

# Magellan Health Services, Inc.

## CORPORATE GOVERNANCE GUIDELINES

### **I. Introduction**

The Board of Directors of Magellan Health Services, Inc. (the “Company”) has developed and adopted a set of corporate governance principles (the “Guidelines”) to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions.

### **II. Board Structure**

In order to provide continuity in the Board’s policies, the Board has been structured to include three groups of directors who serve for staggered three-year terms. Appointments to open seats and elections of new directors will be made in a manner consistent with this staggered structure.

### **III. Board Compensation**

The composition of the Board should balance the following goals:

- The size of the Board should facilitate substantive discussions of the whole Board in which each director can participate meaningfully.
- The composition of the Board should encompass a broad range of skills, expertise, industry knowledge, diversity of opinion and contacts relevant to the Company’s business;
- A majority of the Board shall consist of directors whom the Board has determined have no material relationship with the Company and who are otherwise “independent” under the rules of the Nasdaq Stock Market as in effect from time to time.
- The Board’s membership should be sufficient to allow it to establish an Audit Committee, a Management Compensation Committee and a Nominating/Corporate Governance Committee that meet the requirement of independence and expertise established by the corporate governance listing standards of the Nasdaq Stock market and the Company’s certificate of incorporation and by-laws, including at least one director willing to chair the Audit Committee having the knowledge, credentials and experience sufficient to satisfy the definition of and “audit committee financial expert” under applicable securities laws.

### **IV. Selection of Chairman of the Board and Chief Executive Officer**

The Board is free to select its Chairman and the Company’s Chief Executive Officer in the manner it considers in the best interest of the Company at any given time. These positions may be filled by one individual or by two different individuals.

### **V. Selection of Directors**

*Nominations.* The Nominating/Corporate Governance Committee is responsible for recommending nominees for elections to the Company’s Board of Directors, who may be presented by shareholders, management, individual directors, or any other person having a legitimate interest in the affairs of the Company. Under the Company’s by-laws, shareholders may also directly nominate candidates for election to the Board of Directors.

*Orientation and Continuing Education.* Management, working with the Board, will provide an orientation process for new directors, including background material on the Company, its business plan and its risk profile, and meetings with senior management. Periodically, management should prepare additional educational sessions for directors on matters relevant to the Company, its business plan and risk profile.

**VI. Election; Term**

The Board does not believe it should establish term limits. However, directors should not expect that, once elected to the Board, they will necessarily be re-nominated thereafter.

**VII. Retirement of Directors**

The Board does not believe it should establish a mandatory retirement age.

**VIII. Board Meetings**

The Board Currently plans at least five (5) meetings each year, with further meetings to occur (or action to be taken by unanimous consent) at the discretion of the Board. The meetings will usually consist of committee meetings and Board meeting.

The agenda for each Board meeting will be prepared by the Chairman. Management will seek to provide to all directors an agenda and appropriate materials in advance of meetings, although the Board recognizes that this will not always be consistent with the timing of transactions and the operations of the business and that in certain cases it may not be possible.

Materials presented to the Board or its committees shall include information needed for the directors to make an informed judgment.

**IX. Executive Sessions; Lead Director**

To ensure free and open discussion and communication among the non-management directors of the Board, during a portion of each regularly scheduled Board meeting the non-management directors will meet in executive sessions, with no members of management present. The non-management directors may select a non-management director to serve as the lead Director, who will chair executive sessions of the Board, receive communications from shareholders regarding accounting –related and other matters, and fulfill other functions designated from time to time by the Board.

**X. The Committees of the Board**

The Company shall have at least the committees required by the rules of the Nasdaq Stock Market as in effect from time to time. Currently, this is the Audit Committee. The Company shall also have a Management Compensation Committee and a Nominating/Corporate Governance Committee, whether or not such committees are required by the rules of the Nasdaq Stock Market. All committees must have a written charter.

All directors, whether members of the committee or not, are invited to make suggestions to the committee chair for additions to the agenda of his or her committee or to request that an item from a committee agenda be considered by the Board. Each committee chair will give a periodic report of his or her committee’s activities to the Board. To ensure free and open discussion and communication among the members of a committee during a portion of each regularly scheduled committee meeting the members will meet in executive session, with no members of management present. Members of the Board shall have the right to attend any committee meeting.

The Audit Committee, the Management Compensation Committee and the Nominating Corporate Governance Committee shall be composed of at least three directors, each of whom the Board has determined has no material relationship with the Company and each of whom is otherwise “independent” as may be required by the rules of the Nasdaq Stock Market as in effect from time to time. The required qualifications for the members of each committee shall be set out in the respective committees’ charters. A director may serve on more than one committee for which he or she qualifies.

## **XI. Executive Compensation**

1. *Evaluating and Approving Salary for the CEO.* The Board, acting through the Management Compensation Committee, evaluates the performance of the CEO and the Company against the Company’s goals and objective, and approves the compensation level of the CEO.
2. *Evaluating and Approving the Compensation of Management.* The Board, acting through the Management Compensation Committee, evaluates and approves the proposals from overall compensation policies applicable to executive officers.

## **XII. Board Compensation**

The Board should periodically review the components and amount of Board compensation in relation to other similarly situated companies. Board compensation should be consistent with market practices but should not be set at a level that would call into question the Board’s objectivity.

## **XIII. Expectations of Directors**

The business and affairs of the Company shall be managed by or under the direction of the Board in accordance with Delaware law. In performing their duties, the primary responsibility of the directors is to exercise their business judgment in the best interest of the Company. The Board has developed a number of specific expectations of directors to promote the discharge of this responsibility and the efficient conduct of the Board’s business.

1. *Commitment and Attendance.* All independent and management directors should make every effort to attend meetings of the Board and meetings of committees of which they are members. To mitigate scheduling conflicts, members may attend by conference telephone or similar communications equipment by means of which all person participation in the meeting can hear each other.
2. *Participation in Meetings.* Each director should be sufficiently familiar with the business of the Company, including its financial statements and capital structure, and the risks and competition it faces, to facilitate active and effective participation in the deliberations of the Board and of each committee on which he or she serves. Upon request, management will make appropriate personnel available to answer any questions a director may have about any aspect of the Company’s business. Directors should also review the materials provided by management and advisors in advance of the meetings of the Board and its committees and should arrive prepared to discuss the issues presented.
3. *Loyalty and Ethics.* In their roles as directors, all directors owe a duty to loyalty to the Company. This duty of loyalty mandates that the best interests of the Company take precedence over any interests possessed by a director.

The Company has adopted a Code of Ethics for Directors. Certain portions of the Code deal with activities of directors, particularly with respect to transactions in the securities of the

Company, potential conflicts of interest, corporate opportunities, confidentiality, personal loans and protection of Company assets. Directors should be familiar with the Code's provisions in these areas and should consult with the Company's counsel in the event of any issues.

4. *Changes in Personal Circumstances.* The Company values the experience directors bring from other board on which they serve, but recognizes that those boards may also present demands on a director's time and availability and may present conflicts or legal issues. Directors should advise the Lead Director before accepting membership on other boards of directors or other significant commitments involving affiliation with other businesses or governmental units, or otherwise in the event that his or her personal circumstances change in a manner that may affect the Board's evaluation of the Director's independence.
5. *Contact with Management.* All directors are invited to contact the CEO at any time to discuss any aspect of the Company's business. Directors will also have complete access to other members of management. The board expects that there will be frequent opportunities for directors to meet with the CEO and other members of management in Board and committee meetings and in other formal or informal settings.

Further, the Board encourages management to, from time to time, bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement and substantial knowledge in those areas and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

6. *Contact with Other Constituencies.* It is important that the Company speaks to employees and outside constituencies with a single voice, and that management serves as the primary spokesperson.
7. *Confidentiality.* The proceedings and deliberations of the Board and its committees are confidential. Each Director shall maintain the confidentiality of information received in connection with his or her service as a director.

#### **XIV. Evaluation Board Performance**

The Board shall periodically conduct a self-evaluation to determine whether it is functioning effectively. The Board should periodically consider the mix of skills and experience that directors bring to the Board to assess whether the Board has the necessary tools to perform its oversight function effectively.

Each committee of the Board should periodically conduct a self-evaluation and report the results to the Board. Each committee's evaluation must compare the performance of the committee with the requirements of its written charter, if any.

#### **XV. Reliance on Management and Outside Advice**

In performing its function, the Board is entitled to rely on the advice, reports and opinions of management, counsel, accountants, auditors and other expert advisors. The Board and its committees shall have the authority to retain and approve the fees and retention terms of its outside advisors.