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Proposed Counsel to the Official Committee of Unsecured  
Creditors of Magellan Health Services, Inc., et al.

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

-----X  
In re: : Chapter 11  
: :  
MAGELLAN HEALTH SERVICES, INC., et al., : Case No. 03-40515 (PCB)  
: :  
Debtors. : (Jointly Administered)  
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**NOTICE OF HEARING ON APPLICATION OF THE OFFICIAL COMMITTEE  
OF UNSECURED CREDITORS FOR ORDER AUTHORIZING THE  
EMPLOYMENT OF HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL  
AS FINANCIAL ADVISOR PURSUANT TO SECTIONS 328(a) AND  
1103(a) OF THE BANKRUPTCY CODE, NUNC PRO TUNC TO MARCH 17, 2003**

TO ALL CREDITORS OF THE DEBTORS:

PLEASE TAKE NOTICE that the Official Committee of Unsecured Creditors (the  
"Committee") of Magellan Health Services, Inc., and its affiliated debtors and debtors in possession  
(collectively, the "Debtors"), seek entry of an Order approving, on a permanent basis, the Application of  
the Official Committee of Unsecured Creditors of Magellan Health Services, Inc. et al. to Retain  
Houlihan Lokey Howard & Zukin Capital as Financial Advisor, Nunc Pro Tunc to March 17, 2003  
(the "Application").



PLEASE TAKE FURTHER NOTICE that a hearing on interim approval of the Application is scheduled for April 23, 2003, at 2:30 p.m. (ET) at the United States Bankruptcy Court, United States Custom House, One Bowling Green, New York, New York 10004.

PLEASE TAKE FURTHER NOTICE that, if any party objects to the Application before May 16, 2003 at 4:00 p.m., a final hearing on the Application will be held on May 21, 2003, at 4:30 p.m. (ET) at the United States Bankruptcy Court, United States Custom House, One Bowling Green, New York, New York 10004. If no timely objections are filed by May 16, 2003 at 4:00 p.m., the Order shall be deemed a final order without further notice or hearing, and the Application shall be approved, and Houlihan's retention shall be made effective permanently nunc pro tunc to March 17, 2003.

PLEASE TAKE FURTHER NOTICE that, objections, if any, to the entry of the proposed Order on a permanent basis must comply with the Federal Rules of Bankruptcy Procedure, must be set forth in a writing describing the basis therefor and must be filed with the Court electronically in accordance with General Order M-182 and M-193 by registered users of the Court's electronic case filing system and, by all other parties in interest, on a 3-1/2 inch disk, preferably in Portable Document Format (PDF), Word Perfect or any other Windows-based word processing format (with a hard copy delivered directly to Chambers) and served in accordance with General Order M-182 or by first-class mail upon each of the following: (i) counsel to the Committee, Akin Gump Strauss Hauer & Feld LLP, 590 Madison Avenue, New York, New York 10022-2524, Attn.: Michael S. Stamer, Esq., (ii) counsel to the Debtors, Weil Gotshal & Manges, LLP, 767 Fifth Avenue, New York, New York 10153, Attn.: Stephen Karotkin, Esq., and (iii) the Office of the United States Trustee, Southern District of New York, 33 Whitehall Street, 21<sup>st</sup> Floor, New York, New York 10004, Attn.: Pamela Jean



Lustrin, Esq. Only those responses made in writing and timely filed and received will be considered at the hearing. Any such response must state with specificity the reason or reasons why the relief requested in the Application should not be granted.

PLEASE TAKE FURTHER NOTICE that any objections to the Application (i) must be in writing, (ii) must conform to the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court, and (iii) must be filed with the Bankruptcy Court electronically in accordance with General Order M-182 (General Order M-182 and the User's Manual for the Electronic Case Filing System can be found at [www.nysb.uscourts.gov](http://www.nysb.uscourts.gov), the official website for the Bankruptcy Court), by registered users of the Bankruptcy Court's case filing system and, by all other parties in interest, on a 3.5 inch disk, preferably in Portable Document Format (PDF), WordPerfect or any other Windows-based word processing format (with a hard copy delivered directly to chambers).

PLEASE TAKE FURTHER NOTICE that pursuant to the Application, the Committee seeks to retain Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") to provide the following services for the Committee:

- a. Evaluating the assets and liabilities of the Debtors;
- b. Analyzing and reviewing the financial and operating statements of the Debtors;
- c. Analyzing the business plans and forecasts of the Debtors;
- d. Evaluating all aspects of the Debtors' financing, cash collateral usage and adequate protection therefor, and any exit financing in connection with any plan of reorganization and any budgets relating thereto;



- e. Providing such specific valuation or other financial analyses as the Committee may require in connection with these cases;
- f. Helping with the claim resolution process and distributions relating thereto;
- g. Assessing the financial issues and options concerning the Debtors' plan(s) of reorganization or any other plan(s) of reorganization
- h. Preparation, analysis and explanation of the Plan to various constituencies; and
- i. Providing testimony in court on behalf of the Committee, if necessary.

PLEASE TAKE FURTHER NOTICE that, if Houlihan Lokey's retention is approved on a permanent basis, Houlihan Lokey will be entitled to receive the following compensation:

- a. A Monthly Fee<sup>1</sup> of \$150,000;
- b. Upon the consummation of a Transaction, Houlihan Lokey shall be paid an additional fee (a "Transaction Fee") equal to 0.75% of the Unsecured Recoveries. The Transaction Fee shall be paid in the same consideration received by holders of general unsecured claims against the Company (including but not limited to all related rights, options and contractual benefits), or at the option of the Committee and with the consent of the Company, in cash. The Transaction Fee shall be paid upon the consummation of a Transaction, whether such consummation occurs (i) during the term of the Official Committee Engagement Letter or (ii) following a Transaction that is agreed to within twelve months of the effective date of the termination of the Official Committee Engagement Letter.
- c. Reimbursement of all reasonable out-of-pocket expenses.

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<sup>1</sup> Unless otherwise defined, all capitalized terms used herein have the meanings given to them in the Official Committee Engagement Letter.



**PLEASE TAKE FURTHER NOTICE that if the Application is granted, as more fully described in the Application and subject to certain conditions, the Debtors shall indemnify and hold Houlihan Lokey harmless against any and all losses, claims, damages or liabilities in connection with the engagement, except to the extent they result from Houlihan Lokey's gross negligence, willful misconduct, bad faith or self-dealing in connection with the performance of their services.**

PLEASE TAKE FURTHER NOTICE that the foregoing summary of certain elements of the retention is not complete and that the full terms of the retention are contained in the Application and the letter agreement, dated as of March 17, 2003, containing the terms of Houlihan Lokey's employment in these chapter 11 cases (the "Official Committee Engagement Letter"), which is annexed to the Application as Exhibit A. The Application and the Official Committee Engagement Letter are available for inspection at the Office of the Clerk for the Bankruptcy Court and on the Bankruptcy Court's Internet site at [www.nysb.uscourts.gov](http://www.nysb.uscourts.gov), through an account obtained from Pacer Service Center at 1-800-676-6856, or 1-210-301-6440, or [www.pacer.psc.uscourts.gov](http://www.pacer.psc.uscourts.gov). To the extent that the summary of the retention terms set forth in this notice conflict with the terms of the Official Committee Engagement Letter, the terms of the Official Committee Engagement Letter shall control.



**PLEASE TAKE FURTHER NOTICE** that if you do not object by the objection deadline above, your rights to subsequently object to the compensation of Houlihan Lokey will be affected and subject to the heightened standard of review enumerated in section 328 of title 11 of the United States Code.

Dated: New York, New York  
April 11, 2003

**AKIN GUMP STRAUSS HAUER & FELD LLP**

By: /s/ Michael S. Stamer  
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Proposed Counsel to the Official Committee  
of Unsecured Creditors