

PROSPECT STREET HIGH INCOME PORTFOLIO INC
Form SC 13D
February 22, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

Genesis Health Ventures, Inc.

(Name of Issuer)

Common Stock, par value \$.02 per share

(Title of Class of Securities)

37183F-10-7

(CUSIP Number)

Patrick H. Daugherty, Esq.
Highland Capital Management, L.P.
Two Galleria Tower
13455 Noel Road, Suite 1300
Dallas, Texas 75240
(972) 628-4100

With a copy to:
W. Scott Wallace, Esq.
Haynes and Boone, LLP
901 Main Street, Suite 3100
Dallas, Texas 75202
(214) 651-5587

(Name, Address and Telephone Number of Persons Authorized to Receive
Notices and Communications)

October 2, 2001

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Sections 240.13d-1(e), (f) or (g), check the following box.
[]

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Section 240.13d-7(b) for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SCHEDULE 13D

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1 NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Highland Capital Management, L.P., a Delaware limited partnership
75-2716725

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) [X]
(b) []

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO
ITEMS 2(d) OR 2(e) []

N/A

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

| | | |
|--------------------------|----|--------------------------|
| NUMBER OF SHARES | 7 | SOLE VOTING POWER |
| | | 1,559,647 |
| BENEFICIALLY OWNED BY | 8 | SHARED VOTING POWER |
| EACH REPORTING | | 0 |
| PERSON WITH | 9 | SOLE DISPOSITIVE POWER |
| | | 1,559,647 |
| | 10 | SHARED DISPOSITIVE POWER |
| | | 0 |

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,858,291

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
[]

N/A

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

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7.2% (1)

14 TYPE OF REPORTING PERSON

PN

(1) Based on a total of 39,671,279 shares of Common Stock outstanding on December 26, 2001, as disclosed in the Issuer's Annual Report on Form 10-K filed on December 28, 2001.

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1 NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Highland Crusader Offshore Partners, L.P., a Bermuda limited partnership

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

N/A

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Bermuda

| | | |
|--------------------------|----|--------------------------|
| NUMBER OF SHARES | 7 | SOLE VOTING POWER |
| | | 1,045,176 |
| BENEFICIALLY OWNED BY | 8 | SHARED VOTING POWER |
| EACH REPORTING | | 0 |
| PERSON WITH | 9 | SOLE DISPOSITIVE POWER |
| | | 1,045,176 |
| | 10 | SHARED DISPOSITIVE POWER |
| | | 0 |

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

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2,858,291

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
[]

N/A

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

7.2% (1)

14 TYPE OF REPORTING PERSON

PN

(1) Based on a total of 39,671,279 shares of Common Stock outstanding on December 26, 2001, as disclosed in the Issuer's Annual Report on Form 10-K filed on December 28, 2001.

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1 NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Prospect Street High Income Portfolio Inc., a Maryland
corporation 04-3028343

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) [X]
(b) []

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO
ITEMS 2(d) OR 2(e) []

N/A

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Maryland

| | | |
|--------------------------|---|---------------------|
| NUMBER OF SHARES | 7 | SOLE VOTING POWER |
| | | 253,468 |
| BENEFICIALLY OWNED BY | 8 | SHARED VOTING POWER |
| EACH | | 0 |

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| | | | |
|---|--|--------------------------|--------------------|
| REPORTING PERSON WITH | 9 | SOLE DISPOSITIVE POWER | |
| | | 253,468 | |
| | 10 | SHARED DISPOSITIVE POWER | |
| | | 0 | |
| 11 | AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON | | |
| | 2,858,291 | | |
| 12 | CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES [] | | |
| | N/A | | |
| 13 | PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) | | |
| | 7.2% (1) | | |
| 14 | TYPE OF REPORTING PERSON | | |
| | CO | | |
| (1) Based on a total of 39,671,279 shares of Common Stock outstanding on December 26, 2001, as disclosed in the Issuer's Annual Report on Form 10-K filed on December 28, 2001. | | | |
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| 1 | NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON | | |
| | James Dondero | | |
| 2 | CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP | | (a) [X] (b) [] |
| 3 | SEC USE ONLY | | |
| 4 | SOURCE OF FUNDS | | |
| | OO | | |
| 5 | CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e) [] | | |
| | N/A | | |

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6 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.

| | | |
|---|----|--------------------------|
| NUMBER OF SHARES | 7 | SOLE VOTING POWER |
| | | 0 |
| BENEFICIALLY OWNED BY EACH REPORTING PERSON | 8 | SHARED VOTING POWER |
| | | 0 |
| PERSON WITH | 9 | SOLE DISPOSITIVE POWER |
| | | 0 |
| | 10 | SHARED DISPOSITIVE POWER |
| | | 0 |

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,858,291

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
[]

N/A

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

7.2% (1)

14 TYPE OF REPORTING PERSON

IN

(1) Based on a total of 39,671,279 shares of Common Stock outstanding on December 26, 2001, as disclosed in the Issuer's Annual Report on Form 10-K filed on December 28, 2001.

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ITEM 1. SECURITY AND ISSUER.

This Statement on Schedule 13D (this "Statement") relates to the shares of Common Stock, \$.02 par value per share (the "Common Stock"), of Genesis Health Ventures, Inc., a Pennsylvania corporation (the "Issuer"). The address of the principal executive offices of the Issuer is 101 East State Street, Kennett Square, Pennsylvania 19348.

ITEM 2. IDENTITY AND BACKGROUND.

(a) The names of the persons filing this Statement (the "Filing Persons") are Highland Capital Management, L.P., a Delaware limited partnership ("Highland Capital"), Highland Crusader Offshore Partners, L.P., a Bermuda

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limited partnership ("Crusader"), Prospect Street High Income Portfolio Inc., a Maryland corporation and closed end mutual fund registered under the Investment Company Act of 1940 ("Prospect"), and James Dondero ("Mr. Dondero"). The Filing Persons have entered into a Joint Filing Agreement, dated as of February 21, 2002, a copy of which is attached hereto.

(b) The principal business address of Highland Capital, Crusader, Prospect and Mr. Dondero is Two Galleria Tower, 13455 Noel Road, Suite 1300, Dallas, Texas 75240.

(c) This Statement is filed on behalf of a group consisting of Highland Capital, Crusader, Prospect and Mr. Dondero. The general partner of Crusader is Highland Capital. Highland Capital, as a registered investment advisor, is the investment advisor for Prospect. The general partner of Highland Capital is Strand Advisors, Inc., a Delaware corporation ("Strand"). The directors and officers of Strand and Prospect are listed on Appendix 1 hereto. Mr. Dondero is the President of Highland, Prospect and Strand, and a director of the Issuer. In the aforementioned capacities, each of the foregoing may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned by the other members of the group.

The principal business of Highland Capital, Crusader and Prospect is purchasing and holding securities for investment purposes. The principal business of Strand is serving as the general partner of Highland Capital. Mr. Dondero's principal business is acting in the capacities set forth above and on Appendix 1 hereto. The principal business of each director and officer of Prospect and Strand is provided on Appendix 1 hereto.

(d) and (e) During the past five years, none of the foregoing entities or natural persons has been convicted in a criminal proceeding or been a party to a civil proceeding, in either case of the type specified in Items 2(d) or (e) of Schedule 13D.

(f) Crusader is a citizen of Bermuda; Highland Capital is a citizen of Delaware; Prospect is a citizen of Maryland; and Mr. Dondero is a citizen of the United States. The citizenship of each of the persons on Appendix 1 hereto is as indicated on Appendix 1.

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ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

Commencing in March 1999 and to October 2001, Highland Capital, Crusader and Prospect have been acquiring in the ordinary course of business in secondary market transactions interests in bank loans (the "Loans") made to the Issuer and The Multicare Companies, Inc., an affiliate of the Issuer. Interests in the Loans were acquired with working capital of Highland Capital, Crusader and Prospect. On June 22, 2000, the Issuer and The Multicare Companies, Inc. each filed voluntary petitions with the U.S. Bankruptcy Court in Delaware to reorganize their respective capital structures under Chapter 11 of the US Bankruptcy Code. On September 20, 2001, the U.S. Bankruptcy Court for the District of Delaware entered an order approving the Debtors' Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code, dated July 6, 2001 (as amended, the "Plan"), subject to certain minor modifications. Effective on or prior to October 2, 2001, the Issuer transferred to Highland Capital, Crusader and Prospect their rights to acquire pursuant to the Plan the Common Stock and

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Convertible Preferred Stock of the Issuer described below. On October 2, 2001, the effective date of the Plan, the Issuer and its subsidiaries emerged from the proceedings under Chapter 11 of the Bankruptcy Code pursuant to the terms of the Plan. Pursuant to the Plan and as of October 2, 2001, Highland Capital, Crusader and Prospect acquired an aggregate of (i) 2,686,056 shares of Common Stock and (ii) Convertible Preferred Stock with a conversion price of \$20.33 of liquidation preference per share of Common Stock convertible into 147,235 shares of Common Stock. The Preferred Stock does not entitle its holder to vote for directors of the Issuer and may be converted at any time, at the option of its holder. In addition, Highland Capital acquired beneficial ownership of Stock Options to purchase 25,000 shares of Common Stock (the "Options"). The Options were granted under the Issuer's 2001 Stock Option Plan to Mr. Dondero, the President of Highland Capital, who is a member of the new board of directors of the Issuer appointed pursuant to the Plan. Mr. Dondero and Highland Capital have an understanding pursuant to which Mr. Dondero holds the Options for the benefit of Highland Capital. None of the Filing Persons has acquired any voting securities of the Issuer outside of bankruptcy.

None of the individuals listed in Item 2 herein has contributed any funds or other consideration towards the acquisition of the securities of the Issuer.

ITEM 4. PURPOSE OF TRANSACTION.

The foregoing acquisitions were made for investment purposes. None of the Filing Persons or, to the knowledge of the Filing Persons, any of the persons listed in Item 2 hereto, has any current plans or proposals which relate to or would result in any transaction, event or action enumerated in paragraphs (a) through (j) of Item 4 of Schedule 13D promulgated under the Securities Exchange Act of 1934, as amended. A director of the Issuer, Mr. Dondero, is employed by Highland Capital and Prospect and is the President thereof. In his capacity as director, he will participate in, and have the opportunity to vote on, matters that are presented to the Board of Directors of the Issuer, including sales of assets, extraordinary corporate transactions and changes to the Issuer's capitalization, business or corporate structure.

Depending upon a variety of factors, including, without limitation, current and anticipated future trading prices of the Common Stock, future changes to the composition of the Board of Directors of the Issuer, the financial condition, results of operations and prospects of the Issuer and general economic, financial market and industry conditions, the Filing Persons may also acquire additional shares, or sell

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all or part of their shares, in open market or privately negotiated transactions or otherwise. Any open market or privately negotiated purchases or sales may be made at any time without prior notice. Depending upon the foregoing factors and to the extent deemed advisable in light of their general investment policies, or other factors, the Filing Persons may formulate other purposes, plans or proposals regarding the Issuer or the shares. The foregoing is subject to change at any time, and there can be no assurance that any of the Filing Persons will take any of the actions set forth above. To the knowledge of each Filing Person, each of the persons listed in Item 2 herein may make similar evaluations from time to time or on an ongoing basis.

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ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

(a) Based on the information disclosed by the Issuer in its Annual Report on Form 10-K filed on December 28, 2001, there were 39,671,279 shares of Common Stock outstanding on December 26, 2001, and 1,328,721 shares of Common Stock yet to be issued in connection with the Plan. Pursuant to the Plan, the outstanding pre-Chapter 11 Common Stock and preferred stock was canceled and upon implementation of the Plan, the Issuer was to issue 41,000,000 shares of Common Stock to its creditors in accordance with the Plan provisions.

Pursuant to provisions of the Exchange Act and in accordance with that certain Joint Filing Agreement, entered into by and among Highland Capital, Crusader, Prospect and Mr. Dondero dated as of February 21, 2002 (attached hereto as Exhibit 1 and incorporated herein by reference), each of Highland Capital, Crusader, Prospect and Mr. Dondero may be deemed to beneficially own 2,858,291 shares of Common Stock (which is approximately 7.2% of the shares of Common Stock outstanding on December 28, 2001).

| (b) | Sole Voting Power | Shared Voting Power | Sole Disposit Power |
|--|-------------------------|---------------------------|---------------------------|
| Highland Capital Management, L.P. | 1,559,647 (1) | 0 | 1,559,6 |
| Highland Crusader Offshore Partners, L.P. | 1,045,176 (2) | 0 | 1,045,1 |
| Prospect Street High Income Portfolio Inc. | 253,468 (3) | 0 | 253,4 |
| James Dondero (4) | 0 | 0 | 0 |

 (1) Includes 1,452,434 shares of Common Stock beneficially and directly owned by Highland Capital, 82,213 shares of common stock underlying 16,714 shares of Convertible Preferred Stock immediately convertible and beneficially and directly owned by Highland Capital; and 25,000 Options. The Options were granted under the Issuer's 2001 Stock Option Plan to Mr. Dondero, President of Highland Capital, who is a member of the new board of directors of the Issuer appointed pursuant to the Plan. Mr. Dondero and Highland Capital have an understanding pursuant to which Mr. Dondero holds the Options for the benefit of Highland Capital.

(2) Includes 993,848 shares of Common Stock beneficially and directly owned by Crusader, and 51,328 shares of Common Stock underlying 10,435 shares of Convertible Preferred Stock immediately convertible and beneficially and directly owned by Crusader.

(3) Includes 239,774 shares of Common Stock beneficially and directly owned by Prospect, and 13,694 shares of Common Stock underlying 2,784 shares of Convertible Preferred Stock immediately convertible and beneficially and directly owned by Prospect.

(4) Because of the relationships described herein, Mr. Dondero may be deemed the indirect beneficial owner of all the shares described in the table above. Mr. Dondero disclaims beneficial ownership of all such shares.

(c) Except as described in this Schedule 13D, no transactions in the shares of Common Stock were effected by the Filing Persons, or to their knowledge, any of the persons listed on Schedule I hereto, during the past sixty days.

ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.

Under the Plan additional securities may be distributed pursuant to a Catch-up Distribution as defined in the Plan, which is incorporated by reference hereto and filed as an exhibit hereto.

Under the Issuer's 2001 Stock Option Plan, Options to purchase 25,000 shares of Common Stock were granted to James Dondero, the President of Highland and Prospect, who is a member of the new board of directors of the Issuer appointed pursuant to the Plan. Mr. Dondero and Highland Capital have an understanding pursuant to which Mr. Dondero holds the Options for the benefit of Highland Capital.

Except as described herein, none of the Filing Persons or, to the knowledge of each Filing Person, any of the persons listed on Schedule I hereto, is a party to any contract, arrangement, understanding or relationship with respect to securities of the Issuer.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

Exhibit 1. Joint Filing Agreement, dated as of February 21, 2002, entered into by and among Highland Capital, Crusader, Prospect and Mr. Dondero.

Exhibit 2. Findings of Fact, Conclusions of Law and Order Confirming the Joint Plan of Reorganization dated September 20, 2001 - incorporated herein by reference to Exhibit 2.1 of Genesis Health Ventures, Inc.'s Current Report on Form 8-K (File No. 1-11666) dated September 20, 2001

Exhibit 3. Disclosure Statement for Debtors' Joint Plan of Reorganization dated July 6, 2001 - incorporated herein by reference to Exhibit T3E-1 of Genesis Health Ventures, Inc.'s Form T-3 dated September 18, 2001

Exhibit 4. Debtors' Joint Plan of Reorganization dated July 6, 2001 - incorporated herein by reference to Exhibit T3E-2 of Genesis Health Ventures, Inc.'s Form T-3 dated September 18, 2001

Exhibit 5. Technical Amendments To Debtors' Joint Plan of Reorganization dated August 27, 2001 - incorporated herein by reference to Exhibit T3E-3 of Genesis Health Ventures, Inc.'s Form T-3 dated September 18, 2001

Exhibit 6. Amendments to Debtors' Joint Plan of Reorganization to Comply with Opinion On Confirmation dated September 13, 2001 - incorporated herein by reference to Exhibit T3E-4 Genesis Health Ventures, Inc.'s Form T-3 dated September 18, 2001

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Exhibit 7. Erratum to Disclosure Statement for Debtors' Joint Plan of Reorganization - incorporated herein by reference to Exhibit T3E-5 of Genesis Health Ventures, Inc.'s Form T-3 dated September 18, 2001

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SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

Date: February 21, 2002

HIGHLAND CAPITAL MANAGEMENT, L.P.

By: Strand Advisors, Inc., its general partner

By: /s/ JAMES DONDERO

Name: James Dondero
Title: President

HIGHLAND CRUSADER OFFSHORE PARTNERS, L.P.

By: Highland Capital Management, L.P., its
general partner

By: Strand Advisors, Inc., its general partner

By: /s/ JAMES DONDERO

Name: James Dondero
Title: President

PROSPECT STREET HIGH INCOME PORTFOLIO INC.

By: /s/ JAMES DONDERO

Name: James Dondero
Title: President

/s/ JAMES DONDERO

 JAMES DONDERO

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APPENDIX 1

The name of each director and officer of Prospect Street High Income Portfolio, Inc. and Strand Advisors, Inc. is set forth below. The business address of each person listed below is Two Galleria Tower, 13455 Noel Road, Suite 1300, Dallas, Texas 75240, unless otherwise noted. Each person is a citizen of the United States of America unless otherwise noted. The present principal occupation or employment of each of the listed persons is set forth below. During the past five years, none of the individuals listed below has been convicted in a criminal proceeding or been a party to a civil proceeding, in either case of the type specified in Items 2(d) or (e) of Schedule 13D.

| NAME | PRESENT PRINCIPAL OCCUPATION AND ADDRESS (IF APPLICABLE) |
|---|--|
| ----- | |
| PROSPECT STREET HIGH INCOME PORTFOLIO, INC. | |
| James Dondero, Director | President |
| Mark Okada | Executive Vice President |
| R. Joseph Daugherty | Senior Vice President and Secretary |
| Timothy Hui, Director | Director of Learning Resources of the Pennsylvania State University, 48 Willow Green Drive, Chambersburg, PA 17003 |
| Scott Kavanaugh, Director | Director, Executive Vice President and Treasurer of One Venture Capital, One Venture, Ste. 300, E. Irving Avenue, Garland, TX 75044. |
| James Leary, Director | Managing Director of Benefit Capital, 2006 Garland, TX 75044. |
| Bryan Ward, Director | Special Projects Advisor and Information Technology Consultant for Accenture, 3625 Rosedale, Dallas, TX 75244 |
| STRAND ADVISORS, INC. | |
| James Dondero, Director | President |
| Mark Okada | Executive Vice President |
| Louis Koven | Secretary of Strand and Chief Financial Officer of Benefit Capital |

EXHIBITS

Exhibit 1. Joint Filing Agreement, dated as of February 21, 2002,

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entered into by and among Highland Capital, Crusader, Prospect and Mr. Dondero.

Exhibit 2. Findings of Fact, Conclusions of Law and Order Confirming the Joint Plan of Reorganization dated September 20, 2001 - incorporated herein by reference to Exhibit 2.1 of Genesis Health Ventures, Inc.'s Current Report on Form 8-K (File No. 1-11666) dated September 20, 2001

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Exhibit 4. Debtors' Joint Plan of Reorganization dated July 6, 2001 - incorporated herein by reference to Exhibit T3E-2 of Genesis Health Ventures, Inc.'s Form T-3 dated September 18, 2001

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Exhibit 6. Amendments to Debtors' Joint Plan of Reorganization to Comply with Opinion On Confirmation dated September 13, 2001 - incorporated herein by reference to Exhibit T3E-4 Genesis Health Ventures, Inc.'s Form T-3 dated September 18, 2001

Exhibit 7. Erratum to Disclosure Statement for Debtors' Joint Plan of Reorganization - incorporated herein by reference to Exhibit T3E-5 of Genesis Health Ventures, Inc.'s Form T-3 dated September 18, 2001