initial Notes"). The Initial Purchasers placed the Initial Notes with institutional investors and non-U.S. persons in transactions exempt from the registration requirements of the Securities Act of 1933 (the "Securities Act") pursuant to Section 4(2) of, and Regulation S under, the Securities Act.

Exchange and Registration Rights Agreement

When we issued the Initial Notes, we entered into an Exchange and Registration Rights Agreement in which we agreed, among other things, to use our best efforts to complete the registered exchange offer for the Initial Notes (the "Exchange Offer") on or prior to January 25, 2002. Under the terms of the Exchange Offer, you are entitled to exchange the Initial Notes for registered exchange notes (the "Exchange Notes") with substantially identical terms. You should read the discussion under the heading "Description of the Exchange Notes" for further information regarding the Exchange Notes.

The Exchange Offer

We are offering Exchange Notes in exchange for an equal principal amount of Initial Notes. As of this date, there are $250,000,000 aggregate principal amount of Initial Notes outstanding. Initial Notes may be tendered only in integral multiples of $1,000.

Resale of Exchange Notes

We believe that the Exchange Notes may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

- you are acquiring the Exchange Notes in the ordinary course of your business;
- you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in the distribution of the Exchange Notes; and
- you are not an "affiliate" of ours.

If any of the foregoing is not true and you transfer any Exchange Note without delivering a prospectus meeting the requirements of the Securities Act and without an exemption of your Exchange Notes from such requirements, you may incur liability under the Securities Act. We do not assume or indemnify you against such liability.

Each broker-dealer that is issued Exchange Notes for its own account in exchange for Initial Notes that it acquired in market making or other trading activities must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act upon any resale of the Exchange Notes. A broker-dealer may use this prospectus for an offer to resell, resale or other retransfer of the Exchange Notes. See "Plan of Distribution." Subject to certain limitations, we will take steps to ensure that the issuance of the Exchange Notes will comply with state securities or "blue sky" laws.

Consequences of Failure to Exchange Initial Notes

If you do not exchange your Initial Notes for Exchange Notes, you will no longer be able to force us to register the Initial Notes under the Securities Act. In addition, you will not be able to offer or sell the Initial Notes, unless they are registered under the Securities Act (and we will have no obligation to register them, except for some limited exceptions) or unless you offer or sell them in a manner that

does not require registration under the Securities Act. See "Risk Factors Transfer Restrictions" and "The Exchange Offer Terms of the Exchange Offer."

Expiration Date

The Exchange Offer will expire at 5:00 p.m., New York City time, on , 2002 (the "Expiration Date") unless we decide to extend the Exchange Offer.

Interest on the Exchange Notes

The Exchange Notes will accrue interest at $9^3/_8$% per year, from either May 31, 2001 or the last date we paid interest on the Initial Notes you exchanged. We will pay interest on the Exchange Notes on May 15 and November 15 of each year through the maturity date of November 15, 2007.

Conditions to the Exchange Offer

The Exchange Offer is subject only to certain customary conditions, including that:

- the Exchange Offer does not violate applicable law or an interpretation of law of the staff of the Commission;

no change in our business has occurred which might materially impair our ability to proceed with the Exchange Offer;

no litigation materially impairs our ability to proceed with the Exchange Offer; and

we obtain all the governmental approvals we deem necessary for the Exchange Offer. See "The Exchange Offer Conditions."

Procedures for Tendering Initial Notes

If you wish to accept the Exchange Offer, you must complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal, and transmit it together with all other documents required by the letter of transmittal (including the Initial Notes to be exchanged) to the exchange agent at the address set forth on the cover page of the letter of transmittal. In the alternative, you can tender your Initial Notes by following the procedures for book-entry transfer, as described in this document. For more information on accepting the Exchange Offer and tendering your Initial Notes, see "The Exchange Offer Procedures for Tendering."

Guaranteed Delivery Procedures

If you wish to tender your Initial Notes and you cannot get your required documents to the exchange agent by the Expiration Date, you may tender your Initial Notes according to the guaranteed delivery procedures under the heading "The Exchange Offer Guaranteed Delivery Procedures."

Withdrawal Rights

You may withdraw the tender of your Initial Notes at any time prior to 5:00 p.m., New York City time, on the Expiration Date. To withdraw, you must send a written or facsimile transmission notice of withdrawal to the exchange agent at its address under "The Exchange Offer Exchange Agent" by 5:00 p.m., New York City time, on the Expiration Date.

Acceptance of Initial Notes and Delivery of Exchange Notes

Subject to certain conditions, we will accept any and all Initial Notes that are properly tendered in the Exchange Offer prior to 5:00 p.m., New York City time, on the Expiration Date. We will deliver the

Exchange Notes promptly after the expiration date. See "The Exchange Offer Terms of the Exchange Offer."

Tax Considerations

The exchange of notes should not be a taxable exchange for Federal income tax purposes, but you should consult your tax advisor about the tax consequences of this exchange. See "U. S. Federal Income Tax Considerations."

Exchange Agent

HSBC Bank USA is serving as exchange agent in connection with the Exchange Offer.

Fees and Expenses

We will bear all expenses related to consummating the Exchange Offer and complying with the Exchange and Registration Rights Agreement. See "The Exchange Offer Fees and Expenses."

Use of Proceeds

We will not receive any cash proceeds from the issuance of the Exchange Notes. We used the proceeds from the sale of the Initial Notes to repay certain amounts outstanding under our Senior Credit Facilities (as defined herein). See "Use of Proceeds."

Summary Description of the Exchange Notes

The form and terms of the Exchange Notes are identical to the form and terms of the Initial Notes except that the Exchange Notes have been registered under the Securities Act and, therefore, will not bear legends restricting their transfer. The Exchange Notes will evidence the same debt as the Initial Notes and will be entitled to the benefits of the Indenture. The following summary contains basic information about the Exchange Notes. It does not contain all the information that is important to you. For a more complete understanding of the Exchange Notes, please refer to the section of this prospectus entitled "Description of the Exchange Notes."

Maturity Date	November 15, 2007.
Interest	Annual rate: $9^{3}/_{8}$%. Payment frequency: every six months on May 15 and November 15.
Optional Redemption	On and after November 15, 2005, we may redeem some or all of the Exchange Notes at the redemption prices listed in the section entitled "Description of the Exchange Notes Optional Redemption." Prior to that date, we may not redeem the Exchange Notes, except as described in the following sentence.
	At any time and from time to time prior to November 15, 2004, we may redeem Exchange Notes in an aggregate principal amount up to 35% of the original aggregate principal amount of the Initial Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 109.375% of the principal amount thereof, plus accrued and unpaid interest and liquidated damages thereon, if any, to the redemption date so long as, after giving effect to any such redemption, (1) Initial Notes and/or Exchange Notes in an aggregate principal amount equal to at least 65% of the original aggregate principal amount of the Initial Notes remain outstanding and (2) any such redemption by us is made within 60 days of such equity offering. See "Description of the Exchange Notes Optional Redemption."
Change of Control	Upon the occurrence of a change of control, you will have the right to require us to repurchase all or a portion of your Exchange Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest and liquidated damages thereon, if any, to the date of repurchase; *provided, however*, that notwithstanding the occurrence of a change of control, we will not be obligated to repurchase the Exchange Notes pursuant to a change of control offer in the event that we have exercised our right to redeem all the notes, as described under "Optional Redemption" above. See "Description of the Exchange Notes Change of Control."

Security and Ranking	The Exchange Notes will be unsecured and:
	will be senior obligations ranking equally with all of our existing and future senior indebtedness, including all of our borrowings under the term loan facility and revolving credit facility (together, the "Senior Credit Facilities") in our senior secured bank credit agreement dated February 12, 1998 (the "Credit Agreement");

- will rank senior to all of our existing and future subordinated obligations, including the 9% Series A Senior Subordinated Notes due 2008 (the "Subordinated Notes");
- will be effectively subordinated to all of our existing and future secured indebtedness, including indebtedness under the Senior Credit Facilities, to the extent of the value of the assets securing such indebtedness; and
- will be structurally subordinated to indebtedness and other liabilities (including trade payables) and preferred stock of our subsidiaries, including the guarantees by such subsidiaries of indebtedness under the Senior Credit Facilities.

See "Description of the Exchange Notes Ranking."

As of June 30, 2002, after eliminating intercompany activity:

- the Company had approximately $394.3 million of senior indebtedness (including the Initial Notes and indebtedness under the Senior Credit Facilities, but excluding unused commitments and $51.2 million of outstanding but undrawn letters of credit);
- the Company had approximately $625.0 million of subordinated indebtedness (consisting of the Subordinated Notes);
- the Company's subsidiaries had approximately $6.4 million of indebtedness (excluding guarantees of indebtedness under the Senior Credit Facilities);
- the Company and its subsidiaries had approximately $144.3 million of secured indebtedness (including indebtedness under the Senior Credit Facilities, but excluding unused commitments, $51.2 million of outstanding but undrawn letters of credit and guarantees of indebtedness under the Senior Credit Facilities);
- the Company's subsidiaries had approximately $376.9 million of total liabilities (excluding guarantees of indebtedness under the Senior Credit Facilities); and
- the Company's subsidiaries had no preferred stock outstanding.

Indebtedness under the Senior Credit Facilities is secured by substantially all of our assets and the assets of our subsidiaries.

No Guarantees for the Exchange Notes

The Exchange Notes will not be guaranteed by any of our existing or future subsidiaries. After eliminating intercompany activities, our subsidiaries had:

- assets of $1,559.8 million, or 93.4% of our total assets, as of June 30, 2002;
- liabilities (excluding guarantees of amounts outstanding under the Senior Credit Facilities) of $376.9 million as of June 30, 2002;
- revenue of $1,755.5 million and $1,319.8 million, or 100.0% and

	100.0% of our consolidated revenue, for fiscal year 2001 and the nine months ended June 30, 2002, respectively;
	EBITDA of $257.3 million and $152.4 million, or 104.9% and 104.3% of our consolidated EBITDA, for fiscal year 2001 and the nine months ended June 30, 2002, respectively.
Certain Covenants	We will issue the Exchange Notes under an indenture (the "Indenture") with HSBC Bank USA, as trustee (the "Trustee"). The Indenture will, among other things, restrict our ability and the ability of our subsidiaries to:
	borrow money;
	pay dividends on stock, redeem stock or redeem subordinated debt;
	make certain other payments, including for investments;
	enter into agreements that restrict dividends from subsidiaries;
	sell assets and use the proceeds from asset sales;
	enter into affiliate transactions;
	create liens on assets;
	enter into sale/leaseback transactions; and
	merge or consolidate.
	These covenants will be subject to a number of important exceptions and qualifications. For more details, see "Description of the Exchange Notes Certain Covenants."

Risk Factors

You should carefully consider the information under the caption "Risk Factors" and all other information in this prospectus in determining whether to participate in the Exchange Offer.

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Risk Factors

You should carefully consider the risks described below in evaluating the Exchange Offer. The risks outlined below are not the only ones facing our company. Additional risks not currently known to us or that we currently consider immaterial may also impair our business operations. The Initial Notes and the Exchange Notes are collectively referred to herein as the "Notes" or "notes".

Substantial Leverage Our substantial leverage results in significant debt service obligations that could adversely affect our ability to fulfill our obligations under the notes and operate our business.

We are currently highly leveraged, with indebtedness that is substantial in relation to our stockholders' equity. As of June 30, 2002 our aggregate outstanding indebtedness was approximately $1.0 billion and our stockholders' equity was approximately $179.9 million. The Credit Agreement, the indenture for the Subordinated Notes (the "Subordinated Notes Indenture") and the Indenture permit us to incur or guarantee certain additional indebtedness, subject to certain limitations.

Our high level of indebtedness could have important consequences to you, including the risks that:

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired in the future;

- a substantial portion of our cash flows from operations must be dedicated to the payment of principal and interest on our indebtedness;

- we are substantially more leveraged than certain of our competitors, which might place us at a competitive disadvantage;

- we may be hindered in our ability to adjust rapidly to changing market conditions;

- our indebtedness may restrict us from raising additional financing on satisfactory terms to fund working capital, capital expenditures, product development efforts and strategic acquisitions;

- our high degree of leverage could make us more vulnerable in the event of a downturn in general economic conditions or our business or in the event of adverse changes in the regulatory environment or other adverse circumstances applicable to us;

- our interest expense could increase if interest rates in general increase because a portion of our indebtedness bears interest at a floating rate;

- our level of indebtedness may prevent us from raising the funds necessary to repurchase all of the notes tendered to us upon the occurrence of a change of control, which would constitute an event of default under the notes; and

- our failure to comply with the financial and other restrictive covenants in our indebtedness, which, among other things, require us to maintain certain financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business or our prospects. See "Risk Factors Restrictive Covenants in Our Debt Instruments."

See "Description of the Exchange Notes Change of Control," " Events of Default and Remedies" and " Certain Covenants."

Ability to Service Debt To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.

Our ability to repay or to refinance our indebtedness and to pay interest on our indebtedness will depend on our financial and operating performance, which, in turn, is subject to prevailing economic and competitive conditions and to certain financial, business and other factors, many of which are beyond our control. These factors could include operating difficulties, increased operating costs, the actions of competitors, regulatory developments and delays in implementing strategic projects. Our

ability to meet our debt service and other obligations may depend in significant part on the extent to which we can successfully implement our business strategy. There can be no assurance that we will be able to implement our strategy fully or that the anticipated results of our strategy will be realized.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or seek to obtain additional equity capital or to restructure our debt. Our cash flows and capital resources may not be sufficient for payment of principal of and interest on our indebtedness in the future. These alternative measures may not be successful or permit us to meet our scheduled debt service obligations.

In addition, because our obligations under the Senior Credit Facilities bear interest at floating rates, an increase in interest rates could adversely affect, among other things, our ability to meet our debt service obligations.

Additional Borrowing Capacity Despite our substantial leverage at present, we will be able to incur more debt.

The Credit Agreement, the Subordinated Notes Indenture and the Indenture allow us to incur additional indebtedness under certain circumstances, including, as of June 30, 2002, up to $83.8 million of additional debt under the Revolving Facility, giving effect to the reduction of availability due to $51.2 million of outstanding stand-by letters of credit and $15.0 million in outstanding borrowings. If we incur additional debt above the levels in effect the risks associated with these levels of debt could intensify.

Structural Subordination Claims of creditors of our subsidiaries will have priority with respect to the assets and earnings of those subsidiaries over your claims.

Claims of creditors of our subsidiaries, including trade creditors, secured creditors and creditors holding indebtedness, preferred stock or guarantees issued by those subsidiaries, will generally have priority with respect to the assets and earnings of such subsidiaries over the claims of the Company's creditors, including holders of the notes, even if the obligations of those subsidiaries do not constitute senior indebtedness.

The indebtedness outstanding under the Senior Credit Facilities is fully guaranteed by substantially all of our direct and indirect domestic wholly-owned subsidiaries and substantially all of our future direct and indirect domestic wholly-owned subsidiaries (collectively, the "Bank Guarantors"). The obligations of the Bank Guarantors are secured by security interests in, or liens on, substantially all tangible and intangible assets of the Bank Guarantors (excluding real property). The notes are not guaranteed by any of our subsidiaries. Therefore, the lenders under the Senior Credit Facilities will have a direct claim against the assets of the Bank Guarantors, but the holders of the notes do not.

We conduct substantially all of our operations through our subsidiaries. As a result, we are required to rely upon payments from our subsidiaries for the funds necessary to meet our obligations, including the payment of interest on and principal of the notes. The ability of our subsidiaries to pay dividends and make other payments to us is contingent upon the earnings of those subsidiaries and may be restricted by, among other things, agreements of the subsidiaries with their customers and applicable corporate and other laws and regulations, including regulations that may require our subsidiaries to maintain minimum levels of deposits, net worth, capital, surplus or reserves, or limit their ability to pay dividends, make investments or repay indebtedness. Although, in general, the Indenture limits the ability of our subsidiaries to enter into consensual restrictions on their ability to pay dividends and make other payments, these limitations are subject to a number of significant qualifications and exceptions. See "Description of the Exchange Notes Certain Covenants Limitation on Payment Restrictions Affecting Restricted Subsidiaries."

Our subsidiaries had:

- assets of $1,559.8 million, or 93.4% of our total assets, as of June 30, 2002;

- liabilities (excluding guarantees of amounts outstanding under the Senior Credit Facilities) of $376.9 million as of June 30, 2002;

- revenue of $1,755.5 million and $1,319.8 million, or 100% and 100% of our consolidated net revenue, for fiscal year 2001 and the nine months ended June 30, 2002, respectively.

See "Description of the Exchange Notes Ranking," "Description of the Exchange Notes Certain Covenants Limitation on Additional Indebtedness," "Description of the Exchange Notes Change of Control" and "Description of the Exchange Notes Certain Covenants Limitation on Use of Proceeds from Asset Sales."

Unsecured Status of the Notes The notes are effectively subordinated to the loans under the Credit Agreement because those loans are secured.

The notes and loans under the Credit Agreement will rank equally in right of payment and both will be senior in right of payment to the Subordinated Notes and other subordinated indebtedness. The notes, however, will be unsecured, while loans outstanding under the Credit Agreement are secured by substantially all of our assets and those of the Bank Guarantors. In addition, subject to certain limitations in the

Indenture, we may incur other senior indebtedness, including secured indebtedness. In the event of a bankruptcy, liquidation, reorganization or other winding-up of us or the Bank Guarantors or upon a default in payment on, or the acceleration of, any indebtedness under the Credit Agreement or other secured indebtedness, our assets and those of the Bank Guarantors that secure secured indebtedness will be available to pay obligations on the notes only after all indebtedness under the Credit Agreement and other secured indebtedness have been paid in full from those assets, and there may not be sufficient assets remaining to pay amounts due on any or all of the notes then outstanding. As of June 30, 2002, we had approximately $118.0 million of indebtedness outstanding under the Term Loan Facility and had the ability to borrow up to an additional $83.8 million under the Revolving Facility (giving effect to the reduction of availability due to $51.2 million of outstanding stand-by letters of credit and $15.0 million in outstanding borrowings). In addition to the Senior Credit Facilities, as of June 30, 2002, we had $886.3 million of indebtedness, $11.3 million of which was secured indebtedness.

Inability to Repurchase the Notes Prior to Maturity We may be unable to repurchase notes tendered pursuant to an offer to repurchase, which the Indenture requires us to make if a change of control occurs, because we may not have, or be able to raise, sufficient funds.

If we experience certain changes of control, you will have the right to require us to repurchase your notes at a purchase price in cash equal to 101% of the principal amount of your notes plus accrued and unpaid interest. The Credit Agreement provides that certain change of control events with respect to us constitute a default thereunder. Any future credit agreement or other agreements relating to senior indebtedness to which we become a party may contain similar provisions.

In addition, if we experience certain changes of control, holders of the Subordinated Notes will also have the right to require us to repurchase their Subordinated Notes. However, we are prohibited by the Credit Agreement from repurchasing any Subordinated Notes, except under limited circumstances. If we experience certain changes of control when we are prohibited from repurchasing Subordinated Notes, we could seek the consent of our lenders to purchase the Subordinated Notes or could attempt to refinance the borrowings that contain such a prohibition. In the event that we do not obtain this consent and do not refinance such borrowings, we would remain prohibited from purchasing the Subordinated Notes. In such case, our failure to purchase tendered Subordinated Notes would constitute a default under the Subordinated Notes Indenture, which, in turn, could result in amounts outstanding under the Senior Credit Facilities and other senior indebtedness, including the notes, being declared due and payable. Any such declaration could have adverse consequences to both you as well as us.

In the event we experience certain changes of control, we may not have sufficient assets to satisfy all of our obligations under the Senior Credit Facilities, the Subordinated Notes and the notes. The provisions relating to a change of control included in the Credit Agreement, the Subordinated Notes Indenture and the Indenture as well as provisions of the Delaware General Corporation Law, our certificate of incorporation and our by-laws, may increase the difficulty of a potential acquiror obtaining control over us. See "Description of the Exchange Notes Change of Control" and "Description of the Exchange Notes Certain Covenants Limitation on Use of Proceeds from Asset Sales."

Restrictive Covenants in Our Debt Instruments Restrictions imposed by the Credit Agreement, the Subordinated Notes Indenture and the Indenture may limit our ability to take certain actions and result, if not adhered to, in defaults under our debt instruments.

The Subordinated Notes Indenture and the Indenture contain a number of covenants that limit our management's discretion in the operation of our business by restricting our ability to:

- incur additional indebtedness or issue preferred or redeemable stock;
- pay dividends and make other distributions;
- repurchase equity interests;
- prepay subordinated debt;
- make restricted payments;

enter into sale and leaseback transactions;

create liens;

sell and otherwise dispose of assets;

merge or consolidate; and

enter into certain transactions with affiliates.

These restrictions may adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our interest. In addition, the Credit Agreement, as amended, includes other and more restrictive covenants and prohibits us from prepaying certain of our other indebtedness. The Credit Agreement also requires us to comply with specified financial ratios and tests, including a minimum interest coverage ratio, a maximum leverage ratio and a maximum senior debt ratio. We may not be able to comply with such covenants, ratios and tests in the future. Our ability to comply with such covenants, ratios and tests may be affected by one or more significant adverse outcomes with regard to litigations and events beyond our control, including certain prevailing economic, financial and industry conditions. The breach of any such covenants, ratios or tests could result in a default under one or more of the Credit Agreement, the Subordinated Notes Indenture or the Indenture, which would permit the lenders under the Credit Agreement, and in certain circumstances the holders of the Subordinated Notes or the notes, to declare all amounts outstanding under those agreements to be immediately due and payable, together with accrued and unpaid interest.

Management estimates that we will not be in compliance with one or more of our financial covenants, as amended, as of September 30, 2002 and beyond. Management is evaluating certain alternatives to alleviate this issue, including further amendments to the Credit Agreement or refinancing amounts outstanding under the Credit Agreement. There can be no assurance that management will be able to successfully implement such alternatives. If we are unable to implement such alternatives at sufficient financing levels, we would not have the liquidity necessary to repay any debt that was so accelerated, and our ability to obtain liquidity required for our operations would be uncertain. Our auditors have informed management that if we are unable to sufficiently remediate our anticipated non-compliance with debt covenants, the auditors expect to issue a going concern modification within the auditor's report on the September 30, 2002 financial statements.

Furthermore, the commitments of the lenders under the Credit Agreement to make further extensions of credit thereunder could be terminated. If we were unable to repay all amounts accelerated, the lenders could proceed against us and the Bank Guarantors and the collateral securing the Company's and the Bank Guarantors' obligations pursuant to the Credit Agreement. If the indebtedness outstanding pursuant to the Credit Agreement were to be accelerated, our assets might not be sufficient to repay such indebtedness and our other indebtedness, including the notes. If not cured or waived, such default could have a material adverse effect on our business or our prospects.

See "Description of the Exchange Notes Certain Covenants."

Risk-Related Products Our ability to predict and control behavioral healthcare costs will determine whether we earn a profit on our contracts to provide services for a fixed fee.

Our revenues come primarily from arrangements under which we assume all or a portion of the responsibility for the cost of providing a full or specified range of behavioral healthcare treatment services (excluding at present the cost of pharmaceuticals or other medication) to a specified beneficiary population in exchange, generally, for a fixed fee per member per month. We refer to such arrangements in this prospectus as "risk-related contracts" and "risk-related products". Revenues from such arrangements accounted for approximately 86.3%, 87.7%, 87.8%, 87.6% and 87.4% of our net revenue in fiscal years 1999, 2000, 2001 and the nine months ended June 30, 2001 and 2002, respectively. In order for such contracts to be profitable, we must accurately estimate the rate of service utilization by beneficiaries enrolled in programs managed by us and control the unit cost of such services. The most significant factor affecting the profitability of risk-related contracts is the ability to control direct service costs in relation to contract pricing. If the aggregate cost of behavioral healthcare treatment services provided to a given beneficiary population in a given period exceeds the aggregate of the per member per month fees received by us with respect to the beneficiary population in such period, we will incur a loss with respect to such beneficiary population during such period. Our assumptions as to service utilization rates and costs may not accurately and adequately reflect actual utilization rates and costs. Increases in behavioral healthcare costs or higher-than-anticipated utilization rates, significant aspects of which are outside our control, may cause expenses associated with such contracts to exceed our revenue from such contracts. The September 11, 2001 terrorist attacks have contributed to, and any further terrorist attacks against the United States may contribute to, such increases in utilization rates and behavioral healthcare costs.

In addition, adjustments may be required to the estimates, particularly those regarding cost of care, made in reporting historical financial results. Medical claims payable in our financial statements includes reserves for incurred but not reported ("IBNR") claims which are estimated by us. We determine the amount of such reserves based on past claim payment experience for member groups, including the average interval between the date services are rendered and the date claims are paid and between the date services are rendered and the date we receive the claims, enrollment data, utilization statistics, adjudication decisions, authorized healthcare services and other factors. This data is incorporated into contract specific reserve models. The estimates for submitted claims and IBNR claims are made on an accrual basis and adjusted in future periods as required. However, changes in assumptions for medical costs caused by changes in actual experience (such as changes in the delivery system, changes in utilization patterns, unforeseen fluctuations in claims backlogs and others) may ultimately prove these estimates inaccurate. During the three months ended March 31, 2001, we recorded an adjustment (and corresponding income statement charge) of $15.0 million to our estimate of claims incurred in prior years based on the results of our reduction in claims inventory and other claims processing improvements. As of June 30, 2002, we believe that our medical claims payable balance of $204.5 million is adequate in order to satisfy ultimate claim liabilities incurred through June 30, 2002. Any adjustments to such estimates could adversely affect our results of operations in future periods.

We will attempt to increase membership in our risk-related products. If we are successful in this regard, our exposure to potential losses from our risk-related products will also be increased. Furthermore, certain of these contracts and certain state regulations limit the profits that we may earn on risk-related business and may require refunds if the loss experience is more favorable than that originally anticipated. We frequently record retroactive customer settlements which may be unfavorable. These contracts and regulations may also require us or certain of our subsidiaries to reserve a specified amount of cash as financial assurance that we can meet our obligations under such contracts. As of June 30, 2002, we had restricted cash and investments of approximately $116.8 million pursuant to such contracts and regulations. Such amounts will not be available to us for general corporate purposes. Furthermore, certain state regulations restrict the ability of subsidiaries that offer risk-related products to pay dividends to us. Certain state regulations relating to the licensing of insurance companies may also adversely affect our risk-related business. Although experience varies on a contract-by-contract basis, historically, our risk-related contracts have been profitable in the aggregate. However, the degree of profitability varies significantly from contract to contract. For example, our Medicaid contracts with governmental entities generally tend to have direct profit margins that are lower than our other contracts. The most significant factor affecting the profitability of risk-related contracts is the ability to control direct service costs in relation to contract pricing.

Integration of Operations Our efforts to integrate our operations may not result in the level of cost savings and improved services that we are anticipating.

Since 1998, we have consolidated our managed behavioral healthcare businesses, eliminating duplicate staffing and facilities. We are now focusing on the next level of integration that includes reduction in computer system platforms, best practices analysis, standardization of provider contracting and utilization of the Internet to reduce the administrative burden to providers, customers and beneficiaries, as well as further consolidation of our regional service centers. We believe that we can reduce administrative costs and improve customer service through these measures. However, we may not be able to implement these initiatives or realize the anticipated savings associated with these initiatives. Also, certain costs may increase during the transition period even if savings are ultimately realized.

In addition, if we experience significant disruptions in our computer systems and related claims payment problems during the integration process, these developments would adversely affect our relationships with many of our contracted providers and our business and results of operations.

Reliance on Customer Contracts Our inability to renegotiate customer contracts could adversely affect us.

All of our net revenue in fiscal year 2001 and the nine months ended June 30, 2002 was derived from contracts with payors of behavioral healthcare benefits. Our managed behavioral healthcare contracts typically have terms of one to three years, and in certain cases contain renewal provisions (at the customer's option) providing for successive terms of between one and two years (unless terminated earlier). Substantially all of these contracts are immediately terminable with cause and many, including some of our most significant contracts, are terminable without cause by the customer upon the provision of requisite notice and the passage of a specified period of time (typically between 60 and 180 days), or upon the occurrence of certain other specified events. Our ten largest customers accounted for approximately 56.3%, 59.1% and 57.4% of our net revenue for fiscal years 2000 and 2001 and the nine months ended June 30, 2002, respectively. Loss of all of these contracts or customers would, and loss of any one of these contracts or customers could, have a material adverse effect on us. In addition, price competition in bidding for contracts can significantly affect the financial terms of any new or renegotiated contract.

Our two largest customer contracts are with Aetna Inc. ("Aetna") and the State of Tennessee's TennCare program. Our managed behavioral contracts with Aetna, including NYLCare Health Plans and Prudential HealthCare, which were acquired by Aetna in July 1998 and August 1999, respectively,

accounted for approximately $235 million, $283 million, $315 million, $238 million and $196 million of consolidated net revenue in fiscal years 1999, 2000, 2001 and the nine months ended June 30, 2001 and 2002, respectively, accounting for approximately 16.0%, 17.2%, 18.0%, 18.0% and 14.9% of our net revenues, respectively, for those periods. The decrease in Aetna revenue of approximately $42 million in the nine months ended June 30, 2002 compared to the nine months ended June 30, 2001 was mainly due to decreased membership as a result of Aetna intentionally reducing its membership levels during the year in an effort to exit less profitable businesses. Aetna has announced its expectation that its membership may be further reduced during the remainder of calendar year 2002. We are not fully aware of which members Aetna expects will terminate, if any, or which products such members currently receive. Therefore, we cannot reasonably estimate the amount by which revenue will be further reduced as a result of these membership reductions. The current Aetna contract extends through December 31, 2003.

Until June 30, 2002, both we and Premier Behavioral Systems of Tennessee, LLC ("Premier"), a joint venture in which we have a fifty percent interest, separately contracted with the State of Tennessee to manage the behavioral healthcare benefits for the State's TennCare program. Our direct TennCare contract (exclusive of Premier) accounted for approximately $214 million, $227 million, $249 million, $185 million and $175 million of consolidated net revenue in fiscal years 1999, 2000, 2001 and the nine months ended June 30, 2001 and 2002, respectively, accounting for approximately 14.6%, 13.8%, 14.2%, 13.9% and 13.3% of our net revenues, respectively, for those periods.

In May 2002, we signed a new contract with the State of Tennessee under which we provide all services under the TennCare program through a direct contract. The new TennCare contract covers the period from July 1, 2002 through December 31, 2003. Premier was to cease providing services upon the expiration of its contract on June 30, 2002, however, the State of Tennessee has delayed the transfer of Premier's TennCare membership to us pending the State's clarification of certain matters regarding the membership transfer. We believe that the Premier membership will shift to us during either the first or second quarter of fiscal 2003, at which time the Premier contract will terminate. The State of Tennessee requires Premier to exist for 24 months after contract termination during which time the final run-out of claims and other liabilities will occur.

The Aetna and TennCare contracts may not be extended or successfully renegotiated or the terms of any new contracts may not be comparable to those of existing contracts.

Fluctuation in Operating Results Our operating results have been and may in the future be subject to significant fluctuations on a quarterly basis.

Our quarterly operating results have varied in the past and may fluctuate significantly in the future due to a combination of factors, including:

- changes in utilization levels by enrolled members of our risk-based contracts, including seasonal utilization patterns;
- performance-based contractual adjustments to revenue, reflecting utilization results or other performance measures;
- changes in estimates for contractual adjustments under commercial contracts and TRICARE contracts;
- retrospective membership adjustments;
- the timing of implementation of new contracts and enrollment changes;
- pricing adjustments upon long-term contract renewals; and

changes in estimates regarding medical costs and incurred but not yet reported medical claims.

These factors may affect our quarterly revenues, expenses and results of operations in the future. Accordingly, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. It is possible that in future periods our results of operations may be below the expectations of the public market, analysts and investors.

Dependence On Government Spending For Managed Healthcare; Possible Impact of Healthcare Reform We could be adversely affected by changes in federal, state and local healthcare policies.

A significant portion of our revenue is derived, directly or indirectly, from federal, state and local governmental agencies, including state Medicaid programs. Reimbursement rates vary from state to state, are subject to periodic negotiation and may limit our ability to maintain or increase rates. We are unable to predict the impact on our operations of future regulations or legislation affecting Medicaid or Medicare programs, or the healthcare industry in general, and future regulations or legislation may have a material adverse effect on us. Moreover, any reduction in government spending for such programs could also have a material adverse effect on us. In addition, our contracts with federal, state and local governmental agencies, under both direct contract and subcontract arrangements, generally are conditioned upon financial appropriations by one or more governmental agencies, especially with respect to state Medicaid programs. These contracts generally can be terminated or modified by the customer if such appropriations are not made. Finally, some of our contracts with federal, state and local governmental agencies, under both direct contract and subcontract arrangements, require us to perform additional services if federal, state or local laws or regulations imposed after the contract is signed so require, in exchange for additional compensation to be negotiated by the parties in good faith. Government and other third-party payors are generally seeking to impose lower reimbursement rates and to renegotiate reduced contract rates with service providers in a trend toward cost control.

The U.S. Congress is considering legislation which, among other things, would place limits on healthcare plans and methods of operations, limit employers' and healthcare plans' ability to define medical necessity and permit employers and healthcare plans to be sued in state courts for coverage determinations. It is uncertain whether we could recoup, through higher premiums or other measures, the increased costs of federally mandated benefits or other increased costs caused by such legislation or similar legislation. In addition, if any federal parity legislation is adopted and the difference in coverage limits for mental health coverage and medical health coverage is reduced or eliminated, any increase in revenue we derive following such legislation may not be sufficient to cover the increase in costs that would result from a greater utilization of mental healthcare services. We cannot predict the effect of this legislation, nor other legislation that may be adopted by Congress, and such legislation may have an adverse effect on us.

Regulation Regulatory matters could adversely affect our ability to conduct our business.

The managed behavioral healthcare industry and the provision of behavioral healthcare services are subject to extensive and evolving state and federal regulation. We are subject to certain state laws and regulations and federal laws as a result of the role we assume in connection with managing our customers' employee benefit plans.

The regulatory issues that may affect our operations include:

- whether we need to obtain additional licenses from state authorities to conduct our business, including our utilization review and third party administration activities;

- whether we comply with various limits imposed by state authorities to prevent corporations from controlling or excessively influencing behavioral healthcare services through the direct employment of psychiatrists, psychologists or other professionals, and to prohibit such persons from splitting fees with other persons or entities;

- whether we comply with laws that impose upon insurance companies, preferred provider organizations, HMOs and other types of third-party payors an obligation to contract with any healthcare provider willing to meet the terms of the payor's contracts with similar providers;

- maintaining confidentiality of patient information; and
- becoming compliant with the federal Health Insurance Portability and Accountability Act of 1996 within imposed deadlines.

The imposition of additional license requirements and other regulatory requirements may, among other things, increase our equity requirements, increase the cost of doing business or force us to change our operations significantly to comply with these requirements.

Risks Related To Valuation and Amortization of Intangible Assets We could be adversely affected if the value of intangible assets is not fully realized.

Our total assets at June 30, 2002 reflect goodwill of approximately $1,126.0 million, representing 67.4% of our total assets. During the three months ended December 31, 2001, we adopted Financial Accounting Standards Board Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." Under SFAS 142, we no longer amortize goodwill over its estimated useful life. Instead, we are required to test the goodwill for impairment based upon fair values at least on an annual basis. In accordance with the early adoption of SFAS 142, we must perform an initial impairment test as of October 1, 2001. Accordingly, we have completed the first phase of the goodwill impairment test and have determined that the allocated book value of the Workplace segment exceeds its fair value. Therefore, we have proceeded with the second phase of the impairment test, which is the measurement of the potential loss. We will record any impairment charge as a change in accounting principle, separate from operating results. We expect to complete our analyses and record the impact of the change in accounting principle no later than September 30, 2002. In addition, we will perform our annual impairment test as of July 1, 2002 during our fiscal quarter ending September 30, 2002. Any determination requiring a write-off of a significant portion of goodwill would adversely affect our results of operations.

In addition to goodwill, at June 30, 2002 we had other identifiable intangible assets (primarily customer lists, provider networks and treatment protocols) of approximately $76.7 million, net of accumulated amortization of $45.2 million, which are being amortized over 8 to 30 years. The amortization periods used by us may differ from those used by other entities. In addition, we may be required to shorten the amortization period for intangible assets in future periods based on the prospects of acquired companies. We may not ever realize the value of such assets.

We evaluate, on a regular basis, whether events and circumstances have occurred that indicate that all or a portion of the carrying value of intangible assets may no longer be recoverable, in which case a charge to earnings for impairment losses could become necessary. When events or changes in circumstances are present that indicate the carrying amount of intangible assets may not be recoverable, we assess the recoverability of intangible assets other than goodwill by determining whether the carrying value of such intangible assets will be recovered through the future cash flows expected from the use of the asset and its eventual disposition. In fiscal year 2000, we recorded impairment losses on intangible assets and other long-lived assets of $15.8 million for continuing operations and $75.2 million for discontinued operations. The loss for discontinued business operations related to the write-down of certain long-lived assets of our specialty managed healthcare segment and our Group Practice Affiliates subsidiary. Any event or change in circumstances which leads to a future determination requiring additional write-offs of a significant portion of unamortized intangible assets, which may include goodwill, would adversely affect our results of operations.

Claims for Professional Liability We are subject to various litigation claims and civil suits which may adversely affect us.

The management and administration of the delivery of managed behavioral healthcare services, and the direct provision of behavioral healthcare treatment services, entail significant risks of liability. From time to time, we are subject to various actions and claims of professional liability for alleged negligence in performing utilization review activities, as well as for the acts or omissions of our employees, network providers or other parties. In the normal course of business, we receive reports relating to suicides and other serious incidents involving patients enrolled in our programs. Such incidents occasionally give rise to malpractice, professional negligence and other related actions and claims against us or our network providers. As the number of lives covered by us grows and the number of providers under contract increases, actions and claims against us (and, in turn, possible legal liability) predicated on malpractice, professional negligence or other related legal theories can be expected to increase. We are also subject to actions and claims for the costs of services for which payment was denied. Many of these actions and claims seek substantial damages and require us to incur significant fees and costs related to our defense. Pending or future actions or claims for professional liability (including any judgments, settlements or costs associated therewith) may have a material adverse effect on us.

Class Action Suits We have been targeted as defendants in class action suits that may adversely affect us.

Recently, certain managed healthcare companies, including us, have been targeted as defendants in several national class action lawsuits regarding their business practices. The class action complaints against us allege misrepresentations with respect to, and failure to disclose, our claims practices, the extent of the benefits coverage and other matters that cause the value of the benefits to be less than the amount of premium paid. We believe that these national class action lawsuits are part of a trend targeting the healthcare industry, particularly managed care companies. One other class action lawsuit against us alleges that a provider at one of our facilities violated privacy rights of certain patients. Such lawsuits may have a material adverse effect on us.

Professional Liability Insurance Our inability to secure adequate levels of insurance could have a material adverse effect on us.

We carry professional liability insurance, subject to certain deductibles. Such insurance may not be sufficient to cover any judgments, settlements or costs relating to present or future claims, suits or complaints. Upon expiration of our professional liability insurance, sufficient insurance may not be available on favorable terms, if at all. To the extent our customers are entitled to indemnification under their contracts with us relating to liabilities they incur arising from the operation of our programs, such indemnification may not be covered under our insurance policies. To the extent that certain actions and claims seek punitive and compensatory damages arising from alleged intentional misconduct by us, such damages, if awarded, may not be covered, in whole or in part, by our insurance policies. If we are unable to secure adequate insurance in the future, or if the insurance we carry is not sufficient to cover any judgments, settlements or costs relating to any present or future actions or claims, such judgments, settlements or costs may have a material adverse effect on us. In addition, we obtain surety bonds from insurance companies to meet requirements under the laws and regulations of states in which we operate. We anticipate our letter of credit requirements to increase in future periods to potentially replace or collateralize surety bonds due to the current condition of the surety bond market. We currently have approximately $41.8 million of surety bonds outstanding ($19.3 million of which is 50% collateralized with letters of credit). If we are unable to obtain adequate surety bonds or make alternative arrangements to satisfy the requirements for such bonds, we may no longer be able to operate in those states, which would have a material adverse effect on us.

Government Investigations If we are not able to comply with the requirements of various government agencies that regulate our operations, we may be materially and adversely affected.

From time to time, we receive notifications from and engage in discussions with various government agencies concerning our respective managed care businesses and operations. As a result of these contacts with regulators, we in many instances implement changes to our operations, revise our filings with such agencies and/or seek additional licenses to conduct our business. We also have certain potential liabilities relating to the self-insurance program we maintained with respect to our provider business prior to the sale in June 1997 of substantially all of our domestic acute care psychiatric hospital and residential treatment facilities to Crescent Real Estate Equities Company. In addition, we continue to be subject to governmental investigations and inquiries, civil suits and other claims and assessments with respect to the provider business. Our inability to cooperate with these government investigations and inquiries and comply with the various requirements imposed on us as a result of these proceedings may have a material adverse effect on our business.

Terrorist Attacks Terrorist attacks, such as the September 11, 2001 terrorist attacks and the anthrax scare and other acts of violence or war, may affect the financial and insurance markets and our business, results of operations and financial condition.

As a result of the September 11, 2001 terrorist attacks and subsequent events, there has been considerable uncertainty in world financial markets. The full effect of these events, as well as concerns about future terrorist attacks, on the financial markets is not yet known, but could include, among other things, increased volatility in the prices of securities, including the notes. These uncertainties could also adversely affect our ability to obtain financing on terms acceptable to us or at all, for debt repayments, acquisitions, capital expenditures or working capital.

In addition, terrorist attacks may lead to sustained increases in premiums for professional liability and other insurance or to reductions in the available amount of insurance coverage or surety bonds, either of which may have a material adverse effect on us as described above in " Professional Liability Insurance."

Fraudulent Conveyance Issues The notes may be subject to federal and state fraudulent transfer statutes.

Under applicable provisions of the U.S. Bankruptcy Code or comparable provisions of state fraudulent transfer or conveyance laws, if we, at the time we issued the Initial Notes:

(1) incurred such indebtedness with the intent to hinder, delay or defraud creditors; or

(2)

received less than reasonably equivalent value or fair consideration for incurring such indebtedness, and

were insolvent at the time of incurrence;

were rendered insolvent by reason of such incurrence (and the application of the proceeds thereof);

were engaged or were about to engage in a business or transaction for which our remaining assets constituted unreasonably small capital to carry on our businesses; or

intended to incur, or believed that we would incur, debts beyond our ability to pay such debts as they matured or became due;

then, in each case, a court of competent jurisdiction could (1) void, in whole or in part, the notes and direct the repayment of any amounts paid thereunder to our other creditors, (2) subordinate the notes to our obligations to our existing and future creditors or (3) take other actions detrimental to the

holders of the notes. The measure of insolvency for purposes of the foregoing will vary depending upon the law applied in the case. Generally, however, we would be considered insolvent if the sum of our debts, including contingent liabilities, was greater than all of our assets at fair valuation or if the present fair saleable value of our assets was less than the amount that would be required to pay the probable liability on our existing debts, including contingent liabilities, as they become absolute and matured.

We cannot predict:

what standard a court would apply in order to determine whether we were insolvent as of the date we issued the Initial Notes, or that regardless of the method of valuation, a court would determine that we were insolvent on that date; or

whether a court would determine that the payments constituted fraudulent transfers or conveyances on other grounds.

In addition, under U.S. federal bankruptcy or applicable state insolvency law, if certain bankruptcy or insolvency proceedings were initiated by or against us within 90 days after the payment by us with respect to the Initial Notes, or if we anticipated becoming insolvent at the time of such payment, all or a portion of such payment could be avoided as a preferential transfer and the recipient of such payment could be required to return such payment.

We believe that we issued the Initial Notes for proper purposes in good faith and that at the time we issued the Initial Notes we were not insolvent nor rendered insolvent thereby, had sufficient capital to carry on our business and were able to pay our debts as they mature or become due. In reaching these conclusions, we relied on various valuations and estimates of future cash flow that necessarily involved a number of assumptions and choices of methodology. However, a court may not adopt the assumptions and methodologies we have chosen or concur with our conclusion as to our solvency.

No Prior Market for the Notes You cannot be sure that an active trading market will develop for the notes.

The Initial Notes are currently owned by a relatively small number of institutional investors. We believe that none of such holders is our affiliate (as defined in Rule 405 under the Securities Act). Prior to the Exchange Offer, no public market for the Initial Notes will exist, although the Initial Notes are eligible for trading in the PORTAL Market among "qualified institutional buyers." The Exchange Notes will not be listed on any securities exchange. An active trading market for the Exchange Notes may not develop.

The Exchange Notes will generally be permitted to be resold or otherwise transferred (subject to the restrictions described under "Exchange and Registration Rights Agreement") by each holder without further registration. However, the Exchange Notes will also constitute a new issue of securities with no established trading market. The Exchange Offer will not be conditioned on any minimum or maximum aggregate principal amount of the notes being tendered for exchange. See "Exchange and Registration Rights Agreement." We cannot assure you as to the development or liquidity of any market for the Exchange Notes, or, in the case of non-tendering holders of Initial Notes, the trading of the Initial Notes following the Exchange Offer.

The market for "high yield" securities, such as the notes, is volatile and unpredictable, which may have an adverse effect on the liquidity of, and prices for, such securities. The Initial Notes and the Exchange Notes could trade at prices that may be lower than the initial offering price of the notes as a result of many factors, including prevailing interest rates and our operating results. The liquidity of, and trading market for, the notes also may be adversely affected by general declines in the market for similar securities. Such decline may adversely affect such liquidity and trading markets independent of our prospects or financial performance.

Transfer Restrictions If you do not participate in the Exchange Offer, you will continue to be subject to transfer restrictions.

If you do not exchange your Initial Notes for Exchange Notes pursuant to the Exchange Offer, you will continue to be subject to the restrictions on transfer of your Initial Notes. We do not intend to register the Initial Notes under the Securities Act. To the extent Initial Notes are tendered and accepted in the Exchange Offer, the trading market, if any, for the Initial Notes would be adversely affected. See "The Exchange Offer."

Exchange Offer Procedures You must follow the procedures of the Exchange Offer in order to receive the Exchange Notes.

Issuance of the Exchange Notes in exchange for the Initial Notes pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of such Initial Notes, a properly completed and duly executed Letter of Transmittal and all other required documents. Therefore, holders of the Initial Notes desiring to tender such Initial Notes in exchange for Exchange Notes should allow sufficient time to ensure timely delivery. We are under no duty to give notification of defects or irregularities with respect to tenders of Initial Notes for exchange. Initial Notes that are not tendered or that are tendered but not accepted by us for exchange will, following consummation of the Exchange Offer, continue to be subject to the existing restrictions upon transfer thereof under the Securities Act and, upon consummation of the Exchange Offer, certain registration rights under the Exchange and Registration Rights Agreement will terminate. In addition, any holder of Initial Notes who tenders in the Exchange Offer for the purpose of participating in a public distribution of the Exchange Notes may be deemed to be an "underwriter" (within the meaning of Section 2(11) of the Securities Act) of the Exchange Notes and, if so, will be required to comply with the registration and prospectus delivery requirements in the Securities Act in connection with any resale transaction. Each broker-dealer that receives Exchange Notes for its own account in exchange for Initial Notes, where such Initial Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge in the Letter of Transmittal that accompanies this prospectus that it will deliver a prospectus in connection with any resale of such Exchange Notes. See "Plan of Distribution." To the extent that Initial Notes are tendered and accepted in the Exchange Offer, the trading market for untendered and tendered but unaccepted Initial Notes could be adversely affected. See "The Exchange Offer."

Arthur Andersen The conviction of Arthur Andersen may adversely affect Arthur Andersen's ability to satisfy any claims arising from its provision of auditing and other services to us and could have a material adverse effect on our ability to access capital markets in the future.

Arthur Andersen LLP, our former independent public accountants that audited our financial statements incorporated by reference in this prospectus for the three fiscal years ended September 30, 2001, was found guilty by a jury on June 15, 2002 of federal obstruction of justice in connection with the government's investigation of Enron Corp. It has been reported that Arthur Andersen will appeal the conviction. The Commission has been informed by Arthur Andersen that it will cease practicing before the Commission by August 31, 2002, unless the Commission determines another date is appropriate. It is possible that events arising out of the indictment may adversely affect the ability of Arthur Andersen to satisfy any claims arising from its provision of auditing and other services to us, including claims that may arise out of Arthur Andersen's audit of our financial statements. The Commission has said that it will continue accepting financial statements audited or reviewed by Arthur Andersen provided that we comply with the applicable rules and orders issued by the Commission in March 2002 for such purpose.

In the future, should we seek to access the public capital markets, the Commission's current rules require the inclusion or incorporation by reference of three years of audited financial statements in any prospectus. These rules would require us to present audited financial statements for one or more fiscal years audited by Arthur Andersen until our audited financial statements to the fiscal year ending September 30, 2004 become available in the first quarter of our fiscal year 2005. The Commission recently adopted rules exempting certain issuers filings Securities Act registration statements containing financial statements audited by Arthur Andersen from having to comply with rules that would also require such issuers to present manually signed reissued accountants' reports and written consents issued by Arthur Andersen. Although we believe that we currently meet the requirements for such exemptions, if the Commission ceases accepting financial statements audited by Arthur Andersen pursuant to such exemptions, it is possible that our financial statements for the years ended September 30, 1999, September 30, 2000 and September 30, 2001 audited by Arthur Andersen might not satisfy the Commission's requirements. If this occurs, we would not be able to access the public capital markets unless Ernst & Young LLP, our current independent accounting firm, or another independent accounting firm is able to audit the financial statements originally audited by Arthur Andersen. Any delay or inability to access the public capital markets caused by those circumstances could have a material adverse effect on us.

In addition, since we have not obtained for this offering, and do not anticipate obtaining for any future public offerings of our securities, manually signed accountants reports (or consents) from Arthur Andersen or any other independent accounting firm and instead will be relying on previously issued audited (and unaudited) financial statements for financial information related to all time periods prior to and including September&nbs