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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1997

OR

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

For the transition period from ______________ to ____________________
Commission File No. 1-6639

MAGELLAN HEALTH SERVICES, INC.
(Exact name of Registrant as specified in its charter)

Delaware	58-1076937
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3414 Peachtree Road, NE, Suite 1400
Atlanta, Georgia 30326
(Address of principal executive offices)
(Zip Code)

(404) 841-9200
(Registrant's telephone number, including area code)

See Table of Additional Registrants below.

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes X No

The number of shares of the Registrant's Common Stock outstanding as of April 30, 1997, was 28,807,931.

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ADDITIONAL REGISTRANTS(1)

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	Address including zip code, and telephone number including area code, of registrant's principal executive offices
Behavioral Heath Systems of Indiana, Inc.	Indiana	35-1990127	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Beltway Community Hospital, Inc.	Texas	58-1324281	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Blue Grass Physician Management Group, Inc.	Kentucky	66-1294402	3050 Rio Dosa Drive Lexington, KY 40509 (606) 269-2325
C.A.C.O. Services, Inc.	Ohio	58-1751511	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
CCM, Inc.	Nevada	58-1662418	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
CMCI, Inc.	Nevada	88-0224620	1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
CMFC, Inc.	Nevada	88-0215629	1061 East Flamingo Road Suite One Las Vegas, NV 89119 (702) 737-0282
CMSF, Inc.	Florida	58-1324269	3550 Colonial Boulevard Fort Myers, FL 33912 (813) 939-0403
CPS Associates, Inc.	Virginia	58-1761039	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Alvarado Behavioral Health System, Inc.	California	58-1394959	7050 Parkway Drive La Mesa, CA 91942-2352 (619) 465-4411
Charter Asheville Behavioral Health System, Inc.	North Carolina	58-2097827	60 Caledonia Road Asheville, NC 28803 (704) 253-3681

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The Charter Arbor Indy Behavioral Health System, LLC	Delaware	58-2265776	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Augusta Behavioral Health System, Inc.	Georgia	58-1615676	3100 Perimeter Parkway P.O. Box 14939 Augusta, GA 30909 (404) 868-6625
Charter Bay Harbor Behavioral Health System, Inc.	Florida	58-1640244	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
The Charter Beacon Behavioral	Delaware	35-1994155	1720 Beacon Street

Health System, LLC			Fort Wayne, IN 46805 (219) 423-3651
Charter Behavioral Health System at Fair Oaks, Inc.	New Jersey	58-2097832	19 Prospect Street Summit, NJ 07901 (908) 277-9102
Charter Behavioral Health System at Hidden Brook, Inc.	Maryland	52-1866212	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Los Altos, Inc.	California	33-0606642	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System at Manatee Adolescent Treatment Services, Inc.	Florida	65-0519663	1324 37th Avenue, East Bradenton, FL 34208 (813) 746-1388
Charter Behavioral Health System at Potomac Ridge, Inc.	Maryland	52-1866221	14901 Broschart Road Rockville, MD 20850 (301) 251-4500
Charter Behavioral Health Systems, Inc.	Delaware	58-2213642	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Athens, Inc.	Georgia	58-1513304	240 Mitchell Bridge Road Athens, GA 30606 (404) 546-7277
Charter Behavioral Health System of Austin, Inc.	Texas	58-1440665	8402 Cross Park Drive Austin, TX 78754 (512) 837-1800

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Charter Behavioral Health System of Baywood, Inc.	Texas	76-0430571	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Bradenton, Inc.	Florida	58-1527678	4480 51st Street, West Bradenton, FL 34210 (813) 746-1388
Charter Behavioral Health System of Central Georgia, Inc.	Georgia	58-1408670	3500 Riverside Drive Macon, GA 31210 (912) 474-6200
Charter Behavorial Health System of Central Virginia, Inc.	Virginia	54-1765921	1500 Westbrook Avenue Richmond, VA 23227 (804) 266-9671
Charter Behavioral Health System of Charleston, Inc.	South Carolina	58-1761157	2777 Speissegger Drive Charleston, SC 29405-8299 (803) 747-5830
Charter Behavioral Health System of Charlottesville, Inc.	Virginia	58-1616917	2101 Arlington Boulevard Charlottesville, VA 22903-1593 (804) 977-1120
Charter Behavioral Health System of Chicago, Inc.	Illinois	58-1315760	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Chula Vista, Inc.	California	58-1473063	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Columbia, Inc.	Missouri	61-1009977	200 Portland Street Columbia, MO 65201 (314) 876-8000
Charter Behavioral Health System of Corpus Christi, Inc.	Texas	58-1513305	3126 Rodd Field Road Corpus Christi, TX 78414 (512) 993-8893

Charter Behavioral Health System of Dallas, Inc.	Texas	58-1513306	6800 Preston Road Plano, TX 75024 (214) 964-3939
Charter Behavioral Health System of Delmarva, Inc.	Maryland	52-1866214	3680 Warwick Road, Route 1 East New Market, MD 21631 (410) 943-8108
The Charter Behavioral Health System of Evansville, LLC	Delaware	35-1994080	7200 East Indiana Evansville, IN 47715 (812) 475-7200

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Charter Behavioral Health System of Fort Worth, Inc.	Texas	58-1643151	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Jackson, Inc.	Mississippi	58-1616919	3531 Lakeland Drive Jackson, MS 39208 (601) 939-9030
Charter Behavioral Health System of Jacksonville, Inc.	Florida	58-1483015	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Behavioral Health System of Jefferson, LLC	Delaware	35-1994087	2700 River City Park Drive Jeffersonville, IN 47130 (812) 284-3400
Charter Behavioral Health System of Kansas City, Inc.	Kansas	58-1603154	8000 West 127th Street Overland Park, KS 66213 (913) 897-4999
Charter Behavioral Health System of Lafayette, Inc.	Louisiana	72-0686492	302 Dulles Drive Lafayette, LA 70506 (318) 233-9024
Charter Behavioral Health System of Lake Charles, Inc.	Louisiana	62-1152811	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Behavioral Health System of Michigan City, LLC	Delaware	35-1994736	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Mississippi, Inc.	Mississippi	58-2138622	8135 Goodman Rd. Olive Branch, MS 38654 (901) 521-1400
Charter Behavioral Health System of Mobile, Inc.	Alabama	58-1569921	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Nashua, Inc.	New Hampshire	02-0470752	29 Northwest Boulevard Nashua, NH 03063 (603) 886-5000
Charter Behavioral Health System of Nevada, Inc.	Nevada	58-1321317	7000 West Spring Mountain Rd. Las Vegas, NV 89117 (702) 876-4357

ADDITIONAL REGISTRANTS(1)

State or other

Address including zip code,
and telephone number

Exact name of registrant as specified in its charter	jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	including area code, of registrant's principal executive offices
Charter Behavioral Health System of New Mexico, Inc.	New Mexico	58-1479480	5901 Zuni Road, SE Albuquerque, NM 87108 (505) 265-8800
Charter Behavioral Health System of North Carolina, Inc.	North Carolina	56-1908581	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Northern California, Inc.	California	58-1857277	101 Cirby Hills Drive Roseville, CA 95678 (916) 969-4666
Charter Behavioral Health System of Northwest Arkansas, Inc.	Arkansas	58-1449455	4253 Crossover Road Fayetteville, AR 72703 (501) 521-5731
The Charter Behavioral Health System of Northwest Indiana, LLC	Delaware	35-1994154	101 West 61st Avenue State Road 51 Hobart, IN 46342 (219) 947-4464
Charter Behavioral Health System of Paducah, Inc.	Kentucky	61-1006115	435 Berger Road Paducah, KY 42002-7609 (502) 444-0444
Charter Behavioral Health of Puerto Rico, Inc.	Georgia	66-0523678	Caso Bldg., Suite 1504 1225 Ponce de Leon Avenue Santurce, PR 00907
Charter Behavioral Health System of San Jose, Inc.	California	58-1747020	455 Silicon Valley Boulevard San Jose, CA 95138 (408) 224-2020
Charter Behavioral Health System of Savannah, Inc.	Georgia	58-1750583	1150 Cornell Avenue Savannah, GA 31406 (912) 354-3911
Charter Behavioral Health System of Texarkana, Inc.	Arkansas	71-0752815	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of the Inland Empire, Inc.	California	95-2685883	2055 Kellogg Drive Corona, CA 91719 (714) 735-2910
Charter Behavioral Health System of Toledo, Inc.	Ohio	58-1731068	1725 Timberline Road Maumee, Ohio 43537 (419) 891-9333
Charter Behavioral Health System of Tucson, Inc.	Arizona	86-0757462	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Behavioral Health System of Visalia, Inc.	California	33-0606644	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health System of Waverly, Inc.	Minnesota	41-1775626	109 North Shore Drive Waverly, MN 55390 (612) 658-4811
Charter Behavioral Health System of Winston-Salem, Inc.	North Carolina	56-1050502	3637 Old Vineyard Road Winston-Salem, NC 27104 (919) 768-7710
Charter Behavioral Health System of Yorba Linda, Inc.	California	33-0606646	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Behavioral Health Systems of Atlanta, Inc.	Georgia	58-1900736	811 Juniper St., N.E. Atlanta, GA 30308 (404) 881-5800

Charter Talbott Behavioral Health System, Inc.	Georgia	58-0979827	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter By-The-Sea Behavioral Health System, Inc.	Georgia	58-1351301	2927 Demere Road St. Simons Island, GA 31522 (912) 638-1999
Charter Canyon Behavioral Health System, Inc.	Utah	58-1557925	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Canyon Springs Behavioral Health System, Inc.	California	33-0606640	69696 Ramon Road Cathedral City, CA 92234 (619) 321-2000
Charter Centennial Peaks Behavioral Health System, Inc.	Colorado	58-1761037	2255 South 88th Street Louisville, CO 80027 (303) 673-9990
Charter Community Hospital, Inc.	California	58-1398708	21530 South Pioneer Boulevard Hawaiian Gardens, CA 90716 (310) 860-0401
Charter Contract Services, Inc.	Georgia	58-2100699	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Cove Forge Behavioral Health System, Inc.	Pennsylvania	25-1730464	New Beginnings Road Williamsburg, PA 16693 (814) 832-2121
Charter Fairmount Behavioral Health System, Inc.	Pennsylvania	58-1616921	561 Fairthorne Avenue Philadelphia, PA 19128 (215) 487-4000
Charter Fenwick Hall Behavioral Health System, Inc.	South Carolina	57-0995766	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Financial Offices, Inc.	Georgia	58-1527680	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Forest Behavioral Health System, Inc.	Louisiana	58-1508454	9320 Linwood Avenue Shreveport, LA 71106 (318) 688-3930
Charter Franchise Services,LLC	Delaware	58-2292977	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Grapevine Behavioral Health System, Inc.	Texas	58-1818492	2300 William D. Tate Ave. Grapevine, TX 76051 (817) 481-1900
Charter Greensboro Behavioral Health System, Inc.	North Carolina	58-1335184	700 Walter Reed Drive Greensboro, NC 27403 (919) 852-4821
Charter Health Management of Texas, Inc.	Texas	58-2025056	6800 Park Ten Blvd. Suite 275-W San Antonio, TX 78213 (210) 699-8585
Charter Hospital of Columbus, Inc.	Ohio	58-1598899	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Denver, Inc.	Colorado	58-1662413	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326

			(404) 841-9200
Charter Hospital of Ft. Collins, Inc.	Colorado	58-1768534	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Hospital of Laredo, Inc.	Texas	58-1491620	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Miami, Inc.	Florida	61-1061599	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Mobile, Inc.	Alabama	58-1318870	5800 Southland Drive Mobile, AL 36693 (334) 661-3001
Charter Hospital of Santa Teresa, Inc.	New Mexico	58-1584861	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of St. Louis, Inc.	Missouri	58-1583760	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Hospital of Torrance, Inc.	California	58-1402481	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Indiana BHS Holding, Inc.	Indiana	58-2247985	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Indianapolis Behavioral Health System, LLC	Delaware	35-1994923	5602 Caito Drive Indianapolis, IN 46226 (317) 545-2111
The Charter Lafayette Behavioral Health System, LLC	Delaware	35-1994151	3700 Rome Drive Lafayette, IN 47905 (317) 448-6999
Charter Lakehurst Behavioral Health System, Inc.	New Jersey	22-3286879	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Lakeside Behavioral Health System, Inc.	Tennessee	62-0892645	2911 Brunswick Road Memphis, TN 38134 (901) 377-4700
Charter Laurel Heights Behavioral Health System, Inc.	Georgia	58-1558212	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

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Charter Linden Oaks Behavioral Health System, Inc.	Illinois	36-3943776	852 West Street Naperville, IL 60540 (708) 305-5500
Charter Little Rock Behavioral Health System, Inc.	Arkansas	58-1747019	1601 Murphy Drive Maumelle, AR 72113 (501) 851-8700
Charter Louisiana Behavioral Health System, Inc.	Louisiana	72-1319231	1514 Doctor's Drive Suite 102 Bossier City, LA 71111 (318) 747-4362
Charter Louisville Behavioral Health System, Inc.	Kentucky	58-1517503	1405 Browns Lane Louisville, KY 40207 (502) 896-0495
Charter Meadows Behavioral Health System, Inc.	Maryland	52-1866216	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - California, Inc.	Georgia	58-1357345	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - Clayton County, Inc.	Georgia	58-1579404	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - Cleveland, Inc.	Texas	58-1448733	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - Long Beach, Inc.	California	58-1366604	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical - New York, Inc.	New York	58-1761153	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical (Cayman Islands) Ltd.	Cayman Islands, BWI	58-1841857	Caledonian Bank & Trust Swiss Bank Building Caledonian House Georgetown-Grand Cayman Cayman Islands (809) 949-0050

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Charter Medical Executive Corporation	Georgia	58-1538092	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical Information Services, Inc.	Georgia	58-1530236	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical International, Inc.	Cayman Islands, BWI	N/A	Caledonian Bank & Trust Swiss Bank Building Caledonian House Georgetown-Grand Cayman Cayman Islands (809) 949-0050
Charter Medical International, S.A., Inc.	Nevada	58-1605110	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Managed Care Sales and Services, Inc.	Georgia	58-1195352	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

Charter Medical of East Valley, Inc.	Arizona	58-1643158	2190 N. Grace Boulevard Chandler, AZ 85224 (602) 899-8989
Charter Medical of England Limited	United Kingdom	N/A	111 Kings Road Box 323 London SW3 4PB London, England 44-71-351-1272
Charter Medical of Florida, Inc.	Florida	58-2100703	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Medical of North Phoenix, Inc.	Arizona	58-1643154	6015 W. Peoria Avenue Glendale, AZ 85302 (602) 878-7878
Charter Medical of Puerto Rico, Inc.	Commonwealth of Puerto Rico	58-1208667	Caso Building, Suite 1504 1225 Ponce De Leon Avenue Santurce, P.R. 00907 (809) 723-8666
Charter Milwaukee Behavioral Health System, Inc.	Wisconsin	58-1790135	11101 West Lincoln Avenue West Allis, WI 53227 (414) 327-3000

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Charter Mission Viejo Behavioral Health System, Inc.	California	58-1761156	23228 Madero Mission Viejo, CA 92691 (714) 830-4800
Charter MOB of Charlottesville, Inc.	Virginia	58-1761158	1023 Millmont Avenue Charlottesville, VA 22901 (804) 977-1120
Charter North Behavioral Health System, Inc.	Alaska	58-1474550	2530 DeBarr Road Anchorage, AK 99508-2996 (907) 258-7575
Charter Northbrooke Behavioral Health System, Inc.	Wisconsin	39-1784461	46000 W. Schroeder Drive Brown Deer, WI 53223 (414) 355-2273
Charter North Counseling Center, Inc.	Alaska	58-2067832	2530 DeBarr Road Anchorage, AK 99508-2996 (907) 258-7575
Charter Northridge Behavioral Health System, Inc.	North Carolina	58-1463919	400 Newton Road Raleigh, NC 27615 (919) 847-0008
Charter Oak Behavioral Health System, Inc.	California	58-1334120	1161 East Covina Boulevard Covina, CA 91724 (818) 966-1632
Charter of Alabama, Inc.	Alabama	63-0649546	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Charter Palms Behavioral Health System, Inc.	Texas	58-1416537	1421 E. Jackson Avenue McAllen, TX 78502 (512) 631-5421
Charter Peachford Behavioral Health System, Inc.	Georgia	58-1086165	2151 Peachford Road Atlanta, GA 30338 (404) 455-3200
Charter Pines Behavioral Health System, Inc.	North Carolina	58-1462214	3621 Randolph Road Charlotte, NC 28211 (704) 365-5368
Charter Plains Behavioral Health System, Inc.	Texas	58-1462211	801 N. Quaker Avenue Lubbock, TX 79408 (806) 744-5505
Charter-Provo School, Inc.	Utah	58-1647690	4501 North University Ave. Provo, UT 84604 (801) 227-2000

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Charter Real Behavioral Health System, Inc.	Texas	58-1485897	8550 Huebner Road San Antonio, TX 78240 (512) 699-8585
Charter Ridge Behavioral Health System, Inc.	Kentucky	58-1393063	3050 Rio Dosa Drive Lexington, KY 40509 (606) 269-2325
Charter Rivers Behavioral Health System, Inc.	South Carolina	58-1408623	2900 Sunset Boulevard West Columbia, SC 29169 (803) 796-9911
Charter Rockford Behavioral Health System, Inc.	Delaware	51-0374617	100 Rockford Drive Newark, DE 19713 (302) 996-5480
Charter San Diego Behavioral Health System, Inc.	California	58-1669160	11878 Avenue of Industry San Diego, CA 92128 (619) 487-3200
Charter Sioux Falls Behavioral Health System, Inc.	South Dakota	58-1674278	2812 South Louise Avenue Sioux Falls, SD 57106 (605) 361-8111
The Charter South Bend Behavioral Health System, LLC	Delaware	35-1994307	6704 N. Gumwood Drive Granger, IN 46530 (219) 272-9799
Charter Springs Behavioral Health System, Inc.	Florida	58-1517461	3130 S.W. 27th Avenue Ocala, FL 32674 (904) 237-7293
Charter Springwood Behavioral Health System, Inc.	Virginia	58-2097829	Route 4, Box 50 Leesburg, VA 22075 (703) 777-0800
Charter Suburban Hospital of Mesquite, Inc.	Texas	75-1161721	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
The Charter Terre Haute Behavioral Health System, LLC	Delaware	35-1994308	1400 Crossing Boulevard Terre Haute, IN 47802 (812) 299-4196
Charter Thousand Oaks Behavioral Health System, Inc.	California	58-1731069	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Charter Westbrook Behavioral Health System, Inc.	Virginia	54-0858777	1500 Westbrook Avenue Richmond, VA 23227 (804) 266-9671

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Charter White Oak Behavioral Health System, Inc.	Maryland	52-1866223	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

Charter Wichita Behavioral Health System, Inc.	Kansas	58-1634296	8901 East Orme Wichita, KS 67207 (316) 686-5000
Charter Woods Behavioral Health System, Inc.	Alabama	58-1330526	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Correctional Behavioral Solutions, Inc.	Delaware	58-2180940	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Correctional Behavioral Solutions of Indiana, Inc.	Indiana	35-1978792	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Correctional Behavioral Solutions of New Jersey, Inc.	New Jersey	22-3436964	3000 Atrium Way Suite 410 Mount Laurel, NJ (609) 235-2339
Correctional Behavioral Solutions of Ohio, Inc.	Ohio	34-1826431	Allen Correctional Institute 2338 North West Street Lima, OH 45801 (419) 224-8000
Desert Springs Hospital, Inc.	Nevada	88-0117696	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, Georgia 30326 (404) 841-9200
Employee Assistance Services, Inc.	Georgia	58-1501282	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Florida Health Facilities, Inc.	Florida	58-1860493	21808 State Road 54 Lutz, FL 33549 (813) 948-2441
Gulf Coast EAP Services, Inc.	Alabama	58-2101394	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

ADDITIONAL REGISTRANTS(1)

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	Address including zip code, and telephone number including area code, of registrant's principal executive offices
Hospital Investors, Inc.	Georgia	58-1182191	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Illinois Mentor, Inc.	Illinois	36-3643670	313 Congress St. Boston, MA 02210 (617) 790-4800
Magellan Public Solutions, Inc.	Delaware	58-2227841	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Mandarin Meadows, Inc.	Florida	58-1761155	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Magellan Public Network, Inc.	Delaware	51-0374654	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Massachusetts Mentor, Inc.	Massachusetts	04-2799071	313 Congress St. Boston, MA 02210 (617) 790-4800
Metroplex Behavioral Healthcare Services, Inc.	Texas	58-2138596	1000 South Main Street Suite 100 Grapevine, TX 76051

			(817) 540-6948
National Mentor, Inc.	Delaware	04-3250732	313 Congress St. Boston, MA 02210 (617) 790-4800
National Mentor Healthcare, Inc.	Massachusetts	04-2893910	313 Congress St. Boston, MA 02210 (617) 790-4800
NEPA - Massachusetts, Inc.	Massachusetts	58-2116751	#6 Courthouse Lane Chelmsford, MA 01863 (508) 441-2332
NEPA - New Hampshire, Inc.	New Hampshire	58-2116398	29 Northwest Boulevard Nashua, NH 03063 (603) 886-5000
Nevada Behavioral Services, Inc.	Nevada	Applied for	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200

ADDITIONAL REGISTRANTS(1)

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification Number	Address including zip code, and telephone number including area code, of registrant's principal executive offices
Ohio Mentor, Inc.	Ohio	31-1098345	313 Congress St. Boston, MA 02210 (617) 790-4800
Pacific-Charter Medical, Inc.	California	58-1336537	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
South Carolina Mentor, Inc.	South Carolina	57-0782160	313 Congress St. Boston, MA 02210 (617) 790-4800
Southeast Behavioral Systems, Inc.	Georgia	58-2100700	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Schizophrenia Treatment and Rehabilitation, Inc.	Georgia	58-1672912	209 Church Street Decatur, GA 30030 (404) 377-1986
Sistemas De Terapia Respiratoria, S.A., Inc.	Georgia	58-1181077	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Western Behavioral Systems, Inc.	California	58-1662416	3414 Peachtree Rd., N.E. Suite 1400 Atlanta, GA 30326 (404) 841-9200
Wisconsin Mentor, Inc.	Wisconsin	39-1840054	313 Congress St. Boston, MA 00210 (617) 790-4800

(1) The Additional Registrants listed are wholly-owned subsidiaries of the Registrant and are guarantors of the Registrant's 11 1/4% Series A Senior Subordinated Notes due 2004. The Additional Registrants have been conditionally exempted, pursuant to Section 12(h) of the Securities Exchange Act of 1934, from filing reports under Section 13 of the Securities Exchange Act of 1934.

FORM 10-Q

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

INDEX

MAGELLAN HEALTH SERVICES, INC.

QUARTERLY REPORT UNDER SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

PART I - FINANCIAL INFORMATION

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In thousands)

	September 30, 1996	March 31, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 120,945	$ 114,245
Accounts receivable, net	189,878	192,394
Supplies	4,753	4,465

Refundable income taxes	1,323	--
Other current assets	21,251	25,299
Total Current Assets	338,150	336,403
Property and Equipment:		
Land	83,431	82,705
Buildings and improvements	388,821	393,814
Equipment	146,915	154,831
	619,167	631,350
Accumulated depreciation	(126,053)	(143,724)
	493,114	487,626
Construction in progress	2,276	3,735
	495,390	491,361
Assets Restricted for Settlement of Unpaid Claims and Other Long-Term Liabilities	105,303	96,402
Other Long-Term Assets	30,755	32,126
Goodwill, net	128,012	125,329
Other Intangible Assets, net	42,527	40,766
	$ 1,140,137	$ 1,122,387

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these balance sheets.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In thousands, except per share data)

	September 30, 1996	March 31, 1997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 78,966	$ 69,920
Accrued liabilities	189,599	165,358
Current maturities of long-term debt and capital lease obligations	5,751	5,845
Total Current Liabilities	274,316	241,123
Long-Term Debt and Capital Lease Obligations	566,307	580,536
Deferred Income Taxes	12,368	15,295
Reserve for Unpaid Claims	73,040	62,316
Deferred Credits and Other Long-Term Liabilities	39,769	24,211
Minority Interest	52,520	56,698
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock, without par value		

Authorized - 10,000 shares		
Issued and outstanding - none	--	--
Common Stock, par value $0.25 per share		
Authorized - 80,000 shares		
Issued and outstanding - 33,007 shares at September 30, 1996 and 33,221 shares at March 31, 1997	8,252	8,307
Other Stockholders' Equity:		
Additional paid-in capital	327,681	332,905
Accumulated deficit	(129,457)	(113,374)
Warrants outstanding	54	50
Common Stock in Treasury, 4,424 shares at September 30, 1996 and March 31, 1997	(82,731)	(82,731)
Cumulative foreign currency adjustments	(1,982)	(2,949)
Stockholders' Equity	121,817	142,208
	$ 1,140,137	$ 1,122,387

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these balance sheets

MAGELLAN HEALTH SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(In thousands, except per share data)

	For the Three Months ended March 31,		For the Six Months ended March 31,	
	1996	1997	1996	1997
Net revenue	$ 354,953	$ 349,922	$650,618	$ 696,741
Costs and expenses:				
Salaries, supplies and other operating expenses	275,018	282,210	506,344	566,333
Bad debt expense	22,619	15,140	42,407	35,375
Depreciation and amortization	13,120	13,088	23,300	26,187
Interest, net	8,572	13,153	22,394	26,722
Stock option expense (credit)	(409)	829	1,414	1,433
Unusual items	--	1,395	--	1,395
	318,920	325,815	595,859	657,445
Income before provision for income taxes, minority interest and extraordinary item	36,033	24,107	54,759	39,296
Provision for income taxes	14,413	9,643	22,372	15,718
Income before minority interest and extraordinary item	21,620	14,464	32,387	23,578
Minority interest	1,551	2,572	2,570	4,545
Income before extraordinary item	20,069	11,892	29,817	19,033
Extraordinary item - loss on early extinquishment of debt (net of income tax benefit of $1,967)	--	--	--	(2,950)
Net income	$ 20,069	$ 11,892	$ 29,817	$ 16,083
Income per common share - Primary:				
Income before extraordinary item	$ 0.63	$ 0.41	$ 0.99	$ 0.66
Extraordinary loss on early extinguishment of debt	--	--	--	(0.10)
Net income	$ 0.63	$ 0.41	$ 0.99	$ 0.56
Income per common share - Fully Diluted:				
Income before extraordinary item	$ 0.59	$ 0.41	$ 0.96	$ 0.66
Extraordinary loss on early extinguishment of debt	--	--	--	(0.10)
Net income	$ 0.59	$ 0.41	$ 0.96	$ 0.56
Weighted average number of common shares outstanding:				
Primary	31,882	28,726	30,099	28,657
Fully Diluted	34,715	28,726	31,851	28,657

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	For the Six Months ended March 31, 1996	1997
Cash Flows from Operating Activities		
Net income	$ 29,817	$ 16,083
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	23,300	26,187
Stock option expense	1,414	1,433
Non-cash interest expense	1,202	882
Gain on sale of assets	(503)	(3,302)
Extraordinary loss on early extinguishment of debt	--	4,917
Cash flows from changes in assets and liabilities, net of effects from sales and acquisitions of businesses:		
Accounts receivable, net	(16,993)	(2,474)
Other assets	1,094	(4,214)
Accounts payable and other accrued liabilities	(10,048)	(30,981)
Reserve for unpaid claims	(10,625)	(13,694)
Income taxes payable	10,188	4,638
Other liabilities	(5,669)	(15,154)
Minority interest, net of dividends paid	4,099	5,219
Other	121	(1,063)
Total adjustments	(2,420)	(27,606)
Net cash provided by (used in) operating activities	27,397	(11,523)
Cash Flows From Investing Activities		
Capital expenditures	(12,787)	(14,373)
Acquisitions and investments in businesses, net of cash acquired	(47,920)	(12,962)
Decrease (increase) in assets restricted for settlement of unpaid claims	(6,070)	8,626
Proceeds from sale of assets	653	10,386
Net cash used in investing activities	(66,124)	(8,323)
Cash Flows From Financing Activities		
Proceeds from issuance of debt, net of issuance costs	68,125	126,825
Payments on debt and capital lease obligations	(80,037)	(117,521)
Proceeds from issuance of common stock, net of issuance costs	68,669	--
Proceeds from exercise of stock options and warrants	1,808	3,842
Income tax payments made on behalf of stock optionees	(1,678)	--
Net cash provided by financing activities	56,887	13,146
Net increase (decrease) in cash and cash equivalents	18,160	(6,700)
Cash and cash equivalents at beginning of period	105,514	120,945
Cash and cash equivalents at end of period	$ 123,674	$ 114,245

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1997
(Unaudited)

NOTE A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of Management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 1996, included in the Company's Annual Report on Form 10-K, as amended.

NOTE B - Nature of Business

The Company's hospital business is seasonal in nature, with a reduced demand for certain services generally occurring in the first fiscal quarter around major holidays, such as Thanksgiving and Christmas, and during the summer months comprising the fourth fiscal quarter. The Company's business is also subject to general economic conditions and other factors. Accordingly, the results of operations for the interim periods are not necessarily indicative of the actual results expected for the year.

NOTE C - Supplemental Cash Flow Information

Below is supplemental cash flow information related to the six months ended March 31, 1996 and 1997:

	For the Six Months ended March 31, 1996	1997
	(In thousands)	
Income taxes paid, net of refunds received	$ 2,698	$ 9,064
Interest paid, net of amounts capitalized	28,080	28,704
Notes payable assumed in connection with acquisitions of businesses	12,100	--

NOTE D - Long-Term Debt and Leases

Information with regard to the Company's long-term debt and capital lease obligations at September 30, 1996 and March 31, 1997 is as follows:

	September 30, 1996	March 31, 1997
	(In thousands)	
Revolving Credit Agreement due through 2001 (6.9375% at March 31, 1997)	$105,593	$121,000
11.25% Senior Subordinated Notes due 2004	375,000	375,000
6.56% to 10.75% Mortgage and other notes payable through 1999	12,163	11,725
Variable rate secured notes due through 2013 (3.4% to 3.6% at March 31, 1997)	60,875	60,425
7.5% Swiss Bonds	6,443	6,443
3.6% to 15.8% capital lease obligations due through 2014	12,333	12,094
	572,407	586,687
Less amounts due within one year	5,751	5,845
Less debt service funds	349	306
	$566,307	$580,536

On October 28, 1996, the Company entered into a new Credit Agreement with certain financial institutions for a five-year senior secured reducing revolving credit facility in an aggregate committed amount of $400 million (the "New Revolving Credit Agreement"). The Company borrowed approximately $121.0 million under the New Revolving Credit Agreement in October 1996 to (i) pay-off the existing borrowings outstanding under the previous Revolving Credit Agreement that was terminated and (ii) pay for fees and expenses related to the New Revolving Credit Agreement.

The loans outstanding under the New Revolving Credit Agreement bear interest (subject to certain potential adjustments) at a rate per annum equal to one, two, three or six-month LIBOR plus 1.25% or the Prime Lending Rate. Interest on Prime Lending Rate Loans is payable at the end of each fiscal quarter and upon conversion to a LIBOR based loan. Interest on LIBOR based loans is payable at the end of their respective one, two, three or six-month terms.

The Company recorded an extraordinary loss from the early extinguishment of debt of approximately $3.0 million, net of tax, during the quarter ended December 31, 1996 to write off unamortized deferred financing costs related to its previous Revolving Credit Agreement.

NOTE E - Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 1996	March 31, 1997
Salaries and wages	$ 39,841	$ 35,949
Amounts due health insurance programs	27,223	13,743
Medical claims payable	26,552	31,032
Interest	20,348	20,312
Other	75,635	64,322
	$189,599	$165,358

NOTE F - Unusual Items

Facility Closures

During fiscal 1996, the Company consolidated, closed or sold nine psychiatric facilities (the "1996 Closed Facilities"). The 1996 Closed Facilities that are still owned by the Company will be sold, leased or used for alternative purposes depending on the market conditions in each geographic area. The Company recorded charges of approximately $4.1 million related to facility closures in fiscal 1996.

Severance and benefits related to the 1996 Closed Facilities were fully paid as of December 31, 1996. Other exit costs paid and applied against the resulting liabilities recorded during fiscal 1996 were approximately $81,000 and $250,000 during the quarter and the six months ended March 31, 1997, respectively.

During the second quarter of fiscal 1997, the Company consolidated or closed three psychiatric facilities and its one general hospital (the "1997 Closed Facilities"). The 1997 Closed Facilities which are owned by the Company are expected to be sold as part of the Crescent Transactions, as hereinafter defined. The Company recorded charges of approximately $4.2 million related to facility closures in the second quarter of fiscal 1997, which consisted of approximately $3.0 million for severance and related benefits and $1.2 million for contract terminations and other costs.

Approximately 700 employees were terminated at the 1997 Closed Facilities. Severance and related benefits paid and applied against the resulting liability were approximately $2.3 million during the quarter ended March 31, 1997. Other exit costs paid and applied against the resulting liability were approximately $280,000.

The following table presents net revenue, salaries, supplies and other operating expenses and bad debt expenses and depreciation and amortization of the 1996 Closed Facilities and the 1997 Closed Facilities (in thousands):

	Quarter Ended March 31, 1996	1997	Six Months Ended March 31, 1996	1997
Net Revenue	$26,722	$ 7,687	$51,635	$18,666
Salaries, supplies and other operating expenses and bad debt expenses	27,082	8,736	52,222	21,219
Depreciation and Amortization	551	91	1,103	272

The Company recorded a charge of approximately $2.0 million in the fourth quarter of fiscal 1996 related to severance and related benefits for employees who were terminated pursuant to planned overhead reductions. Substantially all of such severance and benefits was paid as of December 31, 1996.

Facility Sales

The Company sold two psychiatric facilities during the quarter ended March 31, 1997 that were closed during fiscal 1995. The Company received approximately $5.6 million in proceeds from the sales and recorded an aggregate gain on such sales of approximately $2.8 million during the quarter ended March 31, 1997.

NOTE G - Income per Common Share

Primary income per common share equals net income divided by the weighted average number of shares outstanding, after giving effect to dilutive common stock equivalents. Fully diluted income per common share gives effect to dilutive common stock equivalents and other potentially dilutive securities.

The minority stockholders of Green Spring Health Services, Inc. ("Green Spring"), the Company's 61% owned managed care subsidiary, have the option, under certain circumstances, to exchange their ownership interests ("Exchange Option") in Green Spring for 2,831,739 shares of Magellan Common Stock or $65.1 million in subordinated notes. The Company may elect to pay cash in lieu of issuing the subordinated notes. The Exchange Option expires December 13, 1998. The Exchange Option is classified as a potentially dilutive security for the purpose of computing fully diluted income per common share. A reconciliation of the calculation of fully diluted income per common share for the three months and the six months ended March 31, 1996, assuming conversion of the Exchange Option as of the beginning of the periods presented or December 13, 1995, whichever date is later, is as follows:

	Three Months Ended March 31, 1996	Six Months Ended March 31, 1996
	(in thousands)	
Net income	$ 20,069	$ 29,817
Adjustments for the assumed conversion of the Exchange Option:		
Minority interest	811	1,082
Amortization	(276)	(341)
Adjusted net income - Fully diluted income per share	$ 20,604	$ 30,558

	Three Months Ended March 31, 1996	Six Months Ended March 31, 1996
	(in thousands, except per share data)	
Weighted average number of common shares outstanding for fully diluted income per share, excluding the assumed conversion of the Exchange Option	31,883	30,137
Assumed conversion of the Exchange Option	2,832	1,714
Weighted average number of common shares outstanding - Fully diluted	34,715	31,851

Fully diluted income per common share	$ 0.59	$ 0.96

Common stock equivalents were less than 3% dilutive and the Exchange Option was anti-dilutive for the three months and the six months ended March 31, 1997. Accordingly, primary and fully diluted income per common share were computed excluding common stock equivalents and the Exchange Option for the three months and the six months ended March 31, 1997.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128 "Earnings per Share" ("FAS 128"), which is more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Accounting Pronouncements". The Company is required to adopt FAS 128 in the first quarter of fiscal 1998. Income per common share under FAS 128, if applied to the three months and the six months ended March 31, 1996 and 1997, is as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	1996	1997	1996	1997
	(in thousands, expept per share data)			
Income per common share - Basic				
Income before extraordinary item	$ 0.64	$ 0.41	$ 1.01	$ 0.66
Extraordinary loss on early extinguishment of debt	--	--	--	(0.10)
Net Income	$ 0.64	$ 0.41	$ 1.01	$ 0.56
Income per common share - Diluted				
Income before extraordinary item	$ 0.59	$ 0.41	$ 0.96	$ 0.65
Extraordinary loss on early extinguishment of debt	--	--	--	(0.10)
Net Income	$ 0.59	$ 0.41	$ 0.96	$ 0.55
Weighted average number of common shares outstanding:				
Basic	31,247	28,726	29,612	28,657
Diluted	34,714	29,343	31,813	29,155

A reconciliation of the calculation of Diluted income per common share is as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	1996	1997	1996	1997
	(in thousands, except per share data)			
Income before extraordinary item	$ 20,069	$ 11,892	$ 29,817	$ 19,033
Adjustments for the assumed conversion of the Exchange Option:				
Minority interest	811	--	1,082	--
Amortization	(276)	--	(341)	--
Adjusted income before extraordinary item - Diluted	20,604	11,892	30,558	19,033
Extraordinary loss on early extinguishment of debt	--	--	--	(2,950)
Adjusted net income - Diluted	$ 20,604	$ 11,892	$ 30,558	$ 16,083
Weighted average number of common shares outstanding - Diluted:				
Basic	31,247	28,726	29,612	28,657
Common stock equivalents	635	617	487	498
Assumed conversion of the Exchange Option	2,832	--	1,714	--
	34,714	29,343	31,813	29,155
Income per common share - Diluted				
Income before extraordinary item	$ 0.59	$ 0.41	$ 0.96	$ 0.65
Extraordinary loss on early extinguishment of debt	--	--	--	(0.10)
Net Income	$ 0.59	$ 0.41	$ 0.96	$ 0.55

NOTE H - Contingencies

The Company is self-insured for a substantial portion of its general and professional liability risks. The reserves for self-insured general and professional liability losses, including loss adjustment expenses, are based on actuarial estimates that are discounted at an average rate of 6% to their present value based on the Company's historical claims experience adjusted for current industry trends. The reserve for unpaid claims is adjusted periodically as such claims mature, to reflect changes in actuarial estimates based on actual experience. The Company recorded reductions of expenses of approximately $7.5 million and $5.0 million during the quarter and the six months ended March 31, 1996 and 1997, respectively. These reductions resulted primarily from updates to actuarial assumptions regarding the Company's

expected losses for more recent policy years. These revisions are based on changes in expected values of ultimate losses resulting from the Company's claim experience, and increased reliance on such claim experience. While management and its actuaries believe that the present reserve is reasonable, ultimate settlement of losses may vary from the amount provided.

The Company and certain of its subsidiaries are subject to claims, civil suits, and governmental investigations and inquiries relating to their operations and certain alleged business practices. In the opinion of management, based on consultation with counsel, resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

On August 1, 1996, the United States Department of Justice, Civil Division, filed its First Amended Complaint in a civil qui tam action initiated in November of 1994 against the Company and its Orlando South hospital subsidiary ("Charter Orlando") by two former employees. The First Amended Complaint alleges that Charter Orlando violated the civil False Claims Act (the "Act") in billing for inpatient treatment provided to elderly patients. The Court granted the Company's motion to dismiss the government's First Amended Complaint yet granted the government leave to its First Amended Complaint. The government filed a Second Amended Complaint on December 12, 1996 which, similar to the First Amended Complaint alleges that the Company and its subsidiary violated the Act in billing for the treatment of geriatric patients. Like the First Amended Complaint, the Second Amended Complaint is based on disputed clinical and factual issues which the Company believes do not constitute a violation of the Act. The Company and its subsidiary,therefore, have filed a motion to dismiss the Second Amended Complaint. The Company and its subsidiary deny the allegations made in the Second Amended Complaint and will vigorously defend against its claims. The Company does not believe this matter will have a material adverse effect on its financial position or results of operations.

NOTE I - Guarantor Condensed Consolidating Financial Statements

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(In thousands, except share and per share amounts)

	September 30, 1996		
	Guarantor	Nonguarantor	Magellan Health Services, Inc. (Parent

ASSETS	Subsidiaries	Subsidiaries	Corporation)
Current Assets			
Cash and cash equivalents	$ 29,751	$ 79,552	$ 11,642
Accounts receivable, net	139,523	44,904	5,451
Supplies	4,091	394	268
Other current assets	8,379	121	14,074
Total Current Assets	181,744	124,971	31,435
Assets restricted for settlement of unpaid claims and other long-term liabilities	--	78,542	26,761
Property and Equipment			
Land	74,790	6,657	1,984
Buildings and improvements	350,187	33,493	5,141
Equipment	112,748	25,206	8,961
	537,725	65,356	16,086
Accumulated depreciation	(111,556)	(10,313)	(4,184)
Construction in progress	1,586	621	69
	427,755	55,664	11,971
Other Long-Term Assets (1)	92,978	(78,517)	1,172,069
Goodwill, net	20,645	94,682	12,685
Other Intangible Assets, net	5,213	22,341	14,973
	$ 728,335	$ 297,683	$ 1,269,894
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	$ 32,644	$ 34,057	$ 12,265
Accrued liabilities and income tax payable	57,948	55,208	76,443
Current maturities of long-term debt and capital lease obligations	2,620	3,131	--
Total Current Liabilities	93,212	92,396	88,708
Long-Term Debt and Capital Lease Obligations	(455,333)	8,815	1,012,825
Deferred Income Tax Liabilities	--	(4,252)	16,620
Reserve for Unpaid Claims	--	72,494	546
Deferred Credits and Other Long-Term Liabilities(1)	352,044	43,565	29,378
Minority interest	--	--	--
Stockholders' Equity			
Common Stock, par value $0.25 per share; Authorized - 80,000 shares Issued and outstanding - 33,007 shares	2,764	(483)	8,252
Committments and contingencies			
Other Stockholders' Equity			
Additional paid-in capital	609,627	30,237	327,681
Retained earnings (Accumulated deficit)	126,826	58,932	(129,457)
Warrants outstanding	--	--	54
Common Stock in treasury, 4,424 shares	--	(4,736)	(82,731)
Cumulative foreign currency adjustments	(805)	715	(1,982)
	738,412	84,665	121,817
	$ 728,335	$ 297,683	$ 1,269,894

ASSETS	Consolidated Elimination Entries	Consolidated Total
Current Assets		
Cash and cash equivalents	$ --	$ 120,945
Accounts receivable, net	--	189,878
Supplies	--	4,753
Other current assets	--	22,574
Total Current Assets	--	338,150
Assets restricted for settlement of unpaid claims and other long-term liabilities	--	105,303
Property and Equipment		
Land	--	83,431
Buildings and improvements	--	388,821
Equipment	--	146,915
	--	619,167
Accumulated depreciation	--	(126,053
Construction in progress	--	2,276
	--	495,390
Other Long-Term Assets (1)	(1,155,775)	30,755
Goodwill, net	--	128,012
Other Intangible Assets, net	--	42,527
	$(1,155,775)	$ 1,140,137
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ --	$ 78,966
Accrued liabilities and income tax payable	--	189,599
Current maturities of long-term debt and capital lease obligations	--	5,751
Total Current Liabilities	--	274,316
Long-Term Debt and Capital Lease Obligations	--	566,307
Deferred Income Tax Liabilities	--	12,368
Reserve for Unpaid Claims	--	73,040
Deferred Credits and Other Long-Term Liabilities(1)	(385,218)	39,769
Minority interest	52,520	52,520
Stockholders' Equity		
Common Stock, par value $0.25 per share; Authorized - 80,000 shares Issued and outstanding - 33,007 shares	(2,281)	8,252
Committments and contingencies		
Other Stockholders' Equity		
Additional paid-in capital	(639,864)	327,681
Retained earnings (Accumulated deficit)	(185,758)	(129,457
Warrants outstanding	--	54
Common Stock in treasury, 4,424 shares	4,736	(82,731
Cumulative foreign currency adjustments	90	(1,982

	(823,077)	121,817
	$(1,155,775)	$ 1,140,137

(1) Elimination entry related to intercompany receivables and payables and investment in consolidated subsidiaries.
The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these balance sheets.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(In thousands, except share and per share amounts)

	March 31, 1997		
ASSETS	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Consolidated Total
Current Assets			
Cash and cash equivalents	$ 30,800	$ 68,617	$ 14,828
Accounts receivable, net	135,926	50,253	6,215
Supplies	3,838	330	297
Other current assets	6,730	3,076	15,493
Total Current Assets	177,294	122,276	36,833
Assets restricted for settlement of unpaid claims and other long-term liabilities	--	76,153	20,249
Property and Equipment			
Land	76,306	5,385	1,014
Buildings and improvements	357,052	31,121	5,641
Equipment	117,227	28,338	9,266
	550,585	64,844	15,921
Accumulated depreciation	(125,090)	(13,573)	(5,061)
Construction in progress	2,069	1,666	--
	427,564	52,937	10,860
Other Long-Term Assets (1)	74,036	5,277	1,170,107
Goodwill, net	19,688	93,123	12,518
Other Intangible Assets, net	4,332	23,050	13,384
	$ 702,914	$ 372,816	$ 1,263,951
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	$ 44,583	$ 18,162	$ 7,175
Accrued liabilities	48,591	62,620	54,147
Current maturities of long-term debt and capital lease obligations	2,715	3,130	--
Total Current Liabilities	95,889	83,912	61,322
Long-Term Debt and Capital Lease Obligations	(497,042)	7,654	1,069,924
Deferred Income Tax Liabilities	--	(4,307)	19,602
Reserve for Unpaid Claims	--	69,647	(7,331)
Deferred Credits and Other Long-Term Liabilities (1)	379,347	43,911	(21,774)
Minority interest	--	--	--
Stockholders' Equity			
Common Stock, par value $0.25 per share; Authorized - 80,000 shares Issued and outstanding - 33,221 shares	2,756	(483)	8,307
Commitments and contingencies			
Other Stockholders' Equity			
Additional paid-in capital	723,068	130,809	332,905
Retained earnings (Accumulated deficit)	(1,721)	44,039	(113,374)
Warrants outstanding	--	--	50
Common stock in Treasury, 4,424 shares	--	--	(82,731)
Cumulative foreign currency adjustments	617	(2,366)	(2,949)
	724,720	171,999	142,208
	$ 702,914	$ 372,816	$ 1,263,951

Magellan Health Services, Inc. (Parent Corporation)	Consolidated Elimination Entries

ASSETS		
Current Assets		
Cash and cash equivalents	$ --	$ 114,245
Accounts receivable, net	--	192,394
Supplies	--	4,465
Other current assets	--	25,299
	--	336,403
Total Current Assets		
Assets restricted for settlement of unpaid claims	--	96,402
and other long-term liabilities		
Property and Equipment	--	82,705
Land	--	393,814
Buildings and improvements	--	154,831
Equipment		
	--	631,350
	--	(143,724)
	--	3,735
Accumulated depreciation		
Construction in progress		
	--	491,361
	(1,217,294)	32,126
	--	125,329
Other Long-Term Assets (1)	--	40,766
Goodwill, net		
Other Intangible Assets, net	$(1,217,294)	$ 1,122,387
LIABILITIES AND STOCKHOLDERS' EQUITY	$ --	$ 69,920
Current Liabilities	--	165,358
Accounts payable	--	5,845
Accrued liabilities		
Current maturities of long-term debt and capital lease obligations .		
	--	241,123
	--	580,536
Total Current Liabilities	--	15,295
Long-Term Debt and Capital Lease Obligations	--	62,316
Deferred Income Tax Liabilities	(377,273)	24,211
Reserve for Unpaid Claims	56,698	56,698
Deferred Credits and Other Long-Term Liabilities (1)		
Minority interest		
Stockholders' Equity	(2,273)	8,307
Common Stock, par value $0.25 per share; Authorized - 80,000 shares		
Issued and outstanding - 33,221 shares		
Commitments and contingencies	(853,877)	332,905
Other Stockholders' Equity	(42,318)	(113,374)
Additional paid-in capital	--	50
Retained earnings (Accumulated deficit)	--	(82,731)
Warrants outstanding	1,749	(2,949)
Common stock in Treasury, 4,424 shares		
Cumulative foreign currency adjustments	(896,719)	142,208
	$(1,217,294)	$ 1,122,387

(1) Elimination entry related to intercompany receivables and payables and investment in consolidated subsidiaries.
The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these balance sheets.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)

	For the Three Months ended March 31, 1996		
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Magellan Health Services, Inc. (Parent Corporation)
Net revenue	$ 264,824	$ 95,161	$ (220)
Costs and expenses			
Salaries, supplies and other operating expenses	198,177	84,731	(3,078)
Bad debt expense	21,074	1,319	226
Depreciation and amortization	9,283	3,647	190
Interest, net	(10,286)	(348)	19,206
Stock option expense (credit)	--	--	(409)
	218,248	89,349	16,135
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	46,576	5,812	(16,355)

Provision for income taxes	688	1,414	(61)
Income (loss) before equity in earnings (loss) of subsidiaries	45,888	4,398	(16,294)
Equity in earnings (loss) of subsidiaries	79	(844)	36,363
Net income (loss)	$ 45,967	$ 3,554	$ 20,069

	Consolidated Elimination Entries	Consolidated Total
Net revenue	$ (4,812)	$ 354,953
Costs and expenses		
Salaries, supplies and other operating expenses	(4,812)	275,018
Bad debt expense	--	22,619
Depreciation and amortization	--	13,120
Interest, net	--	8,572
Stock option expense (credit)	--	(409)
	(4,812)	318,920
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	--	36,033
Provision for income taxes	12,372	14,413
Income (loss) before equity in earnings (loss) of subsidiaries	(12,372)	21,620
Equity in earnings (loss) of subsidiaries	(37,149)	(1,551)
Net income (loss)	$ (49,521)	$ 20,069

For the Three Months ended March 31, 1997

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Magellan Health Services, Inc. (Parent Corporation)
Net revenue	$ 243,746	$ 112,611	$ (5,735)
Costs and expenses			
Salaries, supplies and other operating expenses	184,458	90,018	8,434
Bad debt expense	14,062	1,078	--
Depreciation and amortization	8,145	3,723	1,220
Interest, net	(13,056)	(552)	26,761
Stock option expense	--	--	829
Unusual items	1,395	--	--
	195,004	94,267	37,244
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	48,742	18,344	(42,979)
Provision for income taxes	203	3,331	6,109
Income (loss) from continuing operations before equity in earnings (loss) of subsidiaries	48,539	15,013	(49,088)
Equity in earnings (loss) of continuing subsidiaries	(305)	(2,138)	60,980
Net income (loss)	$ 48,234	$ 12,875	$ 11,892

	Consolidated Elimination Entries	Consolidated Total
Net revenue	$ (700)	$ 349,922
Costs and expenses		
Salaries, supplies and other operating expenses	(700)	282,210
Bad debt expense	--	15,140
Depreciation and amortization	--	13,088
Interest, net	--	13,153
Stock option expense	--	829
Unusual items	--	1,395
	(700)	325,815
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	--	24,107
Provision for income taxes	--	9,643
Income (loss) from continuing operations before equity in earnings (loss) of subsidiaries	--	14,464
Equity in earnings (loss) of continuing subsidiaries	(61,109)	(2,572)
Net income (loss)	$ (61,109)	$ 11,892

The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these statements.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)

For the Six Months ended March 31, 1996

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Magellan Health Services, Inc. (Parent Corporation)
Net revenue	$ 512,578	$ 139,689	$ 7,627
Costs and expenses			
Salaries, supplies and other operating expenses	392,023	122,091	1,506
Bad debt expense	41,038	1,988	(619)
Depreciation and amortization	18,028	4,903	369
Interest, net	(20,386)	(268)	43,048
Stock option expense	--	--	1,414
	430,703	128,714	45,718
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	81,875	10,975	(38,091)
Provision for income taxes	1,341	2,046	208
Income (loss) before equity in earnings (loss) of subsidiaries	80,534	8,929	(38,299)
Equity in earnings (loss) of subsidiaries	368	(1,145)	54,438
Net income (loss)	$ 80,902	$ 7,784	$ 16,139

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Magellan Health Services, Inc. (Parent Corporation)
Cash provided by (used in) operating activities	$ 14,420	$ 17,954	$ (4,977)
Cash Flows from Investing Activities:			
Capital expenditures	(12,043)	(356)	(388)
Proceeds from sale of assets	653	--	--
Acquisitions and investments in businesses, net of cash acquired	(256)	38,226	(85,890)
Increase in assets restricted for the settlement of unpaid claims	(7,615)	1,545	--
Cash provided by (used in) investing activities	(11,646)	30,255	(84,733)
Cash Flows from Financing Activities:			
Proceeds from the issuance of debt	--	125	68,000
Payments on debt and capital obligations	(11,566)	(471)	(68,000)
Proceeds from issuance of Common Stock, net of issuance costs	--	--	68,669
Income tax payments made on behalf of stock optionees	--	--	(1,678)
Proceeds from exercise of stock option and warrants	--	--	1,808
Cash provided by (used in) financing activities	(11,566)	(346)	68,799
Net increase (decrease) in cash and cash equivalents	(8,792)	47,863	(20,911)
Cash and cash equivalents at beginning of period	60,719	10,279	34,516
Cash and cash equivalents at end of period	$ 51,927	$ 58,142	$ 13,605

	Consolidated Elimination Entries	Consolidated Total
Net revenue	$ (9,276)	$ 650,618
Costs and expenses		
Salaries, supplies and other operating expenses	(9,276)	506,344
Bad debt expense	--	42,407
Depreciation and amortization	--	23,300
Interest, net	--	22,394
Stock option expense	--	1,414
	(9,276)	595,859
Income (loss) before income taxes and equity in earnings (loss) of subsidiaries	--	54,759
Provision for income taxes	18,777	22,372
Income (loss) before equity in earnings (loss) of subsidiaries	(18,777)	32,387
Equity in earnings (loss) of subsidiaries	(56,231)	(2,570)
Net income (loss)	$ (75,008)	$ 29,817

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Consolidated Elimination Entries	Consolidated Total
Cash provided by (used in) operating activities	$ --	$ 27,397

Cash Flows from Investing Activities:		
Capital expenditures	--	(12,787)
Proceeds from sale of assets	--	653
Acquisitions and investments in businesses, net of cash acquired	--	(47,920)
Increase in assets restricted for the settlement of unpaid claims	(6,070)	
Cash provided by (used in) investing activities	--	(66,124)
Cash Flows from Financing Activities:		
Proceeds from the issuance of debt	--	68,125
Payments on debt and capital obligations	--	(80,037)
Proceeds from issuance of Common Stock, net of issuance costs ...	--	68,669
Income tax payments made on behalf of stock optionees	--	(1,678)
Proceeds from exercise of stock option and warrants	--	1,808
Cash provided by (used in) financing activities	--	56,887
Net increase (decrease) in cash and cash equivalents	--	18,160
Cash and cash equivalents at beginning of period	--	105,514
Cash and cash equivalents at end of period	$ --	$ 123,674

The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these statements.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In thousands)

	For the Six Months ended March 31, 1997		
	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Services, Inc. (Parent Corporation)
Net revenue	$ 467,268	$ 225,202	$ 4,971
Costs and expenses			
Salaries, supplies and other operating expenses	361,784	190,278	14,971
Bad debt expense	33,086	7,473	1,952
Interest, net	(25,162)	(995)	52,879
Stock option expense (credit)	--	--	1,433
Unusual Items	1,395	--	--
	387,865	199,045	71,235
Income (loss) before income taxes, equity in earnings (loss) of subsidiaries and extraordinary item	79,403	26,157	(66,264)
Provision for income taxes	1,034	6,186	8,498
Income (loss) before equity in earnings (loss) of subsidiaries and extraordinary item	78,369	19,971	(74,762)
Equity in earnings (loss) of continuing subsidiaries before extraordinary item	(358)	(3,980)	93,795
Income (loss) before extraordinary item	78,011	15,991	19,033
Extraordinary item - loss on early extinguishment of debt (net of income tax benefit of $1,967)	(1,193)	--	(2,950)
Net income (loss)	$ 76,818	$ 15,991	$ 16,083

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities	$ 4,185	$ 677	$ (16,385)
Cash Flows from Investing Activities:			
Capital expenditures	(8,170)	(5,868)	(335)
Acquisitions and investments in businesses, net of cash acquired	(4,944)	(7,614)	(404)
Decrease (increase) in assets restricted for the settlement of unpaid claims	--	2,389	6,237
Proceeds from the sale of assets	10,386	--	--
Cash provided by (used in) investing activities	(2,728)	(11,093)	5,498
Cash Flows from Financing Activities:			
Payments on debt and capital lease obligations	(72,024)	(519)	(44,978)
Proceeds from the issuance of debt	71,616	--	55,209
Proceeds from exercise of stock options and warrants	--	--	3,842
Cash provided by (used in) financing activities	(408)	(519)	14,073
Net increase (decrease) in cash and cash equivalents	1,049	(10,935)	3,186
Cash and cash equivalents at beginning of period	29,751	79,552	11,642
Cash and cash equivalents at end of period	$ 30,800	$ 68,617	$ 14,828

	Consolidated Elimination Entries	Consolidated Total
Net revenue	$ (700)	$ 696,741
Costs and expenses		
Salaries, supplies and other operating expenses	(700)	566,333

Bad debt expense	--	26,187
Interest, net	--	26,722
Stock option expense (credit)	--	1,433
Unusual Items	--	1,395
	(700)	657,445
Income (loss) before income taxes, equity in earnings (loss) of subsidiaries and extraordinary item	--	39,296
Provision for income taxes	--	15,718
Income (loss) before equity in earnings (loss) of subsidiaries and extraordinary item	--	23,578
Equity in earnings (loss) of continuing subsidiaries before extraordinary item	(94,002)	(4,545)
Income (loss) before extraordinary item	(94,002)	19,033
Extraordinary item - loss on early extinguishment of debt (net of income tax benefit of $1,967)	1,193	(2,950)
Net income (loss)	$ (92,809)	$ 16,083

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Cash provided by (used in) operating activities	$ --	$ (11,523)
Cash Flows from Investing Activities:		
Capital expenditures	--	(14,373)
Acquisitions and investments in businesses, net of cash acquired	--	(12,962)
Decrease (increase) in assets restricted for the settlement of unpaid claims	--	8,626
Proceeds from the sale of assets	--	10,386
Cash provided by (used in) investing activities	--	(8,323)
Cash Flows from Financing Activities:		
Payments on debt and capital lease obligations	--	(117,521)
Proceeds from the issuance of debt	--	126,825
Proceeds from exercise of stock options and warrants	--	3,842
Cash provided by (used in) financing activities	--	13,146
Net increase (decrease) in cash and cash equivalents	--	(6,700)
Cash and cash equivalents at beginning of period	--	120,945
Cash and cash equivalents at end of period	$ --	$ 114,245

The accompanying Notes to Condensed Consolidating Financial Statements are an integral part of these statements

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This document contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding the sufficiency of the Company's liquidity and sources of capital and the statements under the heading "Outlook". Actual results may differ materially from those projected in such forward-looking statements. These forward-looking statements are subject to certain risks, uncertainties and other factors which could cause actual results to differ materially from those anticipated, including, without limitation, potential reductions in reimbursement by third-party payers and changes in hospital payer mix, governmental budgetary constraints and healthcare reform, the impact of potential hospital closures, competition in the provider business and the managed care business, and the regulatory environment for the Company's businesses, as well as the other factors discussed in Exhibit 99 hereto, which is hereby incorporated by reference.

Green Spring Acquisition

On December 13, 1995, the Company acquired a 51% ownership interest in Green Spring for approximately $68.9 million in cash, the issuance of 215,458 shares of Magellan Common Stock valued at approximately $4.3 million and the contribution of GPA, a wholly-owned subsidiary of the Company, which became a wholly-owned subsidiary of Green Spring. On December 20, 1995, the Company acquired an additional 10% ownership interest in Green Spring for approximately $16.7 million in cash as a result of an exercise by a minority stockholder of its Exchange Option ("Exchange Option") for a portion of the stockholder's interest in Green Spring. Green Spring provides managed behavioral healthcare services, which includes utilization management, care management and employee assistance programs through a 50-state provider network covering approximately 15.5 million people nationwide. The Company has accounted for the acquisition of Green Spring using the purchase method of accounting, which resulted in additional intangible assets of approximately $113 million.

The minority stockholders of Green Spring consist of four Blue Cross/Blue Shield organizations (the "Blues") that are key customers of Green Spring. In addition, two other Blues organizations that formerly owned a portion of Green Spring have continued as customers of Green Spring. As of March 31, 1997, the minority stockholders of Green Spring have the Exchange Option, under certain circumstances, to exchange their ownership interest in Green Spring for 2,831,739 shares of the Company's Common Stock or $65.1 million in subordinated notes. The Company may elect to pay cash in lieu of issuing the subordinated notes. The Exchange Option expires December 13, 1998.

Psychiatric Hospital Results

Selected statistics (from the date of acquisition for acquired facilities) for the psychiatric hospitals in operation by quarter for fiscal 1996 and fiscal 1997 are as follows:

	Fiscal 1996	Fiscal 1997	% Change
Hospitals in operation:			
December 31	102	95	(7)%
March 31	99	93	(6)
June 30	96		
September 30	95		
Average licensed beds at:			
Quarter:			
First	9,110	8,463	(7)%
Second	9,040	8,468	(6)
Third	8,677		
Fourth	8,469		
Year	8,805		
Net revenue (in thousands):			
Quarter:			
First	$ 253,565	$ 229,064	(10)%
Second	257,690	225,494	(12)
Third	249,145		
Fourth	228,597		
Year	$ 988,997		
Patient days:			
Quarter:			
First	432,474	392,352	(9)%
Second	463,327	402,929	(13)
Third	452,864		
Fourth	404,346		

Year	1,753,011		
Equivalent patient days:			
Quarter:			
First	478,693	437,960	(9)%
Second	513,502	447,551	(13)
Third	503,622		
Fourth	450,708		
Year	1,946,525		
Net revenue per equivalent patient day:			
Quarter:			
First	$ 530	$ 523	(1)%
Second	502	504	--
Third	495		
Fourth	507		
Year	508		
Admissions:			
Quarter:			
First	32,865	32,326	(2)%
Second	37,966	34,643	(9)
Third	35,854		
Fourth	33,861		
Year	140,546		
Average length of stay (days):			
Quarter:			
First	12.4	11.5	(7)%
Second	12.2	11.1	(9)
Third	12.5		
Fourth	12.5		
Year	12.4		

Note: Includes Northstar Hospital in Anchorage, Alaska that is managed pursuant to a joint venture arrangement.

Results of Operations

The following table summarizes, for the periods indicated, changes in selected operating indicators.

	Percentage of Net Revenue			
	Three Months Ended March 31,		Six Months Ended March 31,	
	1996	1997	1996	1997
Net revenue	100.0%	100.0%	100.0%	100.0%
Salaries, supplies and other operating expenses	77.5	80.7	77.8	81.3
Bad debt expense	6.4	4.3	6.5	5.1
Total expenses	83.9	85.0	84.3	86.4
Operating margin	16.1%	15.0%	15.7%	13.6%

Patient days at the Company's hospitals decreased 13.0% and 11.2% for the quarter and the six months ended March 31, 1997, respectively, as compared to the same periods of fiscal 1996. The decrease resulted primarily from patient days attributable to the hospitals closed during fiscal 1996 and 1997 and a decline in average length of stay. Total admissions decreased 8.8% and 5.5% for the quarter and the six months ended March 31, 1997, respectively, as compared to the prior year periods. The decrease resulted primarily from the hospitals closed in fiscal 1996 and 1997.

The Company's net revenue for the quarter ended March 31, 1997 decreased 1.4% as compared to the prior year quarter. The decrease was primarily attributable to (i) the closure of hospitals during fiscal 1996 and 1997 and (ii) reduced equivalent patient days at the Company's operating hospitals, offset by revenue growth in the company's managed care (Green Spring) and public sector (Public Solutions) businesses. Green Spring revenues were approximately $90.6 million and $65.0 million for the quarters ended March 31, 1997 and 1996, respectively. The 39.4% increase was primarily attributable to Green Spring obtaining several new contracts, which became effective July 1, 1996 and January 1, 1997, to manage the behavioral healthcare component of certain state medicaid programs and increases in services to an insurer. Public Solutions revenues were approximately $22.4 million and $16.2 million for the quarters ended March 31, 1997 and 1996, respectively. The 38.3% increase was primarily attributable to a 44 % increase in placements in mentor homes and $1.4 million in new revenues from correctional contracts.

The Company's net revenue for the six months ended March 31, 1997 increased 7.1 % as compared to the prior year period. The increase was primarily attributable to the Green Spring acquisition and related internal growth (as previously described) offset by (i) the closure of hospitals during fiscal 1996 and fiscal 1997 and (ii) reduced equivalent patient days at the Company's operating hospitals. Green Spring revenues were approximately $173.5 million and $79.0 million, for the six months ended March 31, 1997 and 1996, respectively.

The Company's salaries, supplies and other operating expenses increased 2.6% and 11.8% in the quarter and the six months ended March 31, 1997 compared to the same periods in fiscal 1996. The increases resulted primarily from the Green Spring acquisition and related internal growth less the effect of hospitals closed during fiscal 1996 and 1997. Expenses incurred by Green Spring were approximately $80.4 million and $59.3 million for the quarters ended March 31, 1997 and 1996, respectively, and $154.3 million and $71.4 million for the six months ended March 31, 1997 and 1996, respectively.

The Company's bad debt expense decreased 33.1% and 16.6% in the quarter and the six months ended March 31, 1997 compared to the same periods in fiscal 1996. These decreases are primarily attributable to improvement in accounts receivable agings and turnover compared to prior periods and shifts towards governmental and managed

care payers, which reduces the Company's credit risk associated with individual patients. Bad debt expense decreased to 4.3% and 5.1% of revenue for the quarter and the six months ended March 31, 1997, respectively. These decreases are primarily attributable to lower bad debt expense in the provider business and bad debt expense representing less than 1% of Green Spring revenues for the periods presented.

Depreciation and amortization decreased 0.2% and increased 12.4% in the quarter and the six months ended March 31, 1997 compared to the same periods in fiscal 1996. The increase for the six months ended March 31, 1997 resulted primarily from depreciation and amortization related to the Green Spring Acquisition .

Interest expense, net, increased $4.6 million and $4.3 million for the quarter and the six months ended March 31, 1997 compared to the same periods in fiscal 1996. These increases resulted primarily from approximately $5.0 million of interest income recorded during the quarter and the six months ended March 31, 1996 related to income tax refunds due from the State of California for the Company's income tax returns for fiscal 1982 through 1989.

Stock option expense for the quarter and the six months ended March 31, 1997 increased $1.2 million and $19,000 from the previous year periods primarily due to fluctuations in the market price of the Company's common stock.

The Company recorded unusual items, net, of $1.4 million, during the quarter and the six months ended March 31, 1997, which consisted of a $2.8 million pre-tax gain on the sale of two psychiatric hospitals offset by a $4.2 million charge for the closure of three psychiatric hospitals and one general hospital. See Note F for further information regarding facility closures.

Minority interest increased $1.0 million and $2.0 million in the quarter and the six months ended March 31, 1997 as compared to the prior year periods. The increases are primarily due to the Company acquiring a controlling interest in Green Spring in December 1995 and Green Spring's internal growth subsequent to the acquisition date.

Recent Accounting Pronouncements

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123 ("FAS 123") "Accounting for Stock-Based Compensation," which became effective for fiscal years beginning after December 15, 1995. FAS 123 established new financial accounting and reporting standards for stock-based compensation plans. Entities will be allowed to measure compensation expense for stock-based compensation under FAS 123 or APB Opinion No. 25, "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting in APB Opinion No. 25 will be required to make pro forma disclosures of net income and earnings per share as if the provisions of FAS 123 had been applied. The Company is adopting FAS 123 in fiscal 1997 on a proforma disclosure basis.

In February 1997, the Financial Accounting Standards Board ("FASB") issued FAS 128, which applies to entities with publicly held common stock or potential common stock. FAS 128 replaces APB Opinion 15, "Earnings per Share" and related interpretations. APB Opinion 15 required that entities with simple capital structures present a single "earnings per common share" ("EPS") on the face of the income statement, whereas those with complex capital structures present both "primary" and "fully diluted" EPS. Primary EPS shows the amount of income attributed to each share of common stock if every common stock equivalent were converted into common stock. Fully diluted EPS considers common stock equivalents and all other securities that could be converted into common stock.

Statement 128 simplifies the computation of EPS by replacing the presentation of primary EPS with a presentation of basic EPS. The Statement requires dual presentation of basic and diluted EPS by entities with complex capital structures. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted EPS under APB Opinion 15.

FAS 128 becomes effective for financial statements for both interim and annual periods ending after December

15, 1997. Earlier application is not permitted. The Company will adopt FAS 128 during the quarter ended December 31, 1997, which is the first quarter of the fiscal year ended September 30, 1998. The Company has disclosed pro forma EPS amounts computed using FAS 128 in Note G to the financial statements for the quarter and the six months ended March 31, 1996 and 1997. After the effective date, all prior-period EPS data presented will be restated to conform with the provisions of FAS 128.

The primary effect of FAS 128 on the Company's financial statements is the required dual presentation of basic and diluted income per common share for each interim and annual reporting period. APB Opinion No. 15 allowed entities with complex capital structures to present income per common share excluding common stock equivalents and other potentially dilutive securities if the dilution was less than three percent.

Liquidity and Sources of Capital

Operating Activities. The Company's net cash provided by operating activities was approximately $27.4 million for the six months ended March 31, 1996. Net cash used in operating activities was approximately $11.5 million for the six months ended March 31,1997. The decrease in operating cash flows for the six months ended March 31, 1997 was primarily the result of (i) higher insurance settlement payments ($14.0 million and $21.2 million for the six months ended March 31, 1996 and 1997, respectively), (ii) higher income tax payments and (iii) reduced cash flows from its provider business. Management believes that the Company will have positive cash flows from operations for the remainder of fiscal 1997, which will be adequate to fund operations, capital expenditures and debt service obligations.

Investing Activities. The Company acquired a 61% ownership interest in Green Spring during the first quarter of fiscal 1996. The consideration paid for Green Spring and related acquisition costs resulted in the use of cash of approximately $87.2 million compared to approximately $13.0 million for acquisitions and investments in businesses during the six months ended March 31, 1997.

Management believes that its cash on hand, future cash flows from operations, borrowing capacity under the New Revolving Credit Agreement and its ability to issue debt and equity securities under current market conditions will provide adequate capital resources to support the Company's anticipated investing strategies.

Financing Activities. The Company borrowed approximately $68.1 million and $15.4 million (excluding borrowings of approximately $115.6 million to pay off the previous Revolving Credit Agreement), respectively, during the six months ended March 31, 1996 and 1997, primarily to fund the acquisition of Green Spring in fiscal 1996 and to fund working capital needs and fees and expenses related to the New Revolving Credit Agreement in fiscal 1997. The Company believes that its businesses will generate sufficient cash flows from operations to meet its future debt service requirements.

On September 27, 1996, the Company repurchased approximately 4.0 million shares of its Common Stock for approximately $73.5 million, including transaction costs, pursuant to a "Dutch Auction" self-tender offer to its stockholders. On November 1, 1996, the Company announced that its board of directors approved the repurchase of an additional 3.0 million shares of its Common Stock from time to time subject to the terms of the New Revolving Credit Agreement. The Company expects to use cash on hand, future cash flows from operations and borrowings under its New Revolving Credit Agreement to fund any future treasury stock purchases.

As of March 31, 1997, the Company had approximately $209 million of availability under the New Revolving Credit Agreement. The Company was in compliance with all debt covenants at March 31, 1997.

Outlook

Crescent Transactions On January 30, 1997, the Company announced that it had signed definitive agreements for a series of transactions (the "Crescent Transactions") with Crescent Real Estate Equities Limited

Partnership ("Crescent"), which are described in "Item 5 - Other Information" and incorporated herein by reference. The Company expects to close the Crescent Transactions in the third quarter of fiscal 1997.

The Crescent Transactions, if consummated, would result in the Company relinquishing control of substantially all of its domestic provider business. The Company expects to record a loss before income taxes of approximately $45 million to $55 million as a result of the Crescent Transactions. In addition, the Company believes that the Crescent Transactions would allow the holders of the Company's 11.25% Senior Subordinated Notes (the "Notes") to put their notes to the Company at 101% of face value. If the Company is required to repurchase all of the Notes, it would record an extraordinary loss for the early extinguishment of debt of approximately $7.5 million to $8.0 million, net of tax.

The Company expects to have approximately $272 million of net proceeds remaining from the Crescent Transactions ("Remaining Proceeds"), assuming consummation of the sale of the European Hospitals, after paying off long-term debt, excluding any Notes repurchased. The Company also expects to enter into a new credit agreement with a group of commercial banks simultaneous with the closing of the Crescent Transactions. Under the terms of the new credit agreement, the Company may borrow up to $200 million to repurchase all of the Notes, if necessary. The Company anticipates that the Crescent Transactions could result in reduced net income until the Remaining Proceeds are used to repurchase Notes or are reinvested at an acceptable rate of return to the Company.

If the Company is required to repurchase all the Notes as a result of the Crescent Transactions, it would result in increased net income. However, the Company's liquidity and capital resources would be significantly reduced, which would limit the level of investing activities (e.g., acquisitions) the Company may choose or be able to pursue.

Sale of European Hospitals. On March 19, 1997, the Company announced that it signed definitive agreements with Priory Hospitals Holdings Limited and Priory Hospitals Europe Limited for the sale of its two psychiatric hospitals in London and its psychiatric hospital in Nyon, Switzerland. The sale of the European Hospitals is subject to regulatory approval. In a separate agreement, Magellan will allow Priory to continue to use the "Charter" name at the facilities for seven years and the "Charter System", comprised of certain intellectual and proprietary rights, for a six month period pending negotiation of a potential franchise relationship. The total purchase price for the European Hospitals and the license agreement is $76 million.

These transactions will provide the Company with approximately $72.5 million to reduce long-term debt. The Company expects to record a gain before income taxes of approximately $45 million to $50 million as a result of selling the European Hospitals. The Transaction is expected to close in the third quarter of fiscal 1997.

Net Operating Loss Carryforwards. The Company expects to record a gain for federal income tax purposes of approximately $100 million to $110 million as a result of the Crescent Transactions and the sale of the European Hospitals. The Company intends to utilize net operating loss carryforwards ("NOLs") to offset such taxable gains to the extent NOLs are available. The expected utilization of NOLs as a result of the Crescent Transactions and the sale of the European hospitals will accelerate the payment of federal income taxes in future periods, resulting in lower cash flows from operations.

Existing Operations. The remaining portion of "Outlook" is prepared with a view toward the existing operating structure of the Company as of March 31, 1997 before the effects of the Crescent Transactions and the sale of the European Hospitals:

Management continually assesses events and changes in circumstances that could affect its business strategy and the viability of its provider facilities. During fiscal 1995 and 1996, the Company consolidated, closed or sold 15 and 9 psychiatric hospitals, respectively. During fiscal 1997, the Company has consolidated or closed three psychiatric hospitals and its one general hospital. See Note F for further information regarding facility closures in fiscal 1996 and 1997. The Company plans to pursue acquisitions in its provider segment during fiscal 1997 in markets

where it does not currently have a presence and in markets where it has existing hospital operations. Management expects to consolidate services in selected markets as a result of acquisitions or overcapacity and to close or sell additional facilities in future periods depending on market conditions and evolving business strategies. If the Company closes additional psychiatric hospitals in future periods, it could result in additional charges to income for the costs necessary to exit the hospital operations.

During fiscal 1995 and fiscal 1996, the Company recorded impairment losses on property and equipment and intangible assets of approximately $27.0 million and $1.2 million, respectively. Such impairment losses resulted from changes in the manner that certain of the Company's assets will be used in future periods and from historical operating losses at certain of the Company's operating facilities combined with projected future operating losses. The affected businesses that were operating as of March 31, 1997 had operating income of approximately $100,000 (net revenue less salaries, supplies and other operating expenses and bad debt expense) in aggregate during fiscal 1996, and operating income of approximately $1.0 million in aggregate during the six months ended March 31, 1997, excluding the normal settlement of reimbursement issues. When events or changes in circumstances are present that indicate the carrying amount of long-lived assets may not be recoverable, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through future cash flows expected from the use of the asset and its eventual disposition. The Company may record additional impairment losses in future periods as circumstances warrant.

The Company's hospitals continue to experience a shift in payer mix to managed care payers from other payers, which contributed to a reduction in revenue per equivalent patient day and average length of stay in fiscal 1996. Management anticipates continued shifting in its hospitals' payer mix towards managed care payers as a result of changes in the healthcare marketplace and the synergies created by the Green Spring acquisition. Future shifts in the Company's hospital payer mix to managed care payers could result in lower revenue per equivalent patient day and average length of stay in future periods for the Company's hospital operations. In addition, the Company's hospitals experienced pricing pressure in fiscal 1996, which management expects to continue in fiscal 1997, which could result in lower revenue per equivalent patient day in future periods.

During fiscal 1994, 1995 and 1996, the Company recorded revenue of $32.1 million, $35.6 million and $28.3 million, respectively, for settlements and adjustments related to reimbursement issues. During the quarter and the six months ended March 31, 1997, the Company recorded revenue of $2.8 million and $13.8 million, respectively, for settlements and adjustments related to reimbursement issues compared to $3.3 million and $11.1 million, respectively, for the prior year periods. The settlements in fiscal 1994, 1995 and 1996 related primarily to certain reimbursable costs associated with the Company's financial reorganization in fiscal 1992 and costs related to the early extinguishment of long-term debt in fiscal 1994. Management anticipates that revenue related to such settlements will decline in fiscal 1997, and that the decline will be comparable to the reduction experienced in fiscal 1996.

During fiscal 1996, the Company recorded reductions of expenses of approximately $15.3 million as a result of updated actuarial estimates related to malpractice claim reserves. The Company recorded reductions of expenses of approximately $7.5 million and $5.0 million during the quarter and the six months ended March 31, 1996 and 1997, respectively. These reductions resulted primarily from updates to actuarial assumptions regarding the Company's expected losses for more recent policy years. These revisions are based on changes in expected values of ultimate losses resulting from the Company's claim experience, and increased reliance on such claim experience. While Management and its actuaries believe that the present reserve is reasonable, ultimate settlement of losses may vary from the amount recorded and result in additional fluctuations in income in future periods.

PART II - OTHER INFORMATION

Item 1. - Legal Proceedings

The Company and certain of its subsidiaries are subject to or parties to claims, civil suits and governmental investigations and inquiries relating to their operations and certain alleged business practices. In the opinion of management, based on consultation with counsel, resolution of these matters will not have a material adverse effect on the Company's financial position or results or operations.

Item 5. - Other Information

On January 30, 1997, the Company announced that it had entered into a definitive agreement to sell substantially all of its domestic hospital real estate and related personal property (the "Assets") to Crescent. In addition, the Company's domestic portion of its provider business segment will be operated as a joint venture ("CBHS") that is initially owned equally by Magellan and an affiliate of Crescent ("COI"). The Company will receive $400 million in cash, subject to adjustment, and warrants in COI for the purchase of 2.5% of COI's common stock, exercisable over 12 years, as consideration for the assets. In addition to the Assets, Crescent and COI will each receive 1,283,311 warrants to purchase Magellan Common Stock at $30 per share, exercisable over 12 years.

In related agreements, (i) Crescent will lease the real estate and related assets to CBHS for annual rent beginning at $40 million, subject to adjustment, with a 5% annual escalation clause compounded annually and (ii) CBHS will pay Magellan approximately $81 million in annual franchise fees, subject to increase, for the use of assets retained by Magellan and for support in certain areas. The franchise fees to be paid by CBHS to the Company will be subordinated to the lease obligations in favor of Crescent. The assets retained by Magellan include, but are not limited to, the "CHARTER" name, intellectual property, protocols and procedures, clinical quality management, operating processes and the "1-800-CHARTER" telephone call center. Magellan will provide CBHS ongoing support in areas including managed care contracting services, advertising and marketing assistance, risk management services, outcomes monitoring, and consultation on matters relating to reimbursement, government relations, clinical strategies, regulatory matters, strategic planning and business development.

The Company intends to initially use the proceeds from the sale of the Assets to reduce its long-term debt, including borrowings under the New Revolving Credit Agreement. Under the terms of the Notes indenture, the Noteholders will have the right to put their Notes to the Company at 101% of face value as a result of the Crescent transactions. The Company intends to maintain adequate cash reserves and borrowing capacity to extinguish all the Notes, if necessary. The Noteholder's right to put the Notes will expire up to 70 days subsequent to the consummation of the Crescent Transactions. The Company intends to use the remaining proceeds from the sale of the Assets, if any after debt reductions, to pursue acquisitions in its managed care and public sector business segments, develop new products and increase managed care and public sector marketing efforts.

The Company will account for its 50% investment in CBHS under the equity method of accounting. The Company expects to record a loss before income taxes of approximately $45 million to $55 million as a result of these proposed transactions, including, but not limited to, the write-off of certain hospital-based intangible assets, collection fees associated with accounts receivable and certain commitments and exit costs offset by the expected gain or loss on the sale of the Assets.

These transactions are subject to approval by Magellan stockholders and other customary closing conditions, including the negotiation of certain financing matters.

Item 6. - Exhibits and Reports on Form 8-K

(a) Exhibits

11 Statement re computation of per share earnings

27 Financial Data Schedule

99 Safe Harbor for Forward-Looking Statements under the Private Litigation Reform Act of 1995: Certain Cautionary Statements.

(b) Report on Form 8-K

There were no current reports on Form 8-K filed by the Registrant with the Securities and Exchange Commission during the quarter ended March 31, 1997.

FORM 10-Q

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAGELLAN HEALTH SERVICES, INC.
(Registrant)

Date: May 12, 1997	/s/ Craig L. McKnight Craig L. McKnight Executive Vice President and Chief Financial Officer
Date: May 12, 1997	/s/ Howard A. McLure Howard A. McLure Senior Vice President and Controller (Principal Accounting Officer)

EXHIBIT 11

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS

(in thousands, except per share data)

	Three Months Ended March 31, 1996	Three Months Ended March 31, 1997	Six Months Ended March 31, 1996	Six Months Ended March 31, 1997
Income before extraordinary item	$ 20,069	$ 11,892	$ 29,817	$ 19,033
Weighted average number of common shares outstanding:				
Common shares outstanding	31,247	28,726	29,612	28,657
Stock Options and Rights	615	--	468	--
Warrants	20	--	19	--
	31,882	28,726	30,099	28,657
Primary income per share before extraordinary item	$ 0.63	$ 0.41	$ 0.99	$ 0.66
Net income	$ 20,069	$ 11,892	$ 29,817	$ 16,083
Weighted average number of common shares outstanding	31,882	28,726	30,099	28,657
Primary income per share	$ 0.63	$ 0.41	$ 0.99	$ 0.56
Income before extraordinary item	$ 20,069	$ 11,892	$ 29,817	$ 19,033
Adjustments for the assumed conversion of the Exchange Option:				
Minority interest	811	--	1,082	--
Amortization	(276)	--	(341)	--
Adjusted income before extraordinary item	$ 20,604	$ 11,892	$ 30,558	$ 19,033
Weighted average number of common shares outstanding:				
Common shares outstanding	31,247	28,726	29,612	28,657
Stock Options and Rights	616	--	505	--
Warrants	20	--	20	--
Assumed conversion of the Exchange Option	2,832	--	1,714	--
	34,715	28,726	31,851	28,657
Fully diluted income per share before extraordinary item	$ 0.59	$ 0.41	$ 0.96	$ 0.66
Adjusted net income	$ 20,604	$ 11,892	$ 30,558	$ 16,083
Weighted average number of common shares outstanding	$ 34,715	$ 28,726	31,851	28,657
Fully diluted income per share	$ 0.59	$ 0.41	$ 0.96	$ 0.56

Note: Common stock equivalents(stock options,rights and warrants) were less than three percent dilutive for the three months the six months ended March 31, 1997. Accordingly, they are not presented herein. The Exchange Option was anti-dilutive for the three months and the six months ended March 31, 1997.

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     THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
     CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND
     ON PAGES 1, 2, AND 3 OF THE COMPANY'S FORM 10-Q FOR THE YEAR-TO-DATE, AND
     IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENS.
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EXHIBIT 99

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

Magellan Health Services, Inc. (the "Company") and its representatives may make forward looking statements (as such term is defined in the Private Securities Litigation Reform Act) from time-to-time. The Company wants to invoke to the fullest extent possible the protection of the Private Securities Litigating Reform Act and the judicially created "bespeaks caution" doctrine with respect to such statements. Accordingly, the Company is filing this Exhibit 99, which lists certain factors that may cause actual results to differ materially from those in such forward looking statements.

This list is not necessarily exhaustive. The Company operates in a rapidly changing business, and new risk factors emerge periodically. There can be no assurance that this Exhibit lists all material risks to the Company at any specific point in time. Readers are also referred to the risk factor disclosure contained in the Company's Proxy Statement on Schedule 14A, filed on April 24, 1997.

On January 30, 1997, the Company announced that it had signed definitive agreements for a series of transactions (the "Crescent Transactions") with Crescent Real Estate Equities Limited Partnership ("Crescent"), which are described in "Item 5 - Other Information". The Company expects to close the Crescent Transactions in the third quarter of fiscal 1997. The following risk factors are prepared with a view toward the existing operating structure of the Company as of March 31, 1997 before the effects of the Crescent Transaction:

Limitations Imposed by the New Revolving Credit Agreement and Senior Note Indenture

In May 1994, the Company entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") with certain financial institutions and issued $375 million of Senior Subordinated Notes (the "Senior Notes") to institutional investors. The Credit Agreement was terminated in October 1996 and the Company entered into a new Credit Agreement (the "New Revolving Credit Agreement"). The New Revolving Credit Agreement and the indenture for the Senior Notes contain a number of restrictive covenants which, among other things, limit the ability of the Company and certain of its subsidiaries to incur other indebtedness, enter into certain joint venture transactions, incur liens, make certain restricted payments and investments, enter into certain business combination and asset sale transactions and make capital expenditures. These restrictions could adversely affect the Company's ability to conduct its operations, finance its capital needs or to pursue attractive business combinations and joint ventures if such opportunities arise. Under the New Revolving Credit Agreement, the Company also is required to maintain certain specified financial ratios. Failure by the Company to maintain such financial ratios or to comply with the restrictions contained in the New Revolving Credit Agreement and the indenture for the Senior Notes could cause such indebtedness (and by reason of cross-acceleration provisions, other indebtedness) to become immediately due and payable and/or could cause the cessation of funding under the New Revolving Credit Agreement.

Acquisition Growth Strategy

The Company has historically grown through acquisitions. There can be no assurance that the Company will be able to make successful acquisitions in the future or that any such acquisitions will be successfully integrated into its operations. In addition, future acquisitions could have an adverse effect upon the Company's operating results, particularly in the fiscal quarters immediately following the consummation of such transactions while the acquired operations are being integrated into its operations.

Historical Operating Losses

The Company experienced losses from continuing operations before reorganization items, extraordinary items and the cumulative effect of a change in accounting principle during each fiscal year since the completion of a management buyout in 1988 through fiscal 1995. Such losses amounted to $81.7 million for the ten-month period ended July 31, 1992, $8.1 million for the two-month period ended September 30, 1992 and $39.6 million, $47.0 million and $43.0 million for the fiscal years ended September 30, 1993, 1994 and 1995, respectively. The Company reported net revenue and income from continuing operations of approximately $1.35 billion and $32.4 million, respectively, for the year ended September 30, 1996. The Company also reported net revenue and income from continuing operations before extraordinary items of approximately $650.6 million and $29.8 million for the six months ended March 31, 1996, respectively, compared to net revenue and income from continuing operations of $696.7 million and $19.0 million, respectively, for the six months ended March 31, 1997. There can be no assurance that the Company's profitability for the year ended September 30, 1996 and the six months ended March 31, 1997 will continue in future periods. The Company's history of losses could have an adverse effect on its operations.

Potential Hospital Closures

The Company continually assesses events and changes in circumstances that could effect its business strategy and the viability of its provider facilities. During fiscal 1995 and 1996, the Company consolidated, closed or sold 15 and 9 psychiatric hospitals, respectively. During fiscal 1997, the Company has consolidated, closed or sold three psychiatric hospitals and one general hospital. The Company records charges against income, as a result of these consolidations, closures and sales. The Company may elect to consolidate services in selected markets and to close or sell additional facilities in future periods depending on market conditions and evolving business strategies. If the Company closes additional psychiatric hospitals in future periods, it could result in charges to income for the cost necessary to exit the hospital operations.

Potential Reductions in Reimbursement by
Third-Party Payers and Changes in Hospital Payer Mix

The Company's hospitals have been adversely affected by factors influencing the entire psychiatric hospital industry. Factors which affect the Company include (i) the imposition of more stringent length of stay and admission criteria and other cost containment measures by payers; (ii) the failure of reimbursement rate increases from certain payers that reimburse on a per diem or other discounted basis to offset increases in the cost of providing services; (iii) an increase in the percentage of its business that the Company derives from payers that reimburse on a per diem or other discounted basis; (iv) a trend toward higher deductibles and co-insurance for individual patients; (v) pricing pressure related to increasing rate of claims denials by third party payers; and (vi) a trend toward limiting employee health benefits, such as reductions in annual and lifetime limits on mental health coverage. Any of these factors could result in reductions in the amounts that the Company's hospitals can expect to collect per patient day for services provided.

For the fiscal year ended September 30, 1996, the Company derived approximately 21% of its gross psychiatric patient service revenue from managed care organizations (primarily HMOs and PPOs, as hereinafter defined), 25% from other private payers (primarily commercial insurance and Blue Cross), 28% from Medicare, 17% from Medicaid, 3% from the Civilian Health and Medical Program for the Uniformed Services ("CHAMPUS") and 6% from other government programs. Changes in the mix of the Company's patients among the managed care organizations, Medicare and Medicaid categories, and among different types of private-pay sources, can significantly affect the profitability of the Company's hospital operations. Therefore, there can be no assurance that payments under governmental and private third-party payer programs will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs of providing care to patients covered by such programs.

Previous Bankruptcy Reorganization

The Company was reorganized pursuant to Chapter 11 of the United States Bankruptcy Code, effective on July 21, 1992 (the "Reorganization"). Prior to the

Reorganization, the Company's total indebtedness was approximately $1.8 billion. From February 1991 until July 1992, the Company was in default in the payment of interest and principal, or

both, on substantially all such indebtedness. The indebtedness was incurred by the Company in connection with a management buy-out of the Company in 1988 and a hospital-construction program. As a result of the Reorganization, the Company's long-term debt was reduced by approximately $700 million and its redeemable preferred stock of $233 million was eliminated. The holders of such debt and preferred stock received approximately 97% of Magellan's Common Stock outstanding on July 21, 1992.

Dependence on Healthcare Professionals

Physicians traditionally have been the source of a significant portion of the patients treated at the Company's hospitals. Therefore, the success of the Company's hospitals is dependent in part on the number and quality of the physicians on the medical staffs of its hospitals and their admission practices. A small number of physicians account for a significant portion of patient admissions at some of the Company's hospitals. There can be no assurance that the Company can retain its current physicians on staff or that additional physician relationships will be developed in the future. Furthermore, hospital physicians generally are not employees of the Company and in general Magellan does not have contractual arrangements with hospital physicians restricting the ability of such physicians to practice elsewhere.

Potential General and Professional Liability

Effective June 1, 1995, Plymouth Insurance Company, Ltd. ("Plymouth"), a wholly-owned Bermuda subsidiary of the Company, provides general and hospital professional liability insurance up to $25 million per occurrence for the Company's hospitals. All of the risk of losses from $1.5 million to $25 million per occurrence has been reinsured with unaffiliated insurers. The Company also insures with an unaffiliated insurer 100% of the risk of losses between $25 million and $100 million per occurrence, subject to an annual aggregate limit of $75 million. The Company's general and professional liability coverage is written on a "claims made or circumstances reported" basis. For reinsured claims between $10 and $25 million per occurrence, the Company has an annual aggregate limit of coverage of $30 million. For reinsured claims between $1.5 million and $10 million per occurrence, the Company has no significant limitations on the aggregate dollar amounts of coverage.

For the six years from June 1, 1989 through May 31, 1995, the Company had a similar general and hospital professional liability insurance program. For those years, the per occurrence deductible (with respect to which the Company was self-insured) was $2.5 million for the years ended May 31, 1990 and 1991, $2 million for the years ended May 31, 1992 and 1993 and $1.5 million (relating to the Company's general hospitals sold on September 30, 1993) for the year ended May 31, 1994. For psychiatric hospitals, Plymouth's coverage did not contain a per occurrence deductible for the years ended May 31, 1994 and 1995. In December 1994, the per occurrence deductible for the years ended May 31, 1989 and 1990 was eliminated. Plymouth provides coverage with no per occurrence deductible for hospital system claims which had not been paid prior to December 31, 1994. Plymouth does not underwrite any insurance policies with any parties other than the Company or its affiliates and subsidiaries.

The amount of expense relating to Magellan's malpractice insurance may materially increase or decrease from year to year depending, among other things, on the nature and number of new reported claims against Magellan and amounts of settlements of previously reported claims. To date, Magellan has not experienced a loss in excess of policy limits. Management believes that its coverage limits are adequate. However, losses in excess of the limits described above or for which insurance is otherwise unavailable could have a material adverse effect upon the Company.

Potential Expiration and Realization Uncertainties Related to Estimated Tax Net Operating Loss Carryforwards

As of September 30, 1996, the Company had estimated tax net operating loss ('NOL") carryforwards of approximately $250 million available to reduce future federal taxable income. These NOL carryforwards expire in 2006 through 2010 and are subject to adjustment upon examination by the Internal Revenue Service. Due to the ownership change which occurred as a result of the Reorganization, the Company's utilization of NOLs generated prior to the effective date of the Reorganization is limited. Based on this limitation and certain other factors, the Company has recorded a valuation allowance of approximately $102.2 million against the amount of the NOL deferred tax asset that

in Management's opinion, is not likely to be recovered. There can be no assurance that these NOL carryforwards will not expire, be reduced or be made subject to further limitations prior to their potential utilization in future periods.

Governmental Budgetary Constraints and Healthcare Reform

In the 1995 and 1996 sessions of the United States Congress, the focus of healthcare legislation has been on budgetary and related funding mechanism issues. Both the Congress and the Clinton Administration have made proposals to reduce the rate of increase in projected Medicare and Medicaid expenditures and to change funding mechanisms and other aspects of both programs. If enacted, these proposals would generally reduce Medicare and Medicaid expenditures. The Company cannot predict the effect of any such legislation, if adopted, on its operations; but the Company anticipates that, although overall Medicare and Medicaid funding may be reduced from projected levels, the changes in such programs may provide opportunities to the Company to obtain increased Medicare and Medicaid business through risk-sharing or partial risk-sharing contracts with managed care plans and state Medicaid programs.

A number of states in which the Company has operations have either adopted or are considering the adoption of healthcare reform proposals of general applicability or Medicaid reform proposals, partly in response to possible changes in Medicaid law. Where adopted, these state reform laws have often not yet been fully implemented. The Company cannot predict the effect of these state healthcare reform and Medicaid reform laws on its operations.

Provider Business-Competition

Each of the Company's hospitals competes with other hospitals, some of which are larger and have greater financial resources. Some competing hospitals are owned and operated by governmental agencies, others by nonprofit organizations supported by endowments and charitable contributions and others by proprietary hospital corporations. The hospitals frequently draw patients from areas outside their immediate locale and, therefore, the Company's hospitals may, in certain markets, compete with both local and distant hospitals. In addition, the Company's hospitals compete not only with other psychiatric hospitals, but also with psychiatric units in general hospitals, and outpatient services provided by the Company may compete with private practicing mental health professionals and publicly funded mental health centers. The competitive position of a hospital is, to a significant degree, dependent upon the number and quality of physicians who practice at the hospital and who are members of its medical staff. The Company has entered into joint venture arrangements with other healthcare providers in certain markets to promote more efficiency in the local delivery system. The Company believes that its provider business competes effectively with respect to the aforementioned factors. However, there can be no assurance that Magellan will be able to compete successfully in the provider business in the future.

Competition among hospitals and other healthcare providers for patients has intensified in recent years. During this period, hospital occupancy rates for inpatient behavioral care patients in the United States have declined as a result of cost containment pressures, changing technology, changes in reimbursement, changes in practice patterns from inpatient to outpatient treatment and other factors. In recent years, the competitive position of hospitals has been affected by the ability of such hospitals to obtain contracts with Preferred Provider Organizations ("PPO's"), Health Maintenance Organizations ("HMO's") and other managed care programs to provide inpatient and other services. Such contracts normally involve a discount from the hospital's established charges, but provide a base of patient referrals. These contracts also frequently provide for pre-admission certification and for concurrent length of stay reviews. The importance of obtaining contracts with HMO's, PPO's and other managed care companies varies from market to market, depending on the individual market strength of the managed care companies. State certificate of need laws regulate the Company and its competitors' ability to build new hospitals and to expand existing hospital facilities and services. These laws do provide some protection from competition, as their interest is to prevent duplication of services. In most cases, these laws do not restrict the ability of the Company or its competitors to offer new outpatient services. As of March 31, 1997, the Company operated 38 hospitals in 12 states (Arizona, Arkansas, California, Colorado, Indiana, Kansas, Louisiana, Nevada, New Mexico, South Dakota, Texas and Utah) which do not have certificate of need laws applicable to hospitals.

Managed Care Business - Competition

The managed healthcare industry is being affected by various external factors including rising healthcare costs, intense price competition, and market consolidation by major managed care companies. Magellan faces competition from a number of sources including other behavioral health managed care companies and traditional full service managed care companies that contract to provide behavioral healthcare benefits. Also, to a lesser extent, competition exists from fully capitated multi-specialty medical groups and individual practice associations that directly contract with managed care companies and other customers to provide and manage all components of healthcare for the members including the behavioral healthcare component. The Company believes that the most significant factors in a customer's selection of a managed behavioral healthcare company include price, the extent and depth of provider networks and quality of services. The Company also believes that the acquisition of Green Spring creates opportunities to enhance its revenues through managed care contracts utilizing the continuum of care and through information systems that support care management and at-risk pricing mechanisms, although no such assurance can be given. Management believes that its managed care business competes effectively with respect to these factors. However, there can be no assurance that Magellan will be able to compete successfully in the managed care business in the future.

Regulatory Environment

The federal government and all states in which the Company operates regulate various aspects of the Company's businesses. Such regulations provide for periodic inspections or other reviews of the Company's provider operations by, among others, state agencies, the United States Department of Health and Human Services (the "Department") and CHAMPUS to determine compliance with their respective standards of care and other applicable conditions of participation which is necessary for continued licensure or participation in identified healthcare programs, including, but not limited to, Medicare, Medicaid and CHAMPUS. The Company is also subject to state regulation regarding the admission and treatment of patients and federal regulations regarding confidentiality of medical records of substance abuse patients. Although the Company endeavors to comply with such regulatory requirements, there can be no assurance that the Company will always be in full compliance. The failure to obtain or renew any required regulatory approvals or licenses or to qualify for continued participation in identified healthcare programs could adversely affect the Company's operations.

The Company is also subject to federal and state laws that govern financial and other arrangements between healthcare providers. These laws often prohibit certain direct and indirect payments between healthcare providers that are designed to induce overutilization of services paid for by Medicare or Medicaid. Such laws include the anti- kickback provisions of the federal Medicare and Medicaid Patients and Program Protection Act of 1987. These provisions prohibit, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for the referral of Medicare and Medicaid patients. GPA, the Company's subsidiary that owns or manages professional group practices, is subject to the federal and the state illegal remuneration, practice of medicine and certain other laws which prohibit the subsidiary from owning, but not managing, professional practices. In addition, some states prohibit business corporations from providing, or holding themselves out as a provider of, medical care. The Company endeavors to comply with all federal and state laws applicable to its business. However, a violation of these federal and state laws may result in civil or criminal penalties for individuals or entities or exclusion from participation in identified healthcare programs.

Magellan's managed care business operations, in some states, are subject to utilization review, licensure and related state regulation procedures. Green Spring provides managed behavioral healthcare services to various Blue Cross/Blue Shield plans that operate Medicare and Medicaid health maintenance organizations or other at-risk managed care programs and that participate in the Blue Cross Federal Employees health program. As a contractor to these Blue Cross/Blue Shield plans, Green Spring is indirectly subject to federal and, with respect to the Medicaid program, state monitoring and regulation of performance and financial reporting requirements. Although Magellan believes that it is in compliance with all current state and federal regulatory requirements applicable to the managed care business it conducts, failure to do so could adversely affect its operations.

Physician ownership of or investment in healthcare entities to which they refer patients has come under increasing scrutiny at both state and federal levels. Congress passed legislation (commonly referred to as "Stark I") which prohibits physicians from referring Medicare patients for clinical laboratory services to an entity with which the physician has a financial relationship. The Department recently published final Stark I regulations on August 14, 1995. Such regulations will govern how the Department views and reviews these financial relationships. Additionally, Congress passed legislation (commonly referred to as "Stark II") which prohibits physicians from referring Medicare or Medicaid patients for certain designated health services, including inpatient and outpatient hospital services, to entities in which they have an ownership or investment interest or with which they have a compensation arrangement. The entity is also prohibited from billing the Medicare or Medicaid programs for such services rendered pursuant to a prohibited referral. To the extent designated services are provided by the Company's provider and managed care operations, physicians who have a financial relationship with the Company and the Company will be subject to the provisions of Stark II. Some states have passed similar legislation which prohibits the referral of private pay patients. To date, the Department has not published Stark II regulations. However, the Department indicated that it will review referrals involving any of the designated services under the language and interpretations set forth in the Stark I rule.

The Company's acquisitions and joint venture activities are also subject to federal antitrust laws. The healthcare industry has recently been an active area of antitrust enforcement action by the United States Federal Trade Commission (the "FTC") and the Department of Justice ("DOJ"). The Company's acquisitions and joint venture arrangements could be the subject of a DOJ or an FTC enforcement action which, if determined adversely to the Company, could have a material adverse effect upon the Company's operations.

Changes in laws or regulations or new interpretations of existing laws or regulations can have an adverse effect on the Company's operating methods, costs, reimbursement amounts and acquisition and joint venture activities. In addition, the healthcare industry is subject to increasing governmental scrutiny, and additional laws and regulations may be enacted which could require changes in the Company's operations. A federal or state agency charged with enforcement of such laws and regulations might assert an interpretation of such laws and resolutions or may increase scrutiny of a previously ignored area, which may require changes in the Company's operations.

Capitation Arrangements

The Company's managed care business contracts with companies holding state HMO or insurance company licenses on a capitated or "at-risk" basis where the risk of patient care is assumed by the Company in exchange for a monthly fee per member regardless of utilization level. As of March 31, 1997, approximately 35% of Green Spring's managed care members were under capitated arrangements. During fiscal 1996, approximately 70% of Green Spring's revenues were from at-risk contracts. Increases in utilization levels under capitated contractual arrangements could adversely effect the operations of the managed care business.

Some jurisdictions are taking the position that capitated agreements in which the provider bears the risk should be regulated by insurance laws. In this regard, Green Spring's primary customers are comprised of Blue Cross/Blue Shield Plans and other insurance entities which are licensed insurance organizations in their respective states. Green Spring offers "carved out" managed mental health benefits, on a wholesale basis, as a vendor to the regulated insurance organizations. Most current employer group relationships are also contracted through the respective regulated insurance organizations. However, as Magellan and Green Spring develop more direct risk arrangements on a retail basis directly with employer groups or other non-insurance entity customers, the Company may be required to obtain insurance licenses in the respective states where the direct risk arrangements are to be pursued. There can be no assurance that the Company can obtain the insurance licenses required by the respective states in a timely or cost effective manner to respond to market demand.

Mental Health Parity Legislation

In October 1996, President Clinton signed a bill submitted by the U.S. Congress that prohibits health plans from setting annual or lifetime caps on mental health coverage ("parity") at levels below those set for general medical/surgical healthcare services. The bill does not require a health plan to offer or provide mental health services and does not affect other terms and conditions of health plans, such as inpatient day or outpatient visit limits or scope of benefits, nor does this bill prohibit health plans from utilizing other forms of cost containment. The definition of mental health services in the bill excludes substance abuse and chemical dependency. The effective date for the parity legislation is January 1, 1998. Other key components of the parity legislation are as follows:

1) Employers with 50 or fewer employees are exempt from the parity legislation.

2) Health plans that incur increased costs of 1% or more as a result of the parity legislation will be exempt.

3) The parity legislation expires on September 30, 2001 unless extended by Congress.

The Company views the parity legislation as an acknowledgment by the Federal government of the importance of effective treatment of mental health disorders for society in general. The parity legislation could result in cost containment mechanisms by third party payers such as the elimination of mental health benefit plans or encouraging the utilization of managed care organizations to administer mental health benefit plans, which could both result in lower demand and lower revenue per equivalent patient day in the Company's provider business. However, this bill is subject to administrative and judicial interpretation, neither of which the Company is able to predict. There can be no assurance that such interpretations will not adversely effect the Company's businesses.

Possible Volatility of Stock Price

The Company believes factors such as announcements with respect to healthcare reform measures, reductions in government healthcare program projected expenditures, acquisitions and quarter-to-quarter and year-to-year variations in financial results could cause the market price of Magellan Common Stock to fluctuate substantially. Any such adverse announcement with respect to healthcare reform measures or program expenditures, acquisitions or any shortfall in revenue or earnings from levels expected by securities analysts could have an immediate and significant adverse effect on the trading price of Magellan Common Stock in any given period. As a result, the market for Magellan Common Stock may experience price and volume fluctuations unrelated to the operating performance of Magellan.